

ROCKWELL AUTOMATION INC  
Form 10-Q  
August 02, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended June 30, 2017  
Commission file number 1-12383

---

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

---

Delaware	25-1797617
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1201 South Second Street,  
Milwaukee, Wisconsin 53204  
(Address of principal executive offices) (Zip Code)  
+1 (414) 382-2000  
Registrant's telephone number, including area code

---

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, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated Filer Accelerated Filer  
Non-accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company  
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

128,359,188 shares of registrant's Common Stock, \$1.00 par value, were outstanding on June 30, 2017.

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>21</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4. Controls and Procedures</u>	<u>38</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>39</u>
<u>Item 1A. Risk Factors</u>	<u>39</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>Item 6. Exhibits</u>	<u>41</u>
<u>Signatures</u>	<u>43</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)

	June 30, 2017	September 30, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,549.4	\$ 1,526.4
Short-term investments	1,065.2	902.8
Receivables	1,111.9	1,079.0
Inventories	585.5	526.6
Other current assets	144.5	150.2
Total current assets	4,456.5	4,185.0
Property, net of accumulated depreciation of \$1,479.7 and \$1,404.5, respectively	568.8	578.3
Goodwill	1,069.7	1,073.9
Other intangible assets, net	231.9	255.3
Deferred income taxes	640.5	633.9
Other assets	248.1	374.8
Total	\$7,215.5	\$ 7,101.2
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$348.4	\$ 448.6
Current portion of long-term debt	250.0	—
Accounts payable	610.1	543.1
Compensation and benefits	252.3	145.6
Advance payments from customers and deferred revenue	245.4	214.5
Customer returns, rebates and incentives	175.5	176.5
Other current liabilities	314.5	447.6
Total current liabilities	2,196.2	1,975.9
Long-term debt	1,243.8	1,516.3
Retirement benefits	1,401.4	1,430.2
Other liabilities	196.1	188.7
Commitments and contingent liabilities (Note 11)		
Shareowners' equity:		
Common stock (\$1.00 par value, shares issued: 181.4)	181.4	181.4
Additional paid-in capital	1,625.7	1,588.2
Retained earnings	5,898.7	5,668.4
Accumulated other comprehensive loss	(1,463.7 )	(1,538.8 )
Common stock in treasury, at cost (shares held: June 30, 2017, 53.0; September 30, 2016, 52.9)	(4,064.1 )	(3,909.1 )
Total shareowners' equity	2,178.0	1,990.1
Total	\$7,215.5	\$ 7,101.2

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		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Sales				
Products and solutions	\$1,429.6	\$1,316.3	\$4,144.2	\$3,870.6
Services	169.6	157.7	499.6	470.3
	1,599.2	1,474.0	4,643.8	4,340.9
Cost of sales				
Products and solutions	(813.9 )	(748.9 )	(2,348.2 )	(2,195.8 )
Services	(107.6 )	(108.3 )	(319.1 )	(321.5 )
	(921.5 )	(857.2 )	(2,667.3 )	(2,517.3 )
Gross profit	677.7	616.8	1,976.5	1,823.6
Selling, general and administrative expenses	(386.8 )	(346.7 )	(1,166.0 )	(1,065.3 )
Other income	4.2	0.3	10.1	1.0
Interest expense	(19.1 )	(18.1 )	(56.7 )	(53.1 )
Income before income taxes	276.0	252.3	763.9	706.2
Income tax provision	(59.1 )	(61.3 )	(142.8 )	(161.7 )
Net income	\$216.9	\$191.0	\$621.1	\$544.5
Earnings per share:				
Basic	\$1.69	\$1.47	\$4.83	\$4.16
Diluted	\$1.67	\$1.46	\$4.77	\$4.13
Cash dividends per share	\$1.52	\$1.45	\$3.04	\$2.90
Weighted average outstanding shares:				
Basic	128.4	129.8	128.5	130.7
Diluted	129.9	130.8	130.0	131.6

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 June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$216.9	\$191.0	\$621.1	\$544.5
Other comprehensive income (loss), net of tax:				
Pension and other postretirement benefit plan adjustments (net of tax expense of \$12.6, \$9.8, \$37.8, \$29.4)	23.8	18.5	72.1	55.3
Currency translation adjustments	24.9	(18.3 )	(0.5 )	(35.3 )
Net change in unrealized gains and losses on cash flow hedges (net of tax (benefit) expense of (\$1.0), (\$1.3), \$2.3, and (\$5.4))	(4.4 )	(2.8 )	3.6	(13.7 )
Net change in unrealized gains and losses on available-for-sale investments	—	—	(0.1 )	—
Other comprehensive income (loss)	44.3	(2.6 )	75.1	6.3
Comprehensive income	\$261.2	\$188.4	\$696.2	\$550.8

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ROCKWELL AUTOMATION, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(in millions)

	Nine Months Ended			
	June 30,			
	2017		2016	
Operating activities:				
Net income	\$	621.1	\$	544.5
Adjustments to arrive at cash provided by operating activities:				
Depreciation	100.7		107.2	
Amortization of intangible assets	23.3		22.0	
Share-based compensation expense	29.4		30.4	
Retirement benefit expense	129.2		117.5	
Pension contributions	(40.8	)	(31.8	)
Net (gain) loss on disposition of property	(0.1	)	0.8	
Excess income tax benefit from share-based compensation	—		(2.4	)
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:				
Receivables	(39.7	)	17.0	
Inventories	(53.0	)	(23.8	)
Accounts payable	66.7		28.9	
Advance payments from customers and deferred revenue	30.1		13.8	
Compensation and benefits	105.7		(81.1	)
Income taxes	(22.4	)	(54.8	)
Other assets and liabilities	(23.1	)	(12.9	)
Cash provided by operating activities	927.1		675.3	
Investing activities:				
Capital expenditures	(97.5	)	(79.4	)

Edgar Filing: ROCKWELL AUTOMATION INC - Form 10-Q

Acquisition of businesses, net of cash acquired	(1.1)	)	(21.2)	)
Purchases of investments	(916.8)	)	(801.5)	)
Proceeds from maturities of investments	614.9		596.2	
Proceeds from sale of investments	36.0		—	
Proceeds from sale of property	0.8		0.4	
Cash used for investing activities	(363.7)	)	(305.5)	)
Financing activities:				
Net (repayment) issuance of short-term debt	(100.2)	)	354.0	
Cash dividends	(293.2)	)	(284.7)	)
Purchases of treasury stock	(304.6)	)	(374.1)	)
Proceeds from the exercise of stock options	160.3		28.0	
Excess income tax benefit from share-based compensation	—		2.4	
Cash used for financing activities	(537.7)	)	(274.4)	)
Effect of exchange rate changes on cash	(2.7)	)	(13.4)	)
Increase in cash and cash equivalents	23.0		82.0	
Cash and cash equivalents at beginning of period	1,526.4		1,427.3	
Cash and cash equivalents at end of period	\$ 1,549.4		\$ 1,509.3	

See Notes to Condensed Consolidated Financial Statements.



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, 2016. The results of operations for the three and nine-month periods ended June 30, 2017, 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.

## Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and other fixed income securities with original maturities of three months or less at the time of purchase.

## Short-term Investments

Short-term investments include time deposits, certificates of deposit and other fixed income securities with original maturities longer than three months at the time of purchase and less than one year from period end. All investments meeting the definition of a security are accounted for as available-for-sale and stated at fair value. All other investments are stated at cost, which approximates fair value.

## Receivables

Receivables are stated net of an allowance for doubtful accounts of \$24.5 million at June 30, 2017, and September 30, 2016. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of \$9.6 million at June 30, 2017, and \$7.9 million at September 30, 2016.

## Earnings Per Share

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

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
Net income	\$216.9	\$191.0	\$621.1	\$544.5
Less: Allocation to participating securities	(0.3 )	(0.2 )	(0.7 )	(0.6 )
Net income available to common shareowners	\$216.6	\$190.8	\$620.4	\$543.9
Basic weighted average outstanding shares	128.4	129.8	128.5	130.7
Effect of dilutive securities				
Stock options	1.2	0.9	1.2	0.9
Performance shares	0.3	0.1	0.3	—
Diluted weighted average outstanding shares	129.9	130.8	130.0	131.6
Earnings per share:				
Basic	\$1.69	\$1.47	\$4.83	\$4.16
Diluted	\$1.67	\$1.46	\$4.77	\$4.13

For each of the three and nine months ended June 30, 2017, share-based compensation awards for 0.6 million and 0.8 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive. For the three and nine months ended June 30, 2016, share-based compensation awards for 1.8 million and 2.6 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive.



Table of Contents

ROCKWELL AUTOMATION, INC.

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

1. Basis of Presentation and Accounting Policies (continued)

Non-Cash Investing and Financing Activities

Capital expenditures of \$22.3 million and \$19.3 million were accrued within accounts payable and other current liabilities at June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, there were \$3.4 million and \$8.4 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 March 2016, the Financial Accounting Standards Board (FASB) issued a new standard on share-based compensation. This requirement is effective for us no later than October 1, 2017; however, we elected to adopt earlier as of October 1, 2016. This standard requires entities to record the excess income tax benefit or deficiency from share-based compensation within the income tax provision rather than within additional paid-in capital. This change reduced our income tax provision by \$4.5 million and \$24.7 million in the three and nine months ended June 30, 2017, respectively. The standard also requires this benefit or deficiency to be classified as an operating cash flow rather than as a financing cash flow. The requirement to record the benefit or deficiency within the income tax provision is effective on a prospective basis. We have elected to adopt the cash flow presentation requirement on a prospective basis. Our adoption of all other requirements under the new standard had no material impact on our financial statements.

