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Rockwell Automation, Inc. (ROK)

Q2 2026 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. Ms. 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 second quarter fiscal 2026 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 are available on our website. These materials, as well as our remarks today, will reference non-GAAP measures.

Reconciliations of these non-GAAP measures are included in both the press release and charts. A replay of today's webcast and a transcript of our prepared remarks will be available on our website at the conclusion of today's call.

Before we begin, please note that our comments today include forward-looking statements regarding the expected future results of our Company. Our actual results may differ materially due to a wide range of risks and uncertainties described in our earnings release and 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.

Before we turn to our detailed results on slide three, I'll make a couple of opening comments. Rockwell delivered especially strong operating performance this quarter, with sales, margins, and EPS all coming in above our expectations. Double-digit year-over-year growth in orders, sales and earnings reflects our strong market position, led by North America, and the team's continued focus and execution in a dynamic global environment.

Our technology continues to perform in the most demanding, mission-critical environments. Last month, Rockwell supported NASA's Artemis II mission, enabling ground control systems for the first crewed mission to the moon in more than five decades. It's a powerful example of how customers trust Rockwell when reliability, precision, and safety are paramount. These same capabilities, including our digital engineering, robust security, and deep domain expertise, are what our customers depend on every day to improve productivity, augment their workforce, and modernize operations.

We saw an improvement in customer demand across a broader range of industries in Q2, such as eCommerce, Warehouse Automation, Data Center, Semiconductor, and Energy. Book-to-bill for the company was slightly higher than our historical average. This includes the increasing contribution from projects to build new capacity in the U.S. However, persistent trade volatility and geopolitical uncertainty continue to delay large capital investments in other industries, including Automotive and Consumer Packaged Goods.

We're doing a good job of managing cost increases in areas affected by tariffs, demand for memory, and fuel. At the same time, we're accelerating the release of new technology to grow our customer value and share over the long term. The investments we made over the last half dozen years in cloud-native software and modern development tools are contributing to this measurably faster pace, including the ability to incorporate AI capabilities within months of their initial release to the market.

Turning to our second quarter results on slide three. Q2 sales were above our expectations with organic sales growing 9% year over year. Reported sales were up 12% with favorable currency contributing three points of growth.

Intelligent Devices organic sales were up 9% versus prior year with strong growth in our Motion, I/O, and Safety and Sensing businesses. We continue to build momentum with our Production Logistics offering, where our OTTO AMRs are gaining adoption across a broader range of industries, including Automotive, Food & Beverage, Home & Personal Care, and even pilots in Data Center applications. A great example of a strategic OTTO win in the quarter was with Subaru of Indiana Automotive, where our autonomous mobile robots are helping scale their production by improving efficiency, flexibility, and safety.

In our Software & Control segment, organic sales were up 17% year over year and well above our expectations, driven by continued double-digit sales growth of Logix, especially in North America. Our Logix growth was broad-based in the quarter, and we saw particularly strong performance with our Data Center customers, where we continue to see increasing demand for our industrial-grade controllers. A great example of this momentum in Q2 was our win with ATS Automation, who is leading the conversion from commercial controls to our robust Logix PLCs at a new AI data center in Texas.

Lifecycle Services organic sales were down 1% versus prior year. Our longer cycle business was largely in line with expectations, with customers deferring some of their larger projects and continuing to prioritize smaller-scope productivity and modernization investments. Book-to-bill in this segment was 1.07.

The dissolution of our Sensia joint venture is now complete and executed as planned. Christian and I will cover the expected impact on full-year fiscal '26 financials later on the call. Annual Recurring Revenue was up over 6% in the quarter, including high-single-digit growth from Software ARR and mid-single-digit growth from recurring services. We continue to see slower growth in our services business with customers temporarily delaying and reprioritizing their spend. One notable ARR win this quarter was with Prometeon Tyre Group, who selected our cloud-native Fiix software as their

digital maintenance platform, enabling asset management and operational discipline across complex, multi-site operations worldwide.

From a profitability standpoint, we delivered strong margin performance this quarter. Beginning in Q2, we are now reporting Enterprise Operating Profit and Enterprise Operating Margin, which include corporate expenses. This is due to SEC requirements around non-GAAP measures, and is simply a change in presentation, with no impact to net income, EPS, cash flow, or individual segment margins. Christian will add more detail on this in a few moments. Enterprise Operating Margin of 22.5% and Adjusted EPS of \$3.30 were up significantly year-over-year and well above our expectations, driven by higher volume, positive price/cost, favorable mix, and productivity.

