

# 2016 Investor Conference Business Update

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David N. Farr

Chairman and Chief Executive Officer

February 11, 2016

## 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 statement to reflect later developments. Factors that could cause actual results to vary materially from those discussed today include our ability to successfully complete on the terms and conditions contemplated, and the financial impact of, our strategic repositioning actions, as well as those provided in our most recent Annual Report on Form 10-K and subsequent reports as filed with the SEC.

## Non-GAAP Measures

In this presentation we will discuss some non-GAAP measures (denoted with an \*) 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 is available at our website [www.emerson.com](http://www.emerson.com) under the investor relations tab.

## Pro Forma Results

The financial measures contained in this presentation for the rebased Emerson and the Automation Solutions and Commercial & Residential Solutions businesses represent the businesses that are expected to remain a part of Emerson and to comprise these business groups after completion of Emerson's portfolio repositioning actions.



# 2016 Investor Conference

## Austin, TX

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Thursday, February 11, 2016

8:00 - 8:45	Business Update	David Farr
8:45 - 9:15	Emerging Markets Update	Ed Monser
9:15 - 10:00	Emerson Strategic Review	David Farr
10:00 - 11:00	Automation Solutions	Steve Sonnenberg
11:00 - 12:00	Commercial & Residential Solutions	Bob Sharp
12:00 - 12:45	Questions & Answers	David Farr

# Investor Conference – Emerson Attendees

## Corporate

David Farr	Chairman and Chief Executive Officer
Ed Monser	President
Frank Dellaquila	Executive Vice President and Chief Financial Officer
Ed Purvis	Executive Vice President and Chief Operating Officer
Steve Pelch	Senior Vice President, Organization Planning and Development
Kathy Button Bell	Vice President and Chief Marketing Officer
Craig Rossman	Director, Investor Relations and Assistant Treasurer
Ram Krishnan	Vice President, Profit Planning and Perfect Execution
David Bersaglini	Vice President, Planning

# Investor Conference – Emerson Attendees

## Operating Management – Automation Solutions

Steve Sonnenberg	Executive Vice President, Automation Solutions
Terry Buzbee	Group Vice President, Final Control
Larry Flatt	Group Vice President, Flow
Jim Nyquist	Group Vice President, PlantWeb Solutions
Mike Train	President, Global Sales

## Operating Management – Commercial & Residential Solutions

Bob Sharp	Executive Vice President, Commercial & Residential Solutions
John Rhodes	President, Refrigeration
Brent Schroeder	President, Air Conditioning
Bill Bosway	Group Vice President, Electronics and Solutions

# 2015 February Investor Day Versus 2015 Actual Performance

2015 Investor Day Key Messages and Takeaways	2015 Performance <sup>1</sup>
2015 will be a year of transition as we <b>rebalance our global served markets position and cost structure</b> to enhance underlying sales growth and profitability	<ul style="list-style-type: none"> <li>• Underlying sales* growth declined 2%</li> <li>• OP margin* of 17.3%</li> <li>• Adjusted EBIT margin* of 14.8%</li> </ul>
Global <b>Gross Fixed Investment (GFI) growth of 2.2%</b>	<ul style="list-style-type: none"> <li>• An industrial recession started, driven by dramatic decline in oil &amp; gas, stronger U.S. dollar and a weaker China</li> </ul>
Our focus continues to be on investing internally within our Global Franchises and on strategic acquisitions / divestitures to drive unique, <b>sustainable value creation for our shareholders</b>	<ul style="list-style-type: none"> <li>• In June 2015 we announced plans to <b>spin off the Network Power business</b> and <b>explore strategic alternatives</b> for the Power Generation, Motors &amp; Drives and residential storage businesses</li> </ul>
Our <b>technology leadership and innovation</b> are strong and position us well for growth, profitability, cash flow and market relevance	<ul style="list-style-type: none"> <li>• ~650 new products launched</li> <li>• ~2,100 patents awarded globally</li> <li>• Continued to invest in “New Business Models” and “Internet of Things” Model</li> </ul>
We control our destiny with <b>strong cash flow</b> generation for internal growth investments, <b>cash returned to shareholders</b> (50-60% operating cash flow) and <b>strategic acquisitions</b>	<ul style="list-style-type: none"> <li>• 18+% return on total capital*</li> <li>• Returned \$3.8B to shareholders</li> <li>• Acquired 8 companies for \$324M</li> </ul>