In February 2016, the FASB issued a new standard on accounting for leases that requires lessees to recognize right-of-use assets and lease liabilities for most leases, among other changes to existing lease accounting guidance. The new standard also requires additional qualitative and quantitative disclosures about leasing activities. This standard is effective for us for reporting periods beginning October 1, 2019. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements and related disclosures.

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 principles-based approach to recognizing revenue. The underlying principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. 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. We will adopt this new standard in the first quarter of fiscal 2019 and have established a project plan and a cross-functional implementation team to adopt the new standard. We are in the process of identifying and implementing necessary changes to accounting policies, processes, controls and systems to enable compliance with this new standard. We continue to evaluate the impact the adoption of this standard will have on our consolidated financial statements and related disclosures.

Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 2. Share-Based Compensation

We recognized \$9.2 million and \$29.4 million of pre-tax share-based compensation expense during the three and nine months ended June 30, 2017, respectively. We recognized \$9.8 million and \$30.4 million of pre-tax share-based compensation expense during the three and nine months ended June 30, 2016, respectively. 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):

	Nine Months Ended June 30,			
	2017	Wtd. Avg. GrantsShare Fair Value	2016	Wtd. Avg. GrantsShare Fair Value
Stock options	1,001	\$ 25.49	1,140	\$ 21.20
Performance shares	42	174.37	96	87.64
Restricted stock and restricted stock units	51	138.22	64	105.19
Unrestricted stock	8	128.35	10	98.79

## 3. Inventories

Inventories consist of (in millions):

	June 30, September 30,	
	2017	2016
Finished goods	\$ 239.6	\$ 215.8
Work in process	173.1	158.0
Raw materials	172.8	152.8
Inventories	\$ 585.5	\$ 526.6

Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended June 30, 2017, are (in millions):

	Architecture & Software	Control Products & Solutions	Total
Balance as of September 30, 2016	\$ 414.5	\$ 659.4	\$ 1,073.9
Acquisition of business	—	0.8	0.8
Translation	(1.2 )	(3.8 )	(5.0 )
Balance as of June 30, 2017	\$ 413.3	\$ 656.4	\$ 1,069.7

Other intangible assets consist of (in millions):

	June 30, 2017		
	Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	\$ 182.7	\$ 110.6	\$ 72.1
Customer relationships	112.0	57.7	54.3
Technology	103.4	54.9	48.5
Trademarks	31.0	19.3	11.7
Other	10.8	9.2	1.6
Total amortized intangible assets	439.9	251.7	188.2
Allen-Bradley® trademark not subject to amortization	43.7	—	43.7
Total	\$ 483.6	\$ 251.7	\$ 231.9
	September 30, 2016		
	Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	\$ 182.4	\$ 103.4	\$ 79.0
Customer relationships	112.6	51.9	60.7
Technology	103.9	48.5	55.4
Trademarks	31.4	17.0	14.4
Other	11.0	8.9	2.1
Total amortized intangible assets	441.3	229.7	211.6
Allen-Bradley® trademark not subject to amortization	43.7	—	43.7
Total	\$ 485.0	\$ 229.7	\$ 255.3

Estimated amortization expense is \$29.9 million in 2017, \$25.1 million in 2018, \$21.9 million in 2019, \$19.1 million in 2020 and \$18.4 million in 2021.

We performed our annual evaluation of goodwill and indefinite life intangible assets for impairment as required by accounting principles generally accepted in the United States (U.S. GAAP) during the second quarter of 2017 and concluded that these assets are not impaired.

Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 5. Short-term Debt

Our short-term debt obligations primarily consist of commercial paper borrowings. Commercial paper borrowings outstanding were \$348.0 million and \$448.6 million at June 30, 2017, and September 30, 2016, respectively. The weighted average interest rate of the commercial paper outstanding was 1.28 percent and 0.57 percent at June 30, 2017, and September 30, 2016, respectively.

The current portion of long-term debt consists of our \$250.0 million 5.65% notes due in December 2017. These notes were included within long-term debt at September 30, 2016, but are included within current liabilities at June 30, 2017, as they are due within the next twelve months.

At June 30, 2017, and September 30, 2016, our total borrowing capacity under our unsecured revolving credit facility expiring in March 2020 was \$1.0 billion. We did not borrow against this credit facility during the nine months ended June 30, 2017, or the twelve months ended September 30, 2016. In December 2016, we amended the financial covenant under this credit facility. The previous financial covenant, which limited our debt-to-total-capital ratio to 60 percent, was replaced with a minimum EBITDA-to-interest ratio of 3.0 to 1.0. The EBITDA-to-interest ratio is defined in the amendment as the ratio of consolidated EBITDA (as defined in the amendment) for the preceding four quarters to consolidated interest expense for the same period.

## 6. Other Current Liabilities

Other current liabilities consist of (in millions):

	June 30, 2017	September 30, 2016
Unrealized losses on foreign exchange contracts	\$ 27.4	\$ 15.6
Product warranty obligations	27.2	28.0
Taxes other than income taxes	40.1	43.1
Accrued interest	16.2	16.9
Dividends payable	97.6	—
Income taxes payable	47.3	28.6
Rocky Flats settlement (Note 14)	—	242.5
Other	58.7	72.9
Other current liabilities	\$ 314.5	\$ 447.6

## 7. Product Warranty Obligations

We record a liability for product warranty obligations at the time of sale to a customer based upon historical warranty experience. Most of our products are covered under a warranty period that runs for twelve months from either the date of sale or installation. We also record a liability for specific warranty matters when they become probable and reasonably estimable.

Changes in product warranty obligations for the nine months ended June 30, 2017 and 2016 are (in millions):

	Nine Months Ended June 30,	
	2017	2016
Balance at beginning of period	\$28.0	\$27.9
Accruals for warranties issued during the current period	19.0	18.7
Adjustments to pre-existing warranties	(1.5 )	(0.2 )
Settlements of warranty claims	(18.3 )	(19.4 )
Balance at end of period	\$27.2	\$27.0



Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 8. Investments

We invest in certificates of deposit, time deposits, commercial paper and other fixed income securities. All investments meeting the U.S. GAAP definition of a security were classified as available-for-sale as of June 30, 2017, and September 30, 2016. Unrealized gains and losses on available-for-sale investments are included in our Condensed Consolidated Balance Sheet as a component of accumulated other comprehensive income, net of any deferred taxes. Realized gains and losses are included in net income.

Our investments consist of (in millions):

	June 30, 2017	September 30, 2016
Certificates of deposit and time deposits	\$960.0	\$ 902.8
Commercial paper	17.7	—
Corporate debt securities	95.3	—
Government securities	103.1	—
Total	\$1,176.1	\$ 902.8

Pre-tax gross unrealized gains and losses on available-for-sale investments were not material at June 30, 2017. Pre-tax gross realized gains and losses on available-for-sale investments were not material for the three and nine months ended June 30, 2017 and 2016. At June 30, 2017, there were \$5.6 million of outstanding purchases of investments recorded in accounts payable that did not settle until July 2017.

We evaluated all investments for which the fair value was less than amortized cost for impairment on an individual security basis at June 30, 2017. This assessment included consideration of our intent and ability to hold the security and the credit risks specific to each security. We determined that the declines in fair value of these investments were not other than temporary as of June 30, 2017, and accordingly we did not recognize any impairment charges in net income.

The table below summarizes the contractual maturities of our investments as of June 30, 2017 (in millions). Actual maturities may differ from the contractual maturities below as borrowers may have the right to prepay certain obligations.

	Fair Value
Less than one year	\$1,065.2
Due in one to three years	110.9
Total	\$1,176.1

Classification of our investments as current or noncurrent is based on the nature of the investment and when the investment is reasonably expected to be realized. These investments were included in the following line items within the Condensed Consolidated Balance Sheet (in millions):

	June 30, 2017	September 30, 2016
Short-term investments	\$1,065.2	\$ 902.8
Other assets	110.9	—
Total	\$1,176.1	\$ 902.8



Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 8. Investments (continued)

## Fair Value of Investments

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. U.S. GAAP also classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

We recognize all available-for-sale investments at fair value in the Condensed Consolidated Balance Sheet. The valuation methodologies used for our investments measured at fair value are described as follows.

Certificates of deposit and time deposits — These investments are stated at cost, which approximates fair value.

Commercial paper — These investments are stated at amortized cost, which approximates fair value.

Government securities — Valued at the most recent closing price on the active market on which the individual securities are traded or, absent an active market, utilizing observable inputs such as closing prices in less frequently traded markets.

Corporate debt securities — Valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. We did not hold any Level 3 investments or have any transfers between levels of fair value measurements during the periods presented.

