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Rockwell Automation, Inc. (ROK)

Q3 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 third 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 third quarter results on slide 3, I'll make a couple of initial comments.

We delivered a strong quarter, with double-digit year-over-year growth in sales and earnings exceeding our expectations. This sustained momentum underscores Rockwell's strong position in North America and growing penetration in new end markets, an accelerated pace of new product introduction, our unmatched partner ecosystem, and the team's disciplined execution.

We continue to see strong demand across Semiconductor, Data Center, eCommerce, and Warehouse Automation. While we are not yet seeing a pickup in Capex across Food and Beverage and parts of Process, we are seeing early signs of renewed project activity in Automotive and Life Sciences. Customers are increasingly turning to Rockwell's differentiated portfolio of hardware, software, and services to adapt to changing market dynamics from GLP1-related investments and evolving Food and Beverage demand to AI-driven Data Center growth and new opportunities across Energy Storage, Defense, and Advanced Manufacturing.

I'm proud of how our team continues to execute amid geopolitical volatility, trade uncertainty, and persistent inflation. The Rockwell Operating Model helps us drive operational excellence, serve customers, and invest for the future. Those principles are on full display at our Singapore manufacturing facility, which was recently named a World Economic Forum lighthouse for its leadership in digital and AI-enabled manufacturing.

Turning to our third quarter results on slide 3. Q3 sales came in above our expectations. Reported sales were up 8%, and organic sales were up 10%, with the impact of the Sensia dissolution decreasing sales by 3% and currency contributing about a point of growth. Products continued to outperform our longer cycle solutions business, as smaller modernization projects across most industries drove the majority of our growth in the quarter. The verticals seeing the strongest capital investment, including Semiconductor, Data Center, and eCommerce and Warehouse, tend to be more heavily weighted toward our product and software offerings.

Our Intelligent Devices organic sales grew 10% year over year, with broad-based growth across all product lines. New offerings such as Point Max I/O, additional PowerFlex drives, and Flexline motor control centers are seeing strong adoption, particularly in eCommerce, Warehouse Automation, and process industries. We also delivered double-digit growth in our Production Logistics business, with strategic wins across Food & Beverage, Semiconductor, and Life Sciences. Software & Control organic sales were up 18% versus prior year, driven by another quarter of strong double-digit growth in Logix. Lifecycle Services organic sales were down 2% versus prior year, generally in line with expectations. Book-to-bill in this segment was 0.97. While customer engagement remains healthy, growth in this segment continues to be constrained by the lack of capital spending recovery in Food and Beverage and certain process industries, where many of our Lifecycle Services offerings are deployed.

Organic Annual Recurring Revenue grew 6% in the quarter, below our expectations. High-single-digit software growth was partially offset by the slower growth in recurring Lifecycle Services. While services growth was softer than expected, we continue to add important ARR wins across our customer base. A great example is Unilever, which expanded its cybersecurity program to additional sites. The engagement combines our threat detection and secure remote access software with managed cybersecurity services to provide continuous monitoring, secure connectivity, and protection of critical manufacturing operations. Enterprise Operating Margin of 22.3% and Adjusted EPS of $3.49 were up double digits versus prior year, led by strong volume and favorable mix.

Moving to slide 4 for Q3 industry highlights. Our Discrete sales grew high teens year over year, led by strong double-digit growth in Semiconductor, Data Center, and eComm and Warehouse. Within Discrete, Automotive sales were up low double digits versus prior year, marking another quarter of better-than-expected performance. Customers continue to prioritize investments in productivity, quality, and asset utilization. While tariffs and geopolitical uncertainty continue to delay large greenfield projects, modernization spending remains strong.

A great example is Convergix, a global system integrator, who chose Rockwell's Emulate3D digital twin software to model a complex conveyance system. The solution is helping reduce project risk, accelerate commissioning, and bring production online faster. Another notable win in Q3 was with a large automotive brand owner, where Rockwell's end-to-end automation portfolio was selected to improve operational efficiency and accelerate the launch of future vehicle programs across multiple global plants.

eCommerce and Warehouse Automation sales were up 30% year over year with continued strong performance across regions and customer segments. Semiconductor delivered another strong quarter, driven by increased activity from several leading equipment manufacturers and chipmakers, including continued investment tied to AI infrastructure. Data Center remained a strong growth market in the quarter. Customers continue to invest in the power, cooling, automation, and control systems required to support increasingly complex and energy-intensive facilities. This creates further opportunities across our hardware, software, and services portfolio.

