



# Second Quarter 2019 Earnings Conference Call

May 7, 2019

EMERSON

#### Safe Harbor Statement

*Our commentary and responses to your questions may contain forward-looking statements, including our outlook for the third and fourth quarters, 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.*

# Second Quarter 2019 Results

## SUMMARY

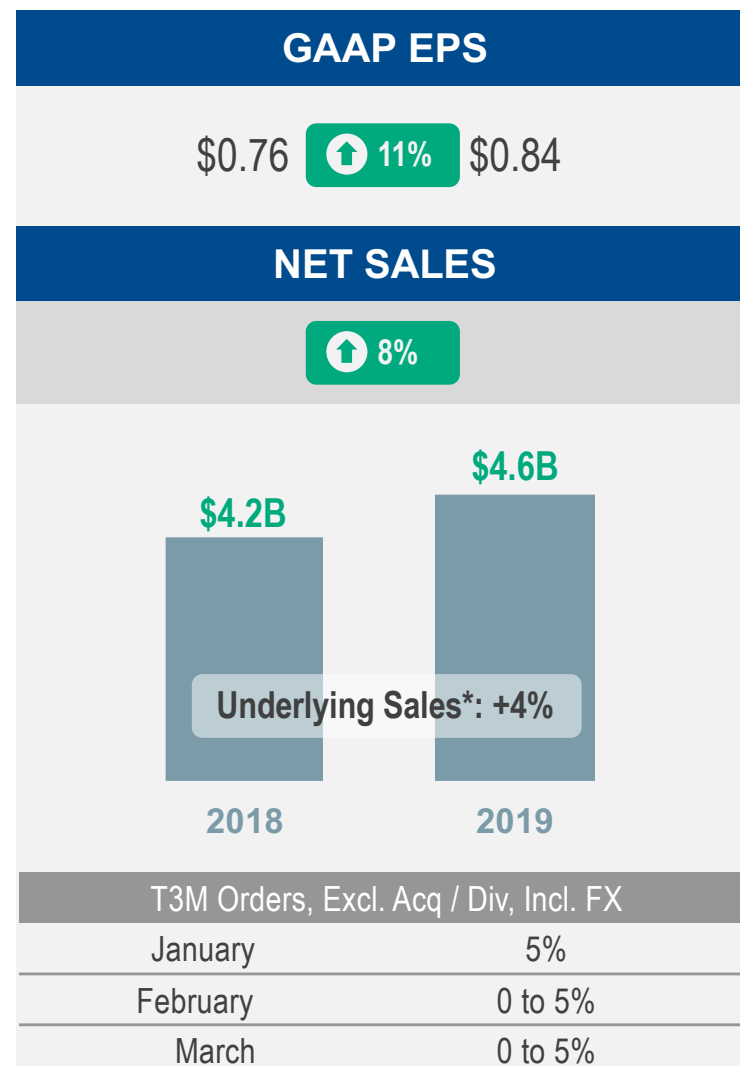
Demand remained healthy, some pockets of softness

- Automation Solutions +7% underlying\*
  - Sales healthy across all world areas, broad-based
  - Softness in discrete manufacturing end markets; Orders weakened in N.A. upstream oil & gas
- Commercial & Residential Solutions flat underlying\*
  - U.S. HVAC solid; China trends improving, but down y-o-y
  - Rest of Asia weaker; N.A. headwinds distributor inventory build and slower consumer/residential markets
- March 3-month underlying orders +4%

EPS \$0.84, in line with guidance, helped by discrete tax benefits and lower than expected corporate expense

Operating cash flow \$533M, up 7%

Returned \$1.6B to shareholders year to date, including \$1B of share repurchases



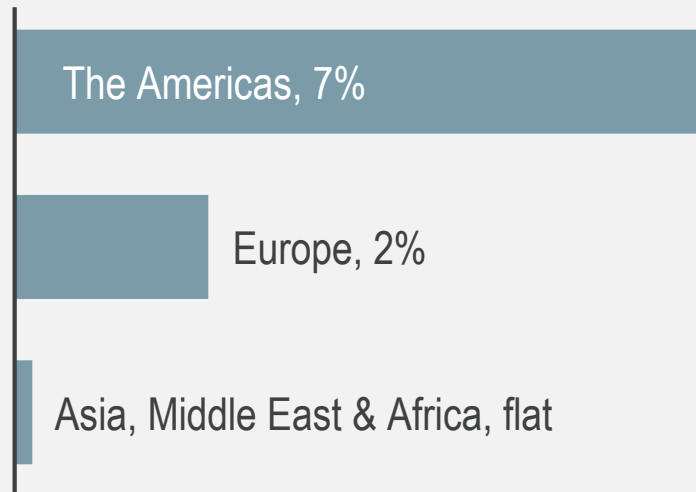
SECOND QUARTER EPS WAS IN LINE WITH MANAGEMENT'S EXPECTATIONS ON SOMEWHAT LOWER SALES, HELPED BY TAXES AND LOWER CORPORATE SPEND

# Second Quarter 2019, P&L Summary

(\$M EXCEPT EPS)	2018	2019	Chg.	
Sales	\$4,248	\$4,570	8%	Underlying sales* +4%
Gross profit	\$1,817	\$1,925	6%	
% of sales	42.8%	42.1%	(70) bps	Unfav. business sales mix, recent acq dilution, \$7M acq accounting charges
SG&A expense	(\$1,035)	(\$1,145)		
Other deductions, net	(\$88)	(\$57)		Lower acquisition/divestiture costs
EBIT*	\$694	\$723	4%	
% of sales*	16.3%	15.8%	(50) bps	+50 bps excl. recent acquisitions*
Tax Rate	25.8%	22.3%		~2 pts of favorable discrete items
Shares	636.0	618.1		
GAAP EPS	\$0.76	\$0.84	11%	Driven by solid underlying growth, lower taxes and lower corporate expense

