



Emerson Electric Company (EMR)

Updated May 10th, 2025, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------------|----------------------------------|----------|
| Current Price: | \$113 | 5 Year CAGR Estimate: | 10.5% | Market Cap: | \$63 B |
| Fair Value Price: | \$119 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 05/16/25 |
| % Fair Value: | 95% | 5 Year Valuation Multiple Estimate: | 1.0% | Dividend Payment Date: | 06/10/25 |
| Dividend Yield: | 1.9% | 5 Year Price Target | \$175 | Years Of Dividend Growth: | 68 |
| Dividend Risk Score: | A | Sector: | Industrials | 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 \$63 billion diversified global leader in technology and engineering. Its global customer base and diverse product and service offerings afford it more than \$18 billion in annual revenue. The company's very impressive 68-year dividend increase streak lands it on the prestigious Dividend Kings list.

Emerson posted second quarter earnings on May 7th, 2025, and results were better than expected on both the top and bottom lines. Revenue was up 1.1% year-over-year to \$4.43 billion, beating estimates by \$50 million. The company consummated its acquisition of AspenTech during the quarter. Underlying sales were up 2% after adjusting for currency impacts.

Free cash flow was up 14% to \$738 million, while operating cash flow climbed to \$825 million. Adjusted segment earnings pretax rose by 200 basis points to 28% of revenue, a new quarterly record. Adjusted earnings were up 6% year-over-year.

Emerson expects AspenTech to generate about \$100 million in cost savings by 2028. In addition, the company is keeping the Safety and Productivity business after the strategic review.

We've reduced earnings estimates by a nickel for this year to \$5.95 per share.

Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$3.17 | \$2.46 | \$2.54 | \$3.46 | \$3.71 | \$3.46 | \$4.10 | \$5.25 | \$4.28 | \$5.49 | \$5.95 | \$8.74 |
| DPS | \$1.88 | \$1.90 | \$1.92 | \$1.94 | \$1.96 | \$2.00 | \$2.04 | \$2.06 | \$2.08 | \$2.10 | \$2.11 | \$2.45 |
| Shares¹ | 655 | 643 | 642 | 641 | 632 | 601 | 595 | 591 | 575 | 570 | 565 | 545 |

Emerson is undergoing a significant shift in its strategy, whereby it is selling off legacy units and focusing more on automation and recurring revenue, with the AspenTech acquisition being another example of this strategy in practice. We're estimating growth of 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, noting that guidance for this year is quite bullish at this point, implying record earnings by a wide margin. In addition, AspenTech is providing higher margins in addition to cost savings.

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 and debt reduction, 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 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 18.0 | 20.6 | 22.9 | 20.5 | 17.7 | 18.8 | 18.2 | 13.9 | 22.6 | 19.9 | 19.0 | 20.0 |
| Avg. Yld. | 3.3% | 3.8% | 3.3% | 2.7% | 3.0% | 3.1% | 2.3% | 2.8% | 2.2% | 1.9% | 1.9% | 1.4% |

Emerson's price-to-earnings ratio is down since our last update, at 19 times earnings, which is fractionally below our estimate of fair value at 20. We are therefore forecasting a small headwind from the valuation in the coming years on total returns. We see the yield as declining over time, primarily from small dividend increases. FCF remains strong, but as mentioned, the management team is producing extremely small dividend increases in recent years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 60% | 77% | 75% | 58% | 53% | 58% | 50% | 39% | 49% | 38% | 35% | 28% |

