

# Fourth Quarter 2018 Earnings Conference Call

November 6, 2018

### Safe Harbor Statement

*Our commentary and responses to your questions may contain forward-looking statements, including our outlook for the first quarter and 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, including, among others, the impact of the Tax Cuts and Jobs Act, 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.*

# Fiscal Year 2018 Results

	NOV '17 GUIDANCE	ACTUAL
<b>Net Sales Growth</b>	8% – 10%	<b>14%</b>
Automation Solutions	14% – 16%	<b>21%</b>
Commercial & Residential Solutions	(1%) – 1%	<b>2%</b>
<b>Underlying Sales* Growth</b>	4% – 6%	<b>8%</b>
Automation Solutions	5% – 7%	<b>10%</b>
Commercial & Residential Solutions	3% – 5%	<b>4%</b>
<b>GAAP EPS</b>	\$2.66 to \$2.86	<b>\$3.46</b> Incl. \$0.30 Tax Reform adoption-related items
<b>Operating Cash Flow</b>	\$2.8B	<b>\$2.9B</b>



2018 RESULTS MET OR EXCEEDED INITIAL OUTLOOK ON EVERY METRIC;  
RETURN ON TOTAL CAPITAL ABOVE 20%

# Fourth Quarter 2018 Results

## SUMMARY

Strong market conditions continued

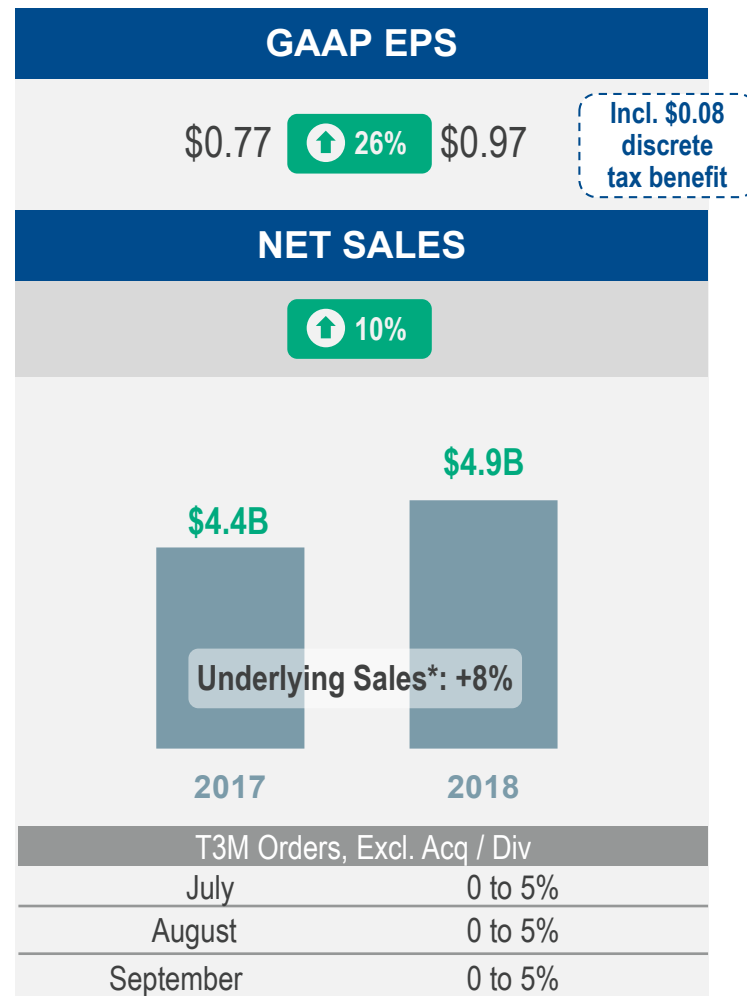
- Mature markets +7% underlying
- Emerging markets +8% underlying
- September 3-month underlying orders +8%

EPS was \$0.89 excl. a discrete tax benefit\*, up 16%

Solid cash flow generation

- Operating Cash Flow \$1.0B, up 13%
- Free Cash Flow conversion\* >125% excl. non-cash discrete tax benefit

Returned more than \$300M to shareholders  
Announced GE Intelligent Platforms acquisition



