



Emerson Electric Company (EMR)

Updated February 14th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	7.4%	Market Cap:	\$50 B
Fair Value Price:	\$77	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/16/23
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.4%	Dividend Payment Date:	03/10/23
Dividend Yield:	2.4%	5 Year Price Target	\$113	Years Of Dividend Growth:	66
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$50 billion diversified global leader in technology and engineering. Its global customer base and diverse product and service offerings afford it about \$15 billion in annual revenue. The company's very impressive 66-year dividend increase streak lands it on the prestigious Dividend Kings list.

Emerson reported first quarter earnings on February 8th, 2023, and results were much weaker than expected. Adjusted earnings-per-share came to 78 cents, which was nine cents worse than expected. Revenue was \$3.37 billion, which was 6.6% higher than the comparable period a year ago, but missed estimates by \$60 million.

Profit increased by 250% to \$3.97 per share, or \$2.33 billion, year-over-year. However, earnings from continuing operations plummeted from \$1.25 per share to 56 cents.

Underlying orders were up 5% year-over-year, as net sales were up 7% in total. Organic sales were up 6%. The Americas led the way with 13% growth, while Europe lagged at -2%.

Adjusted segment EBITDA was 22.7% of revenue, up 130bps year-over-year.

Emerson noted it is pursuing National Instruments (NATI) for \$53 per share, or about \$7 billion, in order to help drive future growth.

The company expects \$4.00 to \$4.15 in earnings-per-share for this year, and we've left our estimate of \$4.05 unchanged as a result.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.54	\$3.75	\$3.17	\$2.46	\$2.54	\$3.46	\$3.71	\$3.46	\$4.10	\$5.25	\$4.05	\$5.95
DPS	\$1.66	\$1.72	\$1.88	\$1.90	\$1.92	\$1.94	\$1.96	\$2.00	\$2.04	\$2.06	\$2.08	\$2.41
Shares¹	707	697	655	643	642	641	632	601	595	591	585	550

Emerson is undergoing a significant shift in its strategy, whereby it is selling off legacy units and focusing more on automation and recurring revenue. We're estimating growth at 8% as management remains bullish, and as there are signs of organic revenue growth improvement, as well as with respect to margins. We still think low single-digit growth in revenue and a tailwind from the buyback will be the key drivers of earnings-per-share growth in the coming years, and we see Emerson as rebounding. We note there is likely to be significant earnings weakness while the transformation plays out, including a slow start to fiscal 2023.

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 above average dividend growth.

¹ 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.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.8	17.6	18.0	20.6	22.9	20.5	17.7	18.8	18.2	13.9	21.5	19.0
Avg. Yld.	3.0%	2.6%	3.3%	3.8%	3.3%	2.7%	3.0%	3.1%	2.3%	2.8%	2.4%	2.1%

Emerson's price-to-earnings ratio is up since our last update, at 21.5 times earnings, which is ahead of our estimate of fair value at 19. We are therefore forecasting a modest negative impact from the valuation in the coming years on total returns. We see the yield as declining over time, primarily from small dividend increases. If free cash flow weakens, growth rates in the dividend could moderate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	46%	61%	60%	77%	75%	58%	53%	58%	50%	39%	51%	41%

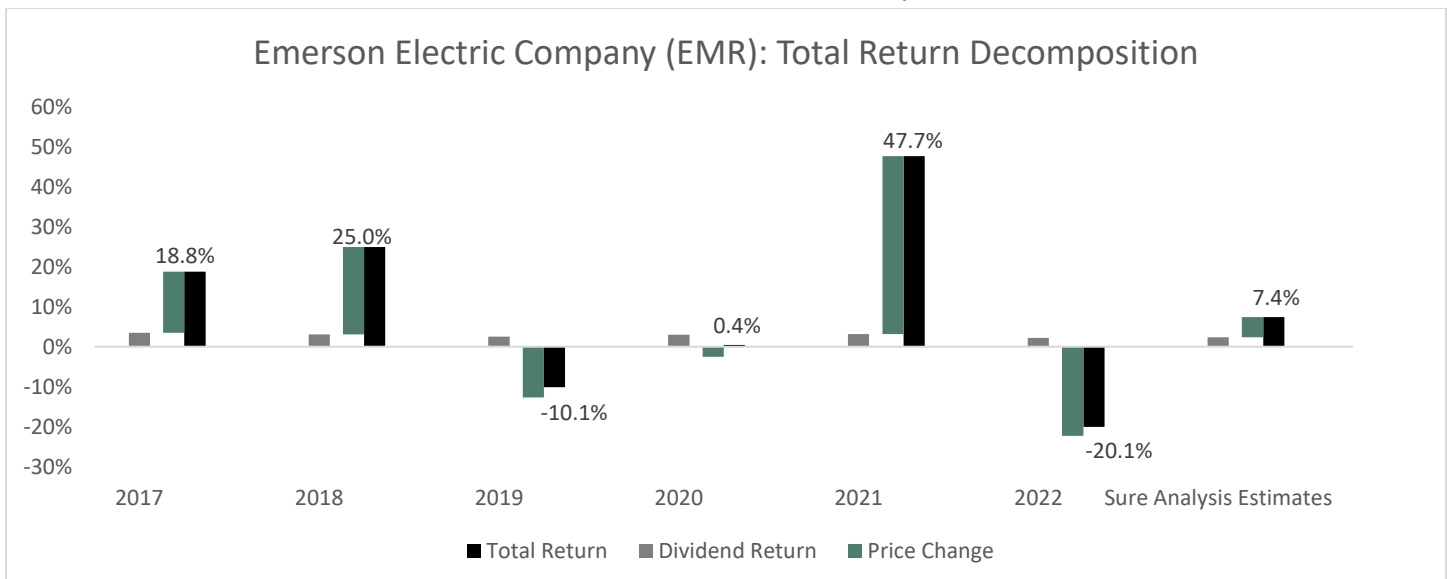
Emerson's payout ratio is right at half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is decent, so it is a suitable dividend stock. We also note that Emerson likes to buy back its stock, which puts a natural cap on how much the company is willing to use for dividend payments.

