

Emerson Electric Co.(EMR)

\$46.18 (As of 03/12/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

Summary

Emerson's results for fiscal 2020 are likely to benefit from strength across most key process and hybrid end markets as well as growth in the company's long cycle businesses. Also, it is likely to gain from acquisitions. The company is rewarding shareholders handsomely through dividends and share buybacks. Notably, it repurchased shares worth \$129 million in fiscal first quarter apart from dividend disbursement of \$305 million. In addition, analysts have become increasingly bullish about the company over the past 60 days. However, the stock has underperformed the industry over the past six months. Also, rising costs of sales have been an issue for Emerson. For fiscal 2020, the company predicts sales to decline 2% to rise 2% year over year compared with 6% rise in fiscal 2019. Also, headwinds in currency translation might be detrimental.

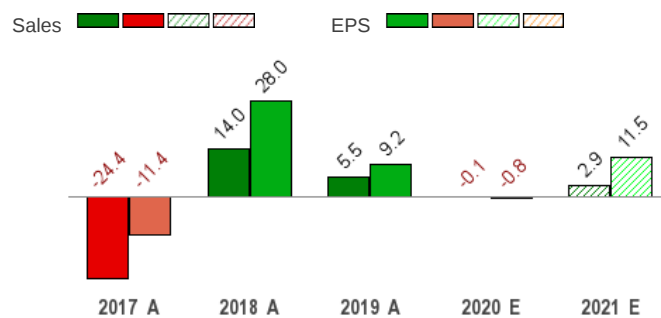
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.38 - \$45.12
20 Day Average Volume (sh)	5,483,485
Market Cap	\$28.3 B
YTD Price Change	-39.4%
Beta	1.38
Dividend / Div Yld	\$2.00 / 4.3%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Bottom 38% (156 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/05/2020
Earnings ESP	-0.1%
P/E TTM	13.1
P/E F1	12.6
PEG F1	1.5
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,263 E	4,578 E	4,994 E	5,142 E	18,883 E
2020	4,151 A	4,494 E	4,729 E	5,015 E	18,358 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	\$0.74 E	\$0.96 E	\$1.16 E	\$1.33 E	\$4.08 E
2020	\$0.67 A	\$0.81 E	\$1.00 E	\$1.19 E	\$3.66 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 03/12/2020. The reports text is as of 03/13/2020.

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:

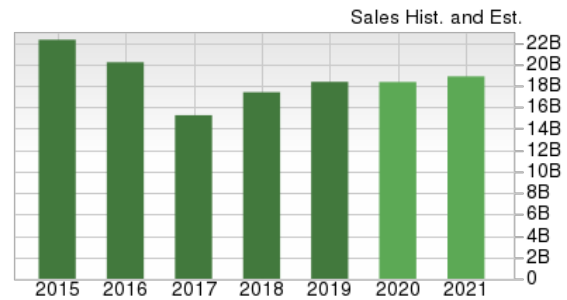
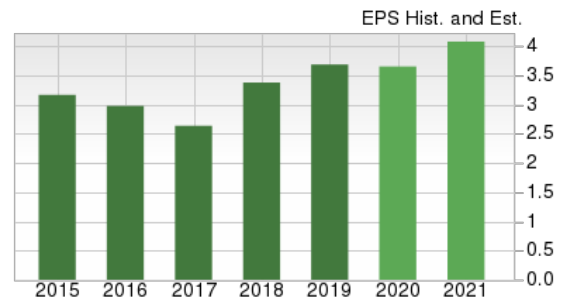
- **Automation Solutions** (68.6% of total revenues in first-quarter of fiscal 2020): The segment provides measurement and analytical instrumentation, valves, actuators and regulators, industrial solutions, and process control systems and solutions.

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** (31.4%): 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 most key process and hybrid end markets in the Americas and Europe region as well as healthy demand in Asia, Middle East & Africa region. Solid growth in the company's long cycle businesses, supported by strength across final control and systems businesses is likely to augment the top-line performance in the quarters ahead. In addition, robust backlog level at the company's Automation Solutions segment and increased bookings for several large liquefied natural gas projects are likely to boost its revenues. Notably, at the end of the fiscal first quarter, backlog for the segment increased 7% to about \$5 billion on a sequential basis. In addition, analysts have become increasingly bullish about the company over the past 60 days. The company's earnings estimates for fiscal 2020 have increased from \$3.63 to \$3.66, on the back of four upward estimate revisions versus two downward.
- ▲ Acquisitions have been Emerson's preferred mode of business expansion. Acquired assets boosted its sales by 1% in both the fourth quarter of fiscal 2019 and first quarter of fiscal 2020. The company used \$469 million and \$73 million for making acquisitions (net of cash acquired) in fiscal 2019 and first quarter of fiscal 2020, respectively. Several buyouts completed by the company during 2019, the integration of Intelligent Platforms business of General Electric (in February 2019) with 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 \$129 million in fiscal first quarter apart from dividend disbursement of \$305 million. It is worth noting that in November 2019, the company hiked 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 \$3.15 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:

- ▼ Over the past six months, Emerson's shares have lost 29.7%, wider than the industry's decline of 21.6%. In first-quarter fiscal 2020, the company's sales lagged estimates by 0.4%. The company was adversely impacted by persistent weakness in the global discrete manufacturing and North American upstream oil and gas end markets. As a matter of fact, it expects the weakness to persist in both these markets in the near term. For fiscal 2020, the company predicts sales to decline 2% to rise 2% year over year compared with 6% rise in fiscal 2019. Also, underlying sales are expected to witness 2% decline to 2% increase. On a segmental basis, net sales of Automation Solutions are likely to fall 1% to jump 3%, while Commercial & Residential Solutions net sales are projected in the range of 4% decline to breakeven.
- ▼ Rising costs and expenses have been an issue for Emerson over the past few quarters. For instance, the company recorded year-over-year increase of 0.5% and 0.3% in the cost of sales in the fourth quarter of fiscal 2019 and first quarter of fiscal 2020, respectively. Moreover, the company's long-term debt in the last three fiscal years (2017-2019) increased 4.1% (CAGR). Notably, at the end of first-quarter fiscal 2020, the company's long-term debt was \$4,018 million, up 52.1% year over year. High-debt levels can increase the company's financial obligations and prove detrimental to its profitability.
- ▼ 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% and 1% in the fourth quarter of fiscal 2019 and first quarter of fiscal 2020, respectively. 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 Q1 Earnings Meet Estimates, Decrease Y/Y

Emerson's first-quarter fiscal 2020 (ended Dec 31, 2019) earnings of 67 cents per share came in line with the Zacks Consensus Estimate. Notably, the company's earnings had matched estimates in the last reported quarter as well. On a year-over-year basis, the bottom line decreased 9.5% from 74 cents.

Organic Sales and Acquired Assets Drive Revenues

Emerson's revenues were \$4,151 million in the quarter, reflecting marginal growth of 0.1% from the year-ago quarter. Underlying sales were flat. Acquired assets boosted sales by 1% but forex woes had a 1% adverse impact.

However, the top line lagged the Zacks Consensus Estimate of \$4,166 million.

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

Automation Solutions revenues were \$2,852 million, increasing 1.9% year over year. Underlying sales grew 1% while acquired assets boosted sales by 2%. Forex woes adversely impacted sales by 1%.

Commercial & Residential Solutions generated revenues of \$1,303 million in the fiscal first quarter, down 3% year over year. Underlying sales were down 1%, while divestitures had an adverse impact of 1% on sales. Forex woes adversely impacted sales by 1%. Under this segment, Climate Technologies' sales declined 0.8% year over year to \$873 million while that from Tools & Home Products decreased 6.1% to \$430 million.

Gross Margin

In the quarter under review, Emerson's cost of sales increased 0.3% year over year to \$2,392 million. It represented 57.6% of net revenues compared with 57.5% in the year-ago quarter. Gross margin was relatively flat at 42.4%. Selling, general and administrative expenses (SG&A) expanded 4.3% to \$1,123 million. As a percentage of sales, SG&A expenses were 27.1%, up from 26%.

Balance Sheet and Cash Flow

Exiting the fiscal first quarter, Emerson had cash and cash equivalents of \$1,635 million, up from \$1,248 million at the end of year-ago quarter. Long-term debt balance increased 52.1% to \$4,018 million. During the first three months of fiscal 2020, the company repaid debts of \$502 million.

In the quarter, it generated net cash of \$424 million from operating activities, reflecting increase of 31.3% from the year-ago quarter. Capital expenditure was \$114 million, down from \$155 million.

During the first three months of fiscal 2020, the company paid dividends amounting \$305 million and repurchased shares worth \$129 million.

Outlook

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

Earnings per share are predicted to be \$3.55-\$3.80 for fiscal 2020.

Emerson estimates Automation Solutions net sales to be in the band of 1% decline to 3% increase, while Commercial & Residential Solutions net sales are projected in the range of 4% decline to breakeven.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	-0.37%
EPS Surprise	0.00%
Quarterly EPS	0.67
Annual EPS (TTM)	3.52

Recent News

On **Mar 11, 2020**, Emerson announced that it has completed the acquisition of Verdant, a leading provider of energy management solutions. Notably, the buyout will enable Emerson to strengthen its portfolio of thermostat and sustainability solutions for the hotel and hospitality industries.

On **Mar 10, 2020**, Emerson paid out a quarterly cash dividend of 50 cents per share to shareholders of record as on Feb 14, 2020.

On **Jan 31, 2020**, Emerson announced the launch of the Copeland Scroll Digital Outdoor Refrigeration Unit, X-Line Series. Also, it introduced the Copeland Indoor Modular Solution, an innovative all-in-one food retail refrigeration system.

On **Jan 27, 2020**, Emerson announced the introduction of its new portfolio of RXi industrial display and panel PC products.

On **Jan 21, 2020**, Emerson announced the launch of a new line of Copeland fixed speed scroll compressors for commercial applications.

On **Jan 20, 2020**, Emerson announced the introduction of the Paradigm 19 integrated oil and gas exploration and production software suite.

On **Jan 8, 2020**, Emerson announced the introduction of 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, 2020**, 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.

