



Emerson Electric Company (EMR)

Updated February 13th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	4.7%	Market Cap:	\$46.1B
Fair Value Price:	\$66	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/15/20 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	06/10/20 ²
Dividend Yield:	2.7%	5 Year Price Target	\$84	Years Of Dividend Growth:	62
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.0%

Overview & Current Events

Emerson Electric was founded in Missouri in 1890 and since that time, it has evolved through organic growth, as well as strategic acquisitions and divestitures, from a regional manufacturer of electric motors and fans into a \$46 billion diversified global leader in technology and engineering. Its global customer base and diverse product and service offerings afford it \$18+ billion in annual revenue. The company's very impressive 62-year dividend increase streak lands it on the prestigious Dividend Kings list.

Emerson reported Q1 earnings on February 4th and results were in line with expectations for both revenue and profit. Net sales were flat in Q1 with the prior year quarter, with organic sales also coming in flat. Strength in Commercial & Residential Solutions was offset by weakness in North American upstream oil and gas markets. Underlying orders were up 1% in Q1, including some LNG project wins.

Gross profit margin was 42.4%, flat with the year-ago period. Favorable pricing was offset by unfavorable mix, as sales in some of the company's more profitable lines declined. Pretax margin was 10.2% of revenue in Q1 and EBIT margin was 11%, down 4% and 4.3%, respectively. However, much of the decline was due to restructuring charges, and without these, EBIT margin would have been 13.7%, down 1.8%. The company suffered a 2.2% decline from currency exchange alone in Q1.

Adjusted earnings-per-share came to \$0.67, in line with prior guidance, and despite lower sales. Operating cash flow was \$424 million, up \$101 million from the same period last year. Free cash flow was \$310 million, up \$142 million and reflecting free cash flow conversion of 94% in Q1.

Management continues to be cautious on the macro environment, but announced \$97 million in cost saving actions. We think slightly better margins are good enough to warrant a nickel increase in earnings-per-share for this year, so our target has moved up to \$3.65 from \$3.60.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.60	\$3.24	\$2.67	\$3.54	\$3.75	\$3.17	\$2.46	\$2.54	\$3.46	\$3.71	\$3.65	\$4.66
DPS	\$1.34	\$1.38	\$1.60	\$1.66	\$1.72	\$1.88	\$1.90	\$1.92	\$1.94	\$1.96	\$2.00	\$2.32
Shares³	753	739	724	707	697	655	643	642	641	632	630	622

The majority of Emerson's revenue is exposed to the oil and gas industry, where revenue and margins change significantly, introducing risk to forecasts. We're estimating growth at 3% as management has become less bullish, and as there are obvious signs of organic revenue growth weakness. We see the challenging environment for fiscal 2020 as indicative of longer-term demand issues that have been building for Emerson. We still think low single-digit growth in

¹ Estimated date

² Estimated date

³ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Emerson Electric Company (EMR)

Updated February 13th, 2020 by Josh Arnold

revenue and a small tailwind from the buyback will be the key drivers of earnings-per-share growth in the coming years, and margins have been a positive wildcard of late.

The dividend is also expected to grow in the low-single-digits as recent years have seen Emerson focus more on acquisitions and share repurchases than growing the dividend. Growth rates will likely be unimpressive as the company continues to focus on using its ample cash flow on acquisitions, not dividend growth.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.8	16.8	18.3	15.8	17.6	18.0	20.6	22.9	20.5	17.7	20.7	18.0
Avg. Yld.	2.9%	2.5%	3.3%	3.0%	2.6%	3.3%	3.8%	3.3%	2.7%	3.0%	2.7%	2.8%

Emerson's price-to-earnings ratio has increased significantly of late due to a strong rally in the stock. Emerson is back to 20.7 times earnings, which is well above our estimate of fair value at 18. We are therefore forecasting a -2.7% headwind from the valuation in the coming years. We see the yield rising slightly over time as the share price could be outpaced by growth in the payout. This is particularly true now that the valuation is so much higher. We think Emerson shares have rallied at exactly the wrong time, and are far less attractive as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	51%	42%	60%	46%	61%	60%	77%	75%	58%	53%	55%	50%