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, however, so any signs of economic weakness should put investors on alert, as we saw in 2020.

Final Thoughts & Recommendation

With recent price action, Emerson is now overvalued in our view. Our growth forecast, combined with shares at 113% of our estimate of fair value, and a higher dividend yield, means we are forecasting 7.4% total annual returns in the coming years. We reiterate the stock at a hold rating, driven by a 2.4% valuation headwind that should be offset by the 2.4% yield and 8% earnings growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	24,669	17,733	16,249	14,522	15,264	17,408	18,372	16,785	18,236	19,629
Gross Profit	9,952	7,762	7,008	6,262	6,431	7,432	7,815	7,009	7,563	8,188
Gross Margin	40.3%	43.8%	43.1%	43.1%	42.1%	42.7%	42.5%	41.8%	41.5%	41.7%
SG&A Exp.	5,648	4,164	3,735	3,464	3,607	4,269	4,457	3,986	4,179	4,248
D&A Exp.	819	569	573	568	636	758	822	854	969	1,039
Operating Profit	4,006	3,503	3,179	2,714	2,688	2,952	3,120	2,784	3,084	3,583
Op. Margin	16.2%	19.8%	19.6%	18.7%	17.6%	17.0%	17.0%	16.6%	16.9%	18.3%
Net Profit	2,004	2,147	2,710	1,635	1,518	2,203	2,306	1,965	2,303	3,231
Net Margin	8.1%	12.1%	16.7%	11.3%	9.9%	12.7%	12.6%	11.7%	12.6%	16.4%
Free Cash Flow	2,971	3,041	1,941	2,434	1,436	2,275	2,412	2,545	2,994	2,391
Income Tax	1,130	953	1,267	697	660	443	531	345	585	855

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	24,711	24,177	22,088	21,732	19,589	20,390	20,497	22,882	24,715	35,672
Cash & Equivalents	3,275	3,149	3,054	3,182	3,062	1,093	1,494	3,315	2,354	1,804
Acc. Receivable	4,808	5,019	2,870	2,701	3,072	3,023	2,985	2,802	2,971	3,008
Inventories	1,895	2,057	1,265	1,208	1,696	1,813	1,880	1,928	2,050	2,191
Goodwill & Int.	9,181	8,871	4,785	4,811	7,206	9,206	9,151	9,202	10,600	21,386
Total Liabilities	13,993	14,010	13,960	14,114	10,819	11,400	12,224	14,435	14,792	19,356
Accounts Payable	2,725	2,951	1,537	1,517	1,776	1,943	1,874	1,715	2,108	2,028
Long-Term Debt	5,642	6,024	6,841	6,635	4,656	4,760	5,721	7,486	6,665	10,374
Total Equity	10,585	10,119	8,081	7,568	8,718	8,947	8,233	8,405	9,883	10,364
LTD/E Ratio	0.53	0.60	0.85	0.88	0.53	0.53	0.69	0.89	0.67	1.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.3%	8.8%	11.7%	7.5%	7.3%	11.0%	11.3%	9.1%	9.7%	10.7%
Return on Equity	19.2%	20.7%	29.8%	20.9%	18.6%	24.9%	26.8%	23.6%	25.2%	31.9%
ROIC	12.5%	13.2%	17.4%	11.2%	11.0%	16.2%	16.6%	13.1%	14.2%	14.9%
Shares Out.	707	697	655	643	642	641	632	601	602	596
Revenue/Share	34.13	25.19	24.02	22.45	23.72	27.40	29.60	27.67	30.30	32.92
FCF/Share	4.11	4.32	2.87	3.76	2.23	3.58	3.89	4.20	4.98	4.01

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

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