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Group 3

# Third Quarter 2019 Earnings Conference Call

August 6, 2019

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### Safe Harbor Statement

*Our commentary and responses to your questions may contain forward-looking statements, including our outlook for the remainder of the fiscal year, and Emerson undertakes no obligation to update any such statements to reflect later developments. Factors that could cause actual results to vary materially from those discussed today are provided in our most recent Annual Report on Form 10-K and subsequent reports filed with the SEC.*

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### Non-GAAP Measures

*In this call we will discuss some non-GAAP measures (denoted with \*) in talking about our company's performance, and the reconciliation of those measures to the most comparable GAAP measures is contained within this presentation or available at our website [www.Emerson.com](http://www.Emerson.com) under Investors.*

# Third Quarter 2019 Results

## SUMMARY

Underlying sales\* were +2% in Q3; June 3-month underlying orders +2%

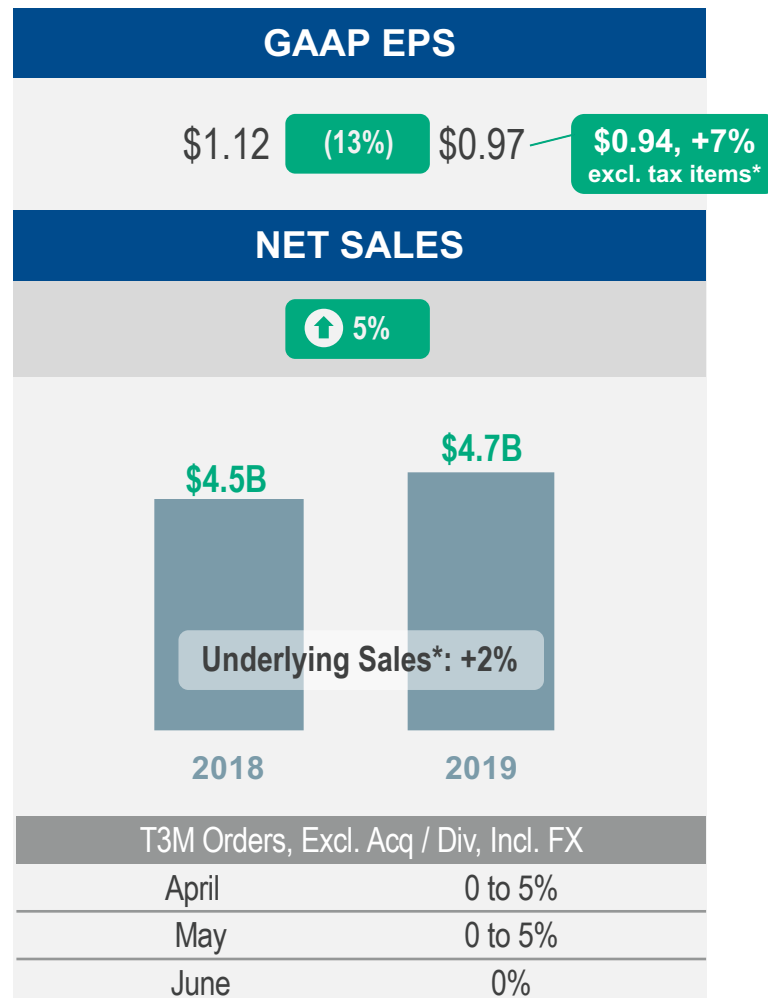
- Automation Solutions +3% underlying\* in Q3 compared to +7% in the first half
  - Global discrete markets slowed
  - N.A. upstream oil & gas remained soft
  - Global process and hybrid demand was solid
- Commercial & Residential Solutions (1%) underlying\*
  - U.S. HVAC slowed due to cool, wet weather
  - China trends improving, but down y-o-y

