

ROCKWELL AUTOMATION INC  
Form 10-Q  
February 03, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended December 31, 2015  
Commission file number 1-12383

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Rockwell Automation, Inc.  
(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	25-1797617 (I.R.S. Employer Identification No.)
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1201 South Second Street, Milwaukee, Wisconsin (Address of principal executive offices) +1 (414) 382-2000 Registrant's telephone number, including area code	53204 (Zip Code)
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer    Accelerated Filer    Non-accelerated Filer    Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes No

131,423,076 shares of registrant's Common Stock, \$1.00 par value, were outstanding on December 31, 2015.

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Table of Contents

ROCKWELL AUTOMATION, INC.

INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheet</u>	<u>3</u>
<u>Condensed Consolidated Statement of Operations</u>	<u>4</u>
<u>Condensed Consolidated Statement of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Statement of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>15</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>30</u>
<u>Item 4. Controls and Procedures</u>	<u>30</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>31</u>
<u>Item 1A. Risk Factors</u>	<u>31</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
<u>Item 6. Exhibits</u>	<u>32</u>
<u>Signatures</u>	<u>33</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## ROCKWELL AUTOMATION, INC.

## CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(in millions, except per share amounts)

	December 31, 2015	September 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,449.2	\$1,427.3
Short-term investments	770.6	721.9
Receivables	1,015.8	1,041.0
Inventories	562.2	535.6
Other current assets	159.4	171.0
Total current assets	3,957.2	3,896.8
Property, net of accumulated depreciation of \$1,324.7 and \$1,299.1, respectively	586.3	605.6
Goodwill	1,019.9	1,028.8
Other intangible assets, net	221.0	229.5
Deferred income taxes	496.1	494.8
Other assets	139.2	149.2
Total	\$6,419.7	\$6,404.7
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$161.0	\$—
Accounts payable	469.6	521.7
Compensation and benefits	142.8	225.0
Advance payments from customers and deferred revenue	217.1	200.8
Customer returns, rebates and incentives	163.6	172.2
Other current liabilities	229.3	208.0
Total current liabilities	1,383.4	1,327.7
Long-term debt	1,492.9	1,500.9
Retirement benefits	1,109.9	1,116.6
Other liabilities	197.0	202.7
Commitments and contingent liabilities (Note 10)		
Shareowners' equity:		
Common stock (\$1.00 par value, shares issued: 181.4)	181.4	181.4
Additional paid-in capital	1,554.6	1,552.1
Retained earnings	5,406.7	5,316.9
Accumulated other comprehensive loss	(1,339.0)	(1,334.6)
Common stock in treasury, at cost (shares held: December 31, 2015, 50.0; September 30, 2015, 49.0)	(3,567.2)	(3,459.0)
Total shareowners' equity	2,236.5	2,256.8
Total	\$6,419.7	\$6,404.7

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

ROCKWELL AUTOMATION, INC.

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(in millions, except per share amounts)

	Three Months Ended December 31,	
	2015	2014
Sales		
Products and solutions	\$1,271.3	\$1,409.8
Services	155.3	164.6
	1,426.6	1,574.4
Cost of sales		
Products and solutions	(708.6	) (776.8
Services	(105.3	) (110.1
	(813.9	) (886.9
Gross profit	612.7	687.5
Selling, general and administrative expenses	(359.9	) (386.9
Other income	1.5	1.8
Interest expense	(17.4	) (14.9
Income before income taxes	236.9	287.5
Income tax provision	(51.4	) (73.3
Net income	\$185.5	\$214.2
Earnings per share:		
Basic	\$1.41	\$1.58
Diluted	\$1.40	\$1.56
Cash dividends per share	\$0.725	\$0.65
Weighted average outstanding shares:		
Basic	131.8	135.6
Diluted	132.6	136.9
See Notes to Condensed Consolidated Financial Statements.		

Table of Contents

ROCKWELL AUTOMATION, INC.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(in millions)

	Three Months Ended December 31,	
	2015	2014
Net income	\$ 185.5	\$ 214.2
Other comprehensive income (loss), net of tax:		
Pension and other postretirement benefit plan adjustments (net of tax expense of \$9.8 and \$9.2)	18.4	17.6
Currency translation adjustments	(24.4	) (92.9
Net change in unrealized gains and losses on cash flow hedges (net of tax expense (benefit) of \$0.2 and (\$1.1))	1.6	7.4
Other comprehensive loss	(4.4	) (67.9
Comprehensive income	\$ 181.1	\$ 146.3

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ROCKWELL AUTOMATION, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(in millions)

	Three Months Ended December 31,	
	2015	2014
Operating activities:		
Net income	\$185.5	\$214.2
Adjustments to arrive at cash provided by operating activities:		
Depreciation	33.7	33.9
Amortization of intangible assets	7.6	6.7
Share-based compensation expense	10.8	10.8
Retirement benefit expense	39.2	36.1
Pension contributions	(10.6	) (8.6
Net loss on disposition of property	—	0.2
Excess income tax benefit from share-based compensation	(0.7	) (4.4
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:		
Receivables	15.1	73.2
Inventories	(32.7	) (24.3
Accounts payable	(19.0	) (10.4
Advance payments from customers and deferred revenue	18.1	7.5
Compensation and benefits	(80.6	) (99.2
Income taxes	11.3	46.9
Other assets and liabilities	7.1	(14.4
Cash provided by operating activities	184.8	268.2
Investing activities:		
Capital expenditures	(40.2	) (40.0
Acquisition of business, net of cash acquired	—	(21.2
Purchases of short-term investments	(312.4	) (171.6
Proceeds from maturities of short-term investments	261.1	175.7
Proceeds from sale of property	0.2	0.1
Cash used for investing activities	(91.3	) (57.0
Financing activities:		
Net issuance of short-term debt	161.0	183.0
Cash dividends	(95.6	) (88.1
Purchases of treasury stock	(127.4	) (168.4
Proceeds from the exercise of stock options	4.0	4.7
Excess income tax benefit from share-based compensation	0.7	4.4
Cash used for financing activities	(57.3	) (64.4
Effect of exchange rate changes on cash	(14.3	) (46.2
Increase in cash and cash equivalents	21.9	100.6

