

Emerson Electric Co.(EMR)

\$77.24 (As of 01/07/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Emerson is likely to benefit from broad-based demand across maintenance, repair and operations market along with strength in brownfield projects in fiscal 2020. Also, the company is likely to gain from acquisitions, and is rewarding shareholders handsomely through dividends and share buybacks. Strong backlog conversion, particularly in Europe, is likely to boost its revenues. Over the past year, the company's shares have outperformed the industry. However, the stock looks overvalued compared to its industry. Also, it predicts fiscal 2020 sales to be down 3% to up 1% from the year-ago reported figure versus 6% rise mentioned earlier. Net sales of Automation Solutions are projected to be down 2% to up 2%, while Commercial & Residential Solutions' net sales are likely to decline 1-5% in fiscal 2020.

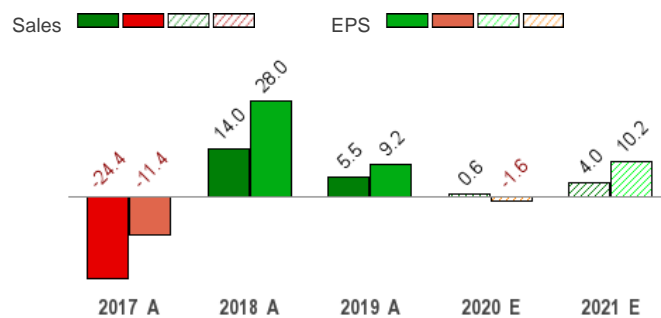
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.51 - \$55.98
20 Day Average Volume (sh)	2,489,414
Market Cap	\$47.1 B
YTD Price Change	1.3%
Beta	1.38
Dividend / Div Yld	\$2.00 / 2.6%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Bottom 30% (179 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	21.5
P/E F1	21.3
PEG F1	2.5
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,335 E	4,657 E	4,907 E	5,187 E	19,215 E
2020	4,165 E	4,550 E	4,726 E	5,016 E	18,480 E
2019	4,147 A	4,570 A	4,684 A	4,971 A	18,372 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.92 E	\$1.07 E	\$1.26 E	\$4.00 E
2020	\$0.67 E	\$0.84 E	\$0.97 E	\$1.15 E	\$3.63 E
2019	\$0.74 A	\$0.84 A	\$0.94 A	\$1.07 A	\$3.69 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

Overview

Headquartered in St. Louis, MO, Emerson Electric Co. is a diversified global manufacturing and technology company, with presence in Europe, the Americas, and Asia, Middle East & Africa. It offers a wide range of products and services to customers in consumer, commercial and industrial markets.

The company reports revenues under two operating segments:

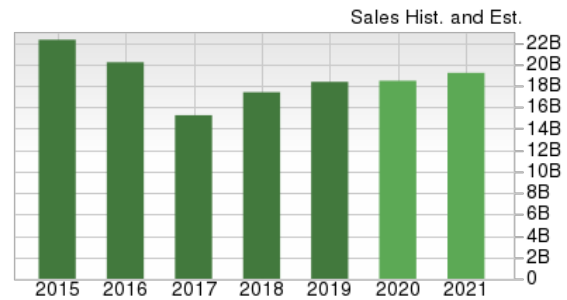
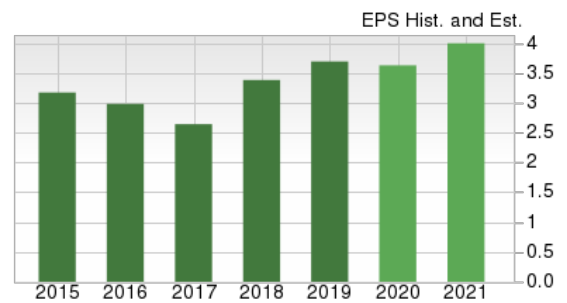
- **Automation Solutions** (67.7% of total revenues in fourth-quarter of fiscal 2019): The segment provides measurement and analytical instrumentation, valves, actuators and regulators, industrial solutions, and process control systems and solutions.

Notably, the segment sells its products globally through various distribution channels like network of sales representatives, direct sales force and independent distributors. Notably in the United States, half of the products are sold through a direct sales force, while the rest mainly through independent sales representatives and distributors. In Europe and Asia, the segment primarily employs a direct sales force.

- **Commercial and Residential Solutions** (32.3%): The segment provides products and services used in commercial air conditioning, residential cooling and heating, industrial and commercial refrigeration, and cold chain management. Also, the segment offers professional tools and appliance solutions.

This segment employs a direct sales channel in an effort to distribute its products and solutions to end users and original equipment manufacturers. It also uses online retailers and independent distributor networks to market its products in various countries.