EPS \$0.97 exceeded \$0.94 guidance due to \$0.03 discrete tax benefit

EPS was \$0.94, up 7%, excluding current and prior year discrete tax benefits\*

Strong operating cash and free cash flow conversion

Targeting additional \$250M of share repurchase in Q4



EPS EXCEEDED GUIDANCE DESPITE SLOWER SALES DUE TO STRONG OPERATIONAL EXECUTION, LOWER CORPORATE COSTS AND LOWER TAX RATE

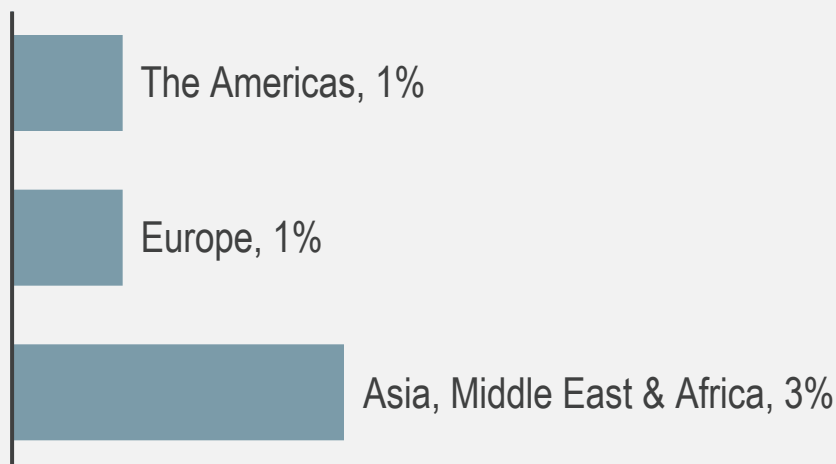
# Third Quarter 2019, P&L Summary

(\$M EXCEPT EPS)	2018	2019	Chg.	
Sales	\$4,456	\$4,684	5%	Underlying sales* +2%
Gross profit	\$1,942	\$2,001	3%	Dilution from recent acquisitions, Unfavorable mix
% of sales	43.6%	42.7%	(90) bps	
SG&A expense	(\$1,058)	(\$1,126)		
Other deductions, net	(\$77)	(\$65)		
EBIT*	\$807	\$810	--%	
% of sales*	18.1%	17.3%	(80) bps	+50 bps excl. recent acquisitions*
Tax Rate	6.3%	20.3%		
Shares	632.9	619.0		
GAAP EPS	\$1.12	\$0.97	(13%)	GAAP EPS incl. tax benefits of \$0.03 in 2019 and \$0.24 in 2018
EPS Excl. Discrete Tax Items*	\$0.88	\$0.94	7%	



# Underlying Sales Third Quarter and Year-to-Date 2019

## THIRD QUARTER UNDERLYING SALES GROWTH



Underlying sales*	2%
Acquisitions	5 pts
FX impact	(2) pts
Net sales	5%

## YEAR TO DATE UNDERLYING SALES GROWTH

5%

2%

1%

3%

6 pts

(2) pts

7%



DEMAND SLOWED IN NORTH AMERICA IN BOTH AUTOMATION SOLUTIONS AND COMMERCIAL & RESIDENTIAL SOLUTIONS. EUROPE WAS STABLE AND ASIA, MIDDLE EAST & AFRICA IMPROVED.

# Third Quarter 2019, Business Segment Earnings & Cash Flow

(\$M)	2018	2019	CHG.	
Business segment EBIT*	\$881	\$848	(4%)	
% of sales*	19.7%	18.1%	(160) bps	(30) bps excluding Aventics, Tools & Test and GE Intelligent Platforms acquisitions*
Accounting methods	\$57	\$64		
Corporate & other	(\$131)	(\$102)		Lower incentive comp and expense control
Interest expense, net	(\$39)	(\$43)		
Pretax earnings	\$768	\$767	--%	
% of sales	17.2%	16.4%	(80) bps	
Operating cash flow	\$924	\$946	2%	
Capital expenditures	(\$120)	(\$121)		
Free cash flow*	\$804	\$825	3%	135% conversion of net earnings*
Trade working capital	\$2,888	\$3,177		Incl. (60) bps dilution from acq's. Inventory performance worsened due to lower than expected sales late in the quarter. Expect to work this back down in Q4.
% of sales	16.2%	17.0%	+80 bps	