Fair values of our investments were (in millions):

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit and time deposits	\$—	\$960.0	\$—	—\$960.0
Commercial paper	—	17.7	—	17.7
Corporate debt securities	—	95.3	—	95.3
Government securities	75.4	27.7	—	103.1
Total	\$75.4	\$1,100.7	\$—	—\$1,176.1
	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Certificates of deposit and time deposits	\$—	\$902.8	\$—	—\$902.8
Commercial paper	—	—	—	—
Corporate debt securities	—	—	—	—
Government securities	—	—	—	—
Total	\$—	\$902.8	\$—	—\$902.8



Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 9. Retirement Benefits

The components of net periodic benefit cost (income) are (in millions):

	Pension Benefits			
	Three Months		Nine Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Service cost	\$24.2	\$22.1	\$72.5	\$66.0
Interest cost	37.8	42.5	113.4	127.2
Expected return on plan assets	(56.2 )	(54.8 )	(168.6 )	(163.9 )
Amortization:				
Prior service credit	(0.9 )	(0.7 )	(2.8 )	(2.1 )
Net actuarial loss	38.2	31.2	114.4	93.4
Settlements	—	—	0.2	—
Net periodic benefit cost	\$43.1	\$40.3	\$129.1	\$120.6

	Other Postretirement Benefits			
	Three Months		Nine Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Service cost	\$0.3	\$0.4	\$1.0	\$1.0
Interest cost	0.7	0.8	1.9	2.5
Amortization:				
Prior service credit	(1.5 )	(2.8 )	(4.5 )	(8.5 )
Net actuarial loss	0.6	0.6	1.7	1.9
Net periodic benefit cost (income)	\$0.1	\$(1.0)	\$0.1	\$(3.1)

Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 10. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component for the three and nine months ended June 30, 2017, were (in millions):

## Three Months Ended June 30, 2017

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of March 31, 2017	\$ (1,191.5 )	\$ (320.3 )	\$ 3.9	\$ (0.1 )	\$ (1,508.0 )
Other comprehensive income (loss) before reclassifications	—	24.9	(3.9 )	—	21.0
Amounts reclassified from accumulated other comprehensive loss	23.8	—	(0.5 )	—	23.3
Other comprehensive income (loss)	23.8	24.9	(4.4 )	—	44.3
Balance as of June 30, 2017	\$ (1,167.7 )	\$ (295.4 )	\$ (0.5 )	\$ (0.1 )	\$ (1,463.7 )

## Nine Months Ended June 30, 2017

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of September 30, 2016	\$ (1,239.8 )	\$ (294.9 )	\$ (4.1 )	\$ —	\$ (1,538.8 )
Other comprehensive income (loss) before reclassifications	0.7	(0.5 )	5.6	(0.1 )	5.7
Amounts reclassified from accumulated other comprehensive loss	71.4	—	(2.0 )	—	69.4
Other comprehensive income (loss)	72.1	(0.5 )	3.6	(0.1 )	75.1
Balance as of June 30, 2017	\$ (1,167.7 )	\$ (295.4 )	\$ (0.5 )	\$ (0.1 )	\$ (1,463.7 )

Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 10. Accumulated Other Comprehensive Loss (continued)

Changes in accumulated other comprehensive loss by component for the three and nine months ended June 30, 2016, were (in millions):

## Three Months Ended June 30, 2016

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of March 31, 2016	\$ (1,060.3 )	\$ (269.4 )	\$ 4.0	\$ —	—\$ (1,325.7 )
Other comprehensive loss before reclassifications	—	(18.3 )	(1.7 )	—	(20.0 )
Amounts reclassified from accumulated other comprehensive loss	18.5	—	(1.1 )	—	17.4
Other comprehensive income (loss)	18.5	(18.3 )	(2.8 )	—	(2.6 )
Balance as of June 30, 2016	\$ (1,041.8 )	\$ (287.7 )	\$ 1.2	\$ —	—\$ (1,328.3 )

## Nine Months Ended June 30, 2016

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of September 30, 2015	\$ (1,097.1 )	\$ (252.4 )	\$ 14.9	\$ —	—\$ (1,334.6 )
Other comprehensive loss before reclassifications	—	(35.3 )	(1.0 )	—	(36.3 )
Amounts reclassified from accumulated other comprehensive loss	55.3	—	(12.7 )	—	42.6
Other comprehensive income (loss)	55.3	(35.3 )	(13.7 )	—	6.3
Balance as of June 30, 2016	\$ (1,041.8 )	\$ (287.7 )	\$ 1.2	\$ —	—\$ (1,328.3 )

Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 10. Accumulated Other Comprehensive Loss (continued)

The reclassifications out of accumulated other comprehensive loss to the Condensed Consolidated Statement of Operations were (in millions):

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016		Affected Line in the Condensed Consolidated Statement of Operations
Pension and other postretirement benefit plan adjustments:					
Amortization of prior service credit	\$(2.4)	\$(3.5)	\$(7.3)	\$(10.6)	(a)
Amortization of net actuarial loss	38.8	31.8	116.1	95.3	(a)
Settlements	—	—	0.2	—	(a)
	36.4	28.3	109.0	84.7	Income before income taxes
	(12.6)	(9.8)	(37.6)	(29.4)	Income tax provision
	\$23.8	\$18.5	\$71.4	\$55.3	Net income

## Net unrealized losses (gains) on cash flow hedges:

Forward exchange contracts	\$(0.7)	\$1.0	\$0.8	\$5.1	Sales
Forward exchange contracts	(0.2)	(2.0)	(3.8)	(21.0)	Cost of sales
Forward exchange contracts	0.1	—	0.7	—	Selling, general and administrative expenses
	(0.8)	(1.0)	(2.3)	(15.9)	Income before income taxes
	0.3	(0.1)	0.3	3.2	Income tax provision
	\$(0.5)	\$(1.1)	\$(2.0)	\$(12.7)	Net income

Total reclassifications \$23.3 \$17.4 \$69.4 \$42.6 Net income

(a) Reclassified from accumulated other comprehensive loss into cost of sales and selling, general and administrative expenses. These components are included in the computation of net periodic benefit cost (income). See Note 9 for further information.

Table of Contents

ROCKWELL AUTOMATION, INC.

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

11. Commitments and Contingent Liabilities

Various lawsuits, claims and proceedings have been or may be instituted or asserted against us relating to the conduct of our business, including those pertaining to product liability, environmental, safety and health, intellectual property, employment and contract matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, we believe the disposition of matters that are pending or have been asserted will not have a material effect on our business, financial condition or results of operations.

We (including our subsidiaries) have been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos that was used in certain components of our products many years ago. Currently there are a few thousand claimants in lawsuits that name us as defendants, together with hundreds of other companies. In some cases, the claims involve products from divested businesses, and we are indemnified for most of the costs. However, we have agreed to defend and indemnify asbestos claims associated with products manufactured or sold by our former Dodge mechanical and Reliance Electric motors and motor repair services businesses prior to their divestiture by us, which occurred on January 31, 2007. We are also responsible for half of the costs and liabilities associated with asbestos cases against the former Rockwell International Corporation's divested measurement and flow control business. But in all cases, for those claimants who do show that they worked with our products or products of divested businesses for which we are responsible, we nevertheless believe we have meritorious defenses, in substantial part due to the integrity of the products, the encapsulated nature of any asbestos-containing components, and the lack of any impairing medical condition on the part of many claimants. We defend those cases vigorously. Historically, we have been dismissed from the vast majority of these claims with no payment to claimants.

We have maintained insurance coverage that we believe covers indemnity and defense costs, over and above self-insured retentions, for claims arising from our former Allen-Bradley subsidiary. Our insurance carrier entered into a cost share agreement with us to pay the substantial majority of future defense and indemnity costs for Allen-Bradley asbestos claims. We believe that this arrangement will continue to provide coverage for Allen-Bradley asbestos claims throughout the remaining life of the asbestos liability.

We also have rights to historic insurance policies that provide indemnity and defense costs, over and above self-insured retentions, for claims arising out of certain asbestos liabilities relating to the divested measurement and flow control business. We initiated litigation against several insurers to pursue coverage for these claims, subject to each carrier's policy limits, and the case is now pending in Los Angeles County Superior Court. In September 2016, we entered into settlement agreements with certain insurance company defendants, and we continue to pursue our claims against the remaining defendants. We believe these settlement agreements will continue to provide partial coverage for these asbestos claims throughout the remaining life of asbestos liability.

The uncertainties of asbestos claim litigation make it difficult to predict accurately the ultimate outcome of asbestos claims. That uncertainty is increased by the possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process. Subject to these uncertainties and based on our experience defending asbestos claims, we do not believe these lawsuits will have a material effect on our business, financial condition or results of operations.

We have, from time to time, divested certain of our businesses. In connection with these divestitures, certain lawsuits, claims and proceedings may be instituted or asserted against us related to the period that we owned the businesses, either because we agreed to retain certain liabilities related to these periods or because such liabilities fall upon us by operation of law. In some instances, the divested business has assumed the liabilities; however, it is possible that we might be responsible for satisfying those liabilities if the divested business is unable to do so.

In connection with the spin-offs of our former automotive business, semiconductor systems business and avionics and communications business, the spun-off companies have agreed to indemnify us for substantially all contingent liabilities related to the respective businesses, including environmental and intellectual property matters.

In conjunction with the sale of our Dodge mechanical and Reliance Electric motors and motor repair services businesses, we agreed to indemnify Baldor Electric Company for costs and damages related to certain legal, legacy environmental and asbestos matters of these businesses arising before January 31, 2007, for which the maximum exposure would be capped at the amount received for the sale.



Table of Contents

ROCKWELL AUTOMATION, INC.

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

11. Commitments and Contingent Liabilities (continued)

In many countries we provide a limited intellectual property indemnity as part of our terms and conditions of sale. We also at times provide limited intellectual property indemnities in other contracts with third parties, such as contracts concerning the development and manufacture of our products. As of June 30, 2017, we were not aware of any material indemnification claims where an unfavorable outcome was probable or reasonably possible. Historically, claims that have been made under the indemnification agreements have not had a material impact on our business, financial condition or results of operations; however, to the extent that valid indemnification claims arise in the future, future payments by us could be significant and could have a material adverse effect on our business, financial condition or results of operations in a particular period.

