

Emerson Electric Co.(EMR)

\$61.35 (As of 06/12/20)

Price Target (6-12 Months): **\$64.00**

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: A

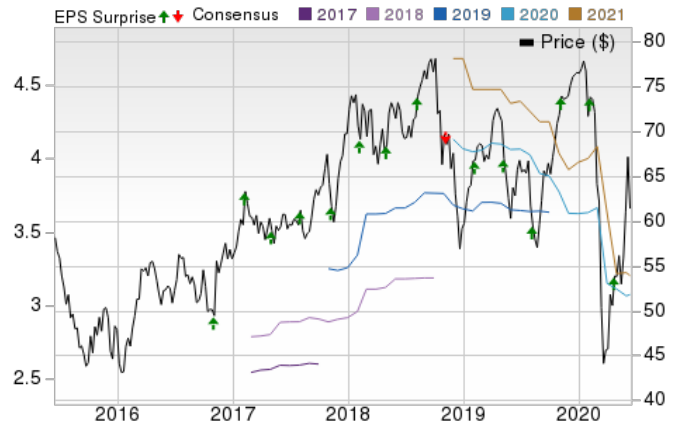
Growth: A

Momentum: B

Summary

Emerson is likely to gain from strength across its medical and life science business — with sales likely to be \$550 million in fiscal 2020 — as well as a robust backlog level. Also, the company is likely to gain from acquisitions. It is rewarding shareholders handsomely through dividends and share buybacks. However, Emerson's stock has underperformed the industry over the past six months. Also, it lowered its revenue and earnings guidance for fiscal 2020 on low demand forecast, stemming from the coronavirus outbreak. For fiscal 2020, the company predicts an organic sales decline of 7-9% from the year-ago reported figure. Also, high debt-level and currency translation-related headwinds have been affecting Emerson. In the past 60 days, the company's earnings estimates have been lowered for fiscal 2020 and fiscal 2021.

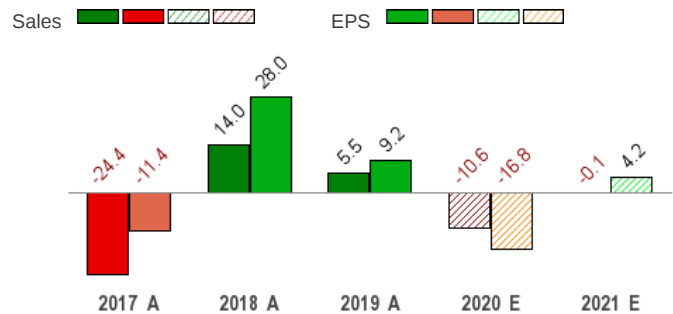
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.38 - \$37.75
20 Day Average Volume (sh)	3,524,507
Market Cap	\$36.7 B
YTD Price Change	-19.6%
Beta	1.51
Dividend / Div Yld	\$2.00 / 3.3%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Top 19% (47 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.1%
Last Sales Surprise	-4.6%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	17.2
P/E F1	20.0
PEG F1	2.3
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,738 E	3,970 E	4,550 E	4,817 E	16,415 E
2020	4,151 A	4,162 A	3,842 E	4,260 E	16,432 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	\$1.22 E	\$0.83 E	\$0.86 E	\$1.19 E	\$3.20 E
2020	\$0.67 A	\$0.89 A	\$0.59 E	\$0.91 E	\$3.07 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 06/12/2020. The reports text is as of 06/15/2020.