# Third Quarter 2019 Automation Solutions

## UNDERLYING SALES CHANGE VS. PY

The Americas	1%
Europe	1%
Asia, Middle East & Africa	7%
Automation Solutions	3%
FX Impact	(3) Pts
Acq Impact	5 pts
Reported Net Sales	5%

Sales slowed in discrete end markets; North America was down (1%) as upstream oil & gas remained soft

Europe was stable and orders accelerated

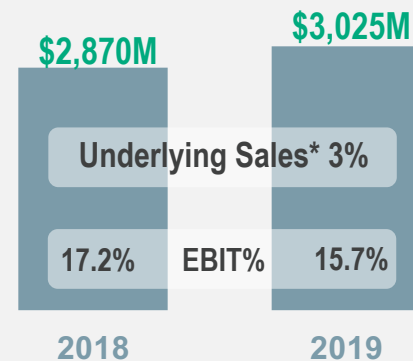
China was solid, up 5%; Rest of Asia was up 10% and Middle East & Africa was up 5%

Long-cycle systems and solutions business was up 8% underlying\*

Margin (150) bps, and was down (10) bps excluding recent acquisitions\*. Delivered sequential leverage above guidance on slower sales

## REPORTED NET SALES

↑ 5%



### T3M Orders, Excl. Acq / Div, Incl. FX

April	0 to 5%
May	0 to 5%
June	0 to 5%

June 3-month underlying orders were up 4%



THE BUSINESS EXECUTED WELL TO DELIVER STRONG SEQUENTIAL LEVERAGE; 2019 UNDERLYING SALES EXPECTED TO BE ~5%, LOW END OF PRIOR RANGE; INCREASING RESTRUCTURING INVESTMENTS, EXPECT ~16.0% 2019 MARGIN

# Third Quarter 2019 Commercial & Residential Solutions

## UNDERLYING SALES CHANGE VS. PY

The Americas	1%
Europe	1%
Asia, Middle East & Africa	(6%)
Commercial & Residential Solutions	(1%)
FX Impact	(1) pts
Acq Impact	6 pts
Reported Net Sales	4%

North America HVAC decelerated due to cooler, wet weather; Global professional tools markets were stable

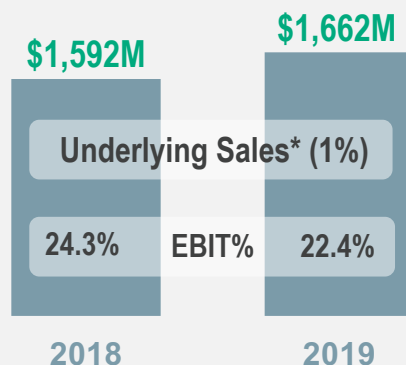
Asia, Middle East & Africa improved sequentially, in-line with expectations

Europe remained positive but commercial air conditioning and cold chain markets slowed significantly in June due to weather. Orders trended positively in July

Margin (190) bps including 120 bps dilution from the Tools & Test acquisition. Sequential leverage was over 40% on ~\$100M higher sales

## REPORTED NET SALES

↑ 4%



### T3M Orders, Excl. Acq / Div, Incl. FX

April	-5 to 0%
May	-5 to 0%
June	-5 to 0%

June 3-month underlying orders were down 1%



ASIA RECOVERY IS ON PLAN BUT NORTH AMERICA HVAC SLOWED;  
EXPECT FLAT\* 2019 UNDERLYING SALES; FULL YEAR MARGIN TARGET ~21.0%



