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Rockwell Automation, Inc. (ROK)

Q4 2025 Earnings Call – Prepared Remarks

Corporate Participants

Blake Moret, *Chairman & Chief Executive Officer, Rockwell Automation, Inc.*

Christian Rothe, *Senior Vice President & Chief Financial Officer, Rockwell Automation, Inc.*

Aijana Zellner, *Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.*

Operator

Thank you for holding and welcome to Rockwell Automation's Quarterly Conference Call. I need to remind everyone that today's conference call is being recorded. Later in the call, we will open up the lines for questions. If you have a question at that time, please press *1.

At this time, I would like to turn the call over to Aijana Zellner, Head of Investor Relations and Market Strategy. Mrs. Zellner, please go ahead.

Aijana Zellner

Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.

Thank you, Julianne. Good morning and thank you for joining us for Rockwell Automation's fourth quarter fiscal 2025 earnings release conference call.

With me today is Blake Moret, our Chairman and CEO, and Christian Rothe, our CFO.

Our results were released earlier this morning, and the press release and charts have been posted to our website. Both the press release and charts include, and our call today will reference, non-GAAP measures. Both the press release and charts include reconciliations of these non-GAAP measures. A webcast of this call will be available on our website, for replay, for the next 30 days. For your convenience, a transcript of our prepared remarks will also be available on our website at the conclusion of today's call.

Before we get started, I need to remind you that our comments will include statements related to the expected future results of our Company and are, therefore, forward-looking statements. Our actual results may differ materially from our projections due to a wide range of risks and uncertainties that are described in our earnings release and detailed in all our SEC filings.

So, with that I'll hand it over to Blake.

Blake Moret

Chairman & Chief Executive Officer, Rockwell Automation, Inc.

Thanks, Aijana, and good morning, everyone. I'll make a couple of initial comments before we turn to our fourth quarter results.

When we introduced guidance for fiscal year 2025 last November, amid a mixed set of headwinds and tailwinds for growth, much of the discussion centered on additional detail around the cost reduction and margin expansion actions we initiated in 2024. With a top-line guidance range that included limited growth, we knew it would be a challenge to both absorb higher costs and expand margins. So, with the very busy twelve months of fiscal year '25 in the books, I'm proud of the team's execution as we have returned to top-line growth and continued to reduce costs. Rockwell is well-positioned for sustained, market-beating growth and profitability as we build on this success for fiscal '26 and beyond.

We closed the year with another strong quarter of outperformance versus our expectations, including double-digit year-over-year growth in both sales and operating earnings. Our differentiated portfolio, price discipline, and continued focus on productivity all contributed to this great finish to the year. Free Cash Flow was also very good in the quarter and for the year. As we will discuss, we're taking further steps to streamline the organization and increase efficiency, in the service of customer value and expanded margins. Uncertainty remains, but it's clear that countries around the world are more aware than ever of the strategic importance of investing in advanced manufacturing capabilities and capacity. Nowhere is this more apparent than in the U.S., our home market. Let's now turn to our fourth quarter results on slide 3.

Both reported and organic Q4 sales were up double digits versus prior year. While we did have favorable comps from a year-over-year standpoint, Q4 sales grew high single digits sequentially, which was better than we expected. Organic year-over-year sales growth of 13% was led by continued strength in our product businesses. Similar to the last two quarters, capex activity in longer-cycle businesses remained muted, with customers holding off on larger investments. On our last earnings call, we flagged the potential for Q4 pull-ins into Q3. Based on our analysis of daily orders and sales trends, inventory levels in our channel, and machine builder surveys, pull-in orders were less than expected in Q3 and not evident in Q4. Annual Recurring Revenue was up 8% in the quarter.

While some customers continue to delay discretionary services spending, we did have a number of large software and services wins around the world in Q4. One notable win was with Stanley Electric, a Japanese Tier 1 automotive supplier, who will deploy our cloud-native Plex platform across 25 global sites. We also secured a key cybersecurity win in Life Sciences, with GSK selecting our Verve platform as their new standard for asset vulnerability management, to be deployed across 33 sites over the next five years.

