Fourth Quarter 2015 Earnings Conference Call

November 3, 2015

<u>Safe Harbor Statement</u>

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. Factors that could cause actual results to vary materially from those discussed today include our ability to successfully complete, and the financial impact of, our strategic repositioning actions, as well as those provided in our most recent Annual Report on Form 10-K and subsequent reports as filed with the SEC.

<u>Non-GAAP Measures</u>

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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Fourth Quarter and Fiscal Year 2015 Summary

- **Net sales in Q4 decreased 15% to $5.8 billion, with underlying sales* down 7%**
- **Net sales for fiscal 2015 decreased 9 percent, with underlying sales* down 2%**
  - Continuation of lower oil prices resulted in both capital and operational spending reductions by global oil and gas customers
  - Industrial capital spending remains slow
  - Weakening demand in emerging markets
  - Strength of the U.S. dollar
- **Q4 restructuring activities totaled $128M, total of $221M for the fiscal year exceeded expectations from Q3 conference call by ~$40M (~$0.04 per share)**
- **Incurred $10M of transaction costs for Network Power spinoff and $42M of income tax expenses for planned repatriation of earnings in 2016**
- **Completed divestiture of InterMetro business resulting in gain for shareholders**
- **Reported earnings per share for Q4 increased 69 percent to $0.98, adjusted* earnings per share decreased 29 percent to $0.93**
- **Reported earnings per share for the fiscal year increased 32 percent to $3.99, adjusted* earnings per share decreased 15 percent to $3.17**
- **Returned $3.8B to shareholders over the past 12 months through dividend and share repurchase**

Executing on restructuring programs and portfolio repositioning in the face of difficult market conditions

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Fourth Quarter 2015 P&L Summary

($M excl. EPS)	2014	2015	Chg.
Sales	$6,807	$5,814	(15%)
Gross Profit	$2,889	$2,368	(18%)
% of Sales	42.4%	40.7%	(170 bps)
SG&A Expense	($1,453)	($1,185)	
Gains on divestitures	–	$107	
Rationalization	($10)	($122)	
Goodwill impairment	($508)	–	
Other Deductions, Net	($55)	($127)	
EBIT*	$863	$1,041	21%
% of Sales*	12.7%	17.9%	520 bps
Shares	699.6	658.1	
EPS Reported	$0.58	$0.98	69%
EPS Adjusted*	$1.30	$0.93	(29%)

- Underlying sales* down 7%
- GP margin decreased from volume deleverage, unfavorable business and product mix
- Gain on divestiture of InterMetro
- Accelerated restructuring costs
- EBIT margin reflects impact from accelerated restructuring, spinoff costs and benefit of divestiture gains, up 270 basis points versus Q3 EBIT of 15.2%
- Repurchased ~9M shares for $460M
- Adjusted EPS for goodwill impairment from 2014, gains on divestitures, and spinoff costs

Fourth Quarter and Fiscal 2015 Underlying Sales Change

	Q4	FY
United States	(5%)	(2%)
Europe	–	–
Asia	(12%)	(5%)
China	*(18%)*	*(10%)*
Latin America	(24%)	(9%)
Canada	(19%)	2%
Middle East/Africa	2%	3%
Underlying sales*	(7%)	(2%)
Acq/Div	(2) pts	(2) pts
FX	(6) pts	(5) pts
Net sales	(15%)	(9%)

Global demand was mixed with significant headwinds in key served markets

Fourth Quarter 2015
Business Segment Earnings & Cash Flow

($M)	2014	2015	Chg.
Business Segment EBIT*	$1,412	$937	(34%)
% of Sales*	20.2%	15.7%	(450) bps
Accounting Methods	$72	$58	
Corporate & Other	($621)	$46	
Interest Expense, Net	($47)	($45)	
Pretax Earnings	$816	$996	22%
% of Sales	12.0%	17.1%	510 bps
Operating Cash Flow	$1,408	$1,101	(22%)
Capital Expenditures	($194)	($169)	
Free Cash Flow*	$1,214	$932	(23%)
Trade Working Capital	$4,125	$3,808	
% of Sales	15.2%	16.4%	(120) bps