<sup>1</sup>Excludes gains from divestitures and separation costs for portfolio repositioning actions of \$1,029M pretax, or \$0.82 per share

# Emerson's 2015 Financial Performance

	<u>2014<sup>1</sup></u>	<u>2015<sup>2</sup></u>	<u>2014-15 Change</u>
<b>Sales</b>	<b>\$24.5B</b>	<b>\$22.3B</b>	<b>(9)%</b>
<b>Underlying Growth*</b>			<b>(2)%</b>
<b>GP %</b>	<b>41.4%</b>	<b>40.6%</b>	<b>(80 bps)</b>
<b>OP %*</b>	<b>18.1%</b>	<b>17.3%</b>	<b>(80 bps)</b>
<b>EBIT % Adjusted*</b>	<b>16.5%</b>	<b>14.8%</b>	<b>(170 bps)</b>
<b>Operating Cash Flow</b>	<b>\$3.7B</b>	<b>\$2.5B</b>	<b>(32)%</b>
<b>Shareholder Payout Ratio</b>	<b>61%</b>	<b>149%</b>	
<b>EPS Reported</b>	<b>\$3.03</b>	<b>\$3.99</b>	<b>32%</b>
<b>EPS Adjusted*</b>	<b>\$3.75</b>	<b>\$3.17</b>	<b>(15)%</b>
<b>Dividends per share</b>	<b>\$1.72</b>	<b>\$1.88</b>	<b>9%</b>
<b>ROTC Adjusted*</b>	<b>20.2%</b>	<b>18.3%</b>	

<sup>1</sup>Excludes goodwill impairment charges of \$508M, or \$0.72 per share

<sup>2</sup>Excludes gains from divestitures and separation costs for portfolio repositioning actions of \$1,029M pretax, or \$0.82 per share

The Year Was Much Tougher and More Challenging Than What We Thought in February 2015 -- But Our Strategic Repositioning and Key Restructuring Actions Over 24 Months, of ~\$300M, Will Help Drive a 2<sup>nd</sup> Half Improvement in Fiscal 2016

# The February 2016 Game Plan to Drive Value

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## Actions

### Step 1

Restructure and reduce costs in-line with a challenging global economy and a smaller, more focused Emerson

Started February 2015 and ongoing through 2016 – 2017, until global growth returns

### Step 2

Complete the spin or sale of the Network Power business, and sale of the Motors & Drives / Power Generation businesses and the remaining storage business

Started June 2015 -- Targeted to be completed by September 2016 (ClosetMaid by 1<sup>st</sup> half of 2017)

### Step 3

Aggressively pursue acquisitions to rebuild the new core, focused Emerson to ~\$20B

On-going and increasing focus

# The More Focused Emerson's Roadmap to Creating Value

## 2016 – 2019 Targets

### Sales

Target: 3 - 5% Underlying  
+1 - 2% Through Bolt-on  
Acquisitions

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Total: 4 - 7%

### Operating Margin

18 - 20+%

### EBIT Margin

17 - 19+%

### Free Cash Flow (% of Sales)

Target: 10 – 14%

### ROTC

Target: 16 - 25%

The Rebased, More Focused Emerson.  
As We Move Into 2017, We Will Drive Higher Profit Margins and  
Higher Returns on Capital for Emerson's Shareholders



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On-going and increasing focus

# The Strategic Actions Initiated in 2015 Will Enable Us to Remain a Leader in Our Focused Served Markets and Enhance Profitability

## Strategic Repositioning

- Spinoff or sale of the Network Power business
- Evaluation of the potential sale of the Motors and Drives, Power Generation and remaining Storage business
- Divested the InterMetro and Power Transmission Solutions businesses
- Streamlined the organization through proactive restructuring actions -- more to happen post repositioning efforts



## Highly Focused Portfolio

1. Automation Solutions
2. Commercial & Residential Solutions

- **Stronger, faster growth markets**
- **More profitable**
- **Industry leading technologies / innovations**
- **Solutions oriented business model**

We Are Focused on Rebuilding the Emerson Foundation to Drive Premium Growth in Sales, Earnings and Cash Flow, and to Significantly Expand These Two Highly Focused Businesses

