

First Quarter 2015 Earnings Conference Call

February 3, 2015

Safe Harbor Statement

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

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 under Investor Relations.



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First Quarter 2015 Highlights

- **Net sales were unchanged at \$5.6 billion, with underlying sales* up 6%**
 - Underlying sales increased in all segments, with Climate Technologies strongest
 - Strong growth in North America and Latin America, with mixed results in other regions
 - Emerging markets grew 5%, with mixed results across the regions
- **Continued profitability improvement**
 - Gross profit margin increased 90 basis points to 40.8%
 - Segment margin* up 60 basis points to 15.0%
- **Earnings per share increased 15 percent to \$0.75**
- **Accelerated share repurchase to \$518M**
- **Power Transmission Solutions divestiture closed January 30, 2015**

Solid start to the year despite an increasingly uncertain macroeconomic environment due to a stronger U.S. dollar, significant decline in oil prices, and continued weakness in Europe



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First Quarter 2015 P&L Summary

<u>(\$M excl. EPS)</u>	<u>2014</u>	<u>2015</u>	<u>Chg.</u>	
Sales	\$5,606	\$5,587	--	→ Underlying sales* up 6%
Gross profit	\$2,236	\$2,280	2%	→ Continued expansion from portfolio management and efficiency gains
% of sales	39.9%	40.8%	90 bps	
SG&A expense	(\$1,444)	(\$1,405)		→ Favorable currency transactions \$19M
Other deductions, net	<u>(\$95)</u>	<u>(\$64)</u>		
EBIT*	\$697	\$811	16%	→ Strong contribution from segment margins
% of sales*	12.4%	14.5%	210 bps	
Shares	708.1	694.7		→ Share repurchase \$518M
EPS	\$0.65	\$0.75	15%	

First Quarter 2015

Underlying Sales Change

United States	8%
Europe	1%
Asia	2%
<i>China</i>	1%
Latin America	15%
Canada	21%
Middle East/Africa	--

Underlying sales*	6%
Acquisitions	-- pts
Divestitures	(3) pts
FX	(3) pts
Net sales	--

Strong market conditions in North America with mixed trends in other regions

First Quarter 2015

Business Segment Earnings & Cash Flow

<u>(\$M)</u>	<u>2014</u>	<u>2015</u>	<u>Chg.</u>	
Business segment EBIT*	\$825	\$864	5%	→ Margin expansion led by Climate Technologies and Process Management aided by portfolio repositioning
% of sales*	14.4%	15.0%	60 bps	
Accounting methods	\$57	\$58		
Corporate & other	(\$185)	(\$111)		→ Favorable comparisons on stock compensation \$27M, charitable contributions \$30M, and acquisition costs \$20M
Interest expense, net	<u>(\$54)</u>	<u>(\$46)</u>		
Pretax earnings	\$643	\$765	19%	
% of sales	11.5%	13.7%	220 bps	
Operating cash flow	\$691	\$571	(17%)	→ Lower cash flow reflected primarily timing of working capital investment to aid underlying sales growth
Capital expenditures	<u>(\$236)</u>	<u>(\$207)</u>		
Free cash flow*	\$455	\$364	(20%)	
Trade working capital	\$4,166	\$4,166		→ Trade working capital improved by 50 bps
% of sales	19.1%	18.6%	(50) bps	

First Quarter 2015 Process Management

Sales % Chg. vs. PY		Segment Results			
NA	9%	(\$M)	<u>2014</u>	<u>2015</u>	<u>Chg.</u>
Asia	1%	Sales	\$2,041	\$2,099	3%
<i>China</i>	3%	<i>FX</i>			(3) pts
Europe	4%				
LAM	26%				
MEA	(1)%	EBIT	\$373	\$392	5%
Underlying*	6%	% of sales	18.3%	18.7%	40 bps

- Growth was strongest in North America, led by downstream (Chemical/Petrochemical) and MRO investment
- Demand in Asia was mixed, up 1%, with growth in India and China offset by weak Australia and Southeast Asia
- Europe grew 4%, as double-digit growth in emerging countries (Eastern Europe/Russia) offset modest declines in mature markets
- Latin America reflected robust growth
- Conditions in Middle East/Africa were mixed, down 1%
- Margins improved, up 40 bps, reflecting favorable currency transactions

Order trends have remained solid and backlog is strong despite an uncertain outlook in the process industry

First Quarter 2015 Industrial Automation

Sales % Chg. vs. PY		Segment Results			
NA	13%	(\$M)	<u>2014</u>	<u>2015</u>	<u>Chg.</u>
Asia	5%	Sales	\$1,149	\$1,152	--%
<i>China</i>	6%	<i>FX</i>			(4) pts
Europe	(8%)				
LAM	7%				
MEA	(10%)	EBIT	\$162	\$164	1%
Underlying*	4%	% of sales	14.1%	14.2%	10 bps

- Strength in North America was led by over 20% growth in HVAC-related hermetic motors business
- Electrical distribution and power transmission solutions businesses reported strong growth, with the fluid automation business down modestly
- Declines in power generating alternators and motors and drives reflected continued economic weakness in Europe
- Asia benefited from robust growth in Japan, coupled with solid results in China
- Orders rates in power generating alternators expected to slow further in upstream oil and gas market

