

# First Quarter 2018 Earnings Conference Call

February 6, 2018

### Safe Harbor Statement

*Given the complexities associated with the Tax Cuts and Jobs Act (the “Tax Act”), the ultimate effects on repatriation cost and other tax items may differ materially from the provisional amounts presented herein due to additional regulatory guidance that may be issued and further evaluation of the Company’s actions, assumptions and interpretations.*

*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 as filed with the SEC, as well as the impact of the Tax Act as described above.*

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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.*

# First Quarter 2018 Results

## SUMMARY

Demand remained favorable. Both business platforms delivered solid underlying sales and orders growth.

- December trailing 3-month underlying orders were up 7%
- Favorable demand continues to be broad-based across key end markets and geographies

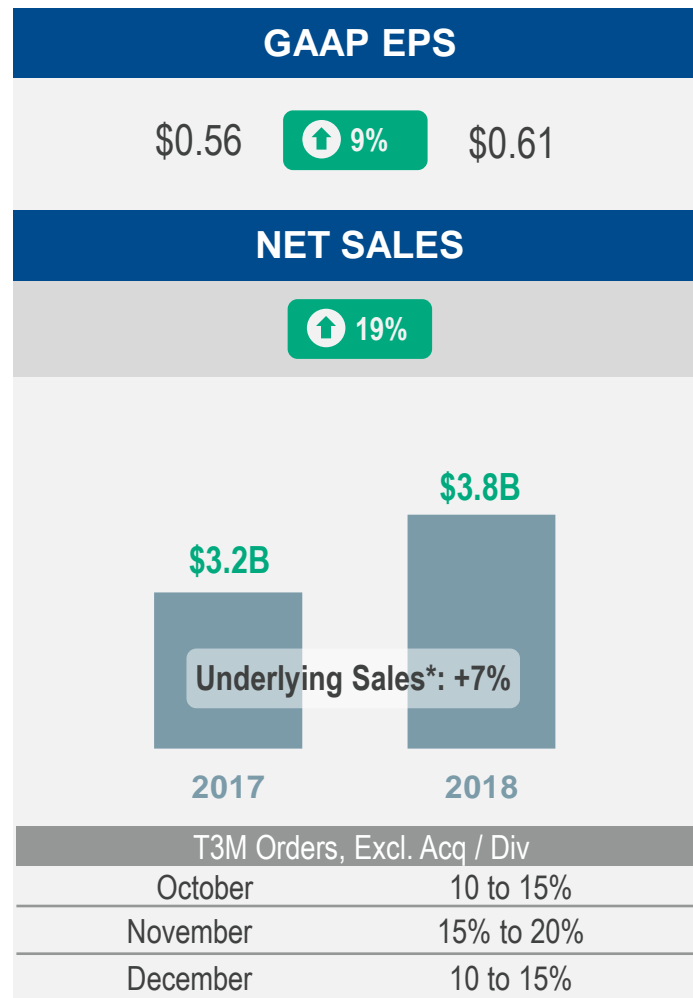
Gross margin was 42.5%, up 10 bps, or up 170 bps without V&C\*

EBIT margin without V&C\* was up 70 bps to 16.5%

GAAP EPS was \$0.61, up 9% and was up 18% excluding current and prior year tax items\*