# 2015 / 2016 Restructuring Update and Near Term Spending Forecast

		2015	2016A Q1	2016E Q2 – Q4	TOTAL
Costs	Severance and Benefits	\$174M	\$6M	~\$30M	~\$210M
	Other	\$47M <sup>1</sup>	\$7M	~\$30M	~\$84M
Total		\$221M	\$13M	~\$60M	~\$294M

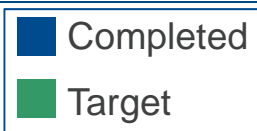
<sup>1</sup>Includes ~\$10M of SG&A / COGS expenses from restructuring actions

Restructuring Effort Started Last February Is 80% Completed and Driving Significant Savings, Which We Are Already Seeing:

2015 Operating Margin\* 17.3% / 2016E Operating Margin\* 17%

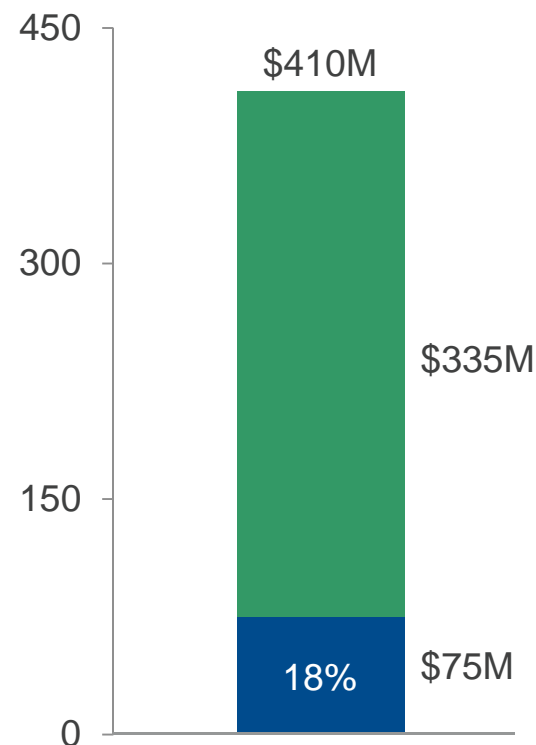
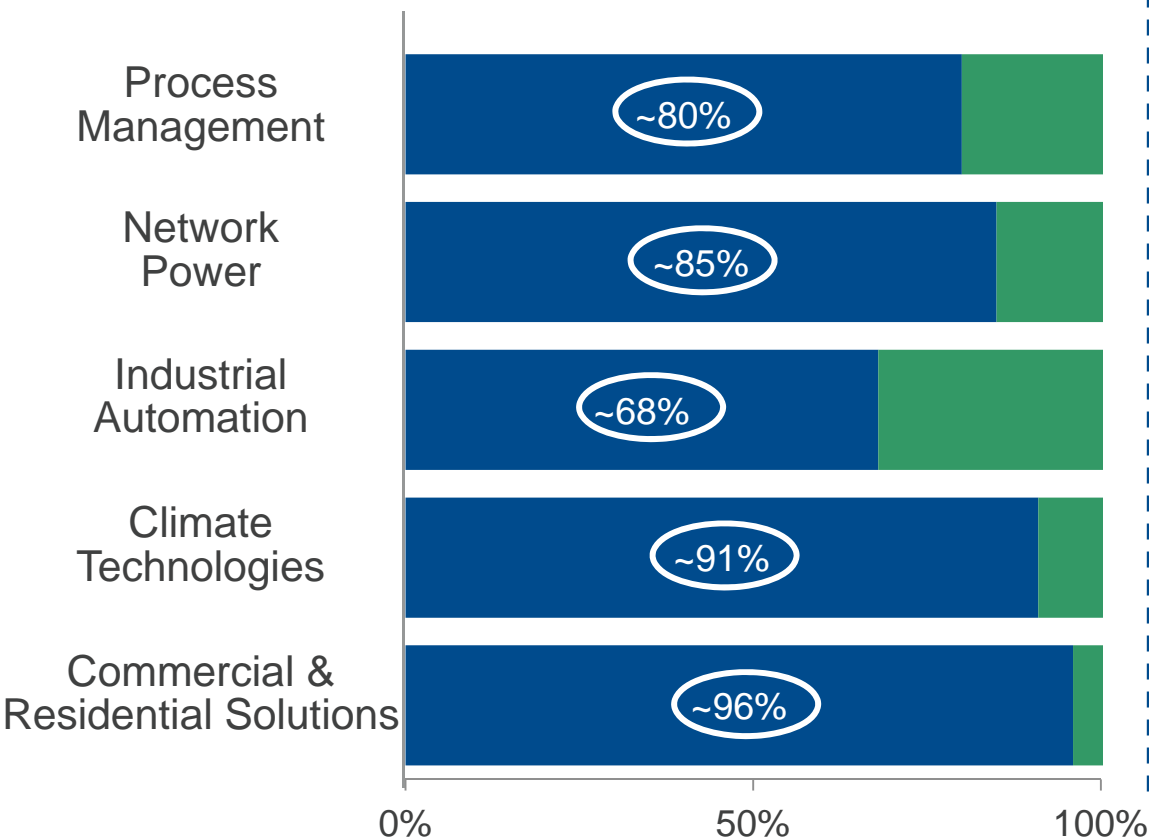
**Note: More Actions Are Being Planned for 2<sup>nd</sup> Half of 2016 and Going Into 2017**

