

COMPANY OVERVIEW

Rockwell Automation, Inc. (Rockwell) is a provider of industrial automation power, control, and information solutions. It offers connected components, midrange architecture system, asset and consultancy management; engineered packages and panels integration; front end engineering and design; integration services, manufacturing intelligence and on-machines solutions. Rockwell caters to the automotive, marine, oil and gas, metals and mining, power generation, food and beverage, print and publishing, pulp and paper, life sciences and textiles industries. The company sells its products through direct force and a network of distributors in the Americas, Europe, the Middle East, Africa and Asia-Pacific. Rockwell is headquartered in Milwaukee, Wisconsin, the US.

The company reported revenues of (US Dollars) US\$6,311.3 million for the fiscal year ended September 2017 (FY2017), an increase of 7.3% over FY2016. In FY2017, the company's operating margin was 16.4%, compared to an operating margin of 16% in FY2016. In FY2017, the company recorded a net margin of 13.1%, compared to a net margin of 12.4% in FY2016.

The company reported revenues of US\$1,586.6 million for the first quarter ended December 2017, a decrease of 4.9% over the previous quarter.

KEY FACTS

Head Office	Rockwell Automation, Inc. 1201 South 2nd Street Milwaukee Wisconsin Milwaukee Wisconsin USA
Phone	1 414 3822000
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Web Address	www.rockwellautomation.com
Revenue / turnover (USD Mn)	6,311.3
Financial Year End	September
Employees	22,000
New York Stock Exchange Ticker	ROK

SWOT ANALYSIS

Rockwell Automation, Inc. (Rockwell) is a provider of industrial automation power, control, and information solutions. The company has a well-organized and developed alliance and collaboration framework that helps it to secure a consistent relationship with its customers by prioritizing their needs. However, intense competition could limit the company's ability to maintain or increase its market share or profitability.

<p>Strength</p> <p>Focus on research and development Caters to a broad range of industries Strong alliance and collaboration framework</p>	<p>Weakness</p> <p>Segmental Performance: Control Products & Solutions</p>
<p>Opportunity</p> <p>Growing demand for AC drives could enhance revenues Growing control systems market Positive Outlook of the Global Automotive Industry</p>	<p>Threat</p> <p>Foreign currency risks Intense competition Heavy dependence on vendors for supplies may affect its profitability and competitiveness</p>

Strength

Focus on research and development

Rockwell focuses on research and development (R&D) to stay ahead of its competitors in the market. The company each year sets aside a substantial amount for its research activities. The company's R&D spending for FY2017, FY2016, and FY2015 was US\$348.2 million, US\$319.3 million, and US\$307.3 million, respectively. The company has been investing extensively in R&D to enhance its product portfolio by adding new products and services as well as enhancing the existing product portfolio. The company also carries out customer-sponsored research and development activities. Its R&D efforts are aimed at increasing efficiency improve customer focus and reduce the lead time to market for new products. With a strong technology foundation and a deep understanding of its clients, the company is well positioned to deliver unparalleled value through innovative products and solutions across the automation industry. The company is in collaboration with the Czech Institute of Informatics, Robotics and Cybernetics (CIIRC). It sponsors the Rockwell Automation Distributed Intelligence Control lab (RADIClab) in the institute. Students and Rockwell Automation engineers partner at RADIClab on research projects. There are collaborations between other labs sponsored by other automation companies on the same campus. Strong R&D capabilities allow Rockwell to attain competitive advantage over its peers, maintain technological edge over its competitors and to stay ahead of industry trends. In addition, it also allows the company to differentiate its products with its competitors.

Caters to a broad range of industries

Rockwell serves customers in a wide range of industries, including consumer products, resource-based industries and transportation industry. The consumer products customers include manufacturers engaged in the food and beverage, home and personal care and life sciences industries. The company's customers in resource-based industries include oil and gas, mining, aggregates, cement, metals, energy, pulp and paper, and water/wastewater companies. Furthermore, in the transportation industry, the company primarily serves automotive and tire manufacturers. Rockwell's products and services are used in these industries to reduce the total cost of ownership, maximize asset utilization, improve time to market and reduce manufacturing business risk. Thus, a well-diversified consumer base spanning several industries reduces the company's dependence upon a few set of customers, thereby mitigating its overall business risks.

Strong alliance and collaboration framework

Rockwell has a well-organized and developed, alliance and collaboration framework, which it calls the 'PartnerNetwork' program, a one-stop shop for entire project lifecycle. Under this system, the company partners with other manufacturers that use the company's technology, and then enables better customization and use for their final products. The PartnerNetwork program offers global manufacturers access to a network of skilled suppliers with extensive engineering knowledge, in return. The Rockwell Automation PartnerNetwork framework offers global manufacturers access to a collaborative network of companies mutually focused on developing, implementing and supporting solutions to achieve plant-wide optimization, improve machine performance, and meet sustainability objectives. The company continues to expand its program. Hence, these programs help the company secure a consistent relationship with its customers by prioritizing their needs. Further, it also allows it to expand its presence in markets and geographies by offering its customers, access to new products and solutions that use Rockwell's technologies.

Weakness

Segmental Performance: Control Products & Solutions

The company's Control Products & Solutions segment operating revenue exhibited a decline during the review year. The decline might result in a reduction of investors' confidence in the company and disables it to pursue its expansion plans. Rockwell, through its Control Products & Solutions segment combines a portfolio of motor control and industrial control products. Its portfolio includes low and medium voltage electro-mechanical and electronic motor starters, motor and circuit protection devices, alternating current/direct current (AC/DC) variable frequency drives, push buttons, signaling devices, termination and protection devices, relays and timers, and condition sensors. In FY2017, Control Products & Solutions segment revenue increased by 5.2%, from US\$3,244.3 million in FY2016 to US\$3,412.0 million in FY2017, however, the segment's operating revenues declined by 8.5% from US\$493.7 million in FY2016 to US\$451.6 million in FY2017. This decline in the operating revenue was primarily due to primarily due to higher incentive compensation and restructuring charges. Also, the segment's operating margin was 13.2% in FY2017 as compared to 15.2% in FY2016.