Generated \$447M of operating cash flow from continuing operations, 12% of sales

Returned more than \$800M to shareholders



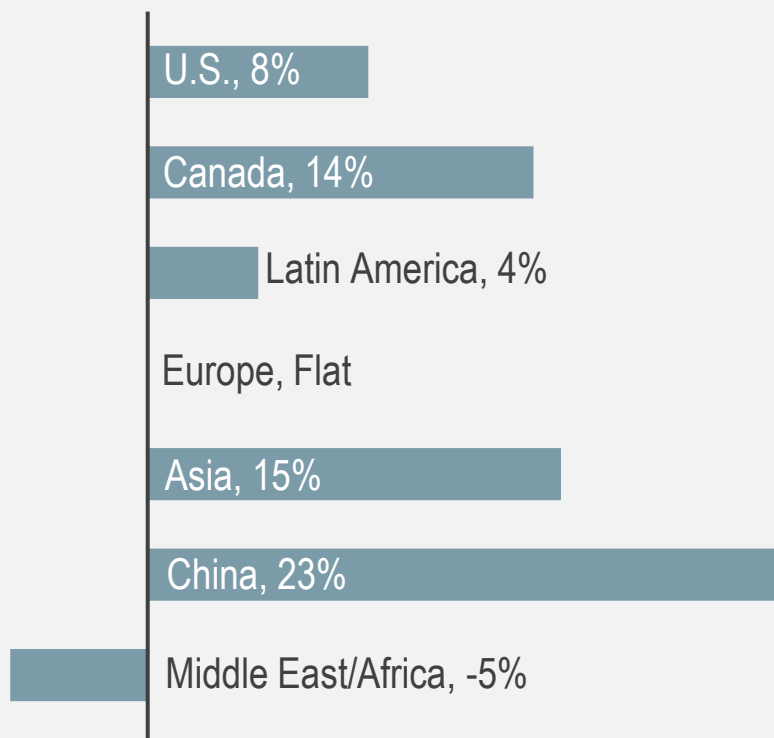
**STRONG OPERATIONAL PERFORMANCE TO START 2018  
BOTH PLATFORMS DELIVERED A SOLID QUARTER  
CONTINUED PROGRESS ON ACQUISITION INTEGRATION**

# First Quarter 2018, P&L Summary

(\$M EXCEPT EPS)	2017	2018	Chg.	
Sales	\$3,216	\$3,816	19%	Underlying sales* +7%
Gross profit	\$1,365	\$1,621	19%	
% of sales	42.4%	42.5%	+10 bps	+170 bps excluding V&C*
SG&A expense	(\$822)	(\$992)		
Other deductions, net	<u>(\$33)</u>	<u>(\$88)</u>		(\$15) V&C first year charges (\$22) FX
EBIT*	\$510	\$541	6%	
% of sales*	15.8%	14.2%	(160) bps	+70 bps excluding V&C*
Shares	644.3	640.5		
GAAP EPS, Continuing Ops	\$0.56	\$0.61	9%	Includes \$0.03 lower corp tax rate PY incl. \$0.07 income tax benefit
GAAP EPS	\$0.48	\$0.61	27%	Includes discontinued operations activity in Q1 '17

# First Quarter 2018, Underlying Sales

## UNDERLYING SALES\* CHANGE



Underlying sales*	7%
Acq/Div	9 pts
FX impact	3 pts
Net sales	19%



IMPROVEMENT IN GLOBAL DEMAND LED BY NORTH AMERICA AND ASIA  
EXPECT ALL KEY MARKETS TO BE POSTIVE IN THE SECOND QUARTER

# First Quarter 2018, Business Segment Earnings & Cash Flow

(\$M)	2017	2018	CHG.	
Business segment EBIT*	\$575	\$638	11%	
% of sales*	17.9%	16.7%	(120) bps	18.6% excl. V&C*, up 70 bps
Accounting methods	\$33	\$51		
Corporate & other	(\$98)	(\$148)		Includes \$25M V&C first year acquisition charges
Interest expense, net	<u>(\$46)</u>	<u>(\$38)</u>		
Pretax earnings	\$464	\$503	9%	
% of sales	14.4%	13.2%	(120) bps	
Operating cash flow <i>from continuing operations</i>	\$410	\$447	9%	
Capital expenditures	(\$100)	(\$96)		
Free cash flow* <i>from continuing operations</i>	\$310	\$351	13%	
Trade working capital	\$2,369	\$3,130		
% of sales	18.4%	20.5%	210 bps	Excluding V&C, TWC% improved 20 bps to 18.2%

# First Quarter 2018 Automation Solutions

## SALES % Chg. VS. PY

North America	14%
Asia	13%
<i>China</i>	22%
Europe	(1%)
Latin America	6%
Middle East/Africa	(7%)
FX Impact	3 pts
Acq Impact	19 pts

Underlying sales growth of 9% was led by North American energy-related and life sciences demand

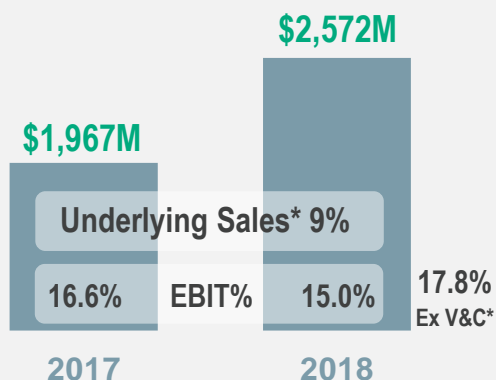
Asia growth was broad-based, driven by MRO spend and small and mid-sized projects

Margin decreased 160 bps. Excluding V&C,\* margin increased 120 bps.