# Restructuring Spend and Operating Profit Savings Versus Target



Restructuring Spend (2015 & 2016)  
Completed-to-Date vs. Target

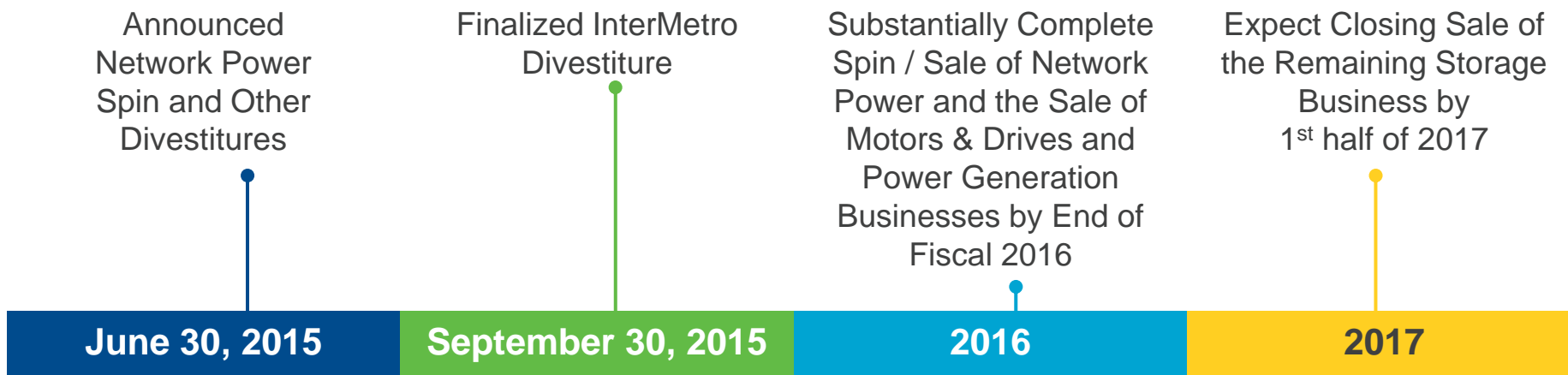
Total Company Savings  
Realized vs. Target (2015 & 2016)



Restructuring Spend of \$221M in 2015 and an Additional Spend of ~\$60M - \$80M in 2016 Will Drive Total Savings of \$335M in 2016. We Must Realize Savings To Maintain a 17% Operating Profit\* in 2016, on Lower Underlying Sales\* of (5) – (2)%

# June 30<sup>th</sup> 2015 Strategic Actions Update

## Timeline for Main Strategic Actions



### Key Considerations

- Realignment with the changing global marketplace and our customers' evolving needs drives Emerson and Network Power forward as leaders of their respective industries
- Management of Emerson, Network Power, and the Motors & Drives and Power Generation businesses can refocus resources on the highest return investment opportunities
- A strengthened financial profile will drive higher profitability and returns while providing substantial flexibility for balanced capital allocation including transformational acquisitions