In our Intelligent Devices segment, organic sales were up 14% versus prior year and up low double digits sequentially. Strong sequential growth in the quarter was driven by our power control business, where a combination of our existing business and our CUBIC acquisition is helping us win competitive projects around the world. A good example of this was our win with Ferri Systems, a Spanish system integrator, who will be providing our flexible and compact motor control system for Africa's largest desalination plant. I'll share some additional power control wins later on the call. We also had a good quarter in our Clearpath business, with double-digit year-over-year growth in our OTTO Autonomous Mobile Robot business. I'm pleased with how this acquisition continues to add new ways to win and expand our customer base. Our AMR business grew double digits in fiscal '25, and we are optimistic about fiscal '26 as we plan for Clearpath to turn profitable in the year.

Software & Control organic sales in the quarter grew 30% year over year, led by continued momentum in our Logix business, both versus prior year and sequentially. On the software front, Plex and FiiX continue to add new logos as we augment our existing sales force with new go-to-market partners. One of our Plex software wins in Q4 was with THG, a UK-based global e-Commerce leader in beauty and nutrition. This customer chose our cloud-native MES and quality management solution to eliminate manual processes and drive further operational efficiency.

Organic sales in Lifecycle Services were down 4% versus prior year, slightly below our expectations. Book-to-bill in this segment was 0.9, consistent with our historical Q4 seasonality. We've continued to see project delays across both our core business and Sensia, as customers wait for more clarity and stability around the impact of trade and policy on their operations.

Regarding our Sensia joint venture with SLB, following a strategic review, both parent companies have decided to pursue an orderly dissolution. Rockwell will assume 100% ownership of the process automation business that we initially contributed to the joint venture, and SLB will again fully own the parts that they contributed. After the expected close of the transaction in the first half of this year, fiscal '26, Rockwell will realize lower revenue but higher operating margin going forward, due to the deconsolidation. Rockwell's resulting sales into the Oil & Gas vertical will be about 10%, but with a simplified go-to-market motion. That go-to-market approach continues to include SLB as an important partner, with deeper relationships than the two companies had six years ago.

I want to be clear that Sensia did not meet our long-term expectations. That is why SLB and Rockwell have jointly agreed to make this change. However, the changes we are making demonstrate our continued commitment to the Oil & Gas market, and we are well positioned to grow in this space. Our portfolio has expanded since the JV was launched, with new process I/O and process safety capabilities for Logix, an industry-leading portfolio of cloud-native software applications, and deeper domain expertise. Importantly, we have taken this step in order to grow in this vertical with improved profitability going forward. Christian will add more detail on the financial impact in the quarter, and the benefits going forward, later on the call.

Turning back to our fourth quarter, Rockwell's overall segment margin of 22.5% and Adjusted EPS of $3.34 were well above our expectations, driven by higher volume and strong productivity. We ended this fiscal year with over $325 million of structural productivity savings, exceeding our original target of $250 million. Similar to last quarter, tariffs did not have a meaningful impact on our results in Q4. Christian will talk more about tariffs and the expected fiscal '26 impact in a few moments.

Moving to slide 4 to review key highlights of our Q4 industry performance. Sales in Discrete were up 20% year over year with strong growth in eCommerce and Warehouse Automation, and good performance in Automotive. Automotive sales exceeded our expectations in the quarter with low double-digit growth versus prior year. The industry continues to shift from an EV focus to a mix of traditional ICE, hybrid, and electric vehicle offerings. Rockwell has good technical solutions and expertise for all of these types of vehicles.

eCommerce and Warehouse Automation delivered another standout quarter with sales growing over 70% year over year. This quarter, Rockwell secured a significant European win with another global logistics and parcel-handling company. The customer selected our FactoryTalk Optix platform and digital services to digitize and expand operations across 28 sorting facilities.

