

# Second Quarter 2017 Earnings Conference Call

---

May 2, 2017

## 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. 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.

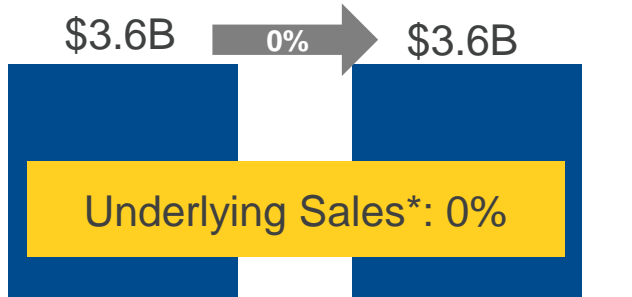
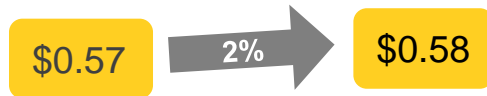
## Non-GAAP Measures

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 2017

## Revenue and EPS



2016

2017

### T3M Orders

January	0 to 5%
February	0 to 5%
March	0 to 5%

## Summary

- Continued improvement in served markets
  - Automation remained down, but trends in oil & gas MRO, power and life sciences strengthened
  - Favorable HVACR and construction related markets
- Earnings per share from continuing operations increased 2% to \$0.58
- Improved profitability primarily due to savings from restructuring actions
- Closed the acquisition of the Valves & Controls business on April 28<sup>th</sup>

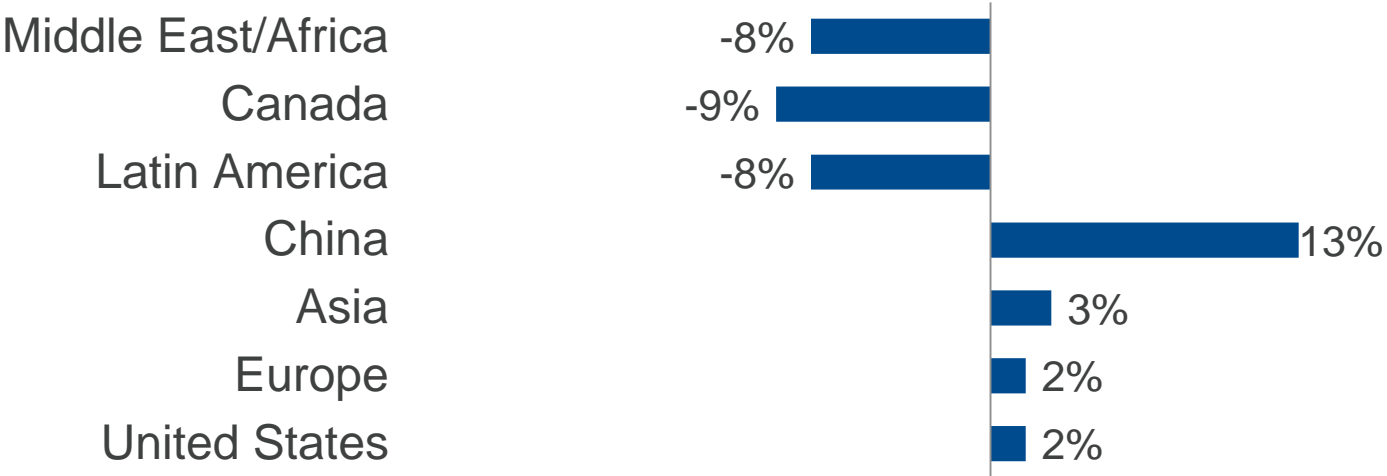
**A Second Consecutive Quarter of Solid Performance - -  
Sales and Profitability Exceeded Expectations**

# Second Quarter 2017 P&L Summary

<u>(\$M excl. EPS)</u>	<u>2016</u>	<u>2017</u>	<u>Chg.</u>	
Sales	\$3,579	\$3,574	0%	→ Underlying sales* flat
Gross profit	\$1,542	\$1,557	1%	
% of sales	43.1%	43.6%	50 bps	→ Benefit of cost reductions
SG&A expense	(\$878)	(\$868)		
Other deductions, net	<u>(\$66)</u>	<u>(\$83)</u>		
EBIT*	\$598	\$606	1%	
% of sales*	16.7%	17.0%	30 bps	→ EBIT margin* up 30 basis points
Shares	644.7	644.8		
EPS – Continuing Ops	\$0.57	\$0.58	2%	
EPS	\$0.57	\$0.45	(21%)	→ (\$0.13) impact from discontinued operations – Network Power, Leroy-Somer and Control Techniques

# Second Quarter 2017

## Underlying Sales\* Change



Underlying sales*	0%
Acq/Div	- pts
FX impact	- pts
Net sales	0%

**Continued Improvement of Global Demand Conditions Similar to the First Quarter - -  
Growth in U.S., China, India and Europe**