Turning to our Hybrid industries. Sales in this segment grew mid-single digits, with good growth across all major verticals. Food & Beverage sales were up mid-single digits, led by growth in North America. While we have yet to see an inflection in large capital projects here, customers continue to invest in modernization and digital transformation initiatives across protein, dairy, fiber, and non-alcoholic beverage applications.

Sales in our Life Sciences vertical were up 10% in Q3, with broad-based growth across all regions and continued improvement at both machine builders and end users. In addition to favorable end market demand, we continue to expand our position through competitive wins. An important win in the quarter was with a leading pharmaceutical and biotech contract development and manufacturing organization, who chose Rockwell's integrated process control and MES platform to standardize drug substance manufacturing across its operations.

Moving to Process. Our sales here were up high-single digits, led by growth in Energy, Metals, and Chemicals. Energy sales were up high single digits in the quarter, with customer spending focused on brownfield expansions, asset modernization, and production optimization. We also continue to see healthy activity across LNG, midstream, power infrastructure, and offshore markets, supported by rising energy demand and the ongoing buildout of power capacity for data center and electrification. Mining sales were down mid-single digits, reflecting measured capital deployment across the industry and some project timing delays, specifically in Latin America. With that said, customers continue to invest in productivity, autonomy, and digital transformation as demand for critical minerals continues to grow.

Moving to slide 5 for our Q3 organic regional sales. Similar to last quarter, we saw good year-over-year growth across most of our regions. North America was our strongest region in the quarter with 12% year-over-year growth, and we continue to expect it to be our fastest-growing region for the full year fiscal 2026.

Let's now turn to slide 6 to review our fiscal 2026 outlook. With three quarters behind us, customer investment is broadening across more of our end markets. While we have yet to see a broad-based recovery in large capital projects, we are confident Rockwell is best-positioned to capitalize as spending accelerates. In the meantime, we'll continue to operate with discipline and prudence in what remains a very dynamic environment.

We now expect both our reported and organic sales growth to be in the 7.5% to 9.5% range for the year. At the midpoint, reported sales growth includes approximately 150 basis points of favorable currency translation, offset by the impact of the Sensia dissolution. Our full-year sales midpoint of 8.5% assumes modest sequential growth in Q4, driven by the typical seasonal uptick in our longer cycle businesses within Lifecycle Services and Intelligent Devices.

We expect organic Annual Recurring Revenue to grow mid-single digits. We continue to expect our Enterprise Operating Margin to be 21.5%, up 260 basis points from last year. And we now expect our Adjusted EPS to be $13.15 at the midpoint, representing about 25% growth versus fiscal 2025. Finally, 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 Q3 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 7, Third Quarter Key Financial Information.

As Blake mentioned, our third quarter organic sales were up 10% versus prior year. Price contributed approximately one point to growth. Our Enterprise Operating Margin expanded 280 basis points year-over-year, driven by higher sales volume and favorable mix, partially offset by negative price/cost. As expected, the dissolution of Sensia had a positive impact of about 40 basis points on Enterprise Operating Margin. Gross margins expanded 70 basis points year-over-year to 49.5%, driven by higher volume, favorable mix, and a margin benefit from the Sensia dissolution.

The Sensia dissolution was effective on April 1 of this year and, as expected, was completed smoothly and on schedule. Excluding the year-over-year impact of the divested businesses in Q3, gross margins expanded slightly year-over-year, SG&A was up less than 1%, giving us solid P&L leverage on our baseline spending, and Engineering and Development increased 5%, as sales growth was faster than our Engineering and Development spend. However, E&D still represented about 8% of sales in the third quarter. We continue to expect E&D to be about 8% of sales for the full year.

Our Adjusted Effective Tax Rate in the quarter was 19.2%, slightly lower than our expectations. We continue to expect an Adjusted ETR of 19.5% for the full year. The broadening strength in our business that Blake highlighted drove another quarter of outperformance, with Q3 Adjusted EPS of $3.49, up more than 20% year-over-year. Free Cash Flow in Q3 of $654 million was above our expectations. It was $165 million higher than the prior year, primarily due to higher pre-tax income driven by our strong Q3 results and good working capital management.

Now on to slide 8 for the sales and margin performance of our three operating segments. Intelligent Devices margin of 20% increased by 120 basis points year-over-year, lower than we expected. The higher year-over-year sales, favorable currency, and mix, were partially offset by inflation. Year-over-year segment incrementals landed at 30%.

Software & Control margin of 34.8% was up 320 basis points versus prior year and was higher than our expectations, driven by strong sales volume, partially offset by inflation. This segment saw year-over-year incrementals of about 50%.