Let's move to slide four for Q2 industry highlights. Sales in our Discrete industries grew mid-teens versus prior year, led by better-than-expected growth in Automotive, eComm and Warehouse, and Semiconductor. Within Discrete, Automotive had a strong quarter with sales up mid-teens year over year. While we are starting to see a broader normalization in production schedules and the release of select larger projects, the majority of customer investment is still focused on productivity and smaller modernization initiatives. In addition to our Subaru win mentioned earlier, we secured several strategic AMR wins with global brand owners, where our autonomous material movement solutions are replacing traditional AGVs and forklifts across their global operations.

This quarter, we also had an important new-logo win with an energy infrastructure company who chose Rockwell to automate the entire production line for their greenfield facility in China, marking our first end-to-end deployment across a complete battery manufacturing process.

eCommerce and Warehouse Automation delivered another strong quarter with sales up over 30% year over year, as customers continue to prioritize upgrades and retrofits within existing warehouses over new greenfield builds.

Semiconductor performance improved in Q2 with sales growing high teens versus prior year, supported by a stabilization in core semi demand and an accelerating contribution from AI and data center-driven investment. This is one of the verticals where we saw broadening demand. Our data center business was one of the strongest end markets in the quarter, with sales more than doubling

year over year. Customers are prioritizing speed-to-capacity, resilience, and energy optimization, driving investment in both upgrades to existing facilities and select new builds.

Turning to Hybrid, sales in this segment were up high-single digits, led by strong year-over-year growth in Food & Beverage. Sales in Food & Beverage grew high-single digits with good growth in North America and EMEA. We continue to see customer investments in healthier products, including protein, dairy, and non-alcoholic drinks. Capex for new construction remains constrained in Consumer Packaged Goods, including Food & Beverage, but we're seeing the impact of our new offerings, such as Autonomous Mobile Robots, and contribution from mid-size customers that we cover so well along with our distributors. This quarter, Agropur, a leading dairy producer, selected Rockwell's digital services to support its digital transformation and advance its Factory of the Future strategy.

Our Life Sciences business grew low-single digits versus prior year and double-digits sequentially with new capacity projects in North America and Asia Pacific. In the quarter, our combination of FactoryTalk Pharma Suite MES and FactoryTalk Optix helped secure a competitive win for an active pharma ingredient application. Another strategic Life Sciences win in the quarter was with Butantan Institute, one of Brazil's largest biopharma and vaccine producers, which expanded its Pharmasuite MES footprint to optimize and automate production processes, reinforcing Rockwell as a long-term digital manufacturing partner.

Turning to Process industries. Sales in this segment grew mid-single digits with solid growth across Energy, Metals, Pulp & Paper, and Chemicals. Energy sales were up mid-single digits in the quarter and were above our expectations, particularly in the Americas. A great example of our continued momentum in Oil & Gas was a win with Petrobras, where Rockwell will provide integrated automation services across multiple FPSOs in the Buzios offshore field. This reflects customers' continued trust in our capability to support complex offshore operations at scale.

In Mining, we formed a strategic partnership with BHP to support them in advancing the next generation of autonomous operations, combining Rockwell's leadership in automation and AI with BHP's deep operational expertise to help enable scalable execution across complex, safety-critical environments. Another example of our increased presence in Process this quarter was our new

capacity win with a leading North American packaging customer, who chose Rockwell to deliver an integrated automation solution for one of the region's largest mill expansion projects, expanding our installed base and positioning Rockwell as the platform for future phases of this multi-year project.

Moving to slide five for our Q2 organic regional sales. We saw broad-based growth across most of our regions this quarter. While the conflict in the Middle East has paused some near-term customer activity, mainly in our Lifecycle Services business, the impact to results is limited today, and we see potential for reinvestment as customers restore operations over time. Organic sales in the U.S. were up 10% versus prior year, and we continue to expect North America to be our strongest region in fiscal '26.

Let's now turn to slide six to review our fiscal 2026 outlook. I'm pleased with our performance in the first half of the year. Customer demand continues to gradually improve and broaden across more of our end markets. However, we are balancing this momentum with a prudent approach in an uncertain environment. We now expect both our reported and organic sales growth to be in the 5%-9% range. Our reported sales midpoint now assumes a point and a half of positive contribution from currency translation, offset by the negative sales impact from the Sensia dissolution.

