

Emerson Electric Co.(EMR)

\$70.29 (As of 08/11/20)

Price Target (6-12 Months): **\$74.00**

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:B

Value: B

Growth: B

Momentum: B

Summary

Emerson is poised to gain from strength across its medical, life science, food and beverage, and power end markets beside a robust backlog level. Also, the company is likely to gain from acquisitions. In addition, it is rewarding shareholders handsomely through dividends and share buybacks. Notably, the company intends to repurchase \$950 million of shares in fiscal 2020. However, Emerson's stock has underperformed the industry over the past six months. Going forward, it expects overall demand environment to remain considerably weak along with witnessing persistent weakness in the oil and gas end markets. For fiscal 2020, the company predicts an organic sales decline of 7.5-9% from the year-ago reported figure. In addition, high debt levels can increase its financial obligations. Foreign exchange headwinds might also affect its performance.

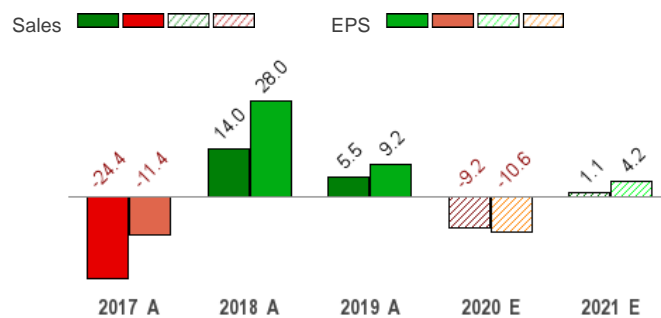
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.38 - \$37.75
20 Day Average Volume (sh)	2,703,563
Market Cap	\$42.0 B
YTD Price Change	-7.8%
Beta	1.48
Dividend / Div Yld	\$2.00 / 2.8%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Top 19% (48 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	31.2%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	7.9%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	20.5
P/E F1	21.3
PEG F1	2.5
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,836 E	4,105 E	4,265 E	4,721 E	16,879 E
2020	4,151 A	4,162 A	3,914 A	4,465 E	16,688 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	\$0.62 E	\$0.83 E	\$0.85 E	\$1.10 E	\$3.44 E
2020	\$0.67 A	\$0.89 A	\$0.80 A	\$0.94 E	\$3.30 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 08/11/2020. The reports text is as of 08/12/2020.

Overview

Headquartered in St. Louis, MO, Emerson Electric Co. is a diversified global engineering 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:

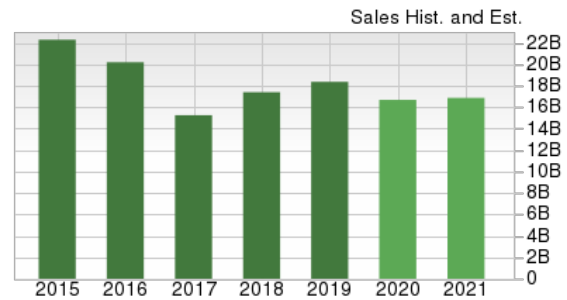
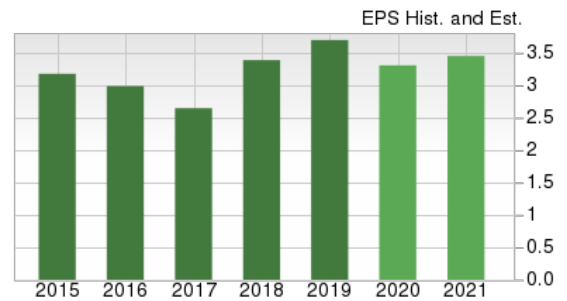
- **Automation Solutions** (66.1% of total revenues in third-quarter of fiscal 2020): The segment provides measurement and analytical instrumentation, valves, actuators and regulators, industrial solutions, and process control systems and solutions.

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** (33.9%): 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 is experiencing continued strength across its medical, life science, food and beverage, and power end markets. Also, robust backlog level — which stood at \$5.1 billion at the end of the fiscal third quarter — at its Automation Solutions segment is likely to support its revenues in the quarters ahead. In addition, the company's focus on operational efficiency and cost-control measures will likely support its margins, going forward. In the past seven days, its earnings estimates for fiscal 2020 have increased from \$3.08 to \$3.30 and that for fourth-quarter fiscal 2020 have gone up from 90 cents to 94 cents.