# Underlying Sales Second Quarter and First Half 2019

## SECOND QUARTER UNDERLYING SALES GROWTH



Underlying sales*	4%
Acquisitions	6 pts
FX impact	(2) pts
Net sales	8%

## FIRST HALF UNDERLYING SALES GROWTH

7%

2%

(1%)

4%

6 pts

(2) pts

8%



HEALTHY DEMAND CONTINUED IN KEY END MARKETS GLOBALLY;  
IN ASIA, AUTOMATION SOLUTIONS REMAINED STRONG +9% WHILE COMMERCIAL  
& RESIDENTIAL SOLUTIONS IMPROVED BUT REMAINED NEGATIVE (13%)

# Second Quarter 2019, Business Segment Earnings & Cash Flow

(\$M)	2018	2019	CHG.	
Business segment EBIT*	\$785	\$772	(2%)	
% of sales*	18.5%	16.9%	(160) bps	(70) bps excluding Aventics, Tools & Test and GE Intelligent Platforms acquisitions*
Accounting methods	\$55	\$65		
Corporate & other	(\$146)	(\$114)		Lower acq/div related costs
Interest expense, net	(\$36)	(\$48)		
Pretax earnings	\$658	\$675	3%	
% of sales	15.5%	14.8%	(70) bps	
Operating cash flow	\$497	\$533	7%	
Capital expenditures	(\$98)	(\$119)		Timing of large-scale facility projects to support growth
Free cash flow*	\$399	\$414	3%	
Trade working capital	\$3,035	\$3,254		
% of sales	17.9%	17.7%	(20) bps	Improved Receivables and Payables performance



# Second Quarter 2019 Automation Solutions

## UNDERLYING SALES CHANGE VS. PY

The Americas	9%
Europe	1%
Asia, Middle East & Africa	6%
Automation Solutions	7%
FX Impact	(3) Pts
Acq Impact	5 pts
Reported Net Sales	9%

Sales broadly healthy with slower discrete end markets; KOB mix stable across MRO, brownfield and greenfield

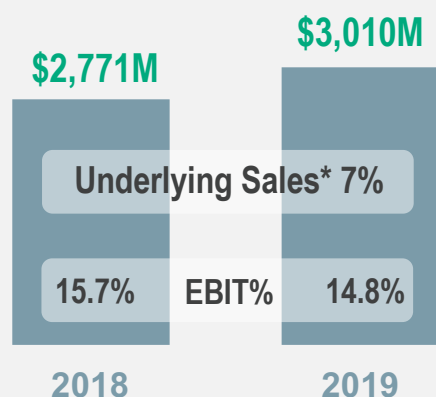
China remained strong – up 11% Q2, up 13% first half

Long-cycle Systems business accelerated on project bookings, driving backlog up 5%

Margin (90) bps including 80 bps dilution from the Aventics and GE acquisitions. Impacted by timing of investments, FX losses and unfavorable mix.

## REPORTED NET SALES

↑ 9%



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

January 5 to 10%

February 5%

March 0 to 5%

March 3-month underlying orders were up 7%



Q2 SALES HEALTHY, ORDERS POINT TO A PAUSE IN U.S. UPSTREAM;  
LOWERED HIGH END OF UNDERLYING SALES RANGE TO 5 TO 7 PERCENT;  
RIGHT-SIZING INVESTMENTS AND OTHER ACTIONS TO DELIVER ~16.5% MARGIN

# Second Quarter 2019 Commercial & Residential Solutions

## UNDERLYING SALES CHANGE VS. PY

The Americas	4%
Europe	2%
Asia, Middle East & Africa	(15%)
Commercial & Residential Solutions	flat
FX Impact	(2) pts
Acq Impact	7 pts
Reported Net Sales	5%

Solid demand in North America HVAC; Global professional tools markets remain favorable

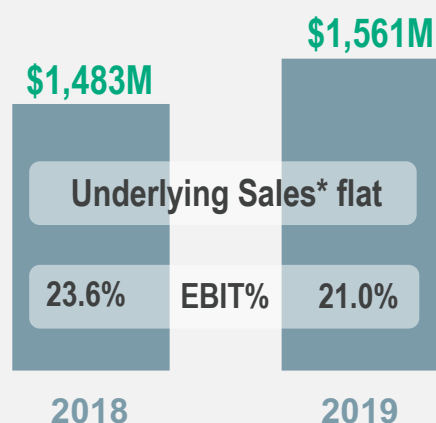
China trends improved as expected, but Southeast Asia and Middle East slowed

Europe demand remained stable

Margin (260) bps including 110 bps dilution from the Tools & Test acquisition. Sequential leverage was over 40% on ~\$220M higher sales

## REPORTED NET SALES

↑ 5%



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

January -5 to 0%

February 0%

March -5 to 0%

March 3-month underlying orders were flat



ASIA RECOVERY IS BEHIND PLAN BUT TRENDS ARE IMPROVING;  
REDUCING FULL YEAR UNDERLYING SALES TARGET TO ~2%;  
TAKING ACTIONS TO PROTECT FULL YEAR MARGIN TARGET ~22%