Market conditions to remain mixed in the near term, with favorable trends in North America and continued weakness in Europe

First Quarter 2015 Network Power

Sales % Chg. vs. PY		Segment Results			
NA	1%	(\$M)	<u>2014</u>	<u>2015</u>	<u>Chg.</u>
Asia	--	Sales	\$1,303	\$1,119	(14%)
<i>China</i>	(1%)	<i>Divestitures</i>			(12) pts
Europe	13%	<i>FX</i>			(3) pts
LAM	(18%)				
MEA	(8%)	EBIT	\$83	\$79	(5%)
Underlying*	1%	% of sales	6.4%	7.1%	70 bps

- Data center business was up slightly reflecting mixed market conditions
 - Strong growth in Europe benefited from a hyperscale project in Sweden
 - Growth in North America offset by Asia, Latin America and Middle East/Africa
- Telecommunications infrastructure business declined at a double-digit rate with growth in Asia offset by weakness in other regions
- U.S. telecommunications customers have curtailed spending referencing uncertainty surrounding potential changes in federal regulations
- Margin increase reflects impact of divestitures

Business conditions expected to remain mixed, with favorable data center market conditions and reduced levels of telecommunications investment

First Quarter 2015

Climate Technologies

Sales % Chg. vs. PY		Segment Results			
NA	26%	(\$M)	<u>2014</u>	<u>2015</u>	<u>Chg.</u>
Asia	2%	Sales	\$786	\$900	15%
<i>China</i>	(3%)	<i>FX</i>			(2) pts
Europe	(3%)				
LAM	39%				
MEA	31%	EBIT	\$107	\$126	18%
Underlying*	17%	% of sales	13.6%	14.0%	40 bps

- Sales increased 15 percent, as U.S. regulatory changes effective January 1 drove residential HVAC customers to build inventory ahead of the deadline
- Commercial HVAC grew at an upper-single-digit rate, led by North America
- Global refrigeration had modest growth as strength in the U.S. and Asia was partially offset by a decrease in Europe
- Demand for sensors and controls was flat
- Margins increased 40 basis points primarily on increased volume and resulting leverage
- Second quarter trends in the U.S. will be uncertain until inventory build is liquidated

Market conditions expected to remain favorable driven by end-user demand, with continued momentum in North America and Asia

First Quarter 2015

Commercial & Residential Solutions

Sales % Chg. vs. PY		Segment Results			
NA	4%	(\$M)	<u>2014</u>	<u>2015</u>	<u>Chg.</u>
Asia	(2%)	Sales	\$466	\$480	3%
<i>China</i>	(12%)	<i>FX</i>			(1) pts
Europe	(2%)				
LAM	6%				
MEA	24%	EBIT	\$100	\$103	3%
Underlying*	4%	% of sales	21.4%	21.5%	10 bps

- Market conditions were mixed with increased demand in the Americas and Middle East/Africa while Asia and Europe were down
- Increased sales were led by solid growth in professional tools with moderate increases in the wet/dry vacuums and food waste disposers businesses
- Commercial and residential storage businesses decreased modestly
- Segment margin remained strong at 21.5%
- Initiated the evaluation process of a potential divestiture of Intermetro business

Favorable trends in U.S. residential and commercial construction markets are expected to continue in the near term

Fiscal Year 2015 Outlook

- **Global macroeconomic environment is mixed with favorable trends in North America with contrasting weakness in Europe and emerging markets**
 - Strength of the U.S. dollar is a significant headwind for 2015
 - Continued weakness in Europe and some emerging markets
 - Significant decline in oil prices to be felt in H2 2015
- **Restructuring will be accelerated to approximately \$100M**
- **Based on current business conditions, the following is expected in 2015:**
 - Underlying sales* growth 3 to 5%
 - Reported sales change (4) to (1)%, reflecting 4 to 5% deduction from currency translation and 2% deduction from divestiture
 - Modest profitability improvement expected
 - Reported EPS of \$4.50 to \$4.60 includes significant reduction from currency translation, an estimated divestiture gain \$0.75 per share and accelerated restructuring costs \$0.05 per share
 - Business Segment guidance to be provided at annual investor conference on February 19th



Reconciliation of Non-GAAP Measures & Other

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

	Process Mgmt	Industrial Auto	Network Power	Climate Tech	Comm & Res Solns	Total
Q1 2015 Sales growth						
Underlying*	6%	4%	1%	17%	4%	6%
Acq/Div	-	-	(12%)	-	-	(3%)
FX	(3%)	(4%)	(3%)	(2%)	(1%)	(3%)
Reported	3%	-	(14%)	15%	3%	-
FY 2015 Sales growth	2015E					
Underlying*	~ 3 - 5%					
Divestiture	~ (2%)					
FX	~ (5) - (4%)					
Reported	~ (4) - (1%)					
EBIT	Q1 FY14	Q1 FY15	Change			
EBIT*	697	811				
% of sales*	12.4%	14.5%	210 bps			
Interest expense, net	(54)	(46)				
Pretax earnings	643	765				
% of sales	11.5%	13.7%	220 bps			