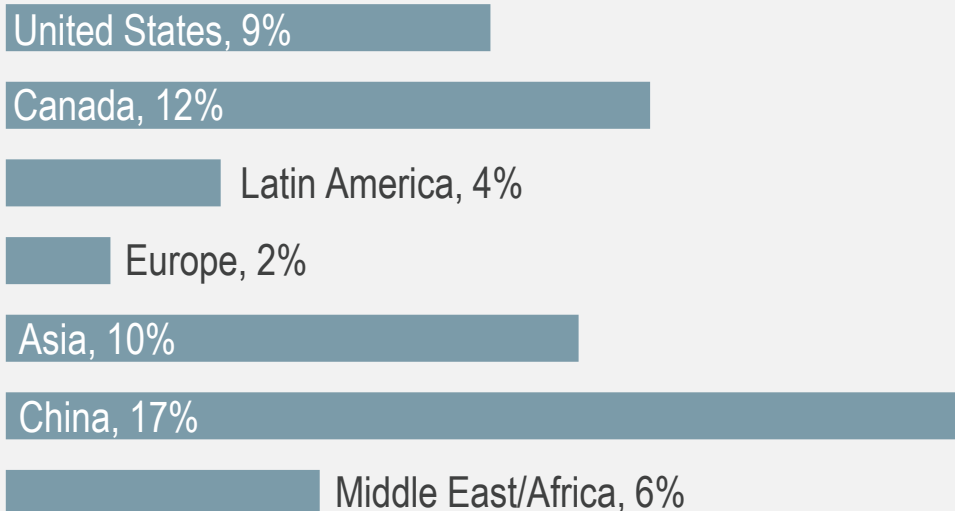
EMERSON HAD A STRONG CLOSE TO 2018, WITH FOURTH QUARTER RESULTS AT THE HIGH END OF GUIDANCE

# Fourth Quarter 2018, P&L Summary

(\$M EXCEPT EPS)	2017	2018	Chg.	
Sales	\$4,435	\$4,888	10%	Underlying sales* +8%
Gross profit	\$1,804	\$2,065	14%	
% of sales	40.7%	42.2%	+150 bps	
SG&A expense	(\$997)	(\$1,180)		
Other deductions, net	<u>(\$83)</u>	<u>(\$101)</u>		
EBIT*	\$724	\$784	8%	Incl. one-time 401(k) contribution and recent acquisitions
% of sales*	16.3%	16.0%	(30) bps	
Shares	640.5	631.9		
GAAP EPS, Continuing Ops	\$0.77	\$0.97	26%	Incl. \$0.08 discrete tax benefit
GAAP EPS	\$0.78	\$0.97	24%	Incl. discontinued operations in Q4'17

# Underlying Sales Fiscal Year and Fourth Quarter 2018

## FULL YEAR 2018 UNDERLYING SALES GROWTH



Underlying sales*	8%
Acq/Div	5 pts
FX impact	1 pt
Net sales	14%

## FOURTH QUARTER UNDERLYING SALES GROWTH

10%
9%
10%
2%
9%
13%
3%
8%
4 pts
(2) pts
10%



BROAD-BASED MOMENTUM CONTINUED IN THE FOURTH QUARTER WITH GROWTH ACROSS ALL WORLD AREAS

# Fourth Quarter 2018, Business Segment Earnings & Cash Flow

(\$M)	2017	2018	CHG.	
Business segment EBIT*	\$852	\$934	10%	
% of sales*	19.2%	19.1%	(10) bps	+70 bps excluding Aventics, Tools & Test acquisitions*
Accounting methods	\$42	\$55		
Corporate & other	(\$170)	(\$205)		Incl. acquisition accounting charges, one-time 401(k) contribution
Interest expense, net	<u>(\$39)</u>	<u>(\$46)</u>		
Pretax earnings	\$685	\$738	8%	
% of sales	15.5%	15.1%	(40) bps	
Operating cash flow <i>from continuing operations</i>	\$905	\$1,024	13%	Strong profitability and working capital performance
Capital expenditures	(\$176)	(\$303)		Increased capex investments support growth, new products and productivity programs
Free cash flow* <i>from continuing operations</i>	\$729	\$721	(1%)	
Trade working capital	\$3,014	\$3,229		
% of sales	17.0%	16.5%	(50) bps	Receivables collection performance and inventory management

# Fourth Quarter 2018 Automation Solutions

## UNDERLYING SALES CHANGE VS. PY

North America	11%
Asia	11%
<i>China</i>	16%
Europe	2%
Latin America	12%
Middle East/Africa	7%
Automation Solutions	9%
FX Impact	(2) pts
Acq Impact	4 pts

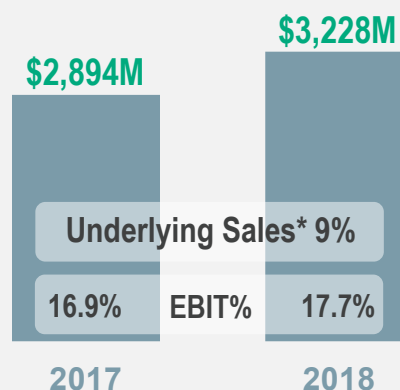
North America growth driven by oil & gas markets and investment activity in other key verticals, such as chemical, life sciences and mining.