Emerson's dominant position in key markets and acquired assets are likely to drive its competency in the long run. Also, strong cash flows might be beneficial.

▲ Acquisitions have been Emerson's preferred mode of business expansion. For instance, in February 2019, the company acquired General Electric Company's Intelligent Platforms business and integrated it with its Automation Solutions segment. It is worth mentioning that the buyout expanded Emerson's opportunities across process and discrete industries as well as hybrid markets like metals and mining, food and beverage, life sciences, and packaging. Also, the company completed the acquisition of Verdant (in March 2020), a leading provider of energy-management solutions. Notably, the buyout has been enabling Emerson to strengthen its portfolio of thermostat and sustainability solutions for the hotel and hospitality industries, and serve a stronger customer base. In addition, its buyout of American Governor Company (in April 2020) will enable it to boost its offerings for its power customers. The company used \$469 million and \$114 million for making acquisitions (net of cash acquired) in fiscal 2019 and the first nine months of fiscal 2020, respectively.

▲ Strong cash flows allow Emerson to effectively deploy capital for making acquisitions, repurchasing shares and paying out dividends. For instance, in the first nine months of fiscal 2020, the company generated net cash of \$1,854 million from operating activities, marking growth of 2.9% from the year-ago comparable period. Notably, it repurchased shares worth \$942 million in the first nine months of fiscal 2020 apart from dividend disbursement of \$910 million. It is worth noting that in November 2019, it hiked the annual dividend rate by 4 cents. For fiscal 2020, the company anticipates operating cash flow of \$2.8 billion and free cash flow of \$2.25 billion. In addition, the company intends to repurchase \$950 million of shares in fiscal 2020.

Reasons To Sell:

- ▼ Over the past six months, Emerson's shares have lost 3.9% compared with the industry's decline of 0.7%. In third-quarter fiscal 2020, the company's organic revenues declined 15% year over year on weak demand environment due to the coronavirus outbreak-led weakness across most end markets, particularly the North American upstream oil and gas space. It expects overall demand to remain considerably weak along with witnessing persistent weakness in the oil and gas end markets in the quarters ahead. Notably, Emerson anticipates revenues to return to growth in either the second or third quarters of fiscal 2021. For fiscal 2020, the company predicts an organic sales decline of 7.5-9% year over year, whereas it reported a 6% rise in fiscal 2019. On a segmental basis, net sales of Automation Solutions are likely to decline 8-10%, while Commercial & Residential Solutions' net sales are projected to decline 9-11%.
- ▼ Emerson's long-term debt in the last three fiscal years (2017-2019) increased 4.1% (CAGR). Notably, at the end of third-quarter fiscal 2020, the company's long-term debt was \$5,500 million, up 38.9% sequentially. High-debt levels can increase its financial obligations and prove detrimental to its profitability. Moreover, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 0.41, higher than the industry's 0.31.
- ▼ Emerson's operations are spread across the world, the majority of which are outside the United States. Therefore, the company is exposed to global economic and political risks as well as unfavorable movements in foreign currencies. For instance, forex woes adversely impacted sales by 2% and 1% in the second and third quarters of fiscal 2020, respectively. The company believes that forex issues will persist in fiscal 2020, and will adversely impact its sales by 1-1.5%.

Weak demand environment, persistent weakness in upstream oil and gas end markets, and adverse impacts of foreign currency translation remain concerning for Emerson.

Last Earnings Report

Emerson Q3 Earnings & Revenues Beat Estimates, Down Y/Y

Emerson third-quarter fiscal 2020 (ended Jun 30, 2020) adjusted earnings of 80 cents per share beat the Zacks Consensus Estimate of 61 cents. On a year-over-year basis, the bottom line declined 14.9% from 94 cents.

Inside the Headlines

Emerson's revenues were \$3,914 million in the quarter, reflecting a decline of 16% from the year-ago quarter. Underlying sales were down 15% on account of the decline in demand owing to the coronavirus outbreak. Forex woes had a 1% adverse impact on sales, while acquired assets had no impact.

Notably, the top line beat the Zacks Consensus Estimate of \$3,853 million.

The company reports net sales under two segments — Automation Solutions, and Commercial & Residential Solutions. Fiscal third-quarter segmental results are briefly discussed below:

Automation Solutions' revenues were \$2,589 million, decreasing 14.4% year over year. Underlying sales declined 13%, while forex woes adversely impacted sales by 1%. Acquired assets had no impact on sales.