The Focus Is on Building Two Premier Businesses to Drive Premium Growth in Sales, Earnings and Cash Flow -- Focus Growth on Internal Investments and Acquisitions

# 2016 Costs

## Strategic Actions / Separation Summary

Separation Costs	<ul style="list-style-type: none"> <li>Network Power Spinoff<sup>1</sup></li> <li>Sale of Motors &amp; Drives and Power Generation Businesses</li> </ul>				Notes
	Q4A 2015	Q1A 2016	Q2E 2016	Total 2016E	
Expenses	\$10M	\$24M	\$35M	\$170 – \$200M	Professional fees and other miscellaneous expenses
Reorganization of Subsidiaries / Taxes	\$42M	-	\$40M	\$80 – \$150M	Legal entity reorganization expenses and related cash movement
P&L Impact	\$52M	\$24M	\$75M	\$250 – \$350M	Lowered, from more efficient reorganization

Incremental Capital Spend / Cost -- Cash	~\$100M	Additional ~\$100M for debt issuance, pensions, CapEx
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**Sale of Network Power and Other Businesses**



**Gross Proceeds<sup>2</sup> ~\$5 - \$6B**  
**Tax Cost ~\$1 - \$1.3B**

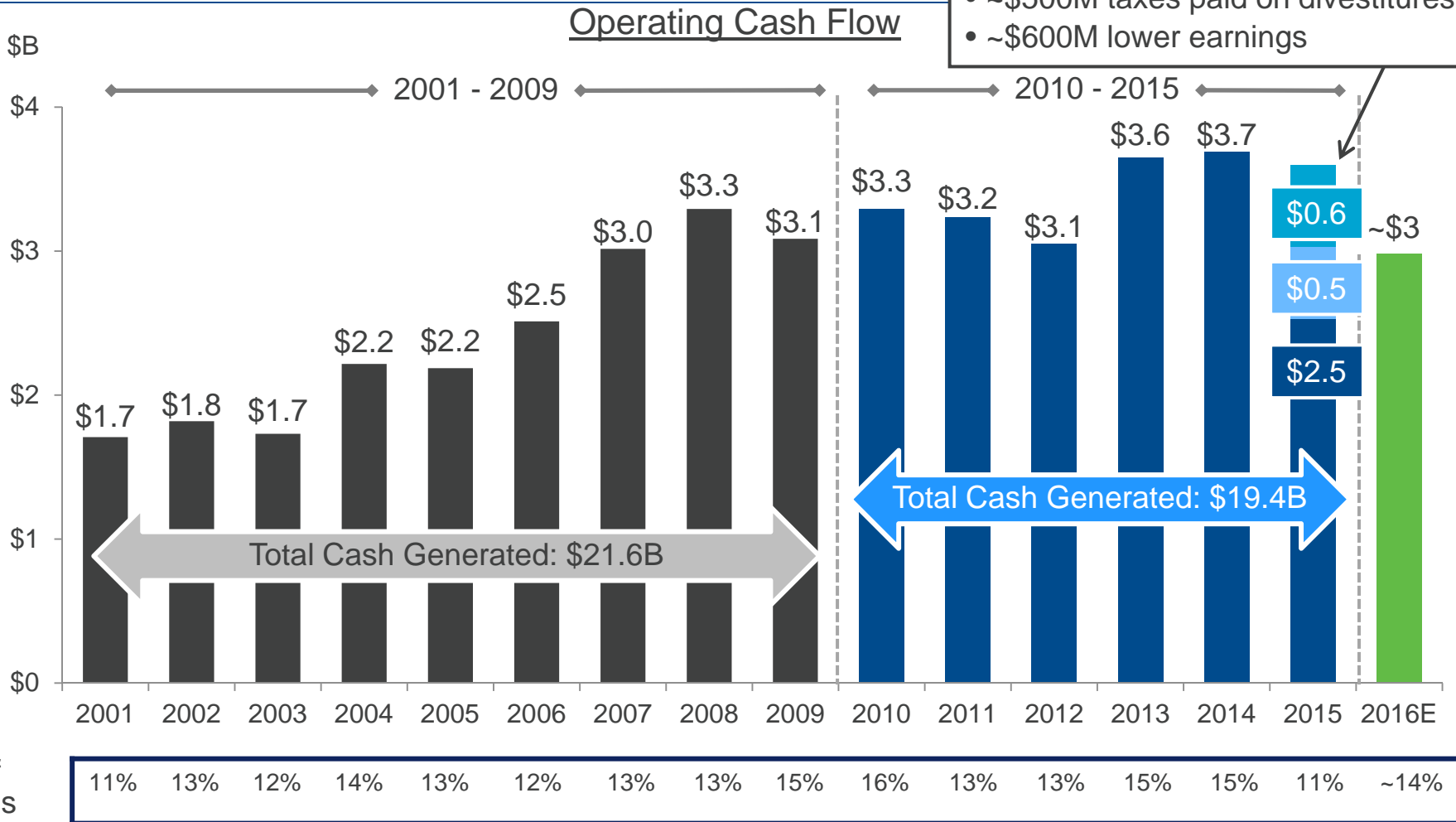
Depending on the timing of the interval between transactions, there is potential for large expense swings between quarters. Cash flows will occur in 2016 and 2017