12. Income Taxes

At the end of each interim period, we estimate a base effective tax rate that we expect for the full fiscal year based on our most recent forecast of pre-tax income, permanent book and tax differences and global tax planning strategies. We use this base rate to provide for income taxes on a year-to-date basis, excluding the effect of significant unusual items and items that are reported net of their related tax effects in the period in which they occur.

The effective tax rate was 21.4 percent and 18.7 percent in the three and nine months ended June 30, 2017, respectively, compared to 24.3 percent and 22.9 percent in the three and nine months ended June 30, 2016, respectively. The effective tax rate was lower than the U.S. statutory rate of 35 percent in each period primarily because we benefited from lower non-U.S. tax rates. In the three and nine months ended June 30, 2017, we also realized benefits from discrete tax items. In the three months ended June 30, 2016, we also realized a benefit from a discrete tax item. In the nine months ended June 30, 2016, our effective tax rate was favorably impacted by the retroactive and permanent extension of the U.S. federal research and development tax credit during the first quarter of 2016 and discrete tax items.

The amount of gross unrecognized tax benefits was \$40.3 million and \$32.4 million at June 30, 2017, and September 30, 2016, respectively, of which the entire amount would reduce our effective tax rate if recognized. Accrued interest and penalties related to unrecognized tax benefits were \$4.9 million and \$5.2 million at June 30, 2017, and September 30, 2016, respectively. We recognize interest and penalties related to unrecognized tax benefits in the income tax provision.

We believe it is reasonably possible that the amount of gross unrecognized tax benefits could be reduced by up to \$17.5 million in the next 12 months as a result of the resolution of tax matters in various global jurisdictions and the lapses of statutes of limitations. If all of the unrecognized tax benefits were recognized, the net reduction to our income tax provision, including the recognition of interest and penalties and offsetting tax assets, could be up to \$1.2 million.

We conduct business globally and are routinely audited by the various tax jurisdictions in which we operate. We are no longer subject to U.S. federal income tax examinations for years before 2014 and are no longer subject to state, local and foreign income tax examinations for years before 2003.

Table of Contents

ROCKWELL AUTOMATION, INC.

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

## 13. Business Segment Information

The following tables reflect the sales and operating results of our reportable segments (in millions):

	Three Months Ended		Nine Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Sales				
Architecture & Software	\$731.9	\$666.4	\$2,147.3	\$1,938.8
Control Products & Solutions	867.3	807.6	2,496.5	2,402.1
Total	\$1,599.2	\$1,474.0	\$4,643.8	\$4,340.9
Segment operating earnings				
Architecture & Software	\$204.3	\$184.2	\$603.5	\$515.0
Control Products & Solutions	132.7	126.8	346.1	369.4
Total	337.0	311.0	949.6	884.4
Purchase accounting depreciation and amortization	(5.6 )	(4.7 )	(16.8 )	(13.9 )
General corporate – net	(16.5 )	(17.0 )	(52.8 )	(54.5 )
Non-operating pension costs	(19.8 )	(18.9 )	(59.4 )	(56.7 )
Interest expense	(19.1 )	(18.1 )	(56.7 )	(53.1 )
Income before income taxes	\$276.0	\$252.3	\$763.9	\$706.2

Among other considerations, we evaluate performance and allocate resources based upon segment operating earnings before income taxes, interest expense, costs related to corporate offices, non-operating pension costs, certain nonrecurring corporate initiatives, gains and losses from the disposition of businesses and purchase accounting depreciation and amortization. Depending on the product, intersegment sales within a single legal entity are either at cost or cost plus a mark-up, which does not necessarily represent a market price. Sales between legal entities are at an appropriate transfer price. We allocate costs related to shared segment operating activities to the segments using a methodology consistent with the expected benefit.

## 14. Rocky Flats Settlement

From 1975 to 1989, Rockwell International Corporation (RIC) operated the Rocky Flats facility in Colorado for the U.S. Department of Energy (DoE). In 1990, a class of landowners near Rocky Flats sued RIC and Dow Chemical, another former operator of the facility. In May 2016, the parties agreed to settle this case and the DoE authorized the settlement. Under the court approved settlement agreement, we and Dow Chemical agreed to pay \$375.0 million in the aggregate to resolve the claims. Under RIC's contract with the DoE and federal law, RIC was entitled to indemnification by the DoE for its portion of the settlement amount, which was \$243.75 million. When RIC was acquired by Boeing in 1996, we agreed to indemnify Boeing for RIC's liabilities related to Rocky Flats and received the benefits of RIC's corresponding indemnity rights against the DoE. Pursuant to the settlement agreement, in fiscal 2016, RIC paid an initial amount of \$1.25 million to the plaintiff class escrow fund. In January 2017, the DoE fulfilled its indemnification obligation by paying \$243.75 million, and the full amount of RIC's obligation under the settlement agreement has now been transferred to the plaintiff class escrow account. As a result, we were not required to make any payment under the settlement agreement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of  
Rockwell Automation, Inc.  
Milwaukee, Wisconsin

We have reviewed the accompanying condensed consolidated balance sheet of Rockwell Automation, Inc. and subsidiaries (the "Company") as of June 30, 2017, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended June 30, 2017 and 2016, and of cash flows for the nine-month periods ended June 30, 2017 and 2016. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Rockwell Automation, Inc. and subsidiaries as of September 30, 2016, and the related consolidated statements of operations, comprehensive income, cash flows, and shareowners' equity for the year then ended (not presented herein); and in our report dated November 15, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2016 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin

August 2, 2017

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Forward-Looking Statements

This Quarterly Report contains statements (including certain projections and business trends) that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Words such as “believe”, “estimate”, “project”, “plan”, “expect”, “anticipate”, “will”, “intend” and other similar expressions may identify forward-looking statements. Actual results may differ materially from those projected as a result of certain risks and uncertainties, many of which are beyond our control, including but not limited to:

macroeconomic factors, including global and regional business conditions, the availability and cost of capital, commodity prices, the cyclical nature of our customers’ capital spending, sovereign debt concerns and currency exchange rates;

- laws, regulations and governmental policies affecting our activities in the countries where we do business;
- the successful development of advanced technologies and demand for and market acceptance of new and existing products;
- the availability, effectiveness and security of our information technology systems;
- competitive products, solutions and services and pricing pressures, and our ability to provide high quality products, solutions and services;
- a disruption of our business due to natural disasters, pandemics, acts of war, strikes, terrorism, social unrest or other causes;
- our ability to manage and mitigate the risk related to security vulnerabilities and breaches of our products, solutions and services;
- intellectual property infringement claims by others and the ability to protect our intellectual property;
- the uncertainty of claims by taxing authorities in the various jurisdictions where we do business;
- our ability to attract and retain qualified personnel;
- our ability to manage costs related to employee retirement and health care benefits;
- the uncertainties of litigation, including liabilities related to the safety and security of the products, solutions and services we sell;
- our ability to manage and mitigate the risks associated with our solutions and services businesses;
- a disruption to our distribution channels;
- the availability and price of components and materials;
- the successful integration and management of acquired businesses;
- the successful execution of our cost productivity initiatives; and
- other risks and uncertainties, including but not limited to those detailed from time to time in our Securities and Exchange Commission (SEC) filings.

These forward-looking statements reflect our beliefs as of the date of filing this report. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. See Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, for more information.

Non-GAAP Measures

The following discussion includes organic sales, total segment operating earnings and margin, Adjusted Income, Adjusted EPS, Adjusted Effective Tax Rate and free cash flow, which are non-GAAP measures. See Supplemental Sales Information for a reconciliation of reported sales to organic sales and a discussion of why we believe this non-GAAP measure is useful to investors. See Results of Operations for a reconciliation of income before income taxes to total segment operating earnings and margin and a discussion of why we believe these non-GAAP measures are useful to investors. See Results of Operations for a reconciliation of income from continuing operations, diluted

EPS from continuing operations and effective tax rate to Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate, respectively, and a discussion of why we believe these non-GAAP measures are useful to investors. See Financial Condition for a reconciliation of cash flows from operating activities to free cash flow and a discussion of why we believe this non-GAAP measure is useful to investors.

Table of Contents

ROCKWELL AUTOMATION, INC.

Overview

Rockwell Automation, Inc., a leader in industrial automation and information, makes its customers more productive and the world more sustainable. Overall demand for our products, solutions and services is driven by:

- investments in manufacturing, including upgrades, modifications and expansions of existing facilities or production lines and new facilities or production lines;
- investments in basic materials production capacity, which may be related to commodity pricing levels;
- our customers' needs for faster time to market, lower total cost of ownership, improved asset utilization and optimization, and enterprise risk management;
- our customers' needs to continuously improve quality, safety and sustainability;
- industry factors that include our customers' new product introductions, demand for our customers' products or services, and the regulatory and competitive environments in which our customers operate;
- levels of global industrial production and capacity utilization;
- regional factors that include local political, social, regulatory and economic circumstances; and
- the spending patterns of our customers due to their annual budgeting processes and their working schedules.