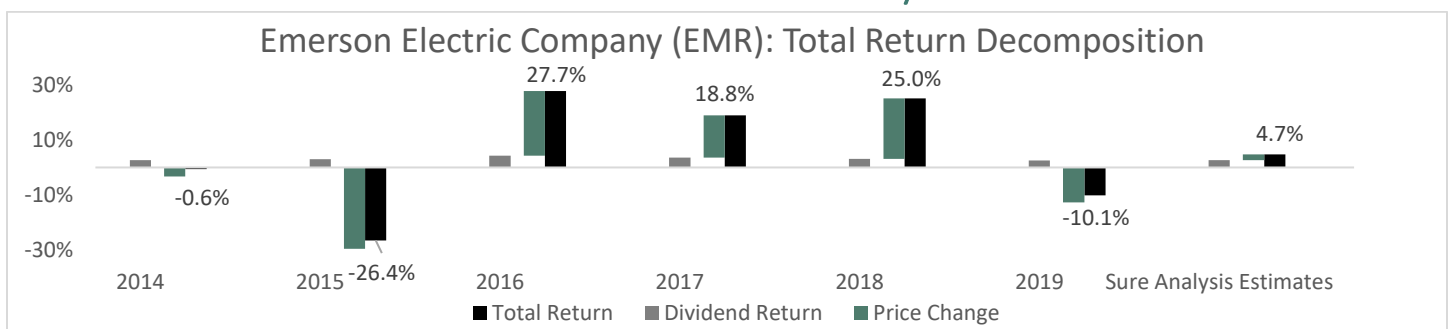
Emerson's payout ratio remains around half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is strong, so it is certainly a suitable dividend stock.

Emerson's competitive advantage is in its many decades of experience in building customer relationships and engineering excellence. It has a global customer base that is seeing strong economic growth and that underlying sales tailwind should power results going forward. It is very susceptible to recessions given its oil and gas exposure, however, so any signs of economic weakness should put investors on alert.

Final Thoughts & Recommendation

With the rally in shares in recent weeks, Emerson looks quite expensive once again. Our growth forecast, combined with shares at 115% of our estimate of fair value, and a lower dividend yield to boot, means we see 4.7% total annual returns in the coming years. We think fiscal 2020 will disappoint investors, but we also think the stock is pricing in growth that we don't believe will come to fruition. We are upgrading Emerson from sell to hold on slightly higher expected total returns, but note that the valuation of the stock is still well in excess of our fair value estimate.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Emerson Electric Company (EMR)

Updated February 13th, 2020 by Josh Arnold

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	21039	24222	24412	24669	17733	16249	14522	15264	17408	
Gross Profit	8326	9557	9768	9952	7762	7008	6262	6404	7460	
Gross Margin	39.6%	39.5%	40.0%	40.3%	43.8%	43.1%	43.1%	42.0%	42.9%	
SG&A Exp.	4817	5328	5436	5648	4164	3735	3464	3618	4258	
D&A Exp.	816	867	823	819	569	573	568	636	758	
Operating Profit	3509	3849	3881	3942	3426	3081	2600	2578	2891	
Op. Margin	16.7%	15.9%	15.9%	16.0%	19.3%	19.0%	17.9%	16.9%	16.6%	
Net Profit	2164	2480	1968	2004	2147	2710	1635	1518	2203	
Net Margin	10.3%	10.2%	8.1%	8.1%	12.1%	16.7%	11.3%	9.9%	12.7%	
Free Cash Flow	2768	2586	2388	2971	3041	1941	2434	1436	2275	
Income Tax	848	1127	1091	1130	953	1267	697	660	443	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	22843	23861	23818	24711	24177	22088	21732	19589	20390	
Cash & Equivalents	1592	2052	2367	3275	3149	3054	3182	3062	1093	
Acc. Receivable	4087	4611	4983	4808	5019	2870	2701	3072	3344	
Inventories	2105	2100	2125	1895	2057	1265	1208	1696	1813	
Goodwill & Int.	10806	10740	9864	9181	8871	4785	4811	7206	9206	
Total Liabilities	12891	13310	13376	13993	14010	13960	14114	10819	11400	
Accounts Payable	2409	2677	2767	2725	2951	1537	1517	1776	1943	
Long-Term Debt	5066	5201	5293	5642	6024	6841	6635	4656	4760	
Total Equity	9792	10399	10295	10585	10119	8081	7568	8718	N/A	
D/E Ratio	0.5174	0.5001	0.5141	0.533	0.5953	0.8466	0.8767	0.5341	N/A	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.2%	10.6%	8.3%	8.3%	8.8%	11.7%	7.5%	7.3%	11.0%	
Return on Equity	23.6%	24.6%	19.0%	19.2%	20.7%	29.8%	20.9%	18.6%	N/A	
ROIC	15.3%	16.1%	12.5%	12.5%	13.2%	17.4%	11.2%	11.0%	N/A	
Shares Out.	753	739	724	707	697	655	643	642	641	
Revenue/Share	27.79	32.15	33.23	34.13	25.19	24.02	22.45	23.72	27.40	
FCF/Share	3.66	3.43	3.25	4.11	4.32	2.87	3.76	2.23	3.58	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.