While our Data Center business is still relatively small, we continue to see strong double-digit growth with multiple wins across the globe. This quarter, Rockwell won a project with Alternative Heat Limited to supply modular cooling panels for large data centers in Europe. The rise of AI data centers is driving demand for faster deployment, advanced cooling solutions, and secure, industrial-grade control platforms. Our Logix control platform and modular power distribution technology are well-positioned to meet these needs. We'll share more about our differentiation and growth in the data center space at our Investor Day later this month.

Turning to our Hybrid industries, we saw double-digit growth across Food & Beverage, Home & Personal Care, and Life Sciences. In Food & Beverage, our customers are prioritizing productivity and operational efficiency in existing facilities. The industry is going through a period of consolidation, restructuring, and evolving consumer preferences. While this dynamic might delay some of the larger capex investments near-term, we continue to build a strong pipeline of new capacity projects, both globally and in the U.S. In the quarter, Electrolit Manufacturing selected Rockwell as a key automation and digital partner for their state-of-the-art beverage blending and bottling facility in Waco, Texas. This is Electrolit's first greenfield in the U.S.

Sales growth in our Life Sciences vertical was also strong in Q4 and exceeded our expectations. We continue to see growth in our software and cybersecurity services across the product lifecycle. We are also seeing increased automaton adoption in the medical device segment. One of the important wins here this quarter was with Haumiller, where our Independent Cart Technology is helping accelerate and optimize production of a high-speed auto injector line for the obesity drug market.

Moving to Process, sales in this segment grew 10% with year-over-year growth across all industries. Similar to last quarter, process customers are focusing on driving efficiency and profitability in their existing facilities as they continue to grapple with weaker demand and low commodity prices. Rockwell's technology is well suited for both greenfield and brownfield investments, as demonstrated by several large wins in the quarter in Energy, Mining, and Metals. A good example of this was our win with Vale Base Metals, where our arc-resistant power control systems are modernizing their Sudbury mill to significantly enhance safety and operational efficiency. This win positions Rockwell as a key automation partner in one of Canada's most critical mining operations.

Turning to slide 5 and our Q4 organic regional sales. North America had a strong finish to the year and was, once again, our best-performing region in the quarter. We expect North America to continue to be our strongest region in fiscal '26. Last quarter we announced a $2 billion investment over the next five years to modernize infrastructure, grow talent, and enhance digital capabilities. These initiatives are now underway, and will unlock future growth and margin expansion, with the U.S. as the primary beneficiary. We'll share more in the months ahead.

Let's move to slide 6 for key highlights of full-year fiscal 2025. Our reported and organic sales were up about 1% versus prior year. Total ARR grew 8% with solid performance in our Software as a Service business. We ended the year with segment margin of 20.4% and Adjusted EPS of $10.53. The improvement of over 100 basis points in year-over-year segment margin was driven by our cost reduction and margin expansion actions and strong price discipline. Free Cash Flow conversion of 114% exceeded our expectations for the year. I'm proud of our execution to get back above 100% Free Cash Flow conversion, which remains an important part of our financial framework.

Let's now move to slide 7 to review our fiscal 2026 outlook. As we look to fiscal '26, we are confident in our ability to gain share and expand margins. We are less certain about the overall macro and geo-political environment, as well as the timing of the capex investment recovery in our key verticals. Increased stability in trade policy will help unlock additional capital spending. We expect our reported sales growth for the year to be in the 3% to 7% range. The midpoint of our guide assumes a sequential sales decline in Q1, which is typical, followed by gradual sequential improvement in the subsequent quarters. Christian will provide more detail on this and the expected impact from price and tariffs in his section. Annual Recurring Revenue is slated to grow high single digits next year. We expect our segment margin to expand by over 100 basis points, and our Adjusted EPS is projected to be $11.70 at the midpoint. We expect Free Cash Flow conversion of 100% in fiscal year '26.