We expect organic Annual Recurring Revenue to grow high-single digits this year, led by cloud-native software. We are increasing our Enterprise Operating Margin outlook to 21.5%, up from about 20% in our prior guide, and we now expect our Adjusted EPS to be about \$12.80 at the midpoint. The increase is driven by volume and very strong conversion, even as Capex spending in some verticals remains subdued. We continue to expect Free Cash Flow conversion of 100% in fiscal year '26.

I'll now turn it over to Christian for more detail on our Q2 and financial outlook for fiscal '26.

Christian?

Christian Rothe

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

Thank you, Blake, and good morning, everyone.

Let's go to slide seven, second quarter key financial information. Second quarter reported sales were up 12% versus prior year. About three points of growth came from currency. Our Q2 results still include Sensia, as the JV was dissolved on April 1. Three points of our organic growth in Q2 came from price, with about half coming from underlying price realization and half from tariff-based pricing. There were lots of puts and takes from tariffs in the quarter, including the removal of IEEPA tariffs, the new Section 122 tariffs, and the changed approach with Section 232 tariffs. We continue to expect pricing actions to fully recover tariff costs this year. We'll continue to evaluate and modify our plans as more details become available, especially related to expected Section 301 tariffs. Maintaining earnings neutrality remains our focus. Our second quarter and full-year guide do not include any impact from expected IEEPA refunds or claims resulting from the Supreme Court decision.

Moving on to the rest of the P&L, gross margins expanded year-over-year by 160 basis points to more than 50%. The strong performance was driven by volume, ongoing benefits from productivity, and favorable mix. SG&A spend was 2% higher year-over-year in the second quarter, primarily due to higher compensation, reflecting our annual merit increase and strong outperformance in Q2. Engineering and Development Spend was up about 11% year over year, on pace with our sales growth, as we continue to invest for the future. Our Total Innovation Spend was about 8% of sales in the quarter.

As Blake mentioned, beginning this quarter we are now reporting Enterprise Operating Profit and Enterprise Operating Margin, which are replacements for Total Segment Operating Earnings and Total Segment Operating Margin. We are making this change due to SEC requirements, as these new measures include Corporate and Other Expenses and therefore reflect enterprise-level operating performance.

There is no change to how we report individual Segment Operating Earnings and Segment Operating Margin for Intelligent Devices, Software & Control, and Lifecycle Services. These will continue to be reported on a consistent basis with prior periods.

Slide 15 of our earnings deck shows the recast information for the last 10 quarters, bridging previously reported Total Segment Operating Margin to the new Enterprise Operating Margin. This is a change in presentation only and has no impact to reported net income, earnings per share, cash flows, or overall financial position. Our Enterprise Operating Margin expanded 350 basis points year-over-year, reflecting the strong growth in volume, positive price/cost inclusive of productivity, and favorable mix, partially offset by higher compensation. In short, we are getting great leverage on our P&L.

Our Adjusted Effective Tax Rate in the quarter was 20.6%, slightly higher than our expectations. We continue to expect an Adjusted ETR of 19.5% for the full year. The broad-based strength in our business delivered results that exceeded our expectations, with Q2 Adjusted EPS of \$3.30, up more than 30% year over year. Free Cash Flow in Q2 of \$275 million was above our expectations. It was \$104 million higher than the prior year, primarily due to higher pre-tax income driven by our strong Q2 results. Receivables were a use of cash in the quarter, reflecting strong shipments.

Slide eight provides the sales and margin performance of our three operating segments. Intelligent Devices margin of 20.9% increased by 320 basis points year over year and was ahead of our expectations due to positive price/cost inclusive of productivity, higher sales volume, and favorable mix, partially offset by higher compensation. Resulting segment year-over-year incrementals were in the mid-forties.

Software & Control margin of 34.9% was up 480 basis points versus prior year and was also higher than our expectations, driven by strong sales volume and positive price/cost, partially offset by compensation. This segment saw year-over-year incrementals in the high fifties.

Lifecycle Services margin of 14.6% was flat year over year, slightly ahead of our expectations. Lifecycle Services had another quarter of good project execution and productivity, offset by higher compensation. Sequentially, all three segments expanded margins from Q1 to Q2, with Intelligent Devices and Software & Control gaining more than 300 basis points each. For total Rockwell, the incremental margin on the year-over-year sales growth was in the low fifties in Q2, repeating the strong incrementals we saw last quarter.