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:

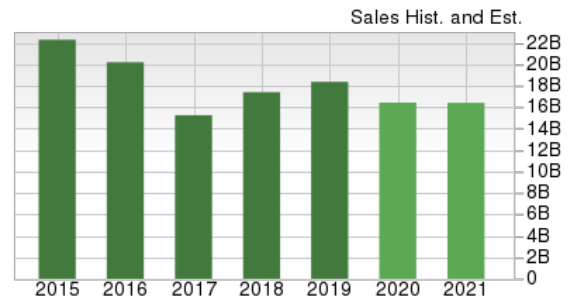
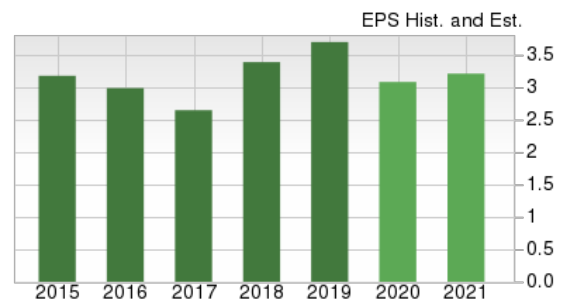
- **Automation Solutions** (65% of total revenues in second-quarter of fiscal 2020): The segment provides measurement and analytical instrumentation, valves, actuators and regulators, industrial solutions, and process control systems and solutions.

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** (35%): 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 strength across its medical and life science business, owing to robust growth in demand for its products and solutions in the end markets. For fiscal 2020, the company expects sales from the business to grow in double-digits to nearly \$550 million. Moreover, robust backlog level — which stood at \$5.1 billion at the end of the fiscal second 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 continue to support its margins, going forward. Notably, its adjusted EBIT margin for the fiscal second quarter was 18.4%, up 240 basis points (bps) year over year, driven by strong operational execution and benefits from cost control measures.

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's worth mentioning that 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. Also, the company completed the acquisition of Verdant (in March 2020), a leading provider of energy management solutions. Notably, this buyout will enable 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 \$96 million for making acquisitions (net of cash acquired) in fiscal 2019 and the first six 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 six months of fiscal 2020, the company generated net cash of \$1,012 million from operating activities, marking growth of 18.2% from the year-ago comparable period. Notably, it repurchased shares worth \$942 million in the first six months of fiscal 2020 apart from dividend disbursement of \$611 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 \$2.75 billion and free cash flow of \$2.2 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 19.4% compared with the industry's decline of 14%. In second-quarter fiscal 2020, the company's organic revenues declined 7% year over year and lagged estimates by 5.2%. Emerson was adversely impacted by weak demand environment on account of the coronavirus outbreak and persistent weakness in the North American upstream oil and gas end market. In addition, continued weakness in the downstream refining end market remains concerning. It expects overall demand to remain considerably weak along with witnessing persistent weakness in the oil and gas end markets in the quarters ahead. For the fiscal third quarter, the company anticipates organic sales to decline 13-16%. Also, for fiscal 2020, the company predicts an organic sales decline of 7-9% 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 11-13%.

Weak demand environment, persistent weakness in upstream oil and gas end markets, and adverse impacts of foreign currency translation remain concerning for Emerson.
 - ▼ Emerson's long-term debt in the last three fiscal years (2017-2019) increased 4.1% (CAGR). Notably, at the end of second-quarter fiscal 2020, the company's long-term debt was \$3,960 million, up 4.6% year over year. 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 0.34, 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 1% and 2% in the first and second quarters of fiscal 2020, respectively. The company believes that forex issues will persist in fiscal 2020, and will adversely impact its sales. In addition, analysts have become increasingly bearish about the company over the past 60 days. Its earnings estimates for fiscal 2020 have decreased from \$3.27 per share to \$3.07. In addition, earnings estimates have declined from \$3.29 per share to \$3.20 for fiscal 2021.
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Last Earnings Report

Emerson Q2 Earnings Beat Estimates, Revenues Miss

Emerson second-quarter fiscal 2020 (ended Mar 31, 2020) adjusted earnings of 89 cents per share beat the Zacks Consensus Estimate of 76 cents. Notably, the company's earnings met estimates in the last reported quarter. On a year-over-year basis, the bottom line increased 6% from 84 cents.

Top-Line Details

Emerson's revenues were \$4,162 million in the quarter, reflecting a decline of 9% from the year-ago quarter. Underlying sales were down 7% on account of the decline in demand, particularly in March, owing to the coronavirus outbreak. Forex woes had a 2% adverse impact on sales, while acquired assets had no impact.