Notably, the company's two business segments feature market leading brands, consisting of differentiated products within their respective markets. The company's diverse portfolio of products includes leading brands like Aventics, Bettis, Branson, DeltaV, Copeland, Dixell and Fusite.



Reasons To Buy:

- ▲ Emerson's adjusted earnings in the fiscal fourth quarter increased 20.2% from the year-ago figure on the back of healthy organic sales growth and positive impact from acquired assets. The top line benefited from strong demand in process and hybrid end markets in the Americas, and Asia, Middle East & Africa region as well as solid contributions from acquired assets. The company is well positioned to benefit from its diverse portfolio of products, and dominant position in key markets. Going forward, Emerson expects that broad-based demand across maintenance, repair and operations end markets along with growth programs will be conducive to its top-line performance. Also, the company's bookings for long cycle businesses are increasing at a healthy rate, with September-ending backlog for final control and systems businesses up 6% year over year. In addition, steady demand in most key end markets and strong backlog conversion particularly in Europe region are likely to boost revenues. Over the past year, Emerson's shares have returned 25.8%, higher than the industry's growth of 23.3%.
- ▲ Acquisitions have been Emerson's preferred mode of business expansion. Acquired assets boosted its sales by 5% and 1% in the third quarter and fourth quarter of fiscal 2019, respectively. The company used \$469 million for making acquisitions (net of cash acquired) in fiscal 2019. Several buyouts completed by the company during 2019, the integration of Intelligent Platforms business of General Electric (in February 2019) to the Automation Solutions segment is worth mentioning. Notably, the buyout has been expanding Emerson's opportunities across process and discrete industries as well as hybrid markets like metals and mining, food and beverage, life sciences, and packaging.
- ▲ Emerson tries to provide higher remuneration to shareholders on the back of dividend payments and share buybacks. Notably, the company repurchased shares worth \$1,250 million in fiscal 2019 apart from dividend disbursement of \$1,209 million. It is worth noting that in November 2019, the company approved the increment of annual dividend rate by 4 cents for fiscal 2020. Moving ahead, it intends to provide higher returns on the back of stronger free cash flow generation. For fiscal 2020, the company anticipates operating cash flow of \$3.1 billion and free cash flow of \$2.5 billion. In addition, it intends to repurchase \$1,500 million of shares in fiscal 2020, higher than \$1,250 million in fiscal 2019.

Emerson's dominant position in key markets, diverse portfolio of products, and acquisitions are likely to drive its near-term profitability.

Reasons To Sell:

- ▼ In fourth-quarter fiscal 2019, Emerson's sales lagged estimates by 1.5%. The company was adversely impacted by persistent weakness in the global discrete manufacturing market due to soft automotive, semiconductor, packaging and textiles end markets. As a matter of fact, the company expects the weakness to persist in the global discrete manufacturing market in the near term. For fiscal 2020, the company predicts sales to be in the range of 3% decline to 1% increase year over year compared with 6% rise predicted earlier. Also, underlying sales are expected to be in the range of 2% decline to 2% increase. On a segmental basis, net sales of Automation Solutions are likely to be in the band of 2% decline to 2% increase, while Commercial & Residential Solutions net sales are projected to decline 1% to 5%. Also, on a P/E (TTM) basis, Emerson looks overvalued compared with the industry, with respective tallies of 21.52x and 19.37x. Also, the stock's current multiple is above the industry's one-year highest level of 19.37x. The stock's overvaluation compared with the industry makes us cautious about the stock.
- ▼ Rising costs and expenses have been an issue for Emerson over the past few quarters. The company recorded year-over-year increase of 6.7% and 0.5% in the cost of sales in the third quarter and fourth quarter of fiscal 2019, respectively. In addition, in fiscal 2019, the company's selling, general and administrative expenses jumped 4.4% year over year. Persistence of these headwinds might be concerning in the quarters ahead. This apart, its policy of acquiring a large number of companies adds to the integration risks.
- ▼ Emerson's operations are spread across the world, majority of which are outside the United States. Therefore, these are more prone to global economic and political risks as well as unfavorable movement in foreign currencies. For instance, unfavorable movements in foreign currencies adversely impacted sales by 2% in both the third and fourth quarter of fiscal 2019. The company believes that forex woes will persist in fiscal 2020, and will adversely impact its sales.

Persistent weakness in the global discrete manufacturing market, high costs and adverse impact of foreign currency translation remain issues for Emerson.