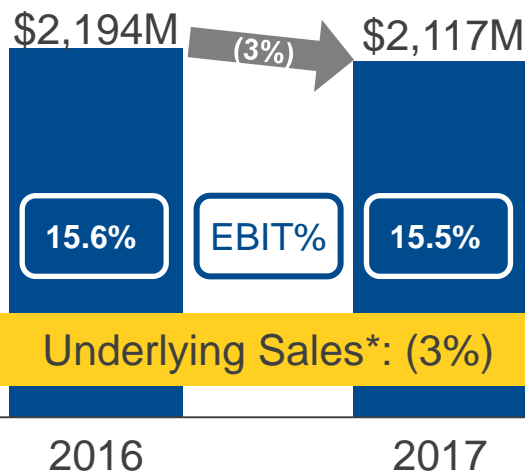
# Second Quarter 2017

## Business Segment Earnings & Cash Flow

<u>(\$M)</u>	<u>2016</u>	<u>2017</u>	<u>Chg.</u>	
Business segment EBIT*	\$660	\$673	2%	
% of sales*	18.4%	18.8%	40 bps	→ Segment margin* up 40 basis points driven by benefits from restructuring actions
Accounting methods	\$47	\$35		
Corporate & other	(\$109)	(\$102)		
Interest expense, net	<u>(\$46)</u>	<u>(\$41)</u>		
Pretax earnings	\$552	\$565	2%	
% of sales	15.4%	15.8%	40 bps	
Operating cash flow <i>from continuing operations</i>	\$630	\$601	(5%)	
Capital expenditures	<u>(\$86)</u>	<u>(\$94)</u>	10%	→ Appropriate level of capital spending
Free cash flow* <i>from continuing operations</i>	\$544	\$507	(7%)	
Trade working capital	\$2,513	\$2,442		
% of sales	17.6%	17.1%	(50 bps)	→ Trade working capital led by DSO improvement

# Second Quarter 2017 Automation Solutions

## Reported Sales



## Sales % Chg. vs. PY

NA	(2%)
Asia	(2%)
<i>China</i>	10%
Europe	0%
LAM	(16%)
MEA	(9%)
FX Impact	0 pts

## T3M Orders

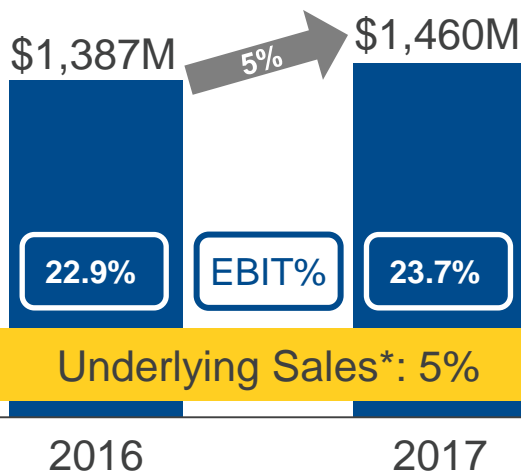
January	0%
February	0%
March	0 to 5%

- Spending in process automation remains at low levels, but continues to improve. Favorable spending in general industrial markets
- Power and life sciences markets continue positive momentum
- Improving MRO spending in North American shale and downstream customers
- Margin decreased 10 basis points primarily due to deleverage on lower volume and higher bad debt expense

**The Second Half of the Fiscal Year is Expected to Improve with Underlying Sales Trends Turning Positive Driven by MRO Spending and Small Project Orders**

# Second Quarter 2017 Commercial & Residential Solutions

## Reported Sales



## Sales % Chg. vs. PY

NA	4%
Asia	13%
<i>China</i>	20%
Europe	6%
LAM	7%
MEA	(3%)
FX/Acq Impact	0 pts

- Strong demand in global air conditioning and refrigeration markets, favorable conditions in construction related markets
- NA growth
  - U.S. residential and commercial HVAC
  - Professional tools demand in oil & gas markets
  - Big box retailers – DIY customers
- Broad strength in Asia HVAC
  - Mid-teens growth in China HVACR
- Margin improved 80 bps from volume leverage and savings from prior year restructuring actions

## T3M Orders

January	0 to 5%
February	0 to 5%
March	0 to 5%

**Favorable Outlook for Global Demand Within Our Served Markets  
Supports the Expectation for Mid-Single Digit Growth in 2017**

# Fiscal Year 2017 Outlook

---

- First half results and continued improvement in orders trends support raising full-year guidance
- Revised fiscal year 2017 guidance
  - Net sales are now expected to be ~0%; Underlying sales\* increased to ~+1% excluding unfavorable currency translation of ~1%
    - Automation Solutions platform down (3%) to (4%); underlying sales\* down (2%) to (3%) excluding unfavorable currency translation of 1%
    - Commercial & Residential Solutions platform up 5% to 6%
  - Earnings per share raised to \$2.55 to \$2.65 from previous \$2.47 to \$2.62
    - Excludes impact of the recent acquisition of Pentair's Valves & Controls business
- Operating cash flow from continuing operations expected to be ~\$2.5B, flat to the prior year



# 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)

	Emerson	Auto Solns	Comm & Res Solns
<b>Q2 2017 Underlying Sales Change</b>			
Reported (GAAP)	0%	(3)%	5%
Unfavorable FX	-%	-%	1%
Acq./Div.	-%	-%	(1)%
Underlying*	0%	(3)%	5%

	Q2 2016	Q2 2017	Change
<b>EBIT</b>			
Pretax earnings (GAAP)	\$ 552	565	2%
<i>% of sales</i>	15.4%	15.8%	40 bps
Interest expense, net	46	41	(1)%
<i>% of sales</i>	1.3%	1.2%	(10) bps
EBIT*	\$ 598	606	1%
<i>% of sales*</i>	16.7%	17.0%	30 bps

The outlook contained herein represents the Company's expectations for its consolidated results from continuing operations, and excludes the results of discontinued operations and any results attributable to the recent acquisition of the Pentair Valves & Controls business.