# 2019 Outlook

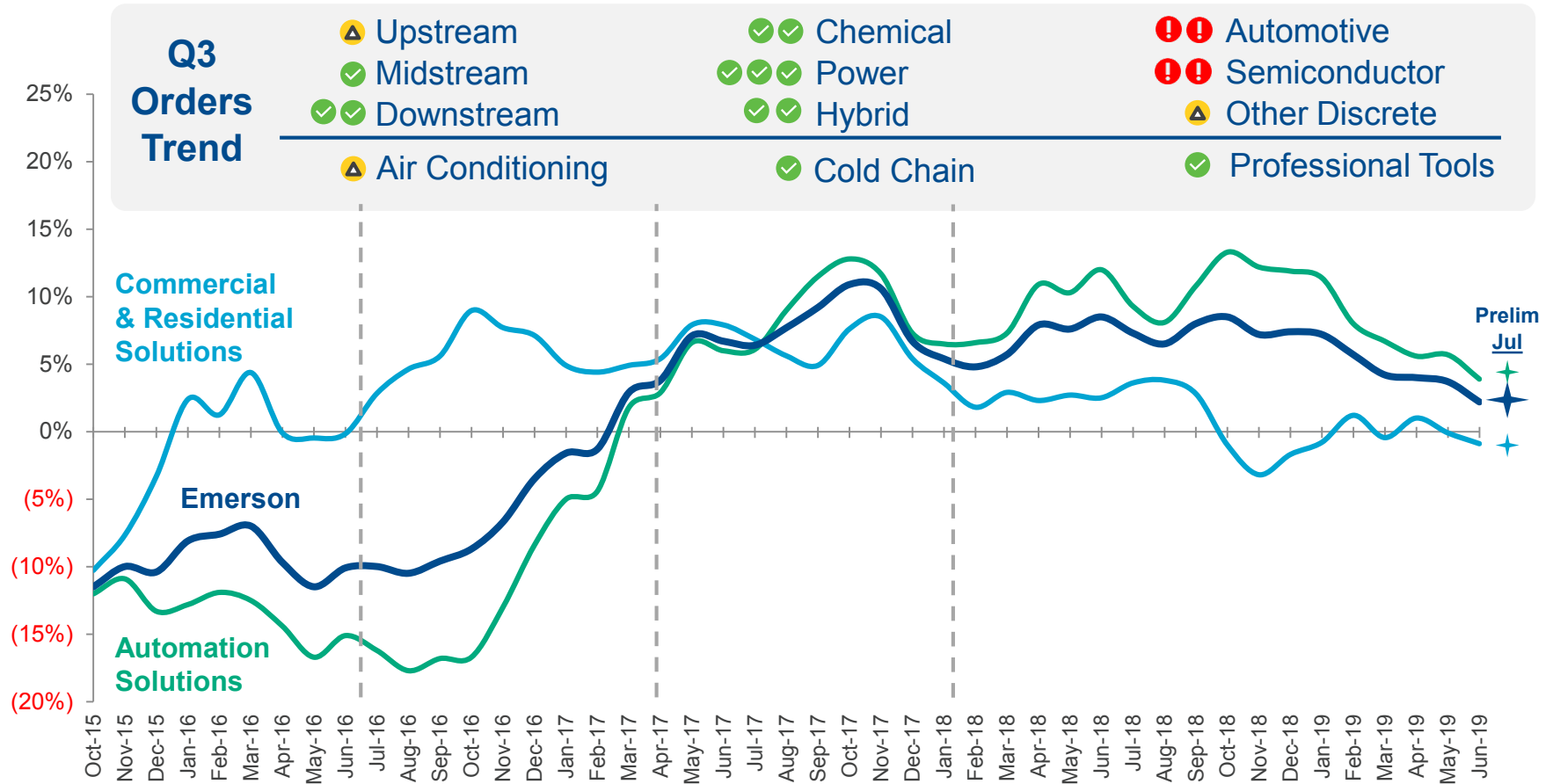
	Earnings Call May 7, 2019	Updated Guidance August 6, 2019
<b>Net Sales Growth</b>	<b>7% to 8.5%</b>	<b>~6%</b>
Automation Solutions	7% to 9%	~7%
Commercial & Residential Solutions	~7%	~4%
<b>Underlying Sales* Growth</b>	<b>4% to 5.5%</b>	<b>~3%</b>
Automation Solutions	5% to 7%	~5%
Commercial & Residential Solutions	~2%	~Flat
<b>Segment Margin</b>		
Automation Solutions	~16.5%	~16.0%
Commercial & Residential Solutions	~22.0%	~21.0%
<b>GAAP EPS</b>	<b>\$3.60 to \$3.70</b>	<b>\$3.60 to \$3.70</b>
Tax Rate	~23%	~21%
<b>Operating Cash Flow</b>	<b>\$3.2B</b>	<b>\$3.1B</b>
Capex	\$650M	\$600M
Free Cash Flow Conversion*	>100%	>100%
<b>Q4 Sales Growth Net / Underlying*</b>	<b>~6.5% / ~5.5%</b>	<b>~3.5% / ~3.5%</b>
<b>Q4 GAAP EPS</b>	<b>~\$1.13</b>	<b>~\$1.10</b>
% change vs. PY	+16%	+13%