Opportunity

Growing demand for AC drives could enhance revenues

The worldwide demand for variable-frequency AC drives is growing at a robust pace. According to MarketLine, the global AC drives market generated total revenues of \$16.3 billion in 2016, an increase of 4.5% over 2015. Furthermore, the performance of the market is forecast to remain strong, with an anticipated compound annual growth rate (CAGR) of 4% for the 2016–19 period, which is expected to drive the market to a value of \$18.6 billion by the end of 2019.

The company is well positioned to exploit the growing end market to enhance its revenues and market ashore. Rockwell provides PowerFlex family of AC drives that offer a broad range of control modes, features, options, and packaging, as well as global voltages and multiple power ratings. The company's PowerFlex Architecture-class AC drives provide a broad set of features and application-specific parameters for high performance applications. In addition, the PowerFlex Compact-class AC drives deliver similar capabilities for standalone machine level control applications or simple system integration. Thus, the growing demand for AC drives would enhance the demand for the company's products, thus enhancing its revenues and profitability.

Growing control systems market

The global control systems market is expected to grow strongly in the coming periods. According to MarketLine, the global control systems market had total revenues of \$20,392.5 million in 2016, representing a 3% CAGR between 2011 and 2016. Further, the performance of the market is forecast to accelerate, with an anticipated CAGR of 3% for the period 2016–20, which is expected to drive the market to a value of \$22,755.7 million by the end of 2020. Rockwell offers a full range of machine control solutions, from components to highly integrated systems. Each of these solutions help customers speed time to market and lower total cost to design, develop and deliver their machine. The company offers programmable logic controllers (PLCs). Hence, the growing control systems market provides incremental growth opportunities to expand its revenues and market share in the coming years.

Positive Outlook of the Global Automotive Industry

The positive outlook of the global automotive industry provides opportunities for Rockwell across its operating markets. According to the European Automobile Manufacturing Association, in 2016, the global demand for passenger cars increased by 5.5% to 77.3 million units. The rise was mainly due to increase of 4.5% car sales in Europe, which accounted for 22.5% of the global car sales. The global production of cars increased by 5.5% to 77.7 million units in 2016, compared to 73.6 million units in 2015. In Asia, the production of cars reached 41.0 million units followed by 18.6 million units in Europe, 14.0 million units in North America, 2.2 million units in the South America, and 1.9 million units in the Middle East and Africa. In 2016, the global production of commercial vehicles reached 18.4 million units. In 2016, the registration of buses, trucks, and vans around the world increased to 17.8 million units, representing a growth of 1.6% over the previous year.

Threat

Foreign currency risks

Rockwell is exposed to foreign currency risks that arise from normal business operations since the company operates in more than 80 countries. These risks include the translation of local currency balances of foreign subsidiaries, transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Most of Rockwell's contracts are usually denominated in currencies of major industrial countries. The company translates sales of subsidiaries operating outside of the US using exchange rates effective during the respective period. Therefore, changes in currency exchange rates affect its reported sales. Moreover, Rockwell translates assets and liabilities of subsidiaries operating outside of the US with a functional currency other than the US Dollar into US Dollars using exchange rates at the end of the respective period. The company translates costs and expenses at average exchange rates effective during the respective period. Thus, foreign exchange fluctuations threaten to negatively impact the sales and cash balances thereby affecting the overall financial position of the company.

Intense competition

Rockwell faces intense competition across its market segments. The company's competitors range from large diversified businesses to smaller companies specializing in niche products and services. It competes on the basis of product performance, quality, developing integrated systems and applications that address the business challenges faced by customers. Some industries in which it operates are undergoing consolidation, which may result in stronger competitors and a change in relative market position. Factors that influence the company's competitive position include breadth of product portfolio and scope of solutions, technology leadership, knowledge of customer applications, installed base, distribution network, quality of products and services, global presence and price. The company competes with competitors having comparatively larger volumes of business and greater financial resources or businesses that are focused on a particular business segment as that of the company. The principal competitors of the company include ABB, Emerson Electric, Honeywell International, Schneider Electric, Mitsubishi Electric, Schneider Electric SA and Siemens AG, among others. If the company fails to retain and attract clients and customers, this highly competitive market could adversely affect the company's profitability, financial position and cash flows.

Heavy dependence on vendors for supplies may affect its profitability and competitiveness

Rockwell's business requires that the company purchases equipment, components and services, including finished products, which may include electronic components and commodities such as copper, aluminum and steel. The company's reliance on suppliers involves certain risks, including poor quality or an insecure supply chain, which could adversely affect the reliability and reputation of Rockwell's products; changes in the cost of these purchases due to inflation, exchange rates, commodity market volatility or other factors; intellectual property risks such as ownership of rights or alleged infringement by suppliers; information security risks associated with providing confidential information to suppliers; and shortages of components or commodities which could adversely affect the company's manufacturing efficiencies and ability to make timely delivery.

The company maintains several single-source supplier relationships, because either alternative source are not available or the relationship with a particular supplier is advantageous due to performance, quality, support, delivery, capacity, or price considerations. Unavailability or delivery delays of single-

source components could adversely affect Rockwell's ability to ship the related products in a timely manner. The effect of unavailability or delivery delays would be more severe if it is associated with Rockwell's higher volume and more profitable products. Thus, any of these uncertainties due to vendor dependence could adversely affect Rockwell's profitability and competitiveness.

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