Asia remained strong, driven mainly by investments in China and India

Margin increased +80 bps. and was up +140 bps excluding the Aventics acquisition\* on leverage, restructuring benefits and favorable mix

## REPORTED SALES

↑ 11%



2017

2018

### T3M Orders, Excl. Acq / Div

July 0 to 5%

August 0 to 5%

September 0 to 5%

September 3-month underlying orders were up 11%



STRONG MRO DEMAND AND BROWNFIELD INVESTMENT ACTIVITY CONTINUED IN Q4'18, WITH NORTH AMERICA AND ASIA DRIVING 9% UNDERLYING SALES\* GROWTH



# Fourth Quarter 2018 Commercial & Residential Solutions

## UNDERLYING SALES CHANGE VS. PY

North America	8%
Asia	3%
<i>China</i>	8%
Europe	4%
Latin America	5%
Middle East/Africa	(16%)
Commercial & Residential Solutions	5%
FX Impact	(1) pt
Acq/Div Impact	3 pts

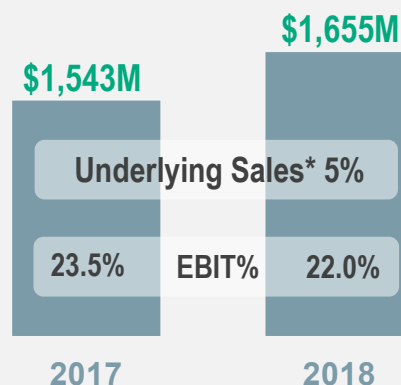
North America strong demand in commercial and residential air conditioning, cold chain and professional tools

China HVACR demand was solid  
Demand across the rest of Asia was mixed

Margin (150) bps. as material and other inflation was partially offset by higher price, leverage and cost reduction actions.

## REPORTED SALES

↑ 7%



### T3M Orders, Excl. Acq / Div

July	0 to 5%
August	0 to 5%
September	0 to 5%
September 3-month underlying orders were up 3%	



THE GLOBAL PACE OF BUSINESS WAS STEADY IN THE FOURTH QUARTER, WITH THE U.S. AND CHINA CONTINUING TO LEAD

# Fiscal Year 2019 and Q1 Outlook

## GUIDANCE UPDATE

Current order trends support expected continued strong underlying growth

5 – 9% EPS Growth versus \$3.38 (excl. \$0.08 Q4'18 tax benefit\*)

\$0.20+ 2019 EPS Headwind  
→ Discrete tax benefits net of one-time charges in 2018

