

First Quarter 2012 Earnings Conference Call

February 7, 2012

Safe Harbor Statement

Our commentary and responses to your questions may contain forward-looking statements, including our outlook for the remainder of the year, and Emerson undertakes no obligation to update any such statements to reflect later developments. Information on factors that could cause actual results to vary materially from those discussed today is available in our most recent Annual Report on Form 10-K as filed with the SEC.

Non-GAAP Measures

In this call we will discuss some non-GAAP measures (denoted with *) in talking about our company's performance, and the reconciliation of those measures to the most comparable GAAP measures is contained within this presentation or available at our website www.Emerson.com under Investor Relations.



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First Quarter 2012 Highlights

- First quarter sales down 4% to \$5.3 billion, caused by several near-term challenges
 - Thailand flooding supply chain disruption impact of approximately \$300M
 - U.S. telecommunications carrier investment deferral
 - HVAC OEM inventory destocking in the U.S. and China
 - European economic weakness
- Operating profit margin* declined 220 basis points from the prior year quarter to 13.2%
 - Primarily driven by volume deleverage
- Earnings per share of \$0.50 down 21% from prior year quarter
- Operating cash flow increased 4% versus prior year quarter to \$334M
- Balance sheet strength continues to enable growth investments
 - Operating cash flow to total debt strong at 58%

Despite pressure on Q1 from numerous near-term headwinds, the outlook for 2012 remains favorable



First Quarter 2012 Results Summary

<u>(\$Mil excl. EPS)</u>	<u>2011</u>	<u>2012</u>	
Sales	\$5,535	\$5,309	→ Down 4% - Underlying* down 4%
Operating Profit*	\$852	\$701	→ Down 18%
OP%*	15.4%	13.2%	- Substantial volume deleverage due to magnitude of sales decline and resulting unfavorable mix
Earnings – Net Common Shareholders	\$480	\$371	→ Down 23%
Earnings%	8.7%	7.0%	
Dil. Avg. Shares	<u>758.1</u>	<u>738.3</u>	→ Repurchased 4.8M shares for \$226M
EPS – Net	\$0.63	\$0.50	→ Down 21%



First Quarter 2012

Underlying Sales Change

United States	(4%)	
Europe	—	
Asia	(8%)	China (13%)
Latin America	3%	
Canada	6%	
Middle East/Africa	(4%)	
Total International	(3%)	

Underlying Sales*	(4%)
Currency	—
Acq./Div.	—
Net Sales	(4%)



First Quarter 2012 Profitability Detail

<u>(\$Mil)</u>	<u>2011</u>	<u>2012</u>	
Gross Profit	\$2,163	\$2,055	→ Down 5%
GP%	39.1%	38.7%	→ 40 basis point decrease due to volume deleverage and unfavorable mix
SG&A%	23.7%	25.5%	→ Favorable price/cost ~\$20M
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Operating Profit*	\$852	\$701	→ Down 18%
OP%*	15.4%	13.2%	→ 220 basis point decrease
- Other Deductions, Net	\$78	\$90	→ FX transaction losses \$14M and higher restructuring \$6M; lower amortization (\$9M)
- Interest Expense, Net	\$61	\$58	
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Pretax Earnings	\$713	\$553	→ Down 23%
Earnings%	12.9%	10.4%	→ 250 basis point decrease
- Taxes	\$222	\$172	
- Tax Rate	31.2%	31.0%	



First Quarter 2012

Cash Flow & Balance Sheet

<u>(\$Mil)</u>	<u>2011</u>	<u>2012</u>	
Operating Cash Flow	\$322	\$334	→ Up 4% – Lower investment in working capital offset earnings decline
Capital Expenditures	<u>(\$82)</u>	<u>(\$130)</u>	→ Up 58% – Maintained investments in technology and growth programs
Free Cash Flow*	\$240	\$204	→ Down 15%
Cash Flow/Total Debt	56.8%	57.8%	→ Balance sheet remains strong
Inventories	\$2,207	\$2,317	} Inventory higher from Thailand flooding; receivables affected by sales timing and mix that will be corrected as backlog is reduced
Receivables	\$3,956	\$4,040	
Payables	<u>(\$2,243)</u>	<u>(\$2,302)</u>	
Trade Working Capital	\$3,920	\$4,055	
% to Sales	17.7%	19.1%	