Commercial & Residential Solutions generated revenues of \$1,327 million in the fiscal third quarter, down 20.1% year over year. Underlying sales were down 19%, while forex woes adversely impacted sales by 1%. Acquired assets had no impact on sales. Under the segment, Climate Technologies' sales declined 19.1% year over year to \$970 million, while that from Tools & Home Products decreased 22.9% to \$357 million.

Gross Margin

In the quarter under review, Emerson's cost of sales decreased 14.4% year over year to \$2,296 million. It represented 58.7% of net revenues compared with 57.3% in the year-ago quarter. Gross margin was at 41.3%, down 140 basis points on a year-over-year basis. Selling, general and administrative (SG&A) expenses declined 17.1% year over year to \$934 million. As a percentage of sales, SG&A expenses were 23.9% compared with 24% in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the fiscal third quarter, Emerson had cash and cash equivalents of \$2,450 million, up from \$1,603 million at the end of the year-ago quarter. Long-term debt balance increased 38.9% sequentially to \$5,500 million. During the first nine months of fiscal 2020, the company repaid debts of \$502 million.

In the first nine months of fiscal 2020, it generated net cash of \$1,854 million from operating activities, reflecting an increase of 2.9% from the year-ago comparable period. Capital expenditure was \$329 million, down from \$395 million in the year-ago comparable period.

During the first nine months of fiscal 2020, the company paid out dividends amounting to \$910 million and repurchased shares worth \$942 million.

Outlook

For fiscal 2020 (ending September 2020), it anticipates net sales decline of 9-10%. Underlying sales are expected to fall 7.5-9%.

Adjusted earnings per share are predicted to be \$3.20-\$3.35 for fiscal 2020.

Emerson expects Automation Solutions' net sales to decline 8-10%, while Commercial & Residential Solutions' net sales are projected to decline 9-11%.

Notably, the company anticipates continued challenging but gradually improving demand environment in the fiscal fourth quarter and in the quarters ahead.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	1.59%
EPS Surprise	31.15%
Quarterly EPS	0.80
Annual EPS (TTM)	3.43

Recent News

On **Aug 10, 2020**, Emerson announced the launch of Branson GCX Series of ultrasonic generators for accurate controlling of delivery of ultrasonic energy for precision cleaning systems. This product is designed to be used in medical, electronic and automotive industries.

On **Aug 4, 2020**, Emerson's board of directors approved the payment of a quarterly cash dividend of 50 cents per share to shareholders of record as of Aug 14, 2020. The dividend will be paid out on Sep 10.

On **Aug 3, 2020**, Emerson announced a partnership with Mitsubishi Hitachi Power Systems Americas. Both companies will focus on developing digital technologies, software and services to drive operational excellence of utility customers in North America.

On **Jul 22, 2020**, Emerson announced the launch of a laser welder platform to deliver efficient high-quality welds in manufacturing operations.

On **Jul 7, 2020**, Emerson announced that it has been selected by Jaguar Exploración y Producción to provide its exploration and production software and services for maximizing the latter's potential of onshore assets and projects.

On **Jun 29, 2020**, Emerson announced the launch of the new AVENTICS TM5 TaskMaster aluminum cylinder. The product helps machine builders and end-user manufacturers in making their machines faster and more reliable.

On **Jun 18, 2020**, Emerson launched augmented reality technology to its Plantweb Optics asset performance platform. Leveraging artificial intelligence and machine learning analytics, the company's Plantweb Optics helps in providing real-time visibility into plant reliability and operational performance.

On **May 20, 2020**, Emerson announced a \$100-million investment plan to enhance its production capacity and start an innovation center. Notably, the new center will specialise in research and development of products as well as focus on industry training.

Valuation

Emerson's shares are down 7.9% in the year-to-date period and increased 18.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.9%, while the Zacks Industrial Products sector is down 1.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 23.4% and 12.5%, respectively.

The S&P 500 Index has moved up 4.1% year to date and increased 14.9% in the past year.