<sup>1</sup>Additional tax costs would be incurred for a potential sale of the Network Power business

<sup>2</sup>Based on Company estimates and expected market multiples

**Cash Repatriation Should Total \$0.5 – \$1.2B Upon Completion of the Transactions**  
**The Goal: Maximize Cash Value for Shareholders and Minimize Cash in Taxes / “Out the Door”**

# Emerson Has a History of Strong Cash Flow Generation



We Have Generated \$19.4B of Cash Between 2010 and 2015 and We Will Continue to Generate Strong Cash Flow With the More Focused Businesses -- Enough for Internal Investments, Increasing Dividends, Share Repurchases, and Acquisitions -- We Can Control Our Destiny -- Will Generate ~\$11B of Cash Flow from 2016-2019

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# First Quarter 2016 P&L Summary

<u>(\$M excl. EPS)</u>	<u>2015</u>	<u>2016</u>	<u>Chg.</u>
Sales	\$5,587	\$4,713	(16)%
Gross profit	\$2,280	\$1,889	(17)%
% of sales	40.8%	40.1%	(70) bps
SG&A expense	(\$1,405)	(\$1,226)	
Other deductions, net	<u>(\$64)</u>	<u>(\$114)</u>	
EBIT*	\$811	\$549	(32)%
% of sales*	14.5%	11.7%	(280) bps
Shares	694.7	652.5	
EPS	\$0.75	\$0.53	(29)%
Adjusted EPS*	\$0.75	\$0.56	(25)%

→ Underlying sales\* down (9%)

→ Volume deleverage and unfavorable mix

→ Aggressive restructuring is starting to have a positive impact

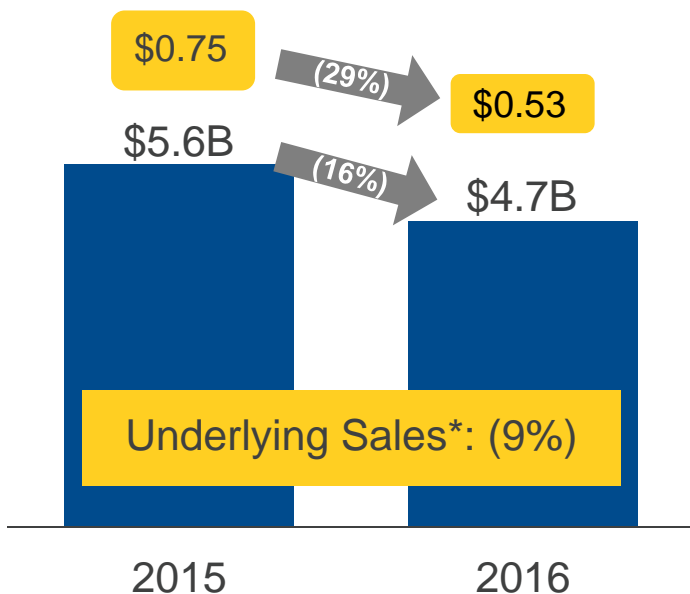
→ Unfavorable currency transactions (\$27M) and separation costs (\$24M)