**MAINTAINED FULL YEAR EPS GUIDANCE - LOWER SALES AND OPERATING TARGETS OFFSET BY LOWER CORPORATE SPEND AND TAX RATE; INCREASED RESTRUCTURING AND OTHER ACTIONS \$20M IN Q4**

# Total Emerson Underlying Order Trends

Trailing 3-Month Average vs. Prior Year



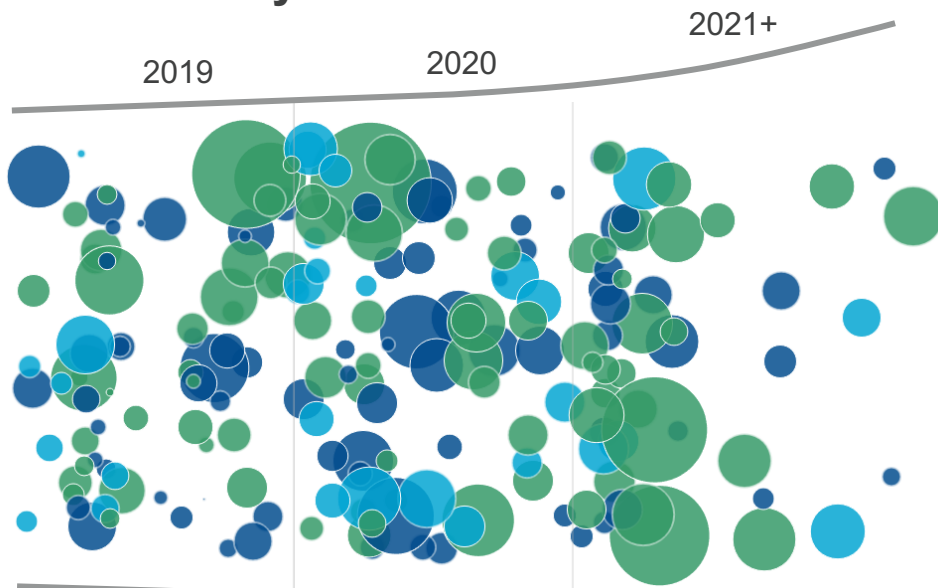
Orders data includes the Valves & Controls acquisition results in all periods presented, including on a pro forma basis for periods prior to the acquisition close April 28, 2017.