Notably, the top line lagged the Zacks Consensus Estimate of \$4,389 million.

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

Automation Solutions' revenues were \$2,709 million, decreasing 10% year over year. Underlying sales declined 8%, while forex woes adversely impacted sales by 2%. Acquired assets had no impact on sales.

Commercial & Residential Solutions generated revenues of \$1,458 million in the fiscal second quarter, down 7% year over year. Underlying sales were down 5%, while divestitures had an adverse impact of 1% on sales. Forex woes adversely impacted sales by 1%. Under the segment, Climate Technologies' sales declined 6% year over year to \$1,026 million, while that from Tools & Home Products decreased 7.9% to \$432 million.

Gross Margin

In the quarter under review, Emerson's cost of sales decreased 8.8% year over year to \$2,412 million. It represented 58% of net revenues compared with 57.9% in the year-ago quarter. Gross margin was relatively flat at 42.1%. Selling, general and administrative (SG&A) expenses declined 14.1% year over year to \$983 million. As a percentage of sales, SG&A expenses were 23.6%, down from 25.1% in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the fiscal second quarter, Emerson had cash and cash equivalents of \$2,583 million, up from \$1,384 million at the end of the year-ago quarter. Long-term debt balance increased 4.6% year over year to \$3,960 million. During the first six months of fiscal 2020, the company repaid debts of \$502 million.

In the first six months of fiscal 2020, it generated net cash of \$1,012 million from operating activities, reflecting an increase of 18.2% from the year-ago comparable period. Capital expenditure was \$225 million, down from \$274 million in the year-ago comparable period.

During the first six months of fiscal 2020, the company paid out dividends amounting to \$611 million and repurchased shares worth \$942 million.

Outlook

For fiscal 2020 (ending September 2020), it anticipates net sales decline of 9-11%. Underlying sales are expected to fall 7-9%.

Adjusted earnings per share are predicted to be \$3.00-\$3.20 for fiscal 2020.

Emerson estimates Automation Solutions' net sales to decline 8-10%, while Commercial & Residential Solutions' net sales are projected to decline 11-13%.

Notably, the company anticipates substantial demand decline in the fiscal third quarter and persistent weak demand in the quarters ahead.

Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	-4.55%
EPS Surprise	17.11%
Quarterly EPS	0.89
Annual EPS (TTM)	3.57

Recent News

On **Jun 10, 2020**, Emerson paid a quarterly cash dividend of 50 cents per share to shareholders of record as on May 15, 2020.

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.

On **Apr 16, 2020**, Emerson announced that it entered a multi-year deal with a leading Argentinian energy company YPF S.A. The agreement will allow YPF to leverage Emerson's exploration and production software for seismic data interpretation and visualization.

On **Apr 2, 2020**, Emerson announced that it completed the buyout of American Governor Company. The acquisition will strengthen the company's technology capabilities and expertise in the renewables and power industry. Notably, the addition will help Emerson in providing comprehensive solutions to its power customers.

Valuation

Emerson's shares are down 19.6% and 2.1% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 14.4% and 14.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 3.1% and down 7.1%, respectively.

The S&P 500 Index has moved down 5.6% year to date and increased 5.3% in the past year.

The stock is currently trading at 19.41x forward 12-month earnings per share, which compares to 22.53x for the Zacks sub-industry, 21.36x for the Zacks sector and 21.93x 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 18.3x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$64 price target reflects 20.38x 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	19.41	22.53	21.36	21.93
	5-Year High	25.04	22.53	21.36	22.11
	5-Year Low	10.26	13.13	12.55	15.23
	5-Year Median	18.3	17.26	16.66	17.49
EV/EBITDA F12M	Current	12.07	21.44	20.66	14.17
	5-Year High	13.61	24.99	20.66	14.17
	5-Year Low	7.17	9.93	10.6	9.01
	5-Year Median	11.08	13.95	14.15	10.94
EV/Sales F12M	Current	2.54	3.18	3.4	3.38
	5-Year High	2.92	3.18	3.4	3.51
	5-Year Low	1.52	1.52	1.76	2.28
	5-Year Median	2.39	2.13	2.32	2.82