First Quarter 2012 Business Segment Earnings

<u>(\$Mil)</u>	<u>2011</u>	<u>2012</u>	
Business Segment EBIT* Margin*	\$873 15.4%	\$691 12.7%	→ Down 21% → Volume deleverage, unfavorable mix, and higher materials costs more than offset price increases and cost reduction actions
Diff. in Accounting Methods	\$53	\$49	
Corporate & Other	(\$152)	(\$129)	→ Down \$23M – Charge to eliminate retiree medical liability (\$19M); stock-based compensation favorable \$33M; \$17M acq. costs in Q1 2011
Interest Expense, Net	<u>(\$61)</u>	<u>(\$58)</u>	
Pretax Earnings Margin	\$713 12.9%	\$553 10.4%	→ Down 23%



First Quarter 2012 Process Management

(\$Mil)	<u>2011</u>	<u>2012</u>	
Sales	\$1,542	\$1,527	→ Down 1% <ul style="list-style-type: none"> - Underlying* down 1% <ul style="list-style-type: none"> · U.S. flat, Asia down 8%, Europe up 6%, Latin America down 3%, MEA down 6% - Broad business and geographic impact from Thailand flooding supply chain disruption - Strong orders growth of 15% across all businesses and geographies as oil and gas investment remains robust
EBIT Margin	\$290 18.8%	\$190 12.4%	→ Down 34% <ul style="list-style-type: none"> - Significant deleverage and unfavorable business mix from Thailand flooding impact, including costs incurred to resolve the supply chain disruption - Maintained growth investments - \$12M unfavorable FX transactions
Restructuring	\$2	\$5	
EBIT Excl. Rest.*	\$292	\$195	
Margin*	18.9%	12.8%	

✓ ***The supply chain disruption has been substantially resolved and the full year impact should be minimal***

Strong backlog and order trends support favorable outlook for 2012



First Quarter 2012 Industrial Automation

<u>(\$Mil)</u>	<u>2011</u>	<u>2012</u>	
Sales	\$1,210	\$1,229	→ Up 2% <ul style="list-style-type: none"> - Underlying* up 2% <ul style="list-style-type: none"> · U.S. flat, Asia up 2%, Europe up 5%, Latin America up 17%, MEA up 14% - Growth led by fluid automation, power generating alternators and electrical distribution businesses - U.S. affected by soft hermetic motors business - Weakness in solar and wind energy businesses on reduced government renewable energy subsidies <ul style="list-style-type: none"> · No recovery expected in the near term
EBIT	\$185	\$182	→ Down 2%
Margin	15.3%	14.8%	<ul style="list-style-type: none"> - Favorable price/cost relationship - Unfavorable mix and other cost increases offset containment actions
Restructuring	\$5	\$4	
EBIT Excl. Rest.*	\$190	\$186	
Margin*	15.7%	15.1%	

Demand for capital goods should remain stable across most end markets, with increasing weakness expected from Europe



First Quarter 2012 Network Power

<u>(\$Mil)</u>	<u>2011</u>	<u>2012</u>	
Sales	\$1,669	\$1,495	→ Down 10% <ul style="list-style-type: none"> - Underlying* down 10% <ul style="list-style-type: none"> · U.S. down 17%, Asia down 6%, Europe down 10%, Latin America down 5%, MEA up 4% - Deferred spend by telecommunications carriers - Global data center business down modestly on difficult prior year comparisons and project timing - Thailand flooding impact on broader electronics components channels - Continued aggressive product line rationalization
EBIT	\$182	\$122	→ Down 33%
Margin	10.9%	8.2%	<ul style="list-style-type: none"> - Volume deleverage, unfavorable mix, and higher restructuring partially offset by cost reduction benefits - One-time Chloride costs in prior year \$15M
Restructuring	\$5	\$10	
EBIT Excl. Rest.*	\$187	\$132	
Margin*	11.2%	8.8%	

