



# Emerson Electric Company (EMR)

Updated May 6<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$84	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$48 B
<b>Fair Value Price:</b>	\$78	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	05/11/23
<b>% Fair Value:</b>	108%	<b>5 Year Valuation Multiple Estimate:</b>	-1.5%	<b>Dividend Payment Date:</b>	06/09/23
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$109	<b>Years Of Dividend Growth:</b>	66
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$48 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 posted second quarter earnings on May 3<sup>rd</sup>, 2023, and results were better than expected on both the top and bottom lines. The company posted adjusted earnings-per-share of \$1.09, which was 10 cents better than expected. Revenue was up 14.3% year-over-year to \$3.76 billion, and was \$110 million ahead of estimates.

Underlying orders were up 7% year-over-year, while underlying sales were up 14%. Pretax earnings were up sharply from \$509 million to \$639 million year-over-year. Margin rose 150 basis points as well, up from 15.5% of revenue to 17%. Adjusted segment EBITA was up from \$703 million to \$924 million. From a margin perspective, EBITA rose from 21.4% of revenue to 24.6%.

Free cash flow soared 64% year-over-year to \$513 million, mostly on strong operating cash flow growth.

Management said strong end market demand and strong execution from Emerson from a cost perspective helped Q2 results. They noted underlying sales, operating leverage, and earnings exceeded their estimates.

We now see \$4.10 in earnings-per-share for this year after Q2 results, largely unchanged.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.54	\$3.75	\$3.17	\$2.46	\$2.54	\$3.46	\$3.71	\$3.46	\$4.10	\$5.25	<b>\$4.10</b>	<b>\$5.75</b>
<b>DPS</b>	\$1.66	\$1.72	\$1.88	\$1.90	\$1.92	\$1.94	\$1.96	\$2.00	\$2.04	\$2.06	<b>\$2.08</b>	<b>\$2.41</b>
<b>Shares<sup>1</sup></b>	707	697	655	643	642	641	632	601	595	591	<b>585</b>	<b>550</b>

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 of 7% 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.

<sup>1</sup> 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 May 6<sup>th</sup>, 2023, by Josh Arnold

## 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	20.5	19.0
Avg. Yld.	3.0%	2.6%	3.3%	3.8%	3.3%	2.7%	3.0%	3.1%	2.3%	2.8%	2.5%	2.2%

Emerson's price-to-earnings ratio is down since our last update, at 20.5 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%	42%

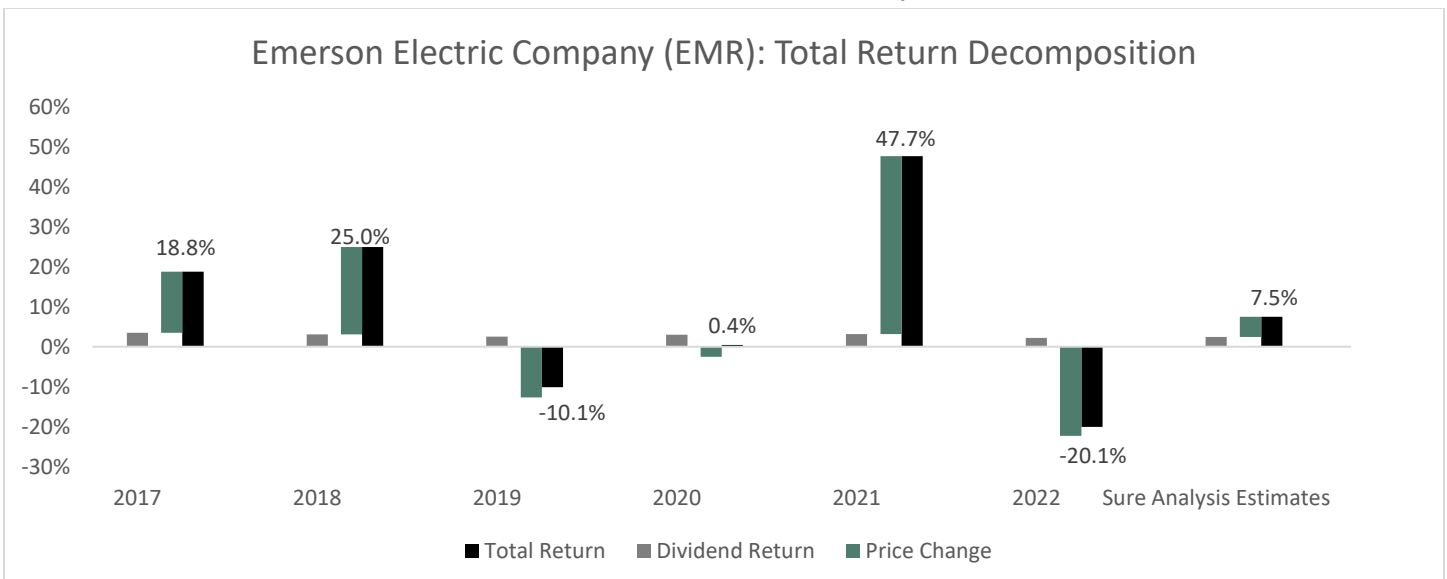
Emerson's payout ratio is right at half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is decent, so it is a suitable 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 still overvalued in our view. Our growth forecast, combined with shares at 108% of our estimate of fair value, and a higher dividend yield, means we are forecasting 7.5% total annual returns in the coming years. We reiterate the stock at a hold rating, driven by a 1.5% valuation headwind that should be offset by the 2.5% yield and 7% earnings growth.