# 2019 Outlook

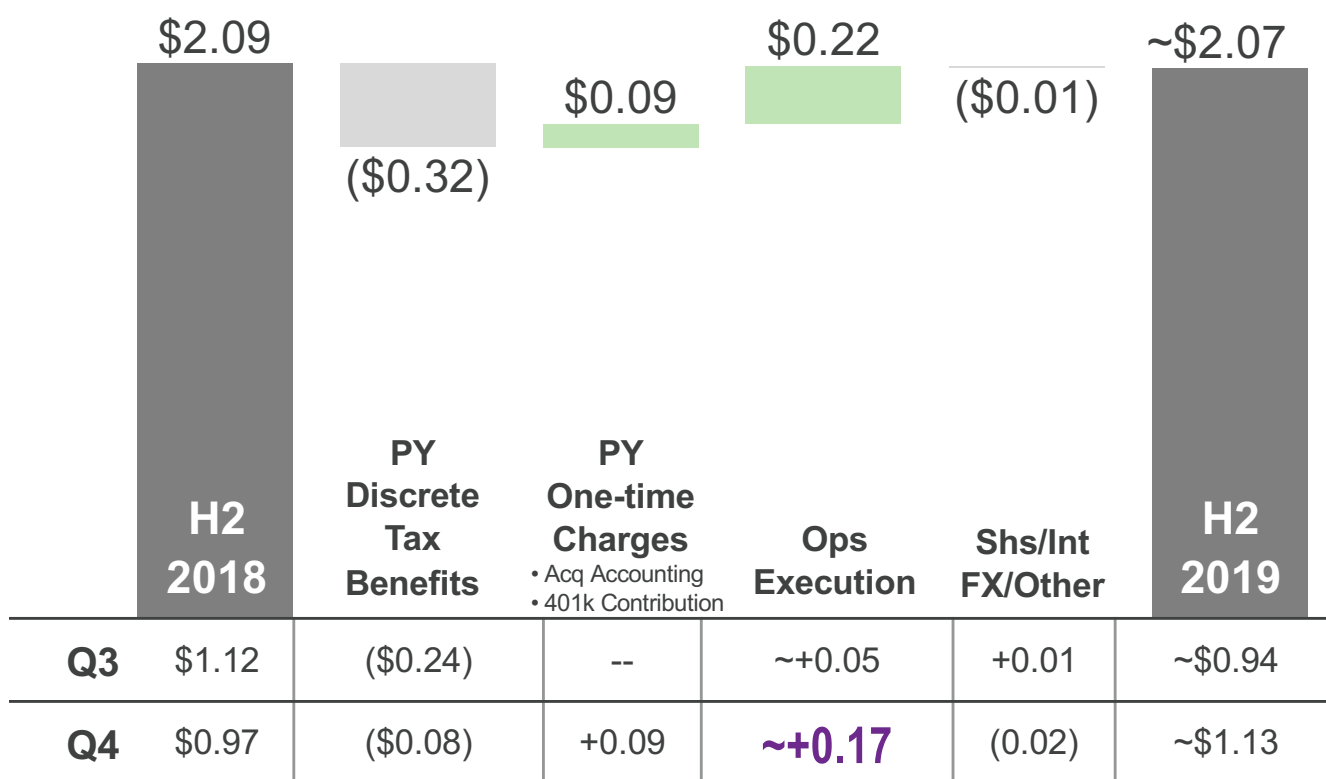
	Earnings Call Feb 5, 2019	Updated Guidance May 7, 2019
<b>Net Sales Growth</b> Automation Solutions Commercial & Residential Solutions	7% to 10% 7% to 10% 8% to 10%	7% to 8.5% 7% to 9% ~7%
<b>Underlying Sales* Growth</b> Automation Solutions Commercial & Residential Solutions	4% to 7% 5% to 8% 3% to 5%	4% to 5.5% 5% to 7% ~2%
<b>GAAP EPS</b> Tax Rate	\$3.60 to \$3.75 24 to 25%	\$3.60 to \$3.70 ~23%
<b>Operating Cash Flow</b> Capex Free Cash Flow Conversion*	\$3.2B \$650M >100%	\$3.2B \$650M >100%
<b>Q3 Sales Growth Net / Underlying*</b> <b>Q3 GAAP EPS</b> % change vs. PY		~9% / ~4.5% ~\$0.94 (16%)
<b>Q4 Sales Growth Net / Underlying*</b> <b>Q4 GAAP EPS</b> % change vs. PY		~6.5% / ~5.5% ~\$1.13 +16%

+7%  
excl. PY tax  
benefit\*



LOWERED HIGH END OF SALES AND EPS RANGES FOR SLOWER GROWTH IN CERTAIN SHORT CYCLE END MARKETS;  
CAPITAL SPENDING CYCLE REMAINS HEALTHY, LONG-TERM OUTLOOK INTACT

# Second Half 2019 GAAP EPS Bridge



~\$0.08  
Q4 Ops EPS Contribution

Volume leverage  
Price-Cost / Tariff Tailwind  
Lower Investments / Discretionary  
Benefit of Accelerated Restructuring

## Automation Solutions Core Sequential Leverage Excl. Aventics & GE Acquisitions

	FY18	FY19E
Q2/Q1	25%	25%
Q3/Q2	60%	~40% → ~45%
Q4/Q3	30%	~55%

Ex. ~\$8M accelerated restructuring net impact

## Commercial & Resi Soln's Core Sequential Leverage Excl. Tools & Test Acquisition

	FY18	FY19E
Q2/Q1	43%	42%
Q3/Q2	34%	~45%
Q4/Q3	(66%)	~(35%)