Long-term Strategy

Our vision of being the most valued global provider of innovative industrial automation and information products, solutions and services is supported by our growth and performance strategy, which seeks to:

- achieve organic sales growth in excess of the automation market by expanding our served market and strengthening our competitive differentiation;
- diversify our sales streams by broadening our portfolio of products, solutions and services, expanding our global presence and serving a wider range of industries and applications;
- grow market share by gaining new customers and by capturing a larger share of existing customers' spending;
- enhance our market access by building our channel capability and partner network;
- acquire companies that serve as catalysts to organic growth by adding complementary technology, expanding our served market, or enhancing our domain expertise or market access;
- deploy human and financial resources to strengthen our technology leadership and our intellectual capital business model;
- continuously improve quality and customer experience; and
- drive annual cost productivity.

By implementing the above strategy, we seek to achieve our long-term financial goals, including above-market organic sales growth, EPS growth above sales growth, return on invested capital in excess of 20 percent and free cash flow equal to about 100 percent of Adjusted Income.

Table of Contents

## ROCKWELL AUTOMATION, INC.

## U. S. Industrial Economic Trends

In the third quarter of 2017, sales in the U.S. accounted for 55 percent of our total sales. The various indicators we use to gauge the direction and momentum of our served U.S. markets include:

The Industrial Production (IP) Index, published by the Federal Reserve, which measures the real output of manufacturing, mining and electric and gas utilities. The IP Index is expressed as a percentage of real output in a base year, currently 2012. Historically, there has been a meaningful correlation between the changes in the IP Index and the level of automation investment made by our U.S. customers in their manufacturing base.

The Manufacturing Purchasing Managers' Index (PMI), published by the Institute for Supply Management (ISM), which indicates the current and near-term state of manufacturing activity in the U.S. According to the ISM, a PMI measure above 50 indicates that the U.S. manufacturing economy is generally expanding while a measure below 50 indicates that it is generally contracting.

Industrial Equipment Spending, compiled by the Bureau of Economic Analysis, which provides insight into spending trends in the broad U.S. industrial economy. This measure over the longer term has proven to demonstrate a reasonable correlation with our domestic growth.

Capacity Utilization (Total Industry), published by the Federal Reserve, which measures plant operating activity. Historically, there has been a meaningful correlation between Capacity Utilization and levels of U.S. IP.

The table below depicts trends in these indicators since the quarter ended September 2015. In the third quarter of fiscal 2017, all of these U.S. economic indicators improved compared to the prior quarter.

	IP Index	PMI	Industrial Equipment Spending (in billions)	Capacity Utilization (percent)
Fiscal 2017 quarter ended:				
June 2017	104.9	57.8	241.6	76.4
March 2017	103.7	57.2	234.3	75.8
December 2016	103.3	54.5	229.0	75.8
Fiscal 2016 quarter ended:				
September 2016	103.1	51.7	226.0	75.8
June 2016	102.9	52.8	224.4	75.7
March 2016	103.1	51.7	220.6	75.8
December 2015	103.4	47.9	224.0	76.0
Fiscal 2015 quarter ended:				
September 2015	104.4	50.1	220.7	76.7

Note: Economic indicators are subject to revision by the issuing organizations.

## Non-U.S. Economic Trends

In the third quarter of 2017, sales to customers outside the U.S. accounted for 45 percent of our total sales. These customers include both indigenous companies and multinational companies with expanding global presence. In addition to the global factors previously mentioned in the "Overview" section, international demand, particularly in emerging markets, has historically been driven by the strength of the industrial economy in each region, investments in infrastructure and expanding consumer markets. We use changes in the respective countries' gross domestic product and IP as indicators of the growth opportunities in each region where we do business.

Economic projections call for growth in industrial production in all regions in fiscal 2017, except in Latin America. Recent economic forecasts for Europe remain positive. In Asia Pacific, longer term forecasts for growth remain unchanged. Macroeconomic indicators for Canada continue to improve, supported by a weak Canadian dollar and stable commodity prices.





Table of Contents

ROCKWELL AUTOMATION, INC.

Summary of Results of Operations

Sales in the third quarter of 2017 increased 8.5 percent compared to the third quarter of 2016. Organic sales increased 8.2 percent year over year. Currency translation reduced sales by 0.9 percentage points, and acquisitions contributed 1.2 percentage points to sales growth. Growth was broad-based across regions and industries with strength in transportation, food and beverage, and semiconductor.

The following is a summary of our results related to key growth initiatives:

Logix sales increased 9 percent year over year in the third quarter of 2017. Logix organic sales increased 10 percent year over year, and currency reduced sales by one percentage point.

Process initiative sales increased 17 percent year over year in the third quarter of 2017. Process initiative organic sales increased 8 percent year over year, and acquisitions contributed 9 percentage points to growth.

Sales in emerging countries increased 13.8 percent year over year in the third quarter of 2017. Organic sales in emerging countries increased 15.1 percent year over year. Currency translation reduced sales in emerging countries by 1.3 percentage points.

Table of Contents

## ROCKWELL AUTOMATION, INC.

The following table reflects our sales and operating results for the three and nine months ended June 30, 2017 and 2016 (in millions, except per share amounts and percentages):

	Three Months Ended		Nine Months Ended		
	June 30, 2017	2016	June 30, 2017	2016	
Sales					
Architecture & Software	\$731.9	\$666.4	\$2,147.3	\$1,938.8	
Control Products & Solutions	867.3	807.6	2,496.5	2,402.1	
Total sales (a)	\$1,599.2	\$1,474.0	\$4,643.8	\$4,340.9	
Segment operating earnings <sup>(1)</sup>					
Architecture & Software	\$204.3	\$184.2	\$603.5	\$515.0	
Control Products & Solutions	132.7	126.8	346.1	369.4	
Total segment operating earnings <sup>(2)</sup> (b)	337.0	311.0	949.6	884.4	
Purchase accounting depreciation and amortization	(5.6 )	(4.7 )	(16.8 )	(13.9 )	
General corporate — net	(16.5 )	(17.0 )	(52.8 )	(54.5 )	
Non-operating pension costs	(19.8 )	(18.9 )	(59.4 )	(56.7 )	
Interest expense	(19.1 )	(18.1 )	(56.7 )	(53.1 )	
Income before income taxes (c)	276.0	252.3	763.9	706.2	
Income tax provision	(59.1 )	(61.3 )	(142.8 )	(161.7 )	
Net income	\$216.9	\$191.0	\$621.1	\$544.5	
Diluted EPS	\$1.67	\$1.46	\$4.77	\$4.13	
Adjusted EPS <sup>(3)</sup>	\$1.76	\$1.55	\$5.06	\$4.41	
Diluted weighted average outstanding shares	129.9	130.8	130.0	131.6	
Total segment operating margin <sup>(2)</sup> (b/a)	21.1	% 21.1	% 20.4	% 20.4	%
Pre-tax margin (c/a)	17.3	% 17.1	% 16.4	% 16.3	%

(1) See Note 13 in the Condensed Consolidated Financial Statements for the definition of segment operating earnings.

Total segment operating earnings and total segment operating margin are non-GAAP financial measures. We exclude purchase accounting depreciation and amortization, general corporate – net, non-operating pension costs, interest expense and income tax provision because we do not consider these costs to be directly related to the

(2) operating performance of our segments. We believe that these measures are useful to investors as measures of operating performance. We use these measures to monitor and evaluate the profitability of our operating segments. Our measures of total segment operating earnings and total segment operating margin may be different from measures used by other companies.

Adjusted EPS is a non-GAAP earnings measure that excludes the non-operating pension costs and their related

(3) income tax effects. See Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate Reconciliation for more information on this non-GAAP measure.

Table of Contents

## ROCKWELL AUTOMATION, INC.

Purchase accounting depreciation and amortization and non-operating pension costs are not allocated to our operating segments because these costs are excluded from our measurement of each segment's operating performance for internal purposes. If we were to allocate these costs, we would attribute them to each of our segments as follows (in millions):

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
Purchase accounting depreciation and amortization				
Architecture & Software	\$1.6	\$1.0	\$4.8	\$2.8
Control Products & Solutions	3.7	3.4	11.2	10.3
Non-operating pension costs				
Architecture & Software	7.1	6.7	21.3	20.1
Control Products & Solutions	11.1	10.5	33.3	31.5

The increases in non-operating pension costs in both segments for the three and nine months ended June 30, 2017, were primarily due to the decrease in our U.S. discount rate from 4.55 percent for fiscal 2016 to 3.75 percent for fiscal 2017.

Table of Contents

ROCKWELL AUTOMATION, INC.

## Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate Reconciliation

Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate are non-GAAP earnings measures that exclude non-operating pension costs and their related income tax effects. Non-operating pension costs include defined benefit plan interest cost, expected return on plan assets, amortization of actuarial gains and losses and the impact of any plan curtailments or settlements. These components of net periodic pension cost primarily relate to changes in pension assets and liabilities that are a result of market performance; we consider these costs to be unrelated to the operating performance of our business. We believe that Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate provide useful information to our investors about our operating performance and allow management and investors to compare our operating performance period over period. Adjusted EPS is also used as a financial measure of performance for our annual incentive compensation. Our measures of Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate may be different from measures used by other companies. These non-GAAP measures should not be considered a substitute for income from continuing operations, diluted EPS and effective tax rate.