December 3-month underlying orders were up 7%, positive across all world areas

## REPORTED SALES

↑ 31%



## T3M Orders, Excl. Acq / Div

October	15% to 20%
November	20%
December	15 to 20%



CONTINUED STRONG ORDERS GROWTH DRIVEN BY MRO SPEND AND DEMAND FOR UPGRADE AND OPTIMIZATION PROJECTS SUPPORTS INCREASED 2018 UNDERLYING SALES\* OUTLOOK OF 6 TO 8%



# First Quarter 2018 Commercial & Residential Solutions

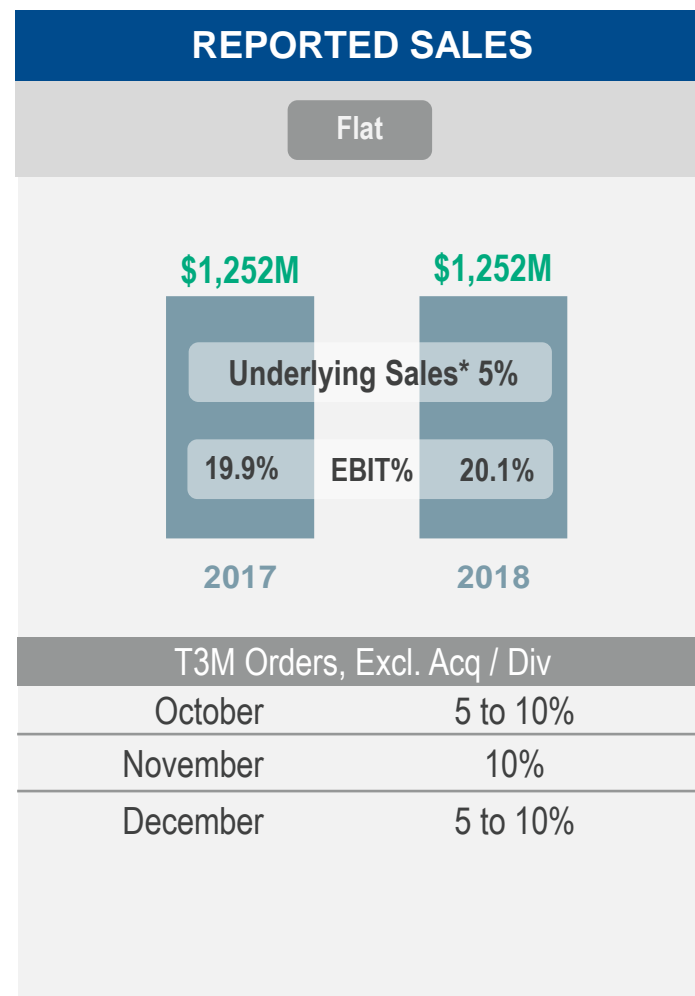
SALES % Chg. VS. PY	
North America	1%
Asia	17%
<i>China</i>	24%
Europe	1%
Latin America	1%
Middle East/Africa	4%
FX Impact	2 pts
Divestiture Impact	(7) pts

Asia strength was broad-based, driven by demand in air conditioning, heating and refrigeration markets

N.A. residential A/C slowed versus difficult comparisons; Demand for professional tools remained steady

Margin increased 20 bps. driven by leverage on higher sales and aided by the ClosetMaid divestiture; partially offset by a warranty charge.