Let's move to the next slide, nine, for the Adjusted EPS walk from Q2 fiscal 2025 to Q2 fiscal 2026. Year-over-year, Core performance had an impact of \$0.80 in Q2. Our Core performance was driven by volume, price/cost, productivity, and mix, partially offset by higher compensation. A quick shout-out to our operations team, who leveraged the volume increase to drive great margin performance. A \$0.15 currency tailwind was offset by a \$0.15 tax headwind. All other items had a neutral impact on Adjusted EPS.

Moving on to the next slide, 10, to discuss our guidance for the full year. We are increasing both our reported and organic revenue guidance to a range of 5-9%, or 7% at the midpoint. That is up three points from our prior guidance. This increase reflects the outperformance in the first half of the year, and a broadening of end market strength that Blake discussed in his remarks.

On April 1, after the close of our second quarter, we dissolved our Sensia JV. As we previously mentioned, the dissolution lowers reported revenue, increases Lifecycle and Rockwell margin percentage, and is EPS neutral. Our full-year guidance now reflects this impact. Slide 16 of the deck provides an estimate of the sales impact from the now divested businesses for the past four quarters. We're providing this pro forma so you can update your models.

The prior midpoint for reported sales guide was \$8.8 billion. Our new guide of \$8.9 billion reflects about a \$200 million increase in our organic sales forecast, partially offset by a \$100 million reduction due to the Sensia dissolution. This nets to a \$100 million increase in the reported sales guide.

Turning to slide 11, we are increasing our Adjusted EPS guidance range to \$12.50 to \$13.10. The new midpoint of \$12.80 is one dollar higher than the midpoint of our prior Adjusted EPS guide.

As we move into the second half, we expect inflationary costs to step up, primarily across key components, memory, transportation, and general supplier inflation. For instance, memory costs continued to increase in Q2 and are now expected to represent a double-digit million-dollar headwind in the back half. We are actively managing these pressures, including through increased safety stock, to secure supply and protect operations.

We have taken some additional pricing actions to help offset these cost increases and we now expect 250 basis points of total price for fiscal 2026, with 150 basis points coming from underlying price and 100 basis points from tariff-based price. This is an increase of 50 basis points from our prior outlook all from underlying price.

The cost inflation and corresponding price realization won't 100% align in any given quarter. Our full-year guide reflects sequential margin pressure in the second half. That said, our initial guide for fiscal 2026 expected incremental margin to be about 40% for the year. This new guide puts incrementals above 50% for the full year. For your models, Capex for fiscal 2026 remains targeted at about 3% of sales.

Now, let me share some additional color on our outlook for the third quarter. In Q3 we expect total company reported sales to be roughly flat sequentially with correspondingly flat Enterprise Operating Margin. We are losing about \$50 million of sequential sales due to the Sensia dissolution, offset by growth predominantly in the Intelligent Devices segment. Sequential segment margin performance is expected to be up slightly in Intelligent Devices; down in Software & Control; and up slightly in Lifecycle, as expected post-Sensia. We expect third quarter Adjusted EPS to be up about \$0.05 sequentially, or up mid-to-high teens year over year.

For the full year, we expect Intelligent Devices reported revenue to grow in the high-single digits, with segment operating margin around 20%. For Software & Control, reported revenue should grow in the low-double digits, with segment margin in the low thirties, up several hundred basis points year-over-year. For Lifecycle Services we expect reported revenue to be down about \$100 million year-over-year given no second half revenue contribution from the portion of the Sensia business we have now divested, with segment operating margin flat to slightly up year-over-year as margin in this segment benefits from the dissolution of Sensia.

A few additional comments on fiscal 2026 guidance for your models. We expect Corporate and Other expense, which is now part of Enterprise Operating Profit and Margin, to be around \$110 million. Net interest expense for fiscal 2026 is targeted at about \$120 million. During the quarter we repurchased 1.2 million shares at a cost of about \$450 million. We are now expecting approximately

\$850 million in repurchases for the year, and we're now assuming average diluted shares outstanding of about 112.1 million shares.

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

Blake Moret

Chairman & Chief Executive Officer, Rockwell Automation, Inc.

Thanks, Christian. You may have seen the announcement last week of Clocktower Farms, a highly automated hydroponic farm that will start production in our Milwaukee headquarters later this year. Particularly with the developments in software defined automation, AI and robotics, we are unlocking new applications for our technology that improve the quality of life.

I'm proud of the Rockwell team and our unmatched ecosystem. Winning new business, managing costs and delivering impactful solutions. All of that came together in the quarter. We're in a strong position, and we intend to make the most of it.

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.