The following are the components of operating and non-operating pension costs for the three and nine months ended June 30, 2017 and 2016 (in millions):

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
Service cost	\$24.2	\$22.1	\$72.5	\$66.0
Amortization of prior service credit	(0.9 )	(0.7 )	(2.8 )	(2.1 )
Operating pension costs	23.3	21.4	69.7	63.9
Interest cost	37.8	42.5	113.4	127.2
Expected return on plan assets	(56.2 )	(54.8 )	(168.6 )	(163.9 )
Amortization of net actuarial loss	38.2	31.2	114.4	93.4
Settlements	—	—	0.2	—
Non-operating pension costs	19.8	18.9	59.4	56.7
Net periodic pension cost	\$43.1	\$40.3	\$129.1	\$120.6

The following are reconciliations of income from continuing operations, diluted EPS from continuing operations and effective tax rate to Adjusted Income, Adjusted EPS and Adjusted Effective Tax Rate, respectively, for the three and nine months ended June 30, 2017 and 2016 (in millions, except per share amounts and percentages):

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
Income from continuing operations	\$216.9	\$191.0	\$621.1	\$544.5
Non-operating pension costs	19.8	18.9	59.4	56.7
Tax effect of non-operating pension costs	(7.2 )	(6.8 )	(21.7 )	(20.5 )
Adjusted Income	\$229.5	\$203.1	\$658.8	\$580.7
Diluted EPS from continuing operations	\$1.67	\$1.46	\$4.77	\$4.13
Non-operating pension costs per diluted share	0.15	0.14	0.46	0.43
Tax effect of non-operating pension costs per diluted share	(0.06 )	(0.05 )	(0.17 )	(0.15 )

Edgar Filing: ROCKWELL AUTOMATION INC - Form 10-Q

Adjusted EPS	\$1.76	\$1.55	\$5.06	\$4.41	
Effective tax rate	21.4	% 24.3	% 18.7	% 22.9	%
Tax effect of non-operating pension costs	1.0	% 0.8	% 1.3	% 1.0	%
Adjusted Effective Tax Rate	22.4	% 25.1	% 20.0	% 23.9	%

28

---

Table of Contents

## ROCKWELL AUTOMATION, INC.

## Three and Nine Months Ended June 30, 2017, Compared to Three and Nine Months Ended June 30, 2016

(in millions, except per share amounts)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Sales	\$1,599.2	\$1,474.0	\$125.2	\$4,643.8	\$4,340.9	\$302.9
Income before income taxes	276.0	252.3	23.7	763.9	706.2	57.7
Diluted EPS	1.67	1.46	0.21	4.77	4.13	0.64
Adjusted EPS	1.76	1.55	0.21	5.06	4.41	0.65

## Sales

Sales increased 8.5 percent and 7.0 percent in the three and nine months ended June 30, 2017, respectively, compared to the three and nine months ended June 30, 2016. Organic sales increased 8.2 percent and 6.3 percent in the three and nine months ended June 30, 2017, respectively, compared to the three and nine months ended June 30, 2016. Currency translation reduced sales by 0.9 percentage points in each period, and acquisitions contributed 1.2 percentage points and 1.6 percentage points to sales growth in the three and nine months ended June 30, 2017, respectively.

Pricing contributed less than one percentage point to sales growth in each of the three and nine months ended June 30, 2017.

The table below presents our sales, attributed to the geographic regions based upon country of destination, for the three and nine months ended June 30, 2017, and the percentage change from the same period a year ago (in millions, except percentages):

	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016	Change in Organic Sales <sup>(1)</sup> vs. Three Months Ended June 30, 2016	
			Change vs. Three Months Ended June 30, 2016	Change in Organic Sales <sup>(1)</sup> vs. Three Months Ended June 30, 2016
United States	\$881.0	10.2 %	8.1 %	%
Canada	82.2	— %	4.3 %	%
Europe, Middle East and Africa (EMEA)	297.3	(2.1 )%	(0.1 )%	%
Asia Pacific	226.3	20.2 %	21.8 %	%
Latin America	112.4	12.2 %	11.9 %	%
Total Sales	\$1,599.2	8.5 %	8.2 %	%

	Nine Months Ended June 30, 2017	Change vs. Nine Months Ended June 30, 2016	Change in Organic Sales <sup>(1)</sup> vs. Nine Months Ended June 30, 2016	
			Change vs. Nine Months Ended June 30, 2016	Change in Organic Sales <sup>(1)</sup> vs. Nine Months Ended June 30, 2016
United States	\$2,569.8	7.4 %	5.0 %	%
Canada	249.9	5.4 %	5.8 %	%
Europe, Middle East and Africa (EMEA)	869.0	1.9 %	3.4 %	%
Asia Pacific	630.4	16.6 %	17.6 %	%
Latin America	324.7	1.8 %	4.7 %	%

Total sales \$4,643.8 7.0 % 6.3 %

(1) Organic sales are sales excluding the effect of changes in currency exchange rates and acquisitions. See Supplemental Sales Information for information on this non-GAAP measure.

29

---

Table of Contents

ROCKWELL AUTOMATION, INC.

Three and Nine Months Ended June 30, 2017, Compared to Three and Nine Months Ended June 30, 2016

United States sales increased in the three and nine months ended June 30, 2017, mainly due to strength in the transportation and consumer industries.

Sales in Canada were flat year over year in the three months ended June 30, 2017, and increased in the nine months ended June 30, 2017. Excluding the impact of currency translation, sales growth in the three and nine months ended June 30, 2017, was led by pulp and paper, consumer and automotive.

EMEA sales decreased in the three months ended June 30, 2017, primarily due to the unfavorable impact of currency translation. Sales increased in the nine months ended June 30, 2017, led by growth in emerging countries.

Sales in Asia Pacific increased in the three and nine months ended June 30, 2017, with broad-based growth across the region led by China.

Latin America sales increased in the three and nine months ended June 30, 2017, where growth in Mexico more than offset declines in other parts of the region.

General Corporate - Net

General corporate - net expenses were \$16.5 million and \$52.8 million in the three and nine months ended June 30, 2017, respectively, compared to \$17.0 million and \$54.5 million in the three and nine months ended June 30, 2016.

Income before Income Taxes

Income before income taxes increased 9 percent and 8 percent year over year in the three and nine months ended June 30, 2017, respectively. Total segment operating earnings increased 8 percent and 7 percent year over year in the three and nine months ended June 30, 2017, respectively. The increases in income before income taxes and total segment operating earnings were primarily due to higher sales, partially offset by higher incentive compensation.

Income Taxes

The effective tax rate for the three months ended June 30, 2017, was 21.4 percent compared to 24.3 percent for the three months ended June 30, 2016. Our Adjusted Effective Tax Rate for the three months ended June 30, 2017, was 22.4 percent compared to 25.1 percent in the three months ended June 30, 2016. The decreases in the effective tax rate and the Adjusted Effective Tax Rate were primarily due to larger favorable discrete tax items in the current quarter. The effective tax rate for the nine months ended June 30, 2017, was 18.7 percent compared to 22.9 percent for the nine months ended June 30, 2016. Our Adjusted Effective Tax Rate for the nine months ended June 30, 2017, was 20.0 percent compared to 23.9 percent in the nine months ended June 30, 2016. The decreases in the effective tax rate and the Adjusted Effective Tax Rate were primarily due to larger favorable discrete tax items in the current year.



Table of Contents

## ROCKWELL AUTOMATION, INC.

Three and Nine Months Ended June 30, 2017, Compared to Three and Nine Months Ended June 30, 2016

## Architecture &amp; Software

(in millions, except percentages)	Three Months Ended June 30,			Nine Months Ended June 30,			
	2017	2016	Change	2017	2016	Change	
Sales	\$731.9	\$666.4	\$65.5	\$2,147.3	\$1,938.8	\$208.5	
Segment operating earnings	204.3	184.2	20.1	603.5	515.0	88.5	
Segment operating margin	27.9	% 27.6	% 0.3	pts 28.1	% 26.6	% 1.5	pts

Sales  
Architecture & Software sales increased 9.8 percent and 10.8 percent in the three and nine months ended June 30, 2017, respectively, compared to the three and nine months ended June 30, 2016. Architecture & Software organic sales increased 10.5 percent and 10.6 percent in the three and nine months ended June 30, 2017, respectively. Currency translation reduced sales by 1.0 percentage points and 0.9 percentage points in the three and nine months ended June 30, 2017, respectively, and acquisitions contributed 0.3 percentage points and 1.1 percentage points to sales growth in the three and nine months ended June 30, 2017, respectively.

All regions, except Canada, experienced reported and organic sales growth in the three and nine months ended June 30, 2017. Sales in Canada declined in the quarter, primarily due to the unfavorable impact of currency translation, but increased in the nine months ended June 30, 2017. The United States was the strongest performing region in the three and nine months ended June 30, 2017.

Logix sales increased 9 percent and 10 percent year over year in the three and nine months ended June 30, 2017, respectively. Logix organic sales increased 10 percent and 11 percent year over year in the three and nine months ended June 30, 2017, respectively, while currency translation reduced Logix sales by one percentage point in each period.

**Operating Margin**

Architecture & Software segment operating earnings increased 11 percent and 17 percent year over year in the three and nine months ended June 30, 2017, respectively. Segment operating margin increased to 27.9 percent and 28.1 percent in the three and nine months ended June 30, 2017, from 27.6 percent and 26.6 percent a year ago, primarily due to higher sales, partially offset by higher incentive compensation.