December 3-month underlying orders were up 5%



CONTINUED FAVORABLE TRENDS IN GLOBAL HVACR AND CONSTRUCTION-RELATED MARKETS SUPPORT INCREASED 2018 UNDERLYING SALES\* OUTLOOK OF 4 TO 6%



# US Tax Reform Impact

## CONSOLIDATED EFFECTIVE TAX RATE WILL DECLINE

2018 Reduction

**3-5**  
points  **25-27%**

**EPS +0.15**

2019 Reduction

**~5**  
points  **25%**

**EPS +0.20**

## ADOPTION-RELATED ITEMS IN Q1 ARE A NET POSITIVE OF \$43M

Repatriation Tax (cash)	<b>(\$185M)</b>
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Reduction in net US deferred tax liability at lower 21% rate	<b>98M</b>
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Repatriation reserve Accrued during strategic repositioning in prior periods	<b>130M</b>
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Q1 Provisional Impact	<b>\$43M</b>
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Q1 EPS Impact	<b>+\$0.07</b>
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The only cash item is the repatriation tax – payable over 8 years beginning in FY2019



FIVE TO SIX POINTS RATE REDUCTION BY 2019;  
ADOPTION-RELATED ITEMS HAVE MINIMAL P&L AND CASH FLOW IMPACT

# 2018 EPS Guidance Bridge

	EPS Range	
	Low	High
<b>Adjusted EPS* Prior Guidance Nov 7, 2017</b>	<b>\$2.75</b>	<b>\$2.95</b>
Operational Improvement and Incr. Share Repurchases	0.15	0.05
Tax Act, lower U.S. corporate tax rate	0.15	0.15
Tax Act, adoption-related items (Q1)	0.07	0.07
V&C and ClosetMaid charges (Q1)	(0.07)	(0.07)
<b>GAAP EPS Guidance</b>	<b>\$3.05</b>	<b>\$3.15</b>



GAAP BASIS GUIDANCE GOING FORWARD  
TAX ACT ADOPTION ITEMS AND OTHER CHARGES ARE OFFSETTING

# 2018 Outlook

	Earnings Call Nov 7, 2017	Updated Guidance Feb 6, 2018
<b>Net Sales Growth</b>	<b>8% to 10%</b>	<b>11% to 13%</b>
Automation Solutions	14% to 16%	18% to 20%
Commercial & Residential Solutions	(1%) to 1%	1% to 3%
<b>Underlying Sales* Growth</b>	<b>4% to 6%</b>	<b>5% to 7%</b>
Automation Solutions	5% to 7%	6% to 8%
Commercial & Residential Solutions	3% to 5%	4% to 6%
<b>GAAP EPS</b>	<b>\$2.66 to \$2.86</b>	<b>\$3.05 to \$3.15</b>
% change vs. PY Cont. Ops. incl. Tax Reform	- N/A -	20% to 24%
% change vs. PY Cont. Ops. excl. Tax Reform*	5% to 13%	11% to 15%
<b>Operating Cash Flow</b>	<b>\$2.8B</b>	<b>\$2.9B</b>
Capex	~\$550M	~\$575M
Free Cash Flow Conversion*	>100%	~120%
<b>Q2 Sales Growth Net / Underlying*</b>		<b>~18% / ~7%</b>
<b>Q2 GAAP EPS</b>	- N/A -	<b>~\$0.70</b>
% change vs. PY		21%



INCREASED FULL-YEAR GUIDANCE REFLECTS STRONGER OPERATIONAL PERFORMANCE, INCREASED SHARE REPURCHASE AND THE FAVORABLE IMPACT OF U.S. TAX REFORM

# 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>Q1 2018 Underlying Sales Change</b>			
Reported (GAAP)	31%	-	19%
FX	(3)%	(2)%	(3)%
Acquisitions/Divestitures	(19)%	7%	(9)%
Underlying*	9%	5%	7%

		<b>Emerson</b>
<b>Q2 FY 2018E Underlying Sales Change</b>		
Reported (GAAP)		~ 18%
FX		(3)%
Acquisitions/Divestitures		(8)%
Underlying*		~ 7%

	<b>Auto Solns</b>	<b>Comm &amp; Res Solns</b>	<b>Emerson</b>
<b>FY 2018E Underlying Sales Change</b>			
Reported (GAAP)	18 - 20%	1 - 3%	11 - 13%
FX	~ (3)%	~ (2)%	~ (2)%
Acquisitions/Divestitures	~ (9)%	~ 5%	~ (4)%
Underlying*	6 - 8%	4 - 6%	5 - 7%