Before I turn it over to Christian, I want to reiterate how proud I am of the execution of the team in the quarter and throughout the year. To be sure, there remain plenty of opportunities for continued improvement, and we are taking action to further our progress throughout the coming year and beyond. As we'll discuss in less than two weeks at Investor Day, keys to execution include strengthening a high performance culture, accelerating topline growth, expanding margin, and continuing our progress in operational excellence. And these are the elements of the Rockwell Operating Model. And with that I'll turn it over to Christian.

Christian Rothe

Senior Vice President & Chief Financial Officer, Rockwell Automation, Inc.

Thank you, Blake, and good morning, everyone.

Before I get into our strong fourth quarter results, I want to spend a few minutes highlighting some one-time items unique to Q4, so you understand how they flow through the P&L and where adjustments were made. At a high level, all these changes are outlined on slide 8. For additional financial details, please also refer to slides 21 and 22.

First, starting in Q4, we're introducing a new 'Engineering and Development' expense line in our statement of operations. This aligns with the SEC's expanded segment disclosure rules and enhances visibility into key metrics that inform management decisions—particularly total innovation spend. Engineering and Development includes what you'd typically think of as R&D, which has been about 6% of sales historically, and our sustaining engineering spend, which maintains existing technology, and has been about 2% of sales. Reclassifying these costs from cost of sales to operating expenses increases gross margin by about 8 points, with no impact to the total P&L. This change is applied consistently across historical periods, as shown in the Q4 earnings slide deck appendix, page 21.

Importantly, this move improves visibility into Rockwell's total development spend, aligns our reporting with industrial and tech peers, and provides a more meaningful view of gross margin performance.

Second, we're making a change to how we treat certain costs related to our legacy asbestos exposure, which is unrelated to our ongoing operations. Historically, we expensed the defense costs for these claims as they were incurred. In Q4 we changed our accounting policy to a full-horizon accrual for defense costs, consistent with how we account for indemnity. All told, inclusive of the indemnity and the defense cost accrual update, the result was a one-time pre-tax charge of $136 million, or $0.91 per share, in the fourth quarter. This is the accrual portion of the changes.

Because these costs are not tied to current operations, we are also updating our definition of Adjusted Income and Adjusted EPS to exclude legacy asbestos and environmental charges. In Q4, this change excluded $141 million in pre-tax charges, or $0.94 per share, from adjusted earnings. That includes the $136 million accrual as well as $5 million of normal asbestos and environmental spend we incurred in the fourth quarter. The EPS impact is $0.91 from the accrual and $0.03 from the normal spend, both now excluded. For full-year fiscal 2025, the definition change increased Adjusted EPS by $1.03, with $0.91 from the Q4 accrual update and $0.12 from excluding legacy asbestos and environmental costs that we incurred for the full year.

Without the definition change to Adjusted EPS and excluding other one-time items in the quarter, Q4 adjusted earnings would have grown 34% compared to the 32% under the new definition. For the full year, EPS growth was unchanged under the new definition. When compared to our previous guide, the Q4 change, excluding one-times, was a net benefit of $0.03. For the full year the net benefit was $0.12.

Moving to the third item on the slide, we recorded an impairment in our Sensia business following the decision to dissolve the JV, which Blake discussed. The net result is a non-cash impairment charge of $110 million, or $0.97 per share, net of tax and the NCI adjustment. For reference, the approximate annualized impact from the planned dissolution will be a $250 million revenue reduction and virtually no impact on operating earnings. The approximate margin benefit to Rockwell on an annualized basis will be an increase of about 50 basis points.

And finally, in Q4, we made a voluntary $70 million contribution to our U.S. pension plan. As Blake mentioned earlier, we delivered 114% Free Cash Flow conversion for the year, inclusive of that contribution. Excluding the contribution, our conversion was 119%, with Free Cash Flow reaching a record $1.4 billion and reflective of strong operational execution and solid performance across the P&L. All financials reported in our earnings release, conference call presentation and in our 10-K, which will be filed next week, reflect these changes.

Turning to our financial results, let's go to slide 9, fourth quarter key financial information. Fourth quarter reported sales were up 14% versus prior year, exceeding our expectations and closing 2025 on a strong note. About 1 point of growth came from currency. About 4 points of our organic growth came from price, with about 1 point of that coming from tariff-based pricing. Price/cost was favorable in the quarter.