Table of Contents

## ROCKWELL AUTOMATION, INC.

Three and Nine Months Ended June 30, 2017, Compared to Three and Nine Months Ended June 30, 2016

## Control Products &amp; Solutions

(in millions, except percentages)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Sales	\$867.3	\$807.6	\$59.7	\$2,496.5	\$2,402.1	\$94.4
Segment operating earnings	132.7	126.8	5.9	346.1	369.4	(23.3 )
Segment operating margin	15.3	% 15.7	% (0.4 )pts	13.9	% 15.4	% (1.5 )pts

Sales  
Control Products & Solutions sales increased 7.4 percent and 3.9 percent year over year in the three and nine months ended June 30, 2017, respectively. Organic sales increased 6.3 percent and 2.8 percent year over year in the three and nine months ended June 30, 2017, respectively. Currency translation reduced sales by 0.8 percentage points and acquisitions contributed 1.9 percentage points to sales growth in each of the three and nine months ended June 30, 2017.

All regions, except Canada and EMEA, experienced reported sales growth in the three and nine months ended June 30, 2017. Excluding the impact of currency translation and acquisitions, Asia Pacific, Latin America, and EMEA sales increased in the three and nine months ended June 30, 2017. Organic sales in the United States grew in the quarter but declined slightly in the nine months ended June 30, 2017. Canada organic sales declined in both periods. Asia Pacific was the strongest performing region in reported and organic growth for both periods.

Sales in our solutions and services businesses increased 7 percent and 3 percent in the three and nine months ended June 30, 2017, respectively, compared to the three and nine months ended June 30, 2016. Organic sales in our solutions and services business increased 4 percent in the three months ended June 30, 2017 and were relatively flat year over year in the nine months ended June 30, 2017. Acquisitions contributed 3 percentage points to sales growth in each of the three and nine months ended June 30, 2017.

Product sales increased 8 percent and 6 percent in the three and nine months ended June 30, 2017, respectively, compared to the three and nine months ended June 30, 2016. Product organic sales increased 9 percent and 6 percent year over year in the three and nine months ended June 30, 2017, respectively. Currency translation reduced sales by one percentage point in the three months ended June 30, 2017.

## Operating Margin

Control Products & Solutions segment operating earnings increased 5 percent and decreased 6 percent year over year in the three and nine months ended June 30, 2017, respectively. Segment operating margin decreased to 15.3 percent and 13.9 percent in the three and nine months ended June 30, 2017, compared to 15.7 percent and 15.4 percent a year ago in each of the three and nine months ended June 30, 2016, primarily due to higher incentive compensation.

Table of Contents

## ROCKWELL AUTOMATION, INC.

## Financial Condition

The following is a summary of our cash flows from operating, investing and financing activities, as reflected in the Condensed Consolidated Statement of Cash Flows (in millions):

	Nine Months Ended June 30, 2017		2016
Cash provided by (used for):			
Operating activities	\$927.1	\$675.3	
Investing activities	(363.7 )	(305.5 )	
Financing activities	(537.7 )	(274.4 )	
Effect of exchange rate changes on cash	(2.7 )	(13.4 )	
Cash provided by for continuing operations	\$23.0	\$82.0	

The following table summarizes free cash flow (in millions), which is a non-GAAP financial measure:

	Nine Months Ended June 30, 2017		2016
Cash provided by continuing operating activities	\$927.1	\$675.3	
Capital expenditures	(97.5 )	(79.4 )	
Excess income tax benefit from share-based compensation	—	2.4	
Free cash flow	\$829.6	\$598.3	

Our definition of free cash flow takes into consideration capital investments required to maintain our businesses' operations and execute our strategy. Cash provided by continuing operating activities adds back non-cash depreciation expense to earnings but does not reflect a charge for necessary capital expenditures. Our definition of free cash flow excludes the operating cash flows and capital expenditures related to our discontinued operations, if any. Operating, investing and financing cash flows of our discontinued operations, if any, are presented separately in our statement of cash flows. In the first quarter of fiscal year 2017, we adopted a new share-based compensation accounting standard that requires the excess income tax benefit from share-based compensation to be classified as an operating, rather than as a financing, cash flow. In previous periods, we added this benefit back to our calculation of free cash flow in order to generally classify cash flows arising from income taxes as operating cash flows. Beginning in the first quarter of fiscal year 2017, no adjustment is necessary as this benefit is already included in operating cash flows. In our opinion, free cash flow provides useful information to investors regarding our ability to generate cash from business operations that is available for acquisitions and other investments, service of debt principal, dividends and share repurchases. We use free cash flow, as defined, as one measure to monitor and evaluate our performance, including as a financial measure for our annual incentive compensation. Our definition of free cash flow may differ from definitions used by other companies.

Cash provided by operating activities was \$927.1 million for the nine months ended June 30, 2017, compared to \$675.3 million for the nine months ended June 30, 2016. Free cash flow was \$829.6 million for the nine months ended June 30, 2017, compared to \$598.3 million for the nine months ended June 30, 2016. The year-over-year increases in cash provided by operating activities and free cash flow were primarily due to lower incentive compensation payments and higher pre-tax income in the first nine months of 2017.

We repurchased approximately 2.1 million shares of our common stock under our share repurchase program in the first nine months of 2017. The total cost of these shares was \$302.1 million, of which \$3.4 million was recorded in accounts payable at June 30, 2017, related to shares that did not settle until July 2017. We also paid \$5.3 million in the first quarter of 2017 for unsettled share repurchases outstanding at September 30, 2016. We repurchased approximately 3.5 million shares of our common stock in the first nine months of 2016. The total cost of these shares

was \$370.0 million, of which \$8.4 million was recorded in accounts payable at June 30, 2016, related to shares that did not settle until July 2016. Our decision to repurchase additional shares in the remainder of 2017 will depend on business conditions, free cash flow generation, other cash requirements and stock price. At June 30, 2017, we had approximately \$643.0 million remaining for share repurchases under the \$1.0 billion share repurchase authorization approved by the Board of Directors in 2016. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, for additional information regarding share repurchases.

Table of Contents

## ROCKWELL AUTOMATION, INC.

## Financial Condition (continued)

We expect future uses of cash to include working capital requirements, capital expenditures, additional contributions to our retirement plans, acquisitions of businesses, dividends to shareowners, repurchases of common stock and repayments of debt, including the current portion of long-term debt. We expect to fund future uses of cash with a combination of existing cash balances and short-term investments, cash generated by operating activities, commercial paper borrowings or a new issuance of debt or other securities.

Given our extensive international operations, significant amounts of our cash, cash equivalents and investments (funds) are held by non-U.S. subsidiaries where our undistributed earnings are indefinitely reinvested. Generally, these funds would be subject to U.S. tax if repatriated. As of June 30, 2017, substantially all of our funds were held by these non-U.S. subsidiaries. The percentage of these funds held in non-U.S. subsidiaries can vary from quarter to quarter although substantially all of our funds were held by these non-U.S. subsidiaries on average over the past eight quarters. We have not encountered and do not expect to encounter any difficulty meeting the liquidity requirements of our domestic and international operations.

In addition to cash generated by operating activities, we have access to existing financing sources, including the public debt markets and unsecured credit facilities with various banks. Our short-term debt obligations are primarily comprised of commercial paper borrowings. Commercial paper borrowings outstanding were \$348.0 million at June 30, 2017, with a weighted average interest rate of 1.28 percent and weighted average maturity period of 8 days. Commercial paper borrowings outstanding were \$448.6 million at September 30, 2016, with a weighted average interest rate of 0.57 percent and weighted average maturity period of 35 days.

At June 30, 2017, and September 30, 2016, our total current borrowing capacity under our unsecured revolving credit facility expiring in March 2020 was \$1.0 billion. We can increase the aggregate amount of this credit facility by up to \$350.0 million, subject to the consent of the banks in the credit facility. We did not borrow against this credit facility during the nine months ended June 30, 2017. Borrowings under this credit facility bear interest based on short-term money market rates in effect during the period the borrowings are outstanding. In December 2016, we amended the financial covenant under this credit facility. The previous financial covenant, which limited our debt-to-total-capital ratio to 60 percent, was replaced with a minimum EBITDA-to-interest ratio of 3.0 to 1.0. The EBITDA-to-interest ratio is defined in the amendment as the ratio of consolidated EBITDA (as defined in the amendment) for the preceding four quarters to consolidated interest expense for the same period. We believe the new covenant provides us greater financial flexibility.

Separate short-term unsecured credit facilities of approximately \$124.5 million at June 30, 2017, were available to non-U.S. subsidiaries. Borrowings under our non-U.S. credit facilities at June 30, 2017 and 2016 were not significant. We were in compliance with all covenants under our credit facilities at June 30, 2017 and 2016. There are no significant commitment fees or compensating balance requirements under our credit facilities.

Among other uses, we can draw on our credit facility as a standby liquidity facility to repay our outstanding commercial paper as it matures. This access to funds to repay maturing commercial paper is an important factor in maintaining the short-term credit ratings set forth in the table below. Under our current policy with respect to these ratings, we expect to limit our other borrowings under our credit facility, if any, to amounts that would leave enough credit available under the facility so that we could borrow, if needed, to repay all of our then outstanding commercial paper as it matures.

The following is a summary of our credit ratings as of June 30, 2017:

Credit Rating Agency	Short-Term Rating	Long-Term Rating	Outlook
Standard & Poor's	A-1	A	Stable
Moody's	P-2	A3	Stable
Fitch Ratings	F1	A	Stable

Our ability to access the commercial paper market, and the related costs of these borrowings, is affected by the strength of our credit ratings and market conditions. We have not experienced any difficulty in accessing the

commercial paper market to date. If our access to the commercial paper market is adversely affected due to a change in market conditions or otherwise, we would expect to rely on a combination of available cash and our unsecured committed credit facility to provide short-term funding. In such event, the cost of borrowings under our unsecured committed credit facility could be higher than the cost of commercial paper borrowings.