## 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 May 6<sup>th</sup>, 2023, by Josh Arnold

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	24,669	17,733	16,249	14,522	15,264	17,408	18,372	16,785	18,236	19,629
<b>Gross Profit</b>	9,952	7,762	7,008	6,262	6,431	7,432	7,815	7,009	7,563	8,188
<b>Gross Margin</b>	40.3%	43.8%	43.1%	43.1%	42.1%	42.7%	42.5%	41.8%	41.5%	41.7%
<b>SG&amp;A Exp.</b>	5,648	4,164	3,735	3,464	3,607	4,269	4,457	3,986	4,179	4,248
<b>D&amp;A Exp.</b>	819	569	573	568	636	758	822	854	969	1,039
<b>Operating Profit</b>	4,006	3,503	3,179	2,714	2,688	2,952	3,120	2,784	3,084	3,583
<b>Op. Margin</b>	16.2%	19.8%	19.6%	18.7%	17.6%	17.0%	17.0%	16.6%	16.9%	18.3%
<b>Net Profit</b>	2,004	2,147	2,710	1,635	1,518	2,203	2,306	1,965	2,303	3,231
<b>Net Margin</b>	8.1%	12.1%	16.7%	11.3%	9.9%	12.7%	12.6%	11.7%	12.6%	16.4%
<b>Free Cash Flow</b>	2,971	3,041	1,941	2,434	1,436	2,275	2,412	2,545	2,994	2,391
<b>Income Tax</b>	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
<b>Total Assets</b>	24,711	24,177	22,088	21,732	19,589	20,390	20,497	22,882	24,715	35,672
<b>Cash &amp; Equivalents</b>	3,275	3,149	3,054	3,182	3,062	1,093	1,494	3,315	2,354	1,804
<b>Acc. Receivable</b>	4,808	5,019	2,870	2,701	3,072	3,023	2,985	2,802	2,971	3,008
<b>Inventories</b>	1,895	2,057	1,265	1,208	1,696	1,813	1,880	1,928	2,050	2,191
<b>Goodwill &amp; Int.</b>	9,181	8,871	4,785	4,811	7,206	9,206	9,151	9,202	10,600	21,386
<b>Total Liabilities</b>	13,993	14,010	13,960	14,114	10,819	11,400	12,224	14,435	14,792	19,356
<b>Accounts Payable</b>	2,725	2,951	1,537	1,517	1,776	1,943	1,874	1,715	2,108	2,028
<b>Long-Term Debt</b>	5,642	6,024	6,841	6,635	4,656	4,760	5,721	7,486	6,665	10,374
<b>Total Equity</b>	10,585	10,119	8,081	7,568	8,718	8,947	8,233	8,405	9,883	10,364
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.3%	8.8%	11.7%	7.5%	7.3%	11.0%	11.3%	9.1%	9.7%	10.7%
<b>Return on Equity</b>	19.2%	20.7%	29.8%	20.9%	18.6%	24.9%	26.8%	23.6%	25.2%	31.9%
<b>ROIC</b>	12.5%	13.2%	17.4%	11.2%	11.0%	16.2%	16.6%	13.1%	14.2%	14.9%
<b>Shares Out.</b>	707	697	655	643	642	641	632	601	602	596
<b>Revenue/Share</b>	34.13	25.19	24.02	22.45	23.72	27.40	29.60	27.67	30.30	32.92
<b>FCF/Share</b>	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.

### 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.