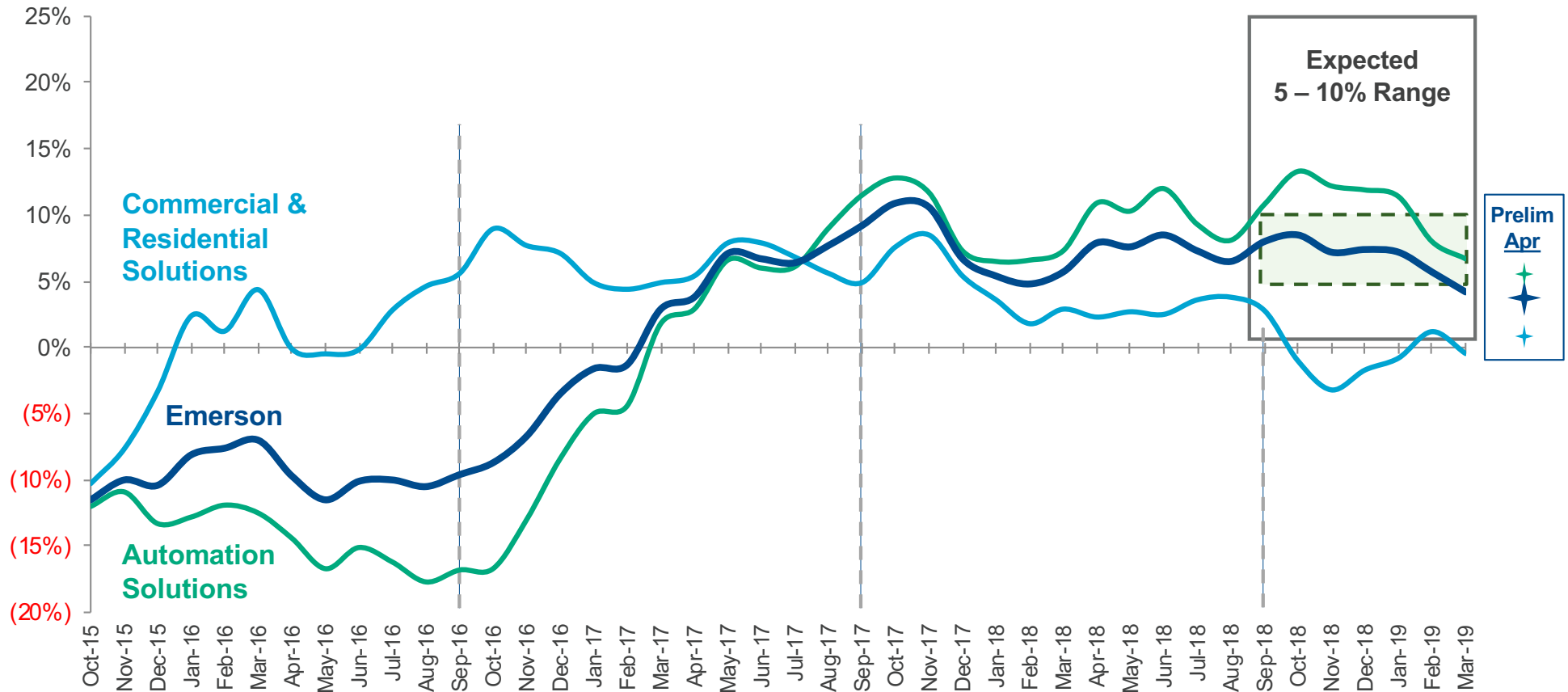
Note Q4 Seasonal volume decline



**STRONG SECOND HALF EPS CONTRIBUTION DRIVEN BY HIGHER VOLUME LEVERAGE, PRICE-COST TAILWIND, LAPPING OF SEC 301 TARIFF IMPACT, LOWER INVESTMENTS AND ACCELERATED RESTRUCTURING ACTIONS**