~30% Segment Incremental Margins, excl. Aventics and Tools & Test acquisitions

### **Net Sales Growth 6 – 9%**

Acquisitions Impact +4%

FX Impact (2%), ~(\$330M) net sales drag

### **Underlying Sales\* Growth 4 – 7%**

Automation Solutions 5 – 8%

Commercial & Residential Solutions 3 – 5%

### **GAAP EPS \$3.55 to \$3.70**

Tax Rate 25%

\$1B Share Repurchase Target

Does not include GE Intelligent Platforms acquisition

### **Operating Cash Flow \$3.2B**

### **Free Cash Flow\* \$2.5B, >100% Conversion**

### **Q1'19 GAAP EPS \$0.65 +/- \$0.02**

Net Sales Growth 10 – 11%

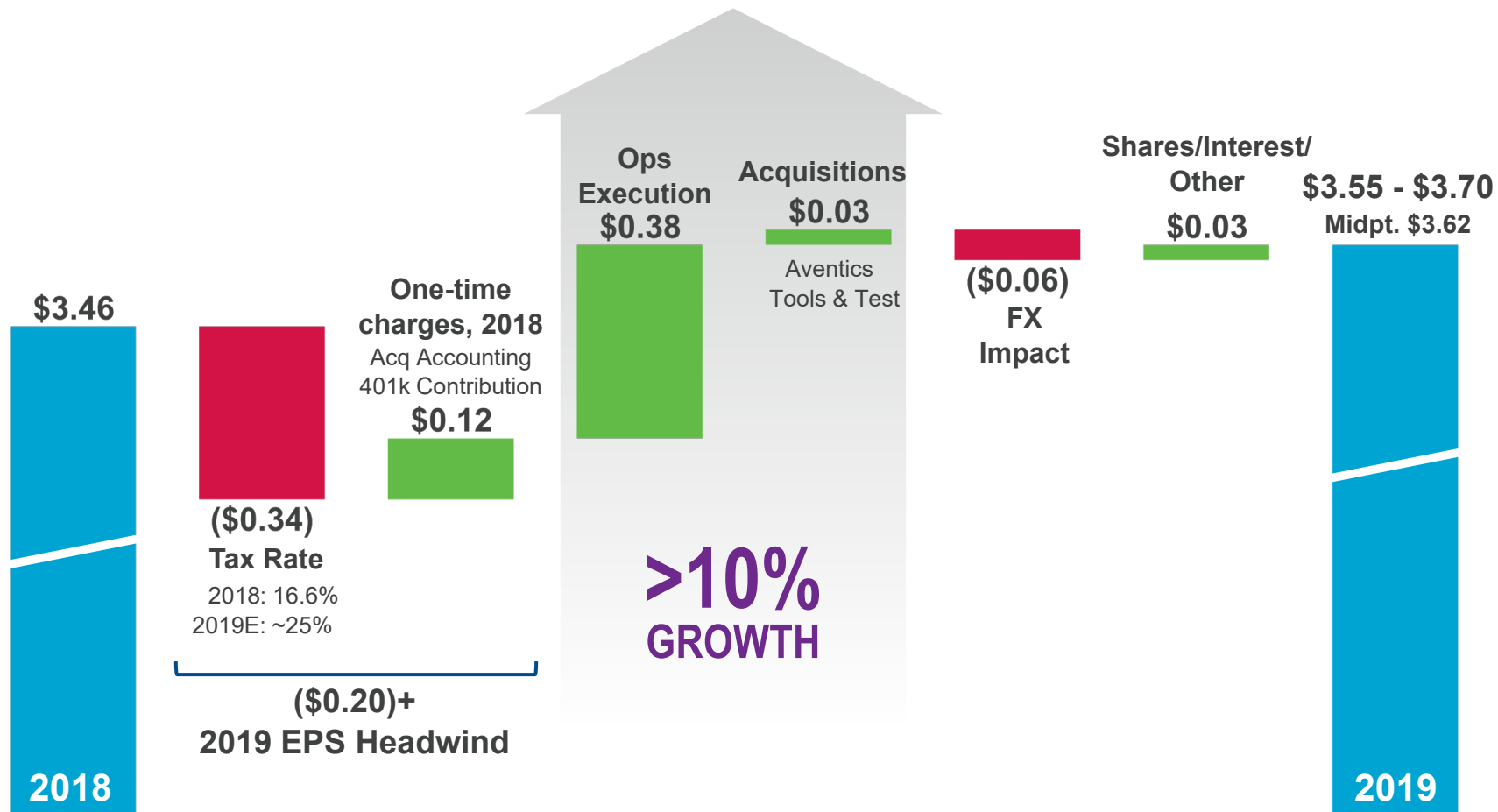
Underlying Sales\* Growth 6 – 7%

EBIT Margin Down due to Acquisitions



FIRMLY ON THE PATH LAID OUT AT OUR FEBRUARY'18 INVESTOR CONFERENCE  
TO REACH \$4.50 EPS IN 2021

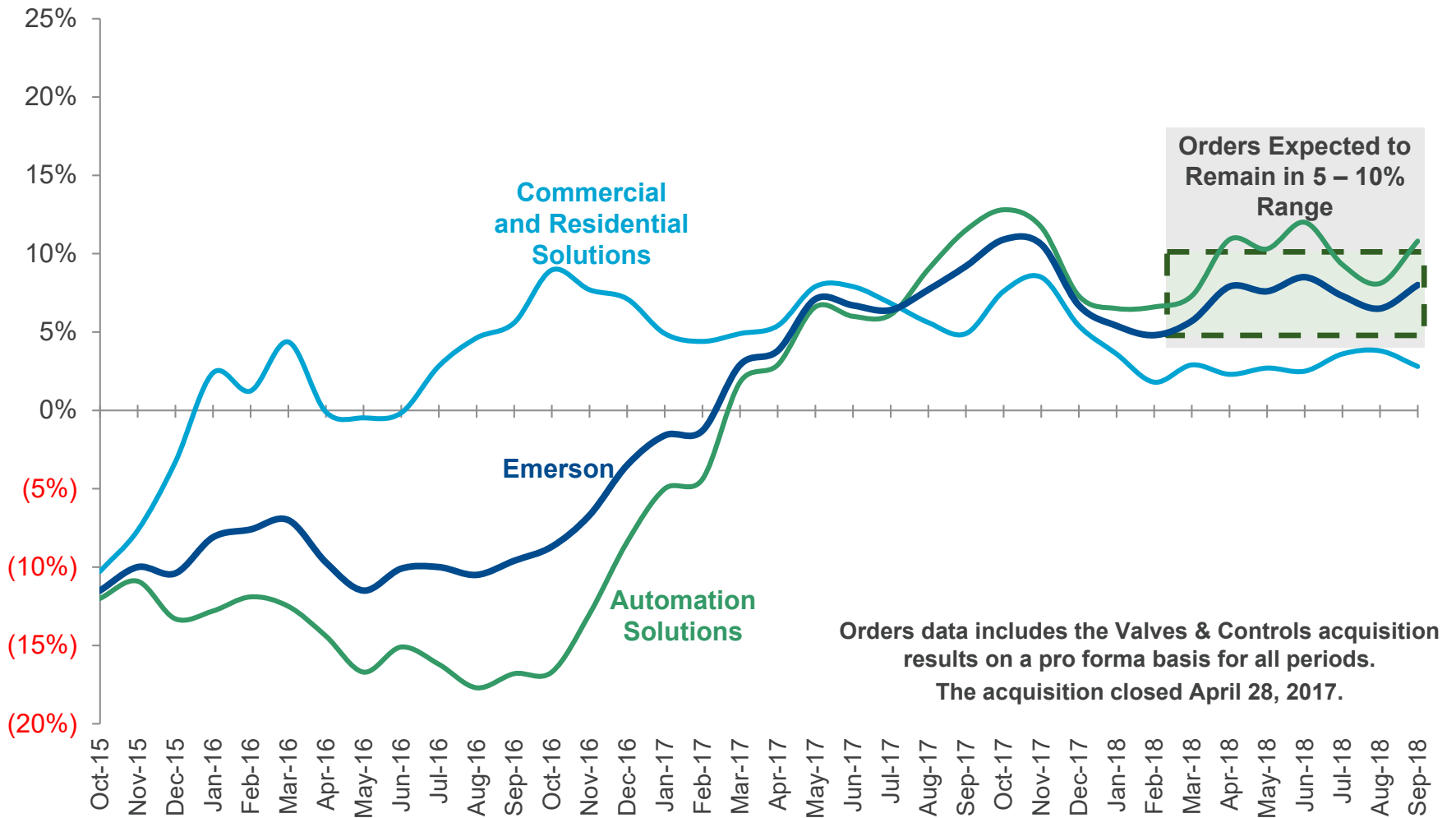
# 2019 GAAP EPS Bridge



UNDERLYING GROWTH, OPS EXECUTION AND ACQUISITIONS DRIVE OVER 40 CENTS OF EPS IN 2019