The stock is currently trading at 20.96x forward 12-month earnings per share, which compares to 23.81x for the Zacks sub-industry, 22.17x for the Zacks sector and 22.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.04x and as low as 10.26x, with a 5-year median of 18.72x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$74 price target reflects 22.07x 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	20.96	23.81	22.17	22.8
	5-Year High	25.04	23.81	22.17	22.8
	5-Year Low	10.26	13.13	12.55	15.25
	5-Year Median	18.72	17.36	17.48	17.58
P/Sales F12M	Current	2.49	3	2.96	3.67
	5-Year High	2.82	3	2.96	3.67
	5-Year Low	1.26	1.46	1.52	2.53
	5-Year Median	2.24	2.04	2.04	3.05

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 19% (48 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Flowserve Corporation (FLS)	Outperform	3
ABB Ltd (ABB)	Neutral	2
Honeywell International Inc. (HON)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	3
ParkerHannifin Corporation (PH)	Neutral	3
Rockwell Automation, Inc. (ROK)	Neutral	3
Roper Technologies, Inc. (ROP)	Neutral	3
Badger Meter, Inc. (BMI)	Underperform	5

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	EMR	X Industry	S&P 500	ABB	HON	ROK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	D	C	C
Market Cap	42.00 B	2.97 B	23.61 B	56.31 B	112.48 B	26.93 B
# of Analysts	8	3.5	14	3	10	10
Dividend Yield	2.85%	0.35%	1.69%	1.99%	2.25%	1.76%
Value Score	B	-	-	C	B	D
Cash/Price	0.06	0.08	0.07	0.08	0.14	0.04
EV/EBITDA	11.69	11.78	13.32	19.14	12.77	24.53
PEG Ratio	2.48	2.79	2.95	5.24	3.01	5.59
Price/Book (P/B)	5.33	2.75	3.22	4.48	6.12	24.72
Price/Cash Flow (P/CF)	13.88	14.63	12.79	15.40	16.20	22.88
P/E (F1)	21.30	25.98	22.02	32.46	23.15	31.11
Price/Sales (P/S)	2.44	2.14	2.57	2.14	3.26	4.15
Earnings Yield	4.69%	3.59%	4.29%	3.08%	4.32%	3.21%
Debt/Equity	0.70	0.20	0.77	0.50	0.96	2.04
Cash Flow (\$/share)	5.07	2.20	6.94	1.69	9.89	10.15
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	4.48%	5.93%	10.41%	2.54%	7.45%	9.65%
Proj. EPS Growth (F1/F0)	-10.57%	-15.88%	-6.51%	-35.48%	-15.15%	-13.92%
Curr. Cash Flow Growth	7.06%	2.39%	5.22%	-3.96%	-1.43%	-0.65%
Hist. Cash Flow Growth (3-5 yrs)	-0.68%	3.59%	8.55%	-2.99%	5.69%	3.18%
Current Ratio	1.32	2.29	1.34	1.19	1.63	1.31
Debt/Capital	41.11%	16.52%	44.59%	33.15%	48.93%	67.14%
Net Margin	11.39%	5.70%	10.13%	5.83%	16.94%	11.85%
Return on Equity	26.12%	8.57%	14.59%	18.45%	29.93%	105.45%
Sales/Assets	0.81	0.67	0.51	0.57	0.58	0.95
Proj. Sales Growth (F1/F0)	-9.16%	-7.87%	-1.45%	-10.91%	-12.89%	-5.64%
Momentum Score	B	-	-	C	D	A
Daily Price Chg	3.11%	-0.15%	-0.17%	-0.35%	0.53%	1.25%
1 Week Price Chg	7.03%	5.72%	2.30%	4.00%	3.84%	2.52%
4 Week Price Chg	13.21%	10.35%	6.41%	4.59%	8.22%	5.98%
12 Week Price Chg	26.19%	27.33%	15.42%	39.47%	21.47%	14.58%
52 Week Price Chg	18.75%	28.45%	2.88%	38.36%	-4.58%	51.71%
20 Day Average Volume	2,703,563	216,359	2,007,486	1,747,146	3,301,368	677,130
(F1) EPS Est 1 week change	-0.20%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	7.92%	8.05%	1.84%	12.15%	-0.04%	3.79%
(F1) EPS Est 12 week change	8.13%	12.50%	2.40%	25.98%	-0.33%	4.39%
(Q1) EPS Est Mthly Chg	3.87%	3.87%	0.72%	NA	-7.15%	3.19%

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	B
Growth Score	B
Momentum Score	B
VGM Score	B

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.