Company gross margins, under our new reporting methodology, expanded 290 basis points year over year and segment operating margin increased 240 basis points. While tariffs had a neutral impact on EPS, they did cause a slight margin dilution in the quarter. Adjusted EPS of $3.34 was above our expectations primarily due to outperformance on revenue, better segment mix, and favorable price. The Adjusted Effective Tax Rate for the fourth quarter was about 18%, up from about 15% last year, driven by higher discrete benefits in the prior year. For the full year fiscal 2025 our Adjusted ETR was 17%. Free Cash Flow in Q4 of $405 million was $38 million higher than the prior year.

Slide 10 provides the sales and margin performance overview of our three operating segments. Intelligent Devices margin of 19.8% decreased 90 basis points year over year, due to a tough comparison with last year's Clearpath earnout reversal and higher compensation this year, resulting in incrementals in the teens. Excluding the earnout reversal, incrementals would have been about 30%.

Software & Control margin of 31.2% was up 880 basis points versus prior year, driven by outstanding 30% organic sales growth and good price realization. This segment saw year-over-year incrementals in the high 50s. Lifecycle Services margin of 17.5% was up 30 basis points year over year. A mid-single-digit organic sales decline and higher comp would normally have driven segment margin lower year over year. However, the team continued to deliver strong project execution and higher productivity. Overall, for Rockwell, the incremental margin on the year-over-year sales growth was about 40% in Q4.

I want to take a moment to point out the sequential movement we saw in each of our segments. Intelligent Devices had sequential incrementals in the high-20s on low double-digit sales growth, reflecting seasonal shipments of configure to order, which created a sequential negative mix. Software and Control sequential incrementals were in the low-20s, with modest sequential sales growth after a very strong Q3. Lifecycle Services saw similar sequential dollar growth in both sales and segment earnings, yielding 100% conversion on strong project execution. Overall, for Rockwell, the incremental margin on the sequential sales growth was in the high 30s.

Let's move to the next slide, 11, for the Adjusted EPS walk from Q4 fiscal 2024 to Q4 fiscal 2025. Year over year, Core performance had a $1.45 impact in Q4. Software & Control was the primary driver of both sales and earnings growth in the quarter. The largest driver in our core was volume, followed by structural productivity and price. Compensation had a $0.45 impact in Q4, compared to our prior expectation for about $0.30 of impact, driven by our outperformance in the quarter. Full-year compensation expense, which includes merit and bonus, ended the year at $255 million. As I mentioned earlier, we are lapping the prior year benefit from a Clearpath earnout reversal this quarter. With some other one-time items, this resulted in a $0.15 headwind.

Slide 12 provides full year 2025 key financial information. Reported and organic sales increased 1% to $8.3 billion, 200 basis points better than our original guidance mid-point for the year. Currency was neutral. Full-year segment margin of 20.4% increased 110 basis points from last year and was 140 basis points better than our original guide. The increase was due to our margin expansion and cost reduction actions, price, and favorable mix. This was partially offset by higher compensation and unfavorable net currency. Adjusted EPS of $10.53 was up 7% and well over $1.00 better than the mid-point of our initial guide for the year. For the year, we deployed about $1 billion of capital toward dividends and share repurchases, while we continue to pause on our inorganic investments. Our capital structure and liquidity remain strong.

Moving on to the next slide, 13, to discuss our guidance for the full-year. Our organic sales growth guidance is 2-6%, or 4% at the midpoint. We expect about 100 basis points of currency benefit, so our reported revenue growth is expected to be 5% at the midpoint. Our guidance does not include the anticipated impact from the Sensia dissolution. Once the JV is dissolved, we'll update our FY26 guide for the remainder of the year. As we mentioned, this will reduce reported revenue and increase margin percentage but have no significant impact on EPS.