# Total Emerson Underlying Order Trends

## Trailing 3-Month Average vs. Prior Year



UNDERLYING ORDERS MOMENTUM PROVIDES A STRONG SET-UP FOR 2019

# 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>Auto Solns</b>	<b>Comm &amp; Res Solns</b>	<b>Emerson</b>
<b>FY 2018 Underlying Sales Change</b>			
Reported (GAAP)	21%	2%	14%
(Favorable) / Unfavorable FX	(1)%	(1)%	(1)%
Acquisitions/Divestitures	(10)%	3%	(5)%
Underlying*	10%	4%	8%
	<b>Auto Solns</b>	<b>Comm &amp; Res Solns</b>	<b>Emerson</b>
<b>Q4 2018 Underlying Sales Change</b>			
Reported (GAAP)	11%	7%	10%
(Favorable) / Unfavorable FX	2%	1%	2%
Acquisitions/Divestitures	(4)%	(3)%	(4)%
Underlying*	9%	5%	8%
	<b>Auto Solns</b>	<b>Comm &amp; Res Solns</b>	<b>Emerson</b>
<b>FY 2018E <u>November Prior Guidance</u> Underlying Sales Change</b>			
Reported (GAAP)	14 - 16%	(1) - 1%	8 - 10%
(Favorable) / Unfavorable FX	~ (1)%	~ (1)%	~ (1)%
Acquisitions/Divestitures	~ (8)%	~ 5%	~ (3)%
Underlying*	5 - 7%	3 - 5%	4 - 6%