# Total Emerson Underlying Order Trends

## Trailing 3-Month Average vs. Prior Year



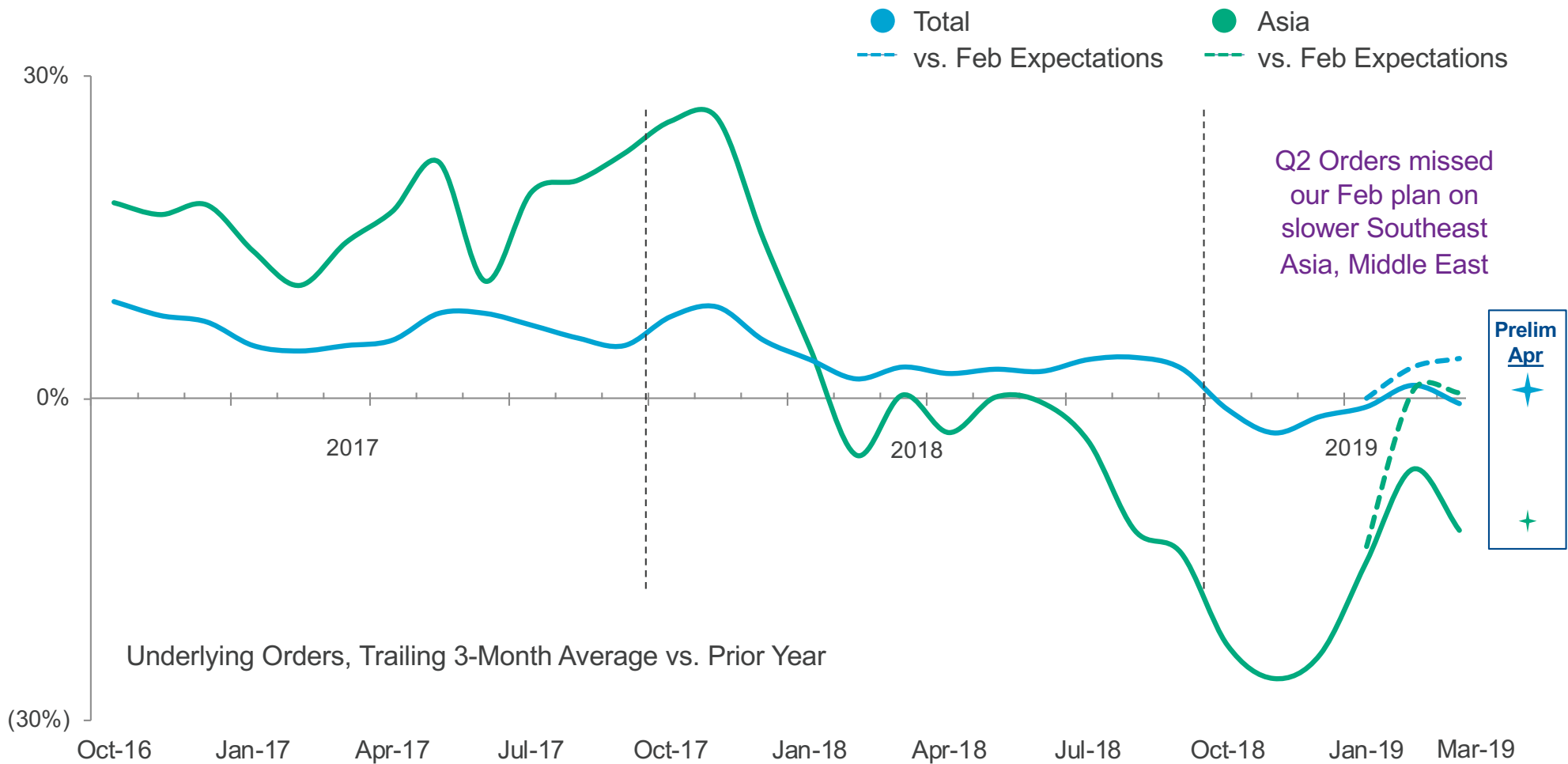
Orders data includes the Valves & Controls acquisition results on a pro forma basis for all periods. The acquisition closed April 28, 2017.



Q2'19 MARKED TWO YEARS OF STRONG UNDERLYING ORDERS GROWTH; MARCH UNDERLYING ORDERS IMPACTED BY A PAUSE IN N.A. UPSTREAM OIL & GAS; EXPECT TO MOVE BACK ABOVE 5 PERCENT IN THE THIRD QUARTER

# Global Commercial & Residential Solutions

## Underlying Order Trends



MARCH TRAILING 3-MONTH AVERAGE UNDERLYING ORDERS WERE FLAT — PLATFORM ORDERS EXPECTED TO IMPROVE IN THE SECOND HALF

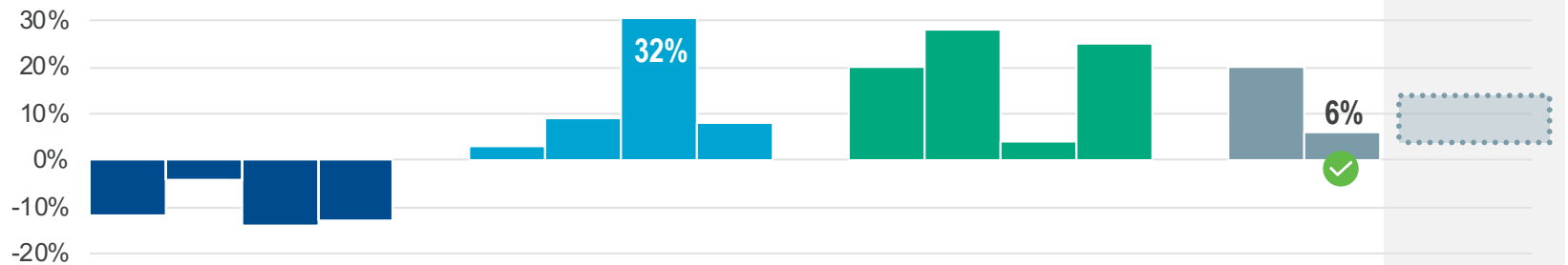
# China Growth Has Remained Strong Outside of Heating & Cooling Correction

China Destination Sales (Quarterly YoY Growth %)

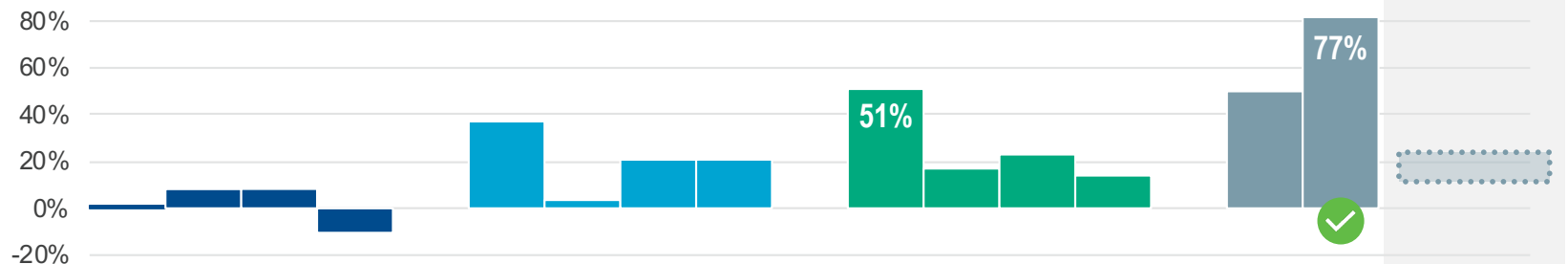
HEATING & COOLING



COLD CHAIN\*



TOOLS & HOME PRODUCTS



2016















2017

2018

2019

\*Excluding Marine

# Key Served Market Verticals Largely Showing Steady Growth; Weakness in Asia, Middle East & Africa and Consumer/Residential Products as Headwinds