- Volume deleverage, unfavorable mix, and increased restructuring
- Includes $508M impairment in 2014 and $107M divestiture gains in 2015
- Operating cash flow reflected solid conversion of earnings and trade working capital
- Trade working capital performance continues to be affected by business slowdown

Fourth Quarter 2015
Process Management

Sales % Chg. vs. PY	
NA	(4%)
Asia	(17%)
China	*(21%)*
Europe	(5%)
LAM	(38%)
MEA	2%
Underlying*	(10%)
Acq/FX	(6%)
Net	(16%)

Segment Results			
($M)	2014	2015	Chg.
Sales	$2,723	$2,291	(16%)
EBIT	$689	$429	(38%)
% of Sales	25.3%	18.7%	(660) bps
Restructuring	$5	$52	
EBIT excl. Rest.*	$694	$481	(31%)
% of Sales*	25.5%	21.0%	(450) bps

- Capital and operational spending remains at reduced levels within the oil and gas industry
- Upstream markets remain under the most pressure, while downstream activity in chemical and power markets continues to provide growth opportunities
- Middle East/Africa grew 2 percent reflecting mixed activity levels across the region
- Weakening economic conditions across Asia resulted in a sales decline of 17 percent
- Margins were down due to volume deleverage, unfavorable mix, the impact of the stronger dollar on operations and increased restructuring
- Restructuring activities accelerated reaching $52M or 230 basis points

Demand will remain under pressure as expectation of lower for longer oil prices will keep industry spending at reduced levels for most of fiscal 2016

Fourth Quarter 2015
Industrial Automation

Sales % Chg. vs. PY	
NA	(20%)
Asia	(8%)
China	(8%)
Europe	(2%)
LAM	(6%)
MEA	(11%)
Underlying*	(12%)
Div/FX	(16%)
Net	(28%)

Segment Results			
($M)	2014	2015	Chg.
Sales	$1,320	$945	(28%)
EBIT	$239	$136	(43%)
% of Sales	18.1%	14.4%	(370) bps
Restructuring	–	$14	
EBIT excl. Rest.*	$239	$150	(37%)
% of Sales*	18.1%	15.9%	(220) bps

- Fourth quarter sales reflected continued weakness in industrial spending, upstream oil and gas markets, and European demand
- Demand was down in all regions with North America down 20 percent, Europe down 2 percent and Asia down 8 percent
- Margins decreased reflecting volume deleverage, unfavorable mix, and increased restructuring
- Continue to evaluate potential divestitures of the Motors and Drives and Power Generation businesses

Market conditions to remain challenging in the near term, with an expectation of improvement in the second half of the fiscal year

Fourth Quarter 2015
Network Power

Sales % Chg. vs. PY	
NA	(10%)
Asia	(5%)
China	*(13%)*
Europe	10%
LAM	(3%)
MEA	1%
Underlying*	(4%)
Div/FX	(6%)
Net	(10%)

Segment Results			
($M)	2014	2015	Chg.
Sales	$1,362	$1,231	(10%)
EBIT	$173	$81	(53%)
% of Sales	12.7%	6.6%	(610) bps
Restructuring	$2	$33	
EBIT excl. Rest.*	$175	$114	(35%)
% of Sales*	12.8%	9.2%	(360) bps

- Mixed global demand for data center infrastructure and telecommunications investment
- Geographic results varied with Europe up 10 percent and North America down 10 percent
- Asia was down 5 percent as strong growth in India and Australia was more than offset by weakness in China
- Decreased margins reflect volume deleverage and a significant increase in restructuring
- Expect spinoff to be substantially complete by the end of fiscal 2016

Demand to remain mixed by geography

Fourth Quarter 2015
Climate Technologies

Sales % Chg. vs. PY	
NA	(3%)
Asia	(10%)
China	*(27%)*
Europe	3%
LAM	(13%)
MEA	11%
Underlying*	(5%)
FX	(3%)
Net	(8%)

Segment Results			
($M)	2014	2015	Chg.
Sales	$1,091	$1,004	(8%)
EBIT	$194	$180	(8%)
% of Sales	17.8%	17.9%	10 bps
Restructuring	$3	$12	
EBIT excl. Rest.*	$197	$192	(3%)
% of Sales*	18.1%	19.1%	100 bps