As of 06/12/2020

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
ABB Ltd (ABB)	Neutral	3
Badger Meter, Inc. (BMI)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	2
ParkerHannifin Corporation (PH)	Neutral	2
Rockwell Automation, Inc. (ROK)	Neutral	3
Roper Technologies, Inc. (ROP)	Neutral	3
Flowserve Corporation (FLS)	Underperform	4

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	-	-	3	3	3
VGM Score	A	-	-	D	C	B
Market Cap	36.66 B	2.12 B	21.47 B	45.25 B	101.42 B	24.11 B
# of Analysts	7	4	14	3	10	10
Dividend Yield	3.26%	0.39%	1.96%	2.47%	2.49%	1.96%
Value Score	A	-	-	D	C	C
Cash/Price	0.06	0.10	0.06	0.14	0.08	0.02
EV/EBITDA	9.87	10.53	12.36	15.21	11.57	22.32
PEG Ratio	2.32	3.18	2.92	4.83	2.80	5.34
Price/Book (P/B)	4.85	2.36	2.96	3.76	5.68	25.71
Price/Cash Flow (P/CF)	12.11	12.38	11.51	12.38	14.61	20.52
P/E (F1)	19.89	23.63	20.86	29.96	20.86	29.01
Price/Sales (P/S)	2.04	1.66	2.25	1.65	2.79	3.57
Earnings Yield	5.00%	3.79%	4.55%	3.35%	4.80%	3.45%
Debt/Equity	0.52	0.19	0.76	0.62	0.65	2.37
Cash Flow (\$/share)	5.07	2.20	7.01	1.69	9.89	10.15
Growth Score	A	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	2.96%	6.15%	10.87%	3.42%	8.38%	9.61%
Proj. EPS Growth (F1/F0)	-16.69%	-23.44%	-10.81%	-43.82%	-15.11%	-17.22%
Curr. Cash Flow Growth	7.06%	2.39%	5.46%	-3.96%	-1.43%	-0.65%
Hist. Cash Flow Growth (3-5 yrs)	-0.68%	2.76%	8.55%	-2.99%	5.69%	3.18%
Current Ratio	1.01	2.12	1.29	1.18	1.30	1.57
Debt/Capital	34.37%	16.14%	44.75%	38.38%	39.26%	70.33%
Net Margin	12.04%	5.53%	10.54%	4.68%	17.38%	10.54%
Return on Equity	26.66%	9.49%	16.08%	19.64%	33.60%	118.85%
Sales/Assets	0.85	0.70	0.55	0.59	0.62	1.04
Proj. Sales Growth (F1/F0)	-10.56%	-3.02%	-2.60%	-14.36%	-13.30%	-6.18%
Momentum Score	B	-	-	B	C	D
Daily Price Chg	1.47%	1.61%	1.48%	2.35%	0.75%	1.03%
1 Week Price Chg	9.96%	10.27%	7.51%	9.97%	10.64%	5.20%
4 Week Price Chg	14.93%	14.90%	9.78%	19.19%	13.74%	8.99%
12 Week Price Chg	33.31%	30.19%	27.11%	30.36%	21.48%	54.12%
52 Week Price Chg	-2.93%	0.79%	-5.42%	8.25%	-16.56%	30.68%
20 Day Average Volume	3,524,507	203,076	2,634,935	2,098,928	3,589,375	1,193,493
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	9.71%	0.00%	0.00%
(F1) EPS Est 4 week change	0.19%	0.00%	0.00%	9.71%	-0.29%	-0.31%
(F1) EPS Est 12 week change	-16.40%	-28.00%	-15.86%	-31.25%	-21.20%	-19.54%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	-3.16%

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	A
Growth Score	A
Momentum Score	B
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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