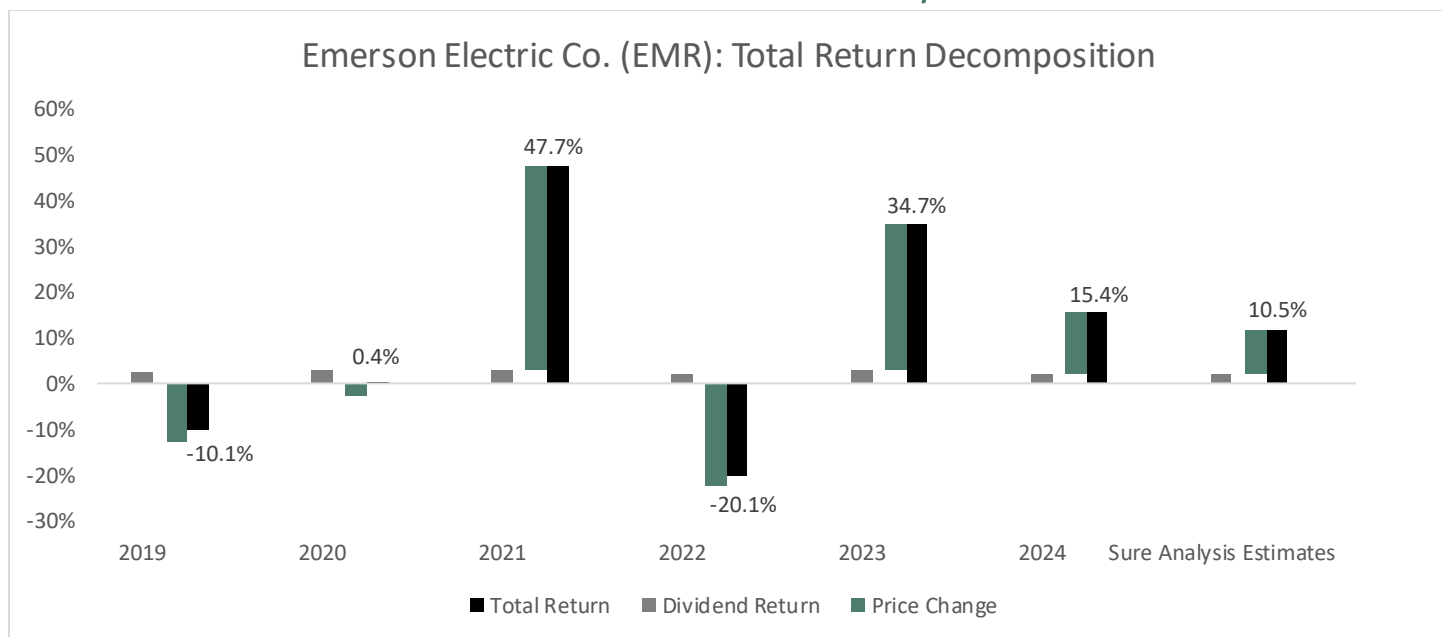
Emerson's payout ratio is well under half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is decent, so it is a suitable dividend stock. We also note that Emerson likes to buy back its stock and make sizable acquisitions, 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 slightly undervalued in our view. Our 8% growth forecast, combined with shares at 95% of our estimate of fair value and a modest dividend yield, means we are forecasting 10.5% total annual returns in the coming years. We are reiterating shares at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 16,249 | 14,522 | 15,264 | 17,408 | 18,372 | 16,785 | 18,236 | 19,629 | 15,165 | 17,492 |
| Gross Profit | 7,008 | 6,262 | 6,431 | 7,432 | 7,815 | 7,009 | 7,563 | 8,188 | 7,427 | 8,885 |
| Gross Margin | 43.1% | 43.1% | 42.1% | 42.7% | 42.5% | 41.8% | 41.5% | 41.7% | 49.0% | 50.8% |
| SG&A Exp. | 3,735 | 3,464 | 3,607 | 4,269 | 4,457 | 3,986 | 4,179 | 4,248 | 4,186 | 5,142 |
| D&A Exp. | 573 | 568 | 636 | 758 | 822 | 854 | 969 | 1,039 | 1,051 | 1,689 |
| Operating Profit | 3,179 | 2,714 | 2,688 | 2,952 | 3,120 | 2,784 | 3,084 | 3,583 | 2,630 | 2,666 |
| Op. Margin | 19.6% | 18.7% | 17.6% | 17.0% | 17.0% | 16.6% | 16.9% | 18.3% | 17.3% | 15.2% |
| Net Profit | 2,710 | 1,635 | 1,518 | 2,203 | 2,306 | 1,965 | 2,303 | 3,231 | 13,219 | 1,968 |
| Net Margin | 16.7% | 11.3% | 9.9% | 12.7% | 12.6% | 11.7% | 12.6% | 16.4% | 87.2% | 11.3% |
| Free Cash Flow | 1,941 | 2,434 | 1,436 | 2,275 | 2,412 | 2,545 | 2,994 | 2,391 | 274 | 2,913 |
| Income Tax | 1,267 | 697 | 660 | 443 | 531 | 345 | 585 | 855 | 599 | 415 |

Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 22,088 | 21,732 | 19,589 | 20,390 | 20,497 | 22,882 | 24,715 | 35,672 | 42,746 | 44,246 |
| Cash & Equivalents | 3,054 | 3,182 | 3,062 | 1,093 | 1,494 | 3,315 | 2,354 | 1,804 | 8,051 | 3,588 |
| Acc. Receivable | 2,870 | 2,701 | 3,072 | 3,023 | 2,985 | 2,802 | 2,971 | 3,008 | 2,518 | 2,927 |
| Inventories | 1,265 | 1,208 | 1,696 | 1,813 | 1,880 | 1,928 | 2,050 | 2,191 | 2,006 | 2,180 |
| Goodwill & Int. | 4,785 | 4,811 | 7,206 | 9,206 | 9,151 | 9,202 | 10,600 | 21,386 | 20,743 | 28,503 |
| Total Liabilities | 13,960 | 14,114 | 10,819 | 11,400 | 12,224 | 14,435 | 14,792 | 19,356 | 16,148 | 16,737 |
| Accounts Payable | 1,537 | 1,517 | 1,776 | 1,943 | 1,874 | 1,715 | 2,108 | 2,028 | 1,275 | 1,335 |
| Long-Term Debt | 6,841 | 6,635 | 4,656 | 4,760 | 5,721 | 7,486 | 6,665 | 10,374 | 8,157 | 7,687 |
| Total Equity | 8,081 | 7,568 | 8,718 | 8,947 | 8,233 | 8,405 | 9,883 | 10,364 | 20,689 | 21,636 |
| LTD/E Ratio | 0.85 | 0.88 | 0.53 | 0.53 | 0.69 | 0.89 | 0.67 | 1.00 | 0.39 | 0.36 |

Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 11.7% | 7.5% | 7.3% | 11.0% | 11.3% | 9.1% | 9.7% | 10.7% | 33.7% | 4.5% |
| Return on Equity | 29.8% | 20.9% | 18.6% | 24.9% | 26.8% | 23.6% | 25.2% | 31.9% | 85.1% | 7.3% |
| ROIC | 17.4% | 11.2% | 11.0% | 16.2% | 16.6% | 13.1% | 14.2% | 14.9% | 43.0% | 5.6% |
| Shares Out. | 655 | 643 | 642 | 641 | 632 | 601 | 602 | 596 | 577 | 574 |
| Revenue/Share | 24.02 | 22.45 | 23.72 | 27.40 | 29.60 | 27.67 | 30.30 | 32.92 | 26.27 | 30.47 |
| FCF/Share | 2.87 | 3.76 | 2.23 | 3.58 | 3.89 | 4.20 | 4.98 | 4.01 | 0.48 | 5.07 |

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

Disclaimer

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