MARKET SEGMENT	2019	VS. FEB EXPECTATION	DYNAMICS
North America Heating & Cooling			Solid Market and Participation Dynamics Provide Confidence
North America Cold Chain			Mixed Performance Across Food Retail, Transport, Food Service and Industrial, with Acquisitions Uplift
Global Professional Tools			Broad Strength Globally; Some Moderation in US During Q2 Attributed to Weather and Labor Shortages; Monitoring Construction Indicators
China			Strength in Cold Chain and Tools & Home Products Offset by Continued Year-over-Year Declines in AC and Heating; Trend Remains Encouraging
Asia excl. China and MEA			First Half did not Develop as Expected, and Looking for Improving Trend in Second Half
Europe			Continue to Deliver Solid Growth in a Moderate Market, Driven by Solutions and Innovation
Latin America			On Track for another Solid Year of Growth

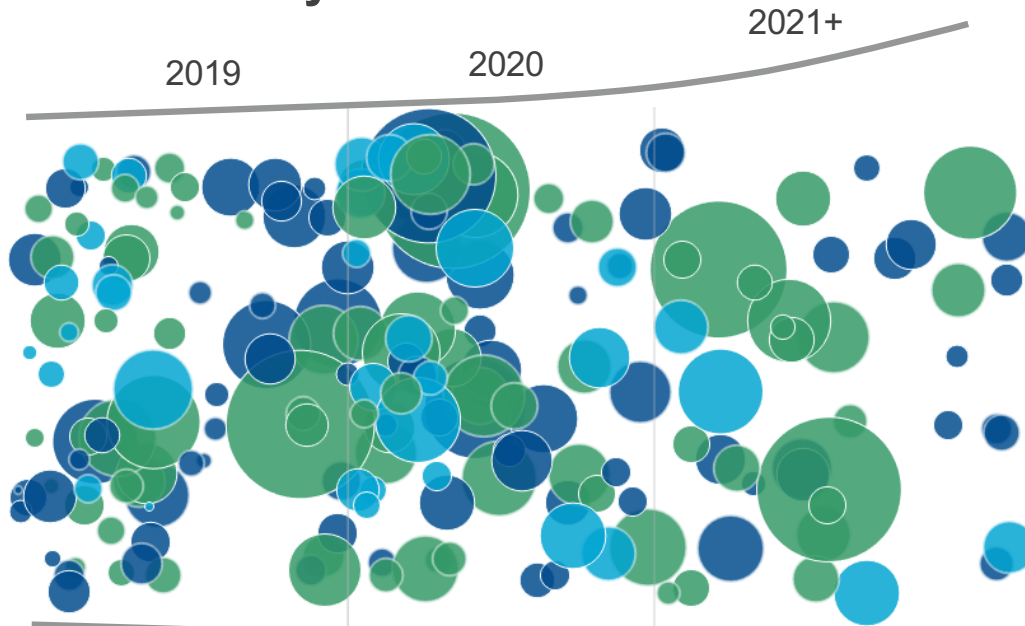


ENERGY EFFICIENCY, REGULATIONS, NEW REFRIGERANTS, FOOD SAFETY & QUALITY CONTINUE AS DRIVERS FOR SERVED MARKET GROWTH



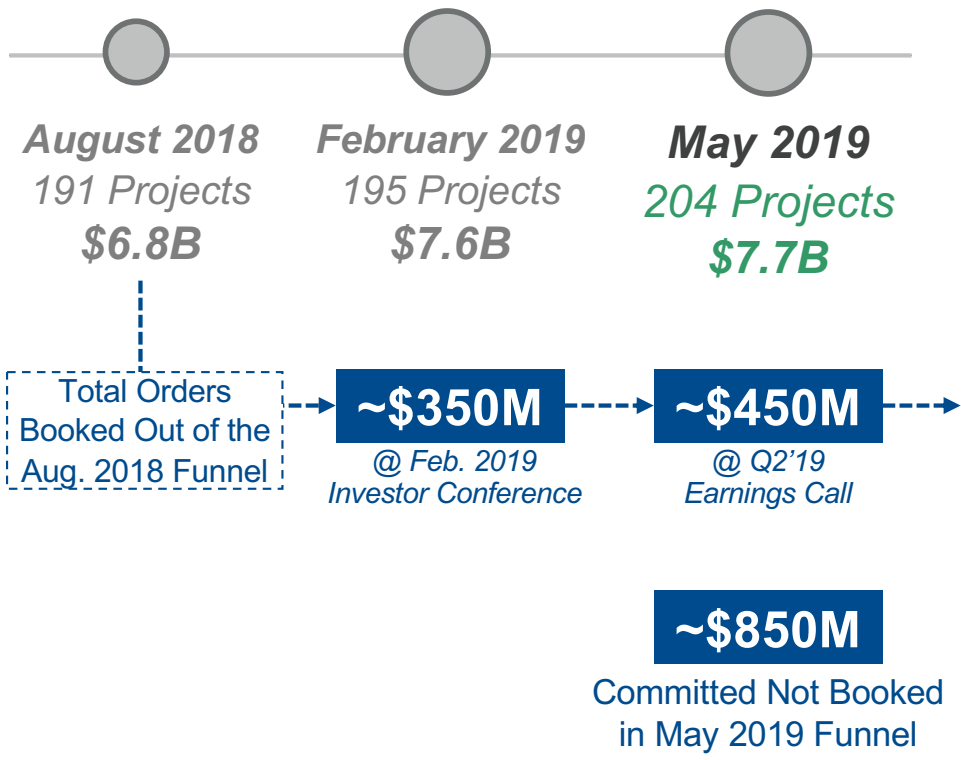
# Long-term Outlook Remains Intact -- Large Project Funnel Robust With Additional Commitments to Emerson