Last Earnings Report

Emerson's Q4 Earnings Meet Estimates, Increase Y/Y

Emerson's fourth-quarter fiscal 2019 (ended Sep 30, 2019) earnings of \$1.07 per share came in line with the Zacks Consensus Estimate. The company's earnings matched estimates in the last reported quarter as well. On a year-over-year basis, the bottom line increased 20.2% from 89 cents on the back of healthy sales growth.

For fiscal 2019, the company's adjusted earnings came in at \$3.69.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	-1.52%
EPS Surprise	0.00%
Quarterly EPS	1.07
Annual EPS (TTM)	3.59

Organic Sales and Acquired Assets Drive Revenues

Emerson's revenues were \$4,971 million in the quarter, reflecting growth of 2% from the year-ago quarter. Underlying sales jumped 3% as favorable trends in key served markets supported operations. In addition, acquired assets boosted sales by 1% and forex woes had a 2% adverse impact. However, the top line lagged the Zacks Consensus Estimate of \$5,047 million.

For fiscal 2019, net sales came in at \$18,372 million, up 6% year over year, indicating strengthening industrial market demand.

The company reports net sales under two segments — Automation Solutions and Commercial & Residential Solutions. The segmental information is briefly discussed below:

Automation Solutions revenues were \$3,368 million, increasing 4% year over year. Underlying sales grew 5% while acquired assets expanded sales by 1%. Forex woes had an adverse impact of 2%.

Commercial & Residential Solutions generated revenues of \$1,608 million in the fiscal fourth quarter, down 3% year over year. Underlying sales were down 2%, while forex woes adversely impacted sales by 1%. Under this segment, Climate Technologies' sales declined 2.2% year over year to \$1,142 million while that from Tools & Home Products decreased 4.3% to \$466 million.

Gross Margin

In the quarter, Emerson's cost of sales increased 0.5% year over year to \$2,843 million. It represented 57.2% of net revenues compared with 57.9% in the year-ago quarter. Gross margin was up 70 basis points (bps) to 42.8% due to strong operational execution and favorable price-cost.

Selling, general and administrative expenses (SG&A) declined 6.1% to \$1,109 million. As a percentage of sales, SG&A expenses were 22.3%, down from 24.2%.

Balance Sheet and Cash Flow

Exiting the fiscal fourth quarter, Emerson had cash and cash equivalents of \$1,494 million, up from \$1,093 million year over year. Long-term debt balance increased 36.3% to \$4,277 million.

In fiscal 2019, it generated net cash of \$3,006 million from operating activities, reflecting increase of 3.9% from fiscal 2018. Capital expenditure was \$594 million, down from \$617 million.

During fiscal 2019, the company paid dividends amounting \$1,209 million and repurchased shares worth \$1,250 million.

Outlook

For fiscal 2020 (ending September 2020), the company anticipates net sales in the range of a 3% decline to 1% increase. Underlying sales are expected to be in the range of 2% decline to 2% increase.

Earnings per share are predicted to be \$3.48-\$3.72 for fiscal 2020.

Emerson estimates Automation Solutions net sales to be in the band of 2% decline to 2% increase, while Commercial & Residential Solutions net sales are projected to decline 1% to 5%.

Recent News

On **Jan 8, 2019**, Emerson announced that it is unveiling its newly redesigned ASCO Series 353 Pulse Valve. Notably, the valve is designed to provide a more effective and convenient bag cleaning process for original equipment manufacturers and end-users.

On **Jan 6, 2019**, Emerson announced ISO/IEC accreditation for its Psychrometric lab, in Dubai by the GCC Accreditation Centre. This will support the company's Commercial & Residential Solutions businesses.

On **Dec 12, 2019**, Emerson announced the addition of two new IIoT solutions to its Plantweb Insight data analytics platform. This will help industrial facilities to transform the control process of their enterprise-level wireless network infrastructure.

On **Dec 10, 2019**, Emerson paid out a quarterly cash dividend of 50 cents per share to shareholders of record as of Nov 15, 2019.

On **Oct 22, 2019**, Emerson announced the addition of the Sigmafine platform to its software portfolio. Notably, the platform will aid producers in ensuring the highest accuracy and confidence in plant measurement systems.

Valuation

Emerson shares are up 25.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Industrial Products sector are up 23.3% and 17.8%, respectively.

The S&P 500 Index has moved up 24.3% in the past year.

The stock is currently trading at 20.77x forward 12-month earnings per share, which compares to 20.34x for the Zacks sub-industry, 18.04x for the Zacks sector and 18.74x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.04x and as low as 12.98x, with a 5-year median of 17.95x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$82 price target reflects 22.05x forward 12-month earnings per share.

The table below shows summary valuation data for EMR.