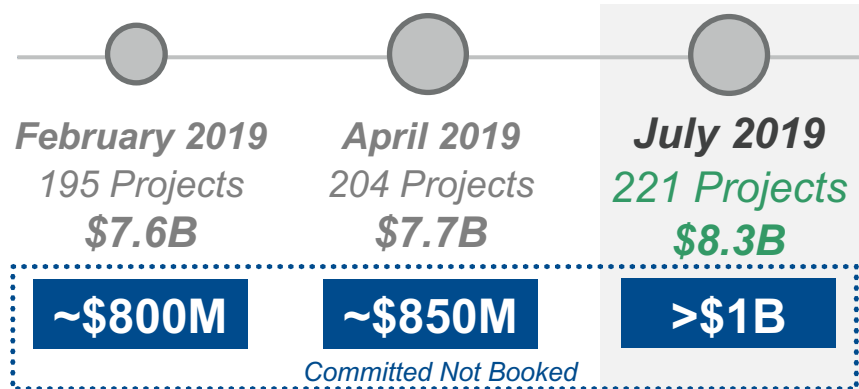
SHORT-CYCLE MARKETS SOFTENED AND PROJECTS BOOKINGS SLOWED IN Q3;  
 TRADE ISSUES CREATE CAUTIOUS BUSINESS INVESTMENT CLIMATE;  
 PRELIMINARY JULY UNDERLYING ORDERS WERE SLIGHTLY HIGHER

# Long-term Outlook Remains Intact — Large Project Pipeline is Robust

## Investment Decision Dates By Destination



WORLD AREA	VS. FEB EXPECTATION
Americas	✓
Asia Pacific, Middle East & Africa	✓
Europe	✓



## Since Feb Investor Conference

### Projects have Booked

7 projects Final Investment Decision  
Booked >\$170M out of the funnel

### Committed Not Booked has Ballooned

Commitments have steadily grown to >\$1B

### Projects in the Pipeline have Shifted Out

\$350M has shifted out of 2019 into 2020  
\$450M has shifted out of 2020 and 2021



PROJECT ACTIVITY IS HEALTHY, HOWEVER WE CONTINUE TO SEE PROJECTS SHIFT OUT AND CONVERSION OF COMMITMENTS TO ORDERS HAS STALLED

# APPENDIX

# Reconciliation of Non-GAAP Measures

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure. (dollars in millions, except per share amounts)

## Q3 2019 Underlying Sales Change

Reported (GAAP)  
(Favorable) / Unfavorable FX  
Acquisitions  
Underlying\*

	Auto Solns	Comm & Res Solns	Emerson
	5%	4%	5%
	3%	1%	2%
	(5)%	(6)%	(5)%
	3%	(1)%	2%

## Nine Months Ended Q3 2019 Underlying Sales Change

Reported (GAAP)  
(Favorable) / Unfavorable FX  
Acquisitions  
Underlying\*

Emerson
7%
2%
(6)%
3%

## Six Months Ended Q2 2019 Underlying Sales Change

Reported (GAAP)  
(Favorable) / Unfavorable FX  
Acquisitions  
Underlying\*

Auto Solns
9%
3%
(5)%
7%

## FY 2019E Underlying Sales Change

Reported (GAAP)  
(Favorable) / Unfavorable FX  
Acquisitions  
Underlying\*

	Auto Solns	Comm & Res Solns	Emerson
	~ 7%	~ 4%	~ 6%
	~ 2%	~ 1 %	~ 2 %
	~ (4)%	~ (5)%	~ (5)%
	~ 5%	~ -%	~ 3%

# Reconciliation of Non-GAAP Measures

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure. (dollars in millions, except per share amounts)

## Quarterly Guidance Underlying Sales Change

	<u>Q4 2019E</u>
Reported (GAAP)	~ 3.5%
(Favorable) / Unfavorable FX	~ 1%
Acquisitions	~ (1)%
Underlying*	<u>~ 3.5%</u>

## FY 2019E May Prior Guidance Underlying Sales Change

	<u>Auto Solns</u>	<u>Comm &amp; Res Solns</u>	<u>Emerson</u>
Reported (GAAP)	7 - 9%	~ 7%	7 - 8.5%
(Favorable) / Unfavorable FX	~ 2%	~ 1%	~ 2%
Acquisitions	~ (4)%	~ (6)%	~ (5)%
Underlying*	<u>5 - 7%</u>	<u>~ 2%</u>	<u>4 - 5.5%</u>