## Investment Decision Dates By Destination



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

**\$4.5B** Aug 2018 | **Total Automation Solutions Backlog** | **\$4.9B** Mar 2019



**GROWTH OF LONG-CYCLE BACKLOG AND HEALTHY PROJECT FUNNEL SUPPORTS VISIBILITY AND SALES GROWTH INTO 2020**

# International Process & Hybrid Markets Continue to Grow; Softness in North America Oil & Gas and Global Discrete

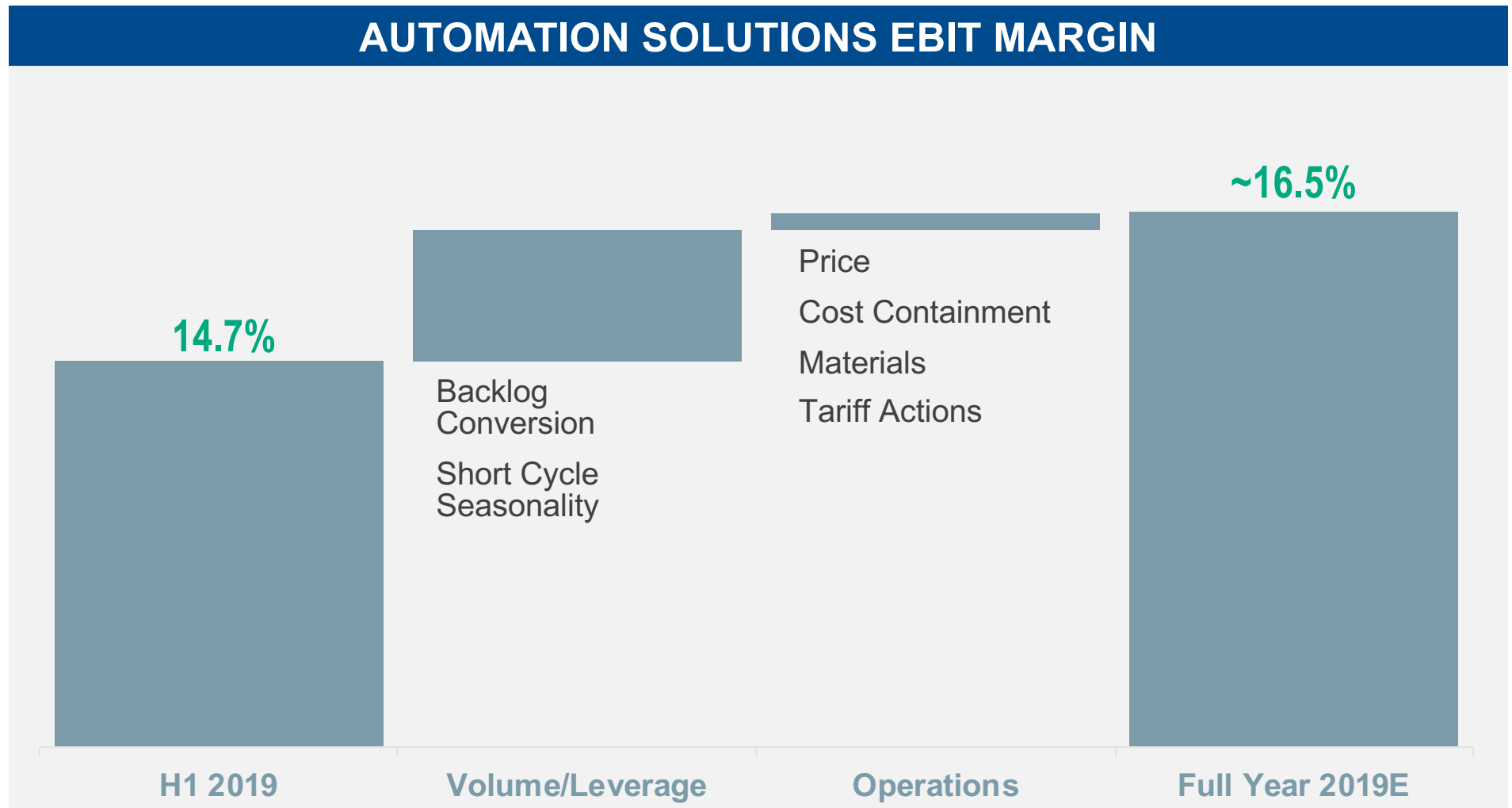
WORLD AREA	2019	VS. FEB EXPECTATION	2019 Global Automation Market  3-4%	KEY	MARKET GROWTH
Americas					≥4%
Europe					1-3%
Asia, Middle East & Africa					≤(4)%