Valuation Multiples - EMR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.77	20.34	18.04	18.74
	5-Year High	25.04	20.34	19.9	19.34
	5-Year Low	12.98	13.14	12.59	15.17
	5-Year Median	17.95	17.03	16.54	17.44
EV/EBITDA F12M	Current	12.89	17.38	17.8	12.66
	5-Year High	13.61	25.03	18.2	12.66
	5-Year Low	7.17	9.9	10.68	9.08
	5-Year Median	10.8	13.36	13.99	10.78
EV/Sales F12M	Current	2.72	2.86	3.14	3.26
	5-Year High	2.92	2.86	3.14	3.37
	5-Year Low	1.52	1.52	1.76	2.3
	5-Year Median	2.37	2.06	2.28	2.78

As of 01/07/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (179 out of 254)



Top Peers

ABB Ltd (ABB)	Neutral
Badger Meter, Inc. (BMI)	Neutral
Flowserve Corporation (FLS)	Neutral
Honeywell International Inc. (HON)	Neutral
Ingersoll-Rand PLC (Ireland) (IR)	Neutral
Parker-Hannifin Corporation (PH)	Neutral
Rockwell Automation, Inc. (ROK)	Neutral
Roper Technologies, Inc. (ROP)	Neutral

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	EMR Neutral	X Industry	S&P 500	ABB Neutral	HON Neutral	ROK Neutral
VGM Score	A	-	-	C	D	C
Market Cap	47.05 B	2.27 B	23.72 B	51.89 B	126.91 B	23.55 B
# of Analysts	10	4	13	1	10	11
Dividend Yield	2.59%	0.00%	1.79%	2.02%	2.03%	2.00%
Value Score	C	-	-	C	C	D
Cash/Price	0.03	0.09	0.04	0.06	0.10	0.05
EV/EBITDA	12.93	11.64	13.90	17.37	14.01	21.24
PEG Ratio	2.48	1.86	2.00	3.78	2.19	2.76
Price/Book (P/B)	5.74	2.26	3.34	3.79	6.93	59.01
Price/Cash Flow (P/CF)	15.25	13.12	13.67	13.83	18.11	20.09
P/E (F1)	21.28	18.86	18.72	23.45	20.16	22.83
Price/Sales (P/S)	2.56	1.83	2.66	1.83	3.44	3.52
Earnings Yield	4.70%	4.84%	5.31%	4.24%	4.96%	4.38%
Debt/Equity	0.52	0.27	0.72	0.62	0.61	4.84
Cash Flow (\$/share)	5.07	1.83	6.94	1.76	9.81	10.15
Growth Score	A	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	-1.19%	5.47%	10.56%	3.70%	8.86%	7.99%
Proj. EPS Growth (F1/F0)	-1.76%	7.94%	7.42%	12.50%	8.29%	2.98%
Curr. Cash Flow Growth	7.06%	12.53%	14.83%	7.17%	8.22%	-0.65%
Hist. Cash Flow Growth (3-5 yrs)	-0.68%	3.18%	9.00%	-1.95%	7.62%	3.18%
Current Ratio	1.19	2.16	1.23	1.36	1.32	1.54
Debt/Capital	34.08%	24.28%	42.92%	38.35%	37.76%	82.88%
Net Margin	12.55%	6.86%	11.08%	5.06%	17.06%	10.39%
Return on Equity	26.32%	9.99%	17.16%	19.16%	32.01%	99.27%
Sales/Assets	0.88	0.86	0.55	0.63	0.63	1.09
Proj. Sales Growth (F1/F0)	0.59%	0.62%	4.15%	-0.73%	3.59%	3.48%
Momentum Score	A	-	-	A	D	F
Daily Price Chg	0.25%	-0.08%	0.10%	-0.16%	0.06%	-0.21%
1 Week Price Chg	-0.12%	0.36%	-0.30%	0.29%	1.35%	-0.16%
4 Week Price Chg	3.61%	3.16%	2.33%	7.01%	2.05%	2.04%
12 Week Price Chg	14.04%	14.87%	7.02%	29.23%	8.54%	21.78%
52 Week Price Chg	27.31%	21.77%	24.61%	24.46%	31.48%	32.91%
20 Day Average Volume	2,489,414	189,632	1,589,897	1,813,149	2,225,849	660,194
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.98%	0.00%	0.00%
(F1) EPS Est 4 week change	0.08%	0.00%	0.00%	0.98%	0.00%	-0.01%
(F1) EPS Est 12 week change	-4.58%	-3.49%	-0.56%	-0.16%	-0.44%	0.96%
(Q1) EPS Est Mthly Chg	-0.20%	0.00%	0.00%	NA	0.00%	-0.48%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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