# 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 Guidance Underlying Sales Change</b>			
Reported (GAAP)	~ 6 - 9%	~ 8 - 10%	~ 6 - 9%
(Favorable) / Unfavorable FX	~ 2%	~ 1%	~ 2%
Acquisitions/Divestitures	~ (3)%	~ (6)%	~ (4)%
Underlying*	~ 5 - 8%	~ 3 - 5%	~ 4 - 7%

	<b>Emerson</b>
<b>Q1 2019E Guidance Underlying Sales Change</b>	
Reported (GAAP)	~ 10 - 11%
(Favorable) / Unfavorable FX	~ 2%
Acquisitions/Divestitures	~ (6)%
Underlying*	~ 6 - 7%

	<b>Q4 FY17</b>	<b>Q4 FY18</b>	<b>Change</b>
<b>EBIT</b>			
Pretax earnings (GAAP)	\$ 685	\$ 738	8%
Interest expense, net	39	46	-
Earnings before interest and taxes*	\$ 724	\$ 784	8%

	<b>Q4 FY17</b>	<b>Q4 FY18</b>	<b>Change</b>
<b>EBIT Margin</b>			
Pretax margin (GAAP)	15.5%	15.1%	(40) bps
Interest expense, net	0.8%	0.9%	10 bps
Earnings before interest and taxes margin*	16.3%	16.0%	(30) 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)

## Business Segment EBIT

	<u>Q4 FY17</u>	<u>Q4 FY18</u>	<u>Change</u>
Pretax margin (GAAP)	15.5%	15.1%	(40) bps
Corp. & other, differences in accounting methods & interest expense, net % of sales	3.7%	4.0%	30 bps
Business segment EBIT margin*	<u>19.2%</u>	<u>19.1%</u>	<u>(10) bps</u>
Aventics and Tools & Test acquisitions impact	-	0.8%	80 bps
Business segment EBIT margin excluding Aventics and Tools & Test acquisitions*	19.2%	19.9%	70 bps

## Automation Solutions Segment EBIT Margin

	<u>Q4 FY17</u>	<u>Q4 FY18</u>	<u>Change</u>
Automation Solutions Segment EBIT margin (GAAP)	16.9%	17.7%	80 bps
Aventics impact	-	0.6%	60 bps
Automation Solutions EBIT margin excluding Aventics*	<u>16.9%</u>	<u>18.3%</u>	<u>140 bps</u>

## Cash Flow From Continuing Operations

	<u>Q4 FY17</u>	<u>Q4 FY18</u>	<u>Change</u>	<u>FY19E</u>
Operating cash flow from continuing operations (GAAP)	\$ 905	\$ 1,024	13%	\$ ~ 3,200
Capital expenditures	(176)	(303)	(14)%	(650)
Free cash flow from continuing operations*	<u>\$ 729</u>	<u>\$ 721</u>	<u>(1)%</u>	<u>\$ ~ 2,500</u>



# Reconciliation of Non-GAAP Measures

## Cash Flow to Net Earnings Conversion

	<u>Q4 FY18</u>
Operating cash flow conversion	~ 166%
Capital expenditures	~ (49)%
Free cash flow conversion*	~ 117%
Discrete non-cash tax benefits	~ 8%
Free cash flow to net earnings, excluding discrete non-cash tax benefits	> ~ 125%

## Cash Flow to Net Earnings Conversion

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

## Earnings Per Share

	<u>Q4 FY17</u>	<u>Q4 FY18</u>	<u>Change</u>
Earnings per share from continuing operations (GAAP)	\$ 0.77	\$ 0.97	26%
Discrete tax benefit	-	(0.08)	(10)%
Earnings per share from continuing operations, excluding discrete tax benefit*	\$ 0.77	\$ 0.89	16%

## FY19 Earnings Per Share Guidance

	<u>FY18</u>	<u>FY19E</u>	<u>Change</u>
Earnings per share from continuing operations (GAAP)	\$ 3.46	~ \$3.55 - \$3.70	~ 3 - 7%
Discrete tax benefit	(0.08)	-	~ 2%
Earnings per share from continuing operations, excluding discrete tax benefit*	\$ 3.38	~ \$3.55 - \$3.70	~ 5 - 9%

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.