Lifecycle Services margin of 15.1% was up 180 basis points year-over-year, in line with expectations. Lifecycle Services had another quarter of good project execution and productivity, and segment margin benefitted from the dissolution of Sensia. These were partially offset by lower sales volume.

Total Rockwell incremental margin was in the high-50s year-over-year in Q3, on an as-reported basis, and over 40% on an organic basis. This is our fourth consecutive quarter of incrementals above 40%.

Let's move to the next slide, 9, for the Adjusted EPS walk from Q3 fiscal 2025 to Q3 fiscal 2026. Year-over-year, core performance had an impact of $0.65 in Q3. Our core performance was driven by volume, mix, and productivity, partially offset by price/cost. Core price/cost was unfavorable in the quarter, reflecting rising costs and the timing of price increases. We implemented a price increase late in Q3 that will be realized in Q4. The team still delivered strong margins and healthy incremental conversion in the quarter, demonstrating the strength of our operating model. We continue to expect positive price/cost both for the full year and in Q4. Tax was a $0.20 headwind largely due to BEPS Pillar II. All other items had a $0.09 positive impact on our 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 7.5 to 9.5%, or 8.5% at the midpoint. This is up 150 basis points from our prior guidance. This increase reflects the outperformance we saw in the quarter and higher growth expectations for Q4. Our third quarter results and full-year guide do not include any impact from expected IEEPA refunds or claims resulting from the Supreme Court decision.

Turning to slide 11, we are increasing our Adjusted EPS guidance range to $13.00 to $13.30. The new midpoint of $13.15 per share, is up $0.35 from the midpoint of our prior guide. For the full year, we still expect about 250 basis points of price realization, with about one hundred basis points from tariff-related pricing and about 150 basis points from underlying price. We remain on track for tariffs to be EPS neutral in fiscal 2026, with pricing offsetting the associated costs.

This updated guide continues to reflect our expectations for full-year incrementals of greater than 50% on an as-reported basis, and high 40's on an organic basis. These strong incrementals are driving 260 basis points of expansion in Enterprise Operating Margin year-over-year.

Specific to the fourth quarter, we expect total company reported sales to be up low-single digits sequentially with approximately flat Enterprise Operating Margin compared to Q3. This is due to higher inflation and an unfavorable mix, with configured to order and solutions sales hitting their normal seasonal peak.

Intelligent Devices segment margin should be up slightly from the third quarter on modestly higher sequential volume. We expect segment margin in Software & Control to be lower sequentially on flat sales, as inflation on items like memory hits here the hardest. For Lifecycle Services, we expect segment margin to be flat from the third quarter on higher seasonal sequential revenue.

For the full year, we expect Intelligent Devices reported revenue to grow in the low-double digits, with segment operating margin of around 20%. For Software & Control, reported revenue should grow in the high-teens, with segment margin in the low 30s, up several hundred basis points year-over-year. For Lifecycle Services, we expect reported revenue to decline about $150 million year-over-year, driven by the Sensia dissolution and some of the ongoing longer-cycle headwinds Blake discussed. We still expect Lifecycle segment operating margin to be flat to slightly up year-over-year.

For your model, Capex for fiscal 2026 will come in at about 3% of sales. A few additional comments on Fiscal 2026 guidance for your models. We expect “Corporate and Other” expense, to be around $115 million. Net interest expense for fiscal 2026 is targeted at about $120 million. During the quarter we repurchased about 300,000 shares at a cost of about $150 million. We expect approximately $850 million in repurchases for the year. And we’re now assuming average diluted shares outstanding of about 112.2 million shares.

To summarize, while inflation remains a headwind, the Rockwell team has done a good job of managing through it by driving topline growth, securing component availability, and mitigating cost pressure through pricing, productivity, and disciplined spending. Combined with the core principles of the Rockwell Operating Model, these actions are driving double-digit year-over-year earnings growth and Enterprise Operating Margin expansion of several hundred basis points year over year. Really proud of this team.

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.

I'm pleased with our progress through the year, with the fiscal year 26 topline guide at the higher end of our mid-term growth framework and Enterprise Operating Margin developing well. Customers are excited about the accelerated pace of new product launches, which is having a meaningful impact on our results. And Automation Fair is coming to Boston in November, where Rockwell and our partners will showcase even more offerings and innovation. Registration opens tomorrow.

I continue to be proud of how our team is driving execution and customer service, and how they are maximizing the impact of our investments on longer-term profitability and growth.

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.