Our segment operating margin guidance is 21.5%, more than 100 basis points higher year over year. Our Adjusted EPS guidance is a range of $11.20 to $12.20, or $11.70 at the midpoint. We expect a couple of points of price for fiscal 2026, 1% on underlying price and 1% from tariff price. From this growth we expect our FY26 incremental margins to exceed 40%, inclusive of tariff-based pricing.

Looking ahead to 2026 capital expenditures, we plan to increase investments in plant and digital infrastructure, with targeted capex spending of about 3% of sales.

In terms of the calendarization, as Blake mentioned, we expect a sequential decline in Q1, followed by a gradual sequential improvement in subsequent quarters. This is true for both sales and margins as we progress through the year. Now, let me share some additional color on our first quarter.

In Q1 we expect overall company sales to be down low double digits sequentially, given normal seasonality and the continued uncertainty and slower capex activity. With that said, we do expect good year-over-year growth in both sales and margins, with total company segment margins in the high-teens range. This translates to more than 25% year-over-year growth for Adjusted EPS.

From a business segment standpoint, Intelligent Devices sales in Q1 are expected to be down low double digits sequentially, due to ongoing softness in our configure-to-order shipments. As a result, we expect Intelligent Devices segment margins to be in the mid-to-high teens. Software & Control margin is expected to be in the high 20s in the first quarter, on sequential sales declines in the high single digits. Lifecycle Services sales are expected to be down high single digits sequentially, driven by a combination of both normal seasonality and continued capex project delays. We expect segment margin for Lifecycle Services in the low double digits.

For the full year, we expect segment sales and margin as follows. Intelligent Devices reported sales growth is expected to be in the mid to high-single digits. We expect margins in the high teens to low-20s, or 150 to 200 basis points higher year over year driven by continued progress on productivity. Software & Control reported sales growth is expected to be mid-single digits. We expect margins in the low 30s, up slightly year over year, and driven by better volume and price. Lifecycle Services reported sales growth is expected to be flattish. We expect margins in the low teens, lower than last year.

Let's turn to slide 14 for our Adjusted EPS walk for the full year. Our Core is expected to be $1.40 for the year. Included in our Core is productivity, which is the term we are using for operationalizing our ongoing focus on cost reduction and margin expansion. FX is expected to be a $0.20 tailwind. We expect our Adjusted Effective Tax Rate this year to be 20%, reflecting the implementation of BEPS Pillar II. The resulting EPS headwind from tax is $0.40.

A few additional comments on fiscal 2026 guidance for your models. Corporate and Other expense is expected to be around $100 million. Since we are no longer including legacy asbestos and environmental costs in other income, Corporate and Other expense is about $18 million lower than it otherwise would have been for the year. Net interest expense for fiscal 2026 is expected to be about $120 million. We're assuming average diluted shares outstanding of about 112.7 million shares and we are targeting approximately $500 million worth of share repurchases during the year.

I'd like to thank the global Rockwell team for the outstanding execution that allowed us to exceed our cost reduction and margin expansion targets and company guidance for fiscal '25. This organization is ready to build on this momentum and deliver another strong year.

With that, I'll turn it back to Blake for some closing remarks before we start Q&A.

Blake Moret

Chairman & Chief Executive Officer, Rockwell Automation, Inc.

Thanks, Christian. This year's Automation Fair and Investor Day at McCormick Place in Chicago is the best venue to see what's special about Rockwell. We're looking forward to showcasing the best solutions and partner network in the business, including software-defined automation and AI-enabled technology from sensor to software, integrated intelligent devices, robotics, and digital services. You will hear from customers about our differentiated value, and from management as we review progress on our goals, details of our internal investments, and inorganic priorities. I'm looking forward to seeing you there.

Aijana will now begin the Q&A session.

Aijana Zellner

Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.

Thanks, Blake. We would like to get to as many of you as possible, so please limit yourself to one question and a quick follow up. Julianne, let's take our first question.

Q&A Session

Aijana Zellner

Head of Investor Relations & Market Strategy, Rockwell Automation, Inc.

That concludes today's conference call. Thank you for joining us today.