Table of Contents

ROCKWELL AUTOMATION, INC.

Financial Condition (continued)

We regularly monitor the third-party depository institutions that hold our cash and cash equivalents and short-term investments. We diversify our cash and cash equivalents among counterparties to minimize exposure to any one of these entities. In February 2017, we began investing in investment-grade fixed income securities, including corporate debt and government obligations, to provide further diversification. Refer to Note 8 in the Condensed Consolidated Financial Statements for further discussion of these investments. Our emphasis is primarily on safety and liquidity of principal and secondarily on maximizing yield on those funds.

We use foreign currency forward exchange contracts to manage certain foreign currency risks. We enter into these contracts to hedge our exposure to foreign currency exchange rate variability in the expected future cash flows associated with certain third-party and intercompany transactions denominated in foreign currencies forecasted to occur within the next two years. We also use these contracts to hedge portions of our net investments in certain non-U.S. subsidiaries against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. In addition, we use foreign currency forward exchange contracts that are not designated as hedges to offset transaction gains or losses associated with some of our assets and liabilities resulting from intercompany loans or other transactions with third parties that are denominated in currencies other than our entities' functional currencies. Our foreign currency forward exchange contracts are usually denominated in currencies of major industrial countries. We diversify our foreign currency forward exchange contracts among counterparties to minimize exposure to any one of these entities.

Net gains and losses related to derivative forward exchange contracts designated as cash flow hedges offset the related gains and losses on the hedged items during the periods in which the hedged items are recognized in earnings. During the three and nine months ended June 30, 2017, we reclassified \$0.8 million and \$2.3 million, respectively, in pre-tax net gains related to cash flow hedges from accumulated other comprehensive loss into the Condensed Consolidated Statement of Operations. During the three and nine months ended June 30, 2016, we reclassified \$1.0 million and \$15.9 million, respectively, in pre-tax net gains related to cash flow hedges from accumulated other comprehensive loss into the Condensed Consolidated Statement of Operations. We expect that approximately \$1.3 million of pre-tax net unrealized gains on cash flow hedges as of June 30, 2017, will be reclassified into earnings during the next 12 months.

Information with respect to our contractual cash obligations is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. We believe that at June 30, 2017, there has been no material change to this information, except as discussed in Note 14 in the Condensed Consolidated Financial Statements.

Table of Contents

## ROCKWELL AUTOMATION, INC.

## Supplemental Sales Information

We translate sales of subsidiaries operating outside of the United States using exchange rates effective during the respective period. Therefore, changes in currency exchange rates affect our reported sales. Sales by acquired businesses also affect our reported sales. We believe that organic sales, defined as sales excluding the effects of changes in currency exchange rates and acquisitions, which is a non-GAAP financial measure, provides useful information to investors because it reflects regional and operating segment performance from the activities of our businesses without the effect of changes in currency exchange rates and acquisitions. We use organic sales as one measure to monitor and evaluate our regional and operating segment performance. We determine the effect of changes in currency exchange rates by translating the respective period's sales using the same currency exchange rates that were in effect during the prior year. When we acquire businesses, we exclude sales in the current period for which there are no comparable sales in the prior period. Organic sales growth is calculated by comparing organic sales to reported sales in the prior year. We attribute sales to the geographic regions based on the country of destination. The following is a reconciliation of our reported sales by geographic region to organic sales (in millions):

	Three Months Ended June 30, 2017					Three Months Ended June 30, 2016
	Sales	Effect of Changes in Currency	Sales Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	\$881.0	\$ 0.3	\$ 881.3	\$ (17.2 )	\$ 864.1	\$ 799.6
Canada	82.2	3.5	85.7	—	85.7	82.2
Europe, Middle East and Africa	297.3	6.5	303.8	(0.4 )	303.4	303.7
Asia Pacific	226.3	3.0	229.3	—	229.3	188.3
Latin America	112.4	(0.3 )	112.1	—	112.1	100.2
Total Company Sales	\$1,599.2	\$ 13.0	\$ 1,612.2	\$ (17.6 )	\$ 1,594.6	\$ 1,474.0

	Nine Months Ended June 30, 2017					Nine Months Ended June 30, 2016
	Sales	Effect of Changes in Currency	Sales Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	\$2,569.8	\$ 0.7	\$ 2,570.5	\$ (58.3 )	\$ 2,512.2	\$ 2,391.7
Canada	249.9	1.0	250.9	(0.1 )	250.8	237.1
Europe, Middle East and Africa	869.0	18.8	887.8	(6.4 )	881.4	852.5
Asia Pacific	630.4	7.9	638.3	(2.4 )	635.9	540.7
Latin America	324.7	9.4	334.1	(0.1 )	334.0	318.9
Total Company Sales	\$4,643.8	\$ 37.8	\$ 4,681.6	\$ (67.3 )	\$ 4,614.3	\$ 4,340.9





Table of Contents

## ROCKWELL AUTOMATION, INC.

The following is a reconciliation of our reported sales by operating segment to organic sales (in millions):

	Three Months Ended June 30, 2017					Three Months Ended June 30, 2016
	Sales	Effect of Changes in Currency	Sales Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
Architecture & Software	\$731.9	\$ 6.5	\$ 738.4	\$ (2.1 )	\$ 736.3	\$666.4
Control Products & Solutions	867.3	6.5	873.8	(15.5 )	858.3	807.6
Total Company Sales	\$1,599.2	\$ 13.0	\$ 1,612.2	\$ (17.6 )	\$ 1,594.6	\$1,474.0

	Nine Months Ended June 30, 2017					Nine Months Ended June 30, 2016
	Sales	Effect of Changes in Currency	Sales Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
Architecture & Software	\$2,147.3	\$ 17.7	\$ 2,165.0	\$ (20.8 )	\$ 2,144.2	\$1,938.8
Control Products & Solutions	2,496.5	20.1	2,516.6	(46.5 )	2,470.1	2,402.1
Total Company Sales	\$4,643.8	\$ 37.8	\$ 4,681.6	\$ (67.3 )	\$ 4,614.3	\$4,340.9

Table of Contents

ROCKWELL AUTOMATION, INC.

Critical Accounting Policies and Estimates

We have prepared the Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Condensed Consolidated Financial Statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies that we believe could have the most significant effect on our reported results or require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. We believe that at June 30, 2017, there has been no material change to this information.

Environmental Matters

Information with respect to the effect of compliance with environmental protection requirements and resolution of environmental claims on us and our manufacturing operations is contained in Note 14 in the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. We believe that at June 30, 2017, there has been no material change to this information.

Recent Accounting Pronouncements

See Note 1 in the Condensed Consolidated Financial Statements regarding recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information with respect to our exposure to interest rate risk and foreign currency risk is contained in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. We believe that at June 30, 2017, there has been no material change to this information.

Item 4. Controls and Procedures

Disclosure Controls and Procedures: We, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the fiscal quarter covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the fiscal quarter covered by this report, our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There has not been any change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

ROCKWELL AUTOMATION, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to our legal proceedings is contained in Item 3, Legal Proceedings, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. We believe that at June 30, 2017, there has been no material change to this information.

Item 1A. Risk Factors

Information about our most significant risk factors is contained in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. We believe that at June 30, 2017, there has been no material change to this information.

Table of Contents

## ROCKWELL AUTOMATION, INC.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Share Repurchases

The table below sets forth information with respect to purchases made by or on behalf of us of shares of our common stock during the three months ended June 30, 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approx. Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1 - 30, 2017	303,183	\$ 154.53	303,183	\$ 712,181,890
May 1 - 31, 2017	260,000	156.83	260,000	671,406,461
June 1 - 30, 2017	176,582	161.03	176,582	642,971,401
Total	739,765	156.89	739,765	

(1) Average price paid per share includes brokerage commissions.

On April 6, 2016, the Board of Directors authorized us to expend \$1.0 billion to repurchase shares of our common (2) stock. Our repurchase program allows us to repurchase shares at management's discretion or at our broker's discretion pursuant to a share repurchase plan subject to price and volume parameters.

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 6. Exhibits

(a) Exhibits:

- Exhibit 10\* ~~–~~Summary of Non-employee Director Compensation and Benefits effective as of October 1, 2017.
- Exhibit 15 ~~–~~Letter of Deloitte & Touche LLP regarding Unaudited Financial Information.
- Exhibit 31.1 ~~–~~Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- Exhibit 31.2 ~~–~~Certification of Periodic Report by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- Exhibit 32.1 ~~–~~Certification of Periodic Report by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.2 ~~–~~Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 101 ~~–~~Interactive Data Files.

\* Management contract or compensatory plan or arrangement

INDEX TO EXHIBITS

Exhibit No. Exhibit

- 10 Summary of Non-employee Director Compensation and Benefits effective as of October 1, 2017.
- 15 Letter of Deloitte & Touche LLP regarding Unaudited Financial Information.
- 31.1 Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 31.2 Certification of Periodic Report by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 32.1 Certification of Periodic Report by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data Files.

42

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROCKWELL AUTOMATION,  
INC.  
(Registrant)

Date: August 2, 2017 By /s/ PATRICK P. GORIS  
Patrick P. Goris  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: August 2, 2017 By /s/ DAVID M. DORGAN  
David M. Dorgan  
Vice President and Controller  
(Principal Accounting Officer)