Valuation

Emerson's shares are down 39.4% and 31.6% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are down 30.1%, while the Zacks Industrial Products sector is down 30.9% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 20.3% and 25.5%, respectively.

The S&P 500 Index has moved down 23% in the year-to-date period and 12.5% in the past year.

The stock is currently trading at 11.96x forward 12-month earnings per share, which compares to 13.85x for the Zacks sub-industry, 12.95x for the Zacks sector and 14.38x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.04x and as low as 11.96x, with a 5-year median of 18.2x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$49 price target reflects 12.69x 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	11.96	13.85	12.95	14.38
	5-Year High	25.04	20.28	19.89	19.34
	5-Year Low	11.96	13.14	12.6	14.38
	5-Year Median	18.2	17.05	16.43	17.42
EV/EBITDA F12M	Current	10.45	15.27	15.58	12.34
	5-Year High	13.61	25.03	18.2	14.18
	5-Year Low	7.17	9.9	10.68	9.08
	5-Year Median	10.9	13.68	14.09	10.82
EV/Sales F12M	Current	2.27	2.53	2.8	3.04
	5-Year High	2.92	2.87	3.15	3.51
	5-Year Low	1.52	1.52	1.76	2.3
	5-Year Median	2.38	2.09	2.29	2.8

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (156 out of 253)



Top Peers

ABB Ltd (ABB)	Neutral
Badger Meter, Inc. (BMI)	Neutral
Flowserve Corporation (FLS)	Neutral
Honeywell International Inc. (HON)	Neutral
Ingersoll-Rand Inc. (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	C	-	-	B	C	C
Market Cap	28.25 B	1.83 B	17.38 B	35.98 B	96.09 B	17.38 B
# of Analysts	10	4	13	3	10	11
Dividend Yield	4.33%	0.00%	2.51%	2.92%	2.67%	2.73%
Value Score	B	-	-	B	C	D
Cash/Price	0.04	0.10	0.05	0.09	0.09	0.04
EV/EBITDA	7.95	8.37	10.90	12.72	10.75	16.21
PEG Ratio	1.47	1.41	1.54	2.68	1.68	2.14
Price/Book (P/B)	3.33	1.51	2.35	2.57	5.14	16.77
Price/Cash Flow (P/CF)	9.12	9.49	9.60	9.98	13.63	14.74
P/E (F1)	12.62	13.69	13.98	16.61	15.33	16.78
Price/Sales (P/S)	1.54	1.30	1.89	1.29	2.62	2.58
Earnings Yield	7.93%	6.95%	7.07%	6.00%	6.53%	5.96%
Debt/Equity	0.47	0.32	0.70	0.48	0.59	2.13
Cash Flow (\$/share)	5.07	1.79	7.01	1.69	9.89	10.15
Growth Score	D	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	0.92%	6.27%	10.85%	3.57%	8.56%	8.63%
Proj. EPS Growth (F1/F0)	-0.92%	4.84%	5.99%	-18.28%	7.83%	2.83%
Curr. Cash Flow Growth	7.06%	4.43%	6.15%	-3.96%	-1.43%	-0.65%
Hist. Cash Flow Growth (3-5 yrs)	-0.68%	1.94%	8.52%	-2.99%	5.69%	3.18%
Current Ratio	1.13	2.16	1.24	1.31	1.34	1.45
Debt/Capital	32.20%	23.63%	42.57%	32.63%	37.28%	68.08%
Net Margin	11.79%	6.86%	11.64%	5.14%	16.73%	13.75%
Return on Equity	25.55%	9.67%	16.74%	18.71%	32.21%	102.93%
Sales/Assets	0.88	0.88	0.54	0.62	0.62	1.05
Proj. Sales Growth (F1/F0)	-0.07%	0.00%	3.54%	-0.74%	1.89%	4.23%
Momentum Score	D	-	-	B	D	B
Daily Price Chg	-11.43%	-10.02%	-10.03%	-10.62%	-12.09%	-5.97%
1 Week Price Chg	-3.07%	-1.54%	-0.67%	-2.87%	1.15%	-2.53%
4 Week Price Chg	-36.86%	-29.66%	-28.22%	-30.80%	-25.13%	-25.63%
12 Week Price Chg	-39.31%	-27.95%	-25.63%	-30.11%	-23.60%	-26.25%
52 Week Price Chg	-31.57%	-19.91%	-16.72%	-12.25%	-13.14%	-17.21%
20 Day Average Volume	5,483,485	242,548	3,061,271	2,585,191	4,319,781	1,260,207
(F1) EPS Est 1 week change	-0.27%	0.00%	0.00%	0.00%	-0.08%	0.00%
(F1) EPS Est 4 week change	-0.15%	-0.14%	-0.32%	0.33%	-0.29%	-0.03%
(F1) EPS Est 12 week change	1.39%	-3.77%	-0.65%	-1.14%	-0.11%	-0.15%
(Q1) EPS Est Mthly Chg	-0.18%	-2.79%	-0.62%	NA	-0.33%	-0.49%

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	D
Momentum Score	D
VGM Score	C

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

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