✓ **Introduced Universal Management Gateway enabling integrated monitoring, access, and control of data center operations**

Telecommunications carrier investment
expected to accelerate in 2012



First Quarter 2012 Climate Technologies

(\$Mil)	<u>2011</u>	<u>2012</u>	
Sales	\$810	\$733	→ Down 9% <ul style="list-style-type: none"> - Underlying* down 9% <ul style="list-style-type: none"> · U.S. down 5%, Asia down 21%, Europe down 11%, Latin America up 23%, MEA down 29% - U.S. residential markets down on weak economics and channel inventory reductions - Significant softening in China A/C OEM demand - Weakness in Europe with poor economic conditions - Global refrigeration continued stable growth, led by strong improvement in transportation
EBIT	\$123	\$100	→ Down 19%
Margin	15.2%	13.6%	<ul style="list-style-type: none"> - Higher materials costs mostly offset by price increases - Volume deleverage exceeded cost containment actions
Restructuring	\$4	\$2	
EBIT Excl. Rest.*	\$127	\$102	
Margin*	15.7%	13.8%	

✓ **Continued emphasis on technology, including the new K5 Refrigeration Compressor with onboard electronics launched in January**

Modest U.S. recovery expected in second half of 2012



First Quarter 2012 Tools and Storage

<u>(\$Mil)</u>	<u>2011</u>	<u>2012</u>	
Sales	\$446	\$457	→ Up 2% <ul style="list-style-type: none"> - Underlying* up 5%; Div. (3) pts <ul style="list-style-type: none"> · U.S. up 6%, Asia up 1%, Europe up 1%, Latin America up 17%, MEA up 12% - Non-residential construction in the U.S. drove demand across the segment - Strength in professional tools and commercial storage businesses
EBIT	\$93	\$97	→ Up 5%
Margin	20.8%	21.2%	<ul style="list-style-type: none"> - Price increases offset higher materials costs - Cost reduction and volume leverage benefits - Divestiture mix benefit
Restructuring	\$1	\$2	
EBIT Excl. Rest.*	\$94	\$99	
Margin*	21.1%	21.6%	

✓ **Solid execution as commercial construction activity increased**

Improving outlook for U.S. residential end markets



Full Year 2012 Outlook

- Challenging start to 2012 but full year expectations remain positive
 - Strong backlog and positive order trends in capital goods end markets
 - Q1 headwinds expected to improve as 2012 progresses
 - Europe economy has weakened further, including stronger U.S. dollar
- Based on current economic conditions, the revised 2012 outlook is as follows:
 - Underlying sales* and orders up 4 to 6%
 - Reported sales up 2 to 4%
 - Operating profit margin* ~18% and pretax margin ~15.5%
 - Restructuring expense ~\$125M
 - Tax rate ~31%
 - Earnings per share \$3.45 to \$3.60
 - Operating cash flow ~\$3.5B
 - Capital expenditures ~\$700M
- Detailed review of 2012 expectations and strategic plans at Emerson's annual investor conference on February 14 in New York

Reconciliation of Non-GAAP Financial Measures

Sales	<u>2012E</u>
Underlying Sales*	+4 to +6%
Acq./Div./Currency	<u>~(2%)</u>
Net Sales	+2 to +4%

Operating Profit	<u>2012E</u>
Operating Profit*	
% Sales*	~18%
Interest Expense and Other Deductions, Net	
% Sales	<u>~(2.5%)</u>
Pretax Earnings	
% Sales	~15.5%

*This information reconciles non-GAAP measures (denoted with a *) with the most directly comparable GAAP measure (\$M)*