## Quarterly May Prior Guidance Underlying Sales Change

	<u>Q4 2019E</u>
Reported (GAAP)	~ 6.5%
(Favorable) / Unfavorable FX	~ 0%
Acquisitions	~ (1)%
Underlying*	<u>~ 5.5%</u>

## EBIT

	<u>Q3 FY18</u>	<u>Q3 FY19</u>	<u>Change</u>
Pretax earnings (GAAP)	\$ 768	\$ 767	-%
Interest expense, net	39	43	-%
Earnings before interest and taxes*	<u>\$ 807</u>	<u>\$ 810</u>	<u>-%</u>



# Reconciliation of Non-GAAP Measures

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure. (dollars in millions, except per share amounts)

<b>EBIT Margin</b>	<b>Q3 FY18</b>	<b>Q3 FY19</b>	<b>Change</b>
Pretax margin (GAAP)	17.2%	16.4%	(80) bps
Interest expense, net	0.9%	0.9%	- bps
Earnings before interest and taxes margin*	18.1%	17.3%	(80) bps
Acquisitions impact	-	1.3%	130 bps
Earnings before interest and taxes margin excluding acquisitions*	18.1%	18.6%	50 bps

<b>Business Segment EBIT</b>	<b>Q3 FY18</b>	<b>Q3 FY19</b>	<b>Change</b>
Pretax margin (GAAP)	17.2%	16.4%	(80) bps
Corp. & other, differences in accounting methods & interest expense, net % of sales	2.5%	1.7%	(80) bps
Business segment EBIT margin*	19.7%	18.1%	(160) bps
Acquisitions impact	-	1.3%	130 bps
Business segment EBIT margin excluding acquisitions*	19.7%	19.4%	(30) bps

<b>Automation Solutions Segment EBIT Margin</b>	<b>Q3 FY18</b>	<b>Q3 FY19</b>	<b>Change</b>
Automation Solutions Segment EBIT margin (GAAP)	17.2%	15.7%	(150) bps
Aventics & GE Intelligent Platforms impact	-	1.4%	140 bps
Automation Solutions EBIT margin excluding Aventics and GE Intelligent Platforms*	17.2%	17.1%	(10) bps

<b>Earnings Per Share</b>	<b>Q3 FY18</b>	<b>Q3 FY19</b>	<b>Change</b>
Earnings per share (GAAP)	\$ 1.12	\$ 0.97	(13)%
Discrete tax benefits	(0.24)	(0.03)	20%
Earnings per share excluding discrete tax benefits*	\$ 0.88	\$ 0.94	7%

# Reconciliation of Non-GAAP Measures

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure. (dollars in millions, except per share amounts)

## Cash Flow

	<u>Q3 FY18</u>	<u>Q3 FY19</u>	<u>Change</u>	<u>FY19E</u>
Operating cash flow (GAAP)	\$ 924	\$ 946	2%	\$ 3,100
Capital expenditures	(120)	(121)	1%	~ (600)
Free cash flow*	\$ 804	\$ 825	3%	\$ 2,500

## Cash Flow to Net Earnings Conversion

	<u>Q3 FY19</u>	<u>FY19E</u>
Operating cash flow conversion (GAAP)	155%	~ 135%
Capital expenditures	(20)%	~ (35)%
Free cash flow conversion*	135%	> ~ 100%

## Systems and Solutions Business

	<u>Q3 FY19</u>
Systems and Solutions business sales (GAAP)	14%
Acquisitions / FX	(6)%
Systems and Solutions business underlying sales*	8%

References to trailing 3-month or T3M orders in this presentation refer to the Company's trailing three-month average orders growth versus the prior year, excluding acquisitions and divestitures

References to underlying orders in this presentation refer to the Company's trailing three-month average orders growth versus the prior year, excluding currency, acquisitions and divestitures

References to underlying sales in this presentation exclude the impact of acquisitions, divestitures and currency translation.