	<b>Auto Solns</b>	<b>Comm &amp; Res Solns</b>	<b>Emerson</b>
<b>FY 2018E <u>Prior Guidance</u> Underlying Sales Change</b>			
Reported (GAAP)	14 - 16%	(1) - 1%	8 - 10%
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>Gross Margin</b>	<b>Q1 FY17</b>	<b>Q1 FY18</b>	<b>Change</b>
Gross margin (GAAP)	42.4%	42.5%	10 bps
Valves & Controls impact	-	1.6%	160 bps
Gross margin excluding Valves & Controls*	42.4%	44.1%	170 bps

<b>EBIT</b>	<b>Q1 FY17</b>	<b>Q1 FY18</b>	<b>Change</b>
Pretax earnings (GAAP)	\$ 464	\$ 503	9%
Interest expense, net	46	38	(3)%
EBIT*	\$ 510	\$ 541	6%

<b>EBIT Margin</b>	<b>Q1 FY17</b>	<b>Q1 FY18</b>	<b>Change</b>
Pretax margin (GAAP)	14.4%	13.2%	(120) bps
Interest expense, net	1.4%	1.0%	(40) bps
EBIT margin*	15.8%	14.2%	(160) bps
Valves & Controls impact	-	2.3%	230 bps
EBIT margin excluding Valves & Controls*	15.8%	16.5%	70 bps

<b>Business Segment EBIT</b>	<b>Q1 FY17</b>	<b>Q1 FY18</b>	<b>Change</b>
Pretax margin (GAAP)	14.4%	13.2%	(120) bps
Corp. & other, differences in accounting methods & interest expense, net % of sales	3.5%	3.5%	- bps
Business segment EBIT margin*	17.9%	16.7%	(120) bps
Valves & Controls impact	-	1.9%	190 bps
Business segment EBIT margin excluding Valves & Controls*	17.9%	18.6%	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)

<b>Automation Solutions Segment EBIT Margin</b>	<b>Q1 FY17</b>	<b>Q1 FY18</b>	<b>Change</b>
Automation Solutions Segment EBIT margin (GAAP)	16.6%	15.0%	(160) bps
Valves & Controls impact	-	2.8%	280 bps
Automation Solutions EBIT margin excluding Valves & Controls*	16.6%	17.8%	120 bps

<b>Earnings Per Share</b>	<b>Q1 FY17</b>	<b>Q1 FY18</b>	<b>Change</b>
Earnings per share from continuing operations (GAAP)	\$ 0.56	\$ 0.61	9%
Benefit of lower U.S. corporate tax rate	-	(0.03)	
Prior year income tax benefit	(0.07)	-	
Earnings per share from continuing operations, excluding benefit of lower U.S. corporate tax rate & a prior year income tax benefit*	\$ 0.49	\$ 0.58	18%

<b>Earnings Per Share</b>	<b>FY17</b>	<b>FY18E</b>	<b>Change</b>
Earnings per share from continuing operations (GAAP)	\$ 2.54	\$3.05 - \$3.15	20% - 24%
U.S. government tax reform impact	-	~ (0.22)	(9)%
Earnings per share from continuing operations excluding tax reform*	\$ 2.54	\$2.83 - \$2.93	11% - 15%



# 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>FY 2018E <u>Prior Guidance</u> Earnings Per Share</b>	<b>FY17</b>	<b>FY18E</b>	<b>Change</b>
Earnings per share from continuing operations (GAAP)	\$ 2.54	\$2.66 - \$2.86	5% - 13%
Valves & Controls first year acquisition accounting charges		~ \$0.03	
Loss on ClosetMaid divestiture		~ \$0.06	
Earnings per share from continuing operations excluding Valves & Controls first year acquisition accounting charges & loss on ClosetMaid divestiture*		\$2.75 - \$2.95	
	<b>Prior Guidance</b>		
<b>Free Cash Flow Conversion</b>	<b>FY18E</b>	<b>FY18E</b>	
Operating Cash Flow Conversion (GAAP)	> 130%	~ 150%	
Capital Expenditures	~ (30)	~ (30)	
Free Cash Flow Conversion*	> 100%	~ 120%	

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.