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Cash and cash equivalents at beginning of period	1,427.3	1,191.3
Cash and cash equivalents at end of period	\$1,449.2	\$1,291.9

See Notes to Condensed Consolidated Financial Statements.

6

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Table of Contents

ROCKWELL AUTOMATION, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 1. Basis of Presentation and Accounting Policies

In the opinion of management of Rockwell Automation, Inc. ("Rockwell Automation" or "the Company"), the unaudited Condensed Consolidated Financial Statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented and, except as otherwise indicated, such adjustments consist only of those of a normal, recurring nature. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. The results of operations for the three-month period ended December 31, 2015 are not necessarily indicative of the results for the full year. All date references to years and quarters herein refer to our fiscal year and fiscal quarter unless otherwise stated.

## Receivables

Receivables are stated net of an allowance for doubtful accounts of \$22.3 million at December 31, 2015 and \$22.0 million at September 30, 2015. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of \$11.4 million at December 31, 2015 and \$9.2 million at September 30, 2015.

## Earnings Per Share

The following table reconciles basic and diluted earnings per share (EPS) amounts (in millions, except per share amounts):

	Three Months Ended December 31,	
	2015	2014
Net income	\$185.5	\$214.2
Less: Allocation to participating securities	(0.2	) (0.3
Net income available to common shareowners	\$185.3	\$213.9
Basic weighted average outstanding shares	131.8	135.6
Effect of dilutive securities		
Stock options	0.8	1.2
Performance shares	—	0.1
Diluted weighted average outstanding shares	132.6	136.9
Earnings per share:		
Basic	\$1.41	\$1.58
Diluted	\$1.40	\$1.56

For the three months ended December 31, 2015, share-based compensation awards for 2.9 million shares were excluded from the diluted EPS calculation because they were antidilutive. For the three months ended December 31, 2014, share-based compensation awards for 1.7 million shares were excluded from the diluted EPS calculation because they were antidilutive.

## Non-Cash Investing and Financing Activities

Capital expenditures of \$3.4 million and \$5.8 million were accrued within accounts payable and other current liabilities at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, there were \$6.9 million and \$3.4 million, respectively, of outstanding common stock share repurchases recorded in accounts payable that did not settle until the next fiscal quarter. These non-cash investing and financing activities have been excluded from cash used for capital expenditures and treasury stock purchases in the Condensed Consolidated Statement of Cash Flows.

## Recent Accounting Pronouncements

In November 2015, the FASB issued new guidance that requires all deferred income taxes to be classified on the balance sheet as noncurrent assets or liabilities rather than separating current and noncurrent deferred income taxes based on the classification of the related assets and liabilities. This requirement is effective for us no later than

October 1, 2017; however, we elected to adopt earlier as of December 31, 2015. Upon adoption of this guidance we retrospectively reclassified \$151.2 million of deferred income taxes from current assets to noncurrent assets at September 30, 2015.

7

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## ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

## 1. Basis of Presentation and Accounting Policies (continued)

In May 2014, the FASB issued a new standard on revenue recognition related to contracts with customers. This standard supersedes nearly all existing revenue recognition guidance and involves a five-step approach to recognizing revenue based on individual performance obligations in a contract. The new standard will also require additional qualitative and quantitative disclosures about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. This guidance is effective for us for reporting periods beginning October 1, 2018. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements and related disclosures.

## 2. Share-Based Compensation

We recognized \$10.8 million of pre-tax share-based compensation expense during each of the three-month periods ended December 31, 2015 and 2014. Our annual grant of share-based compensation takes place during the first quarter of each fiscal year. The number of shares granted to employees and non-employee directors and the weighted average fair value per share during the periods presented were (in thousands except per share amounts):

	Three Months Ended December 31,			
	2015	2014	2015	2014
	Grants	Wtd. Avg. Share Fair Value	Grants	Wtd. Avg. Share Fair Value
Stock options	1,122	\$21.20	1,032	\$26.70
Performance shares	96	87.64	87	103.70
Restricted stock and restricted stock units	56	103.90	47	115.29
Unrestricted stock	6	100.36	4	109.39

## 3. Inventories

Inventories consist of (in millions):

	December 31, 2015	September 30, 2015
Finished goods	\$234.5	\$225.7
Work in process	177.9	157.5
Raw materials	149.8	152.4
Inventories	\$562.2	\$535.6

## 4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the three months ended December 31, 2015 are (in millions):

	Architecture & Software	Control Products & Solutions	Total
Balance as of September 30, 2015	\$388.0	\$640.8	\$1,028.8
Translation	(1.5)	(7.4)	(8.9)
Balance as of December 31, 2015	\$386.5	\$633.4	\$1,019.9

ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

4. Goodwill and Other Intangible Assets (continued)

Other intangible assets consist of (in millions):

December 31, 2015  
Carrying  
Amount