## NORTH AMERICA INDUSTRY DYNAMICS

PROCESS & HYBRID	2019	vs. Feb Expectation	INVESTMENT TRENDS
Oil & Gas – Upstream			Independents fiscal discipline slowed Q2 spending from strong Q1 levels, expect modest improvement in H2
Oil & Gas – Midstream			Liquefied Natural Gas (LNG) projects continue to reach investment decisions; onshore pipeline build continues
Refining & Chemical			Petrochemical investments in US Gulf Coast remain robust; refining MRO and turnaround spend up slightly
Hybrid			Metals & Mining and Life Science biologics investments driving automation demand

DISCRETE MANUFACTURING	2019	vs. Feb Expectation	INVESTMENT TRENDS
Automotive			Continued weakness, but expect to stabilize in H2
Other Discrete			Semicon and Industrial & Commercial softness offset by Packaging and Specialty Machinery markets

# Automation Solutions Margin Expansion Through Backlog Conversion, Short Cycle Business, Cost Actions



SECOND HALF VOLUME SUPPORTED BY MODEST IMPROVEMENT IN NORTH AMERICA GROWTH AND INCREASING KOB1 SHIPMENTS  
FULL YEAR SEGMENT MARGIN REMAINS IN FEBRUARY GUIDANCE RANGE 16-17%

# 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)

<b>Q2 2019 Underlying Sales Change</b>	<b>Comm &amp; Res</b>		
	<b>Auto Solns</b>	<b>Solns</b>	<b>Emerson</b>
Reported (GAAP)	9%	5%	8%
(Favorable) / Unfavorable FX	3%	2%	2%
Acquisitions	(5)%	(7)%	(6)%
Underlying*	7%	-%	4%

<b>Six Months Ended Q2 2019 Underlying Sales Change</b>	<b>Emerson</b>		
	Reported (GAAP)		
(Favorable) / Unfavorable FX			2%
Acquisitions			(6)%
Underlying*			4%

<b>FY 2019E Underlying Sales Change</b>	<b>Comm &amp; Res</b>		
	<b>Auto Solns</b>	<b>Solns</b>	<b>Emerson</b>
Reported (GAAP)	7 - 9%	~ 7%	7 - 8.5%
(Favorable) / Unfavorable FX	~ 2%	~ 1%	~ 2%
Acquisitions	~ (4)%	~ (6)%	~ (5)%
Underlying*	5 - 7%	~ 2%	4 - 5.5%

<b>Quarterly Guidance Underlying Sales Change</b>	<b>Q3 2019E</b>	<b>Q4 2019E</b>
	Reported (GAAP)	~ 9%
(Favorable) / Unfavorable FX	~ 1.5%	~ 0%
Acquisitions	~ (6)%	~ (1)%
Underlying*	~ 4.5%	~ 5.5%

# 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>Auto Solns</b>	<b>Comm &amp; Res Solns</b>	<b>Emerson</b>
<b>FY 2019E February Prior Guidance Underlying Sales Change</b>			
Reported (GAAP)	7 - 10%	8 - 10%	7 - 10%
(Favorable) / Unfavorable FX	~ 2%	~ 1%	~ 2%
Acquisitions	~ (4)%	~ (6)%	~ (5)%
Underlying*	5 - 8%	3 - 5%	4 - 7%
<b>EBIT</b>	<b>Q2 FY18</b>	<b>Q2 FY19</b>	<b>Change</b>
Pretax earnings (GAAP)	\$ 658	\$ 675	3%
Interest expense, net	36	48	1%
Earnings before interest and taxes*	\$ 694	\$ 723	4%
<b>EBIT Margin</b>	<b>Q2 FY18</b>	<b>Q2 FY19</b>	<b>Change</b>
Pretax margin (GAAP)	15.5%	14.8%	(70) bps
Interest expense, net	0.8%	1.0%	20 bps
Earnings before interest and taxes margin*	16.3%	15.8%	(50) bps
Acquisitions impact	-	1.0%	100 bps
Earnings before interest and taxes margin excluding acquisitions*	16.3%	16.8%	50 bps
<b>Business Segment EBIT</b>	<b>Q2 FY18</b>	<b>Q2 FY19</b>	<b>Change</b>
Pretax margin (GAAP)	15.5%	14.8%	(70) bps
Corp. & other, differences in accounting methods & interest expense, net % of sales	3.0%	2.1%	(90) bps
Business segment EBIT margin*	18.5%	16.9%	(160) bps
Acquisitions impact	-	0.9%	90 bps
Business segment EBIT margin excluding acquisitions*	18.5%	17.8%	(70) bps



# 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)

## Earnings Per Share

	<u>Q3 FY18</u>	<u>Q3 FY19E</u>	<u>Change</u>
Earnings per share (GAAP)	\$ 1.12	\$ 0.94	(16)%
Benefit from the Tax Cuts and Jobs Act	(0.24)	-	23%
Earnings per share excluding tax benefit related to the Tax Cuts and Jobs Act*	\$ 0.88	\$ 0.94	7%

## Cash Flow

	<u>Q2 FY18</u>	<u>Q2 FY19</u>	<u>Change</u>	<u>FY19E</u>
Operating cash flow (GAAP)	\$ 497	\$ 533	7%	\$ ~ 3,200
Capital expenditures	(98)	(119)	(4)%	(650)
Free cash flow*	\$ 399	\$ 414	3%	\$ ~ 2,500

## Cash Flow to Net Earnings Conversion

	<u>FY19E</u>
Operating cash flow conversion (GAAP)	~ 140%
Capital expenditures	~ (40)
Free cash flow conversion*	> ~ 100%

## Cold Chain China Sales

	<u>Q3 FY17</u>	<u>Q2 FY19</u>
Cold Chain China sales (GAAP)	39%	(5)%
Marine impact	(7)%	11%
Cold Chain China sales excluding Marine*	32%	6%

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.