- North America was down 3 percent, impacted by challenging year-over-year comparisons stemming from the U.S. residential air conditioning 2014 industry pre-build of approximately 1.2 million units
- Asia was down 10 percent as slowing demand in China more than offset growth in other regions
- Segment margin increased 10 basis points primarily supported by cost reductions and favorable materials cost containment

Global demand in the air conditioning and refrigeration markets is expected to remain favorable in 2016, supporting an outlook for modest growth

Fourth Quarter 2015
Commercial & Residential Solutions

Sales % Chg. vs. PY	
NA	2%
Asia	3%
China	*9%*
Europe	8%
LAM	(5%)
MEA	7%
Underlying*	3%
Other/FX	(4%)
Net	(1%)

Segment Results			
($M)	2014	2015	Chg.
Sales	$506	$502	(1%)
EBIT	$117	$111	(5%)
% of Sales	23.2%	22.2%	(100) bps
Restructuring	–	$6	
EBIT excl. Rest.*	$117	$117	–
% of Sales*	23.3%	23.4%	10 bps

- Growth benefited from favorable trends in U.S. construction
- Growth in food waste disposers and wet/dry vacuums was substantially offset by a decline in the professional tools business
- Margins were down 100 basis points; up 10 basis points excluding impact from higher restructuring expense

Favorable trends in U.S. construction markets are expected to continue, supporting the outlook for moderate levels of growth in 2016

Fiscal Year 2016 Outlook

- **Difficult market conditions to continue as fiscal 2016 begins**
  - Strong headwinds in core served industrial markets through first 6 to 9 months
- **2016 net sales expected to decline 6 to 8 percent**
  - Underlying sales* down approximately 2 to 5 percent, excluding negative currency translation and a deduction from completed divestitures of approximately 2 percent each
  - Q1 expected underlying sales down approximately 10 percent, excluding negative currency and divestitures of approximately 6 percent
- **Cost structure alignment and strategic portfolio repositioning will remain a key focus for fiscal 2016**
  - Restructuring expenses expected to be $50 to $70M in 2016, with most in the 1st half
  - Estimated expenses of approximately $300 to $400M related to spinoff of Network Power and potential divestitures of the Motors and Drives and Power Generation businesses
- **Increased level of evaluation and acquisition of key strategic assets**
- **Adjusted* earnings per share expected to be $3.05 to $3.25, excluding portfolio repositioning costs**
- **Continued commitment to return cash flow to our shareholders**
  - Increased first quarter dividend to annualized rate of $1.90/share
  - Board of Directors approved new program authorizing repurchase of 70M shares

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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).

Earnings before interest and taxes	Q4 2014	Q4 2015	Change
Earnings before interest and taxes (EBIT)*	$863	$ 1,041	21%
Interest expense, net	(47)	(45)	1%
Pretax earnings	$816	$ 996	22%

EBIT margin	Q4 2014	Q4 2015	Q4 '14 vs. Q4 '15
EBIT margin*	12.7%	17.9%	520 bps
Interest expense, net	(0.7)	(0.8)	(10) bps
Pretax margin	12.0%	17.1%	510 bps

Q4 earnings per share	2014	2015	Change
Reported	$0.58	$0.98	69%
Gains on divestitures	-	(0.13)	-
Network Power spinoff costs	-	0.08	-
Goodwill impairment	0.72 `	-	-
Adjusted*	$1.30	$0.93	(29)%

EBIT margin	Q3 2015	Q4 2015	Q3 '15 vs. Q4 '15
EBIT margin*	15.2%	17.9%	270 bps
Interest expense, net	(0.7)	(0.8)	(10) bps
Pretax margin	14.5%	17.1%	260 bps

2016E sales change	2016E	Q1 2016E
Underlying*	~(5)-(2)%	~ (10)%
Acq/Div	~(2)%	~ (3)%
FX	~(2)%	~ (3)%
Reported	~(8)-(6)%	~(16)%

2015 earnings per share	2014	2015	Change
Reported	$3.03	$3.99	32%
Gains on divestitures	-	(0.90)	-
Network Power spinoff costs	-	0.08	-
Goodwill impairment	0.72	-	-
Adjusted*	$3.75	$3.17	(15)%

2016E earnings per share	2016E
Adjusted*	$3.05 to $3.25
Repositioning costs	($0.55 to $0.40)
Reported	$2.50 to $2.85

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