→ Share repurchase \$554M

→ Better than expectation of \$0.50

# First Quarter 2016

## Revenue and EPS



## T3M Orders

October	(15)%
November	(15) to (10)%
December	(10)%

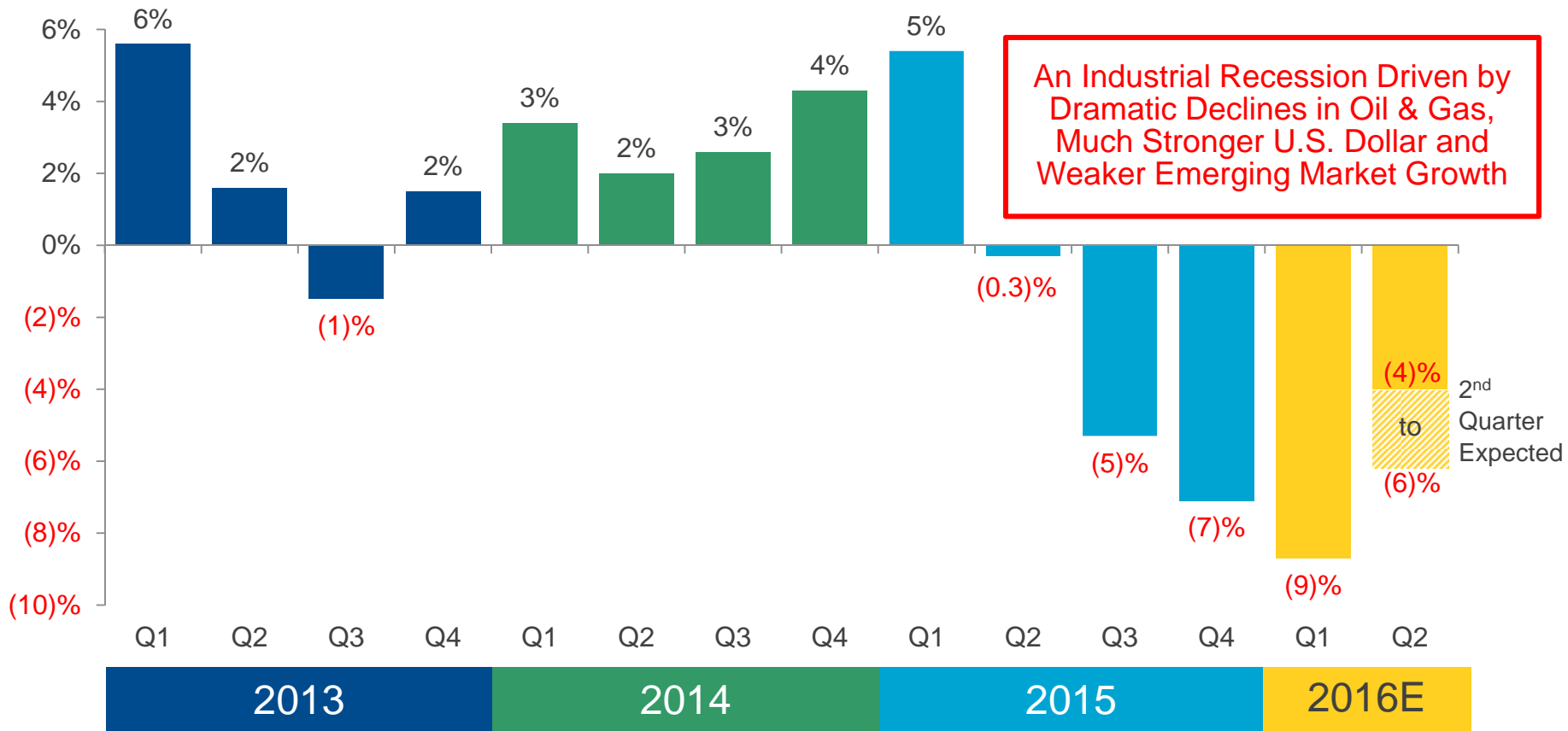
## Summary

- Served markets remained challenging
  - It is a global industrial recession
  - Lower and uncertain oil and gas prices
  - Economic indicators suggest weakening industrial spending in calendar 4<sup>th</sup> quarter
  - Data center and Telecom spending mixed
- Adjusted earnings per share\* of \$0.56 excludes separation costs of \$24M in the quarter
- Share repurchase \$554M; Full Year plan of \$1.2B

First Quarter Results Slightly Better than Expectations, and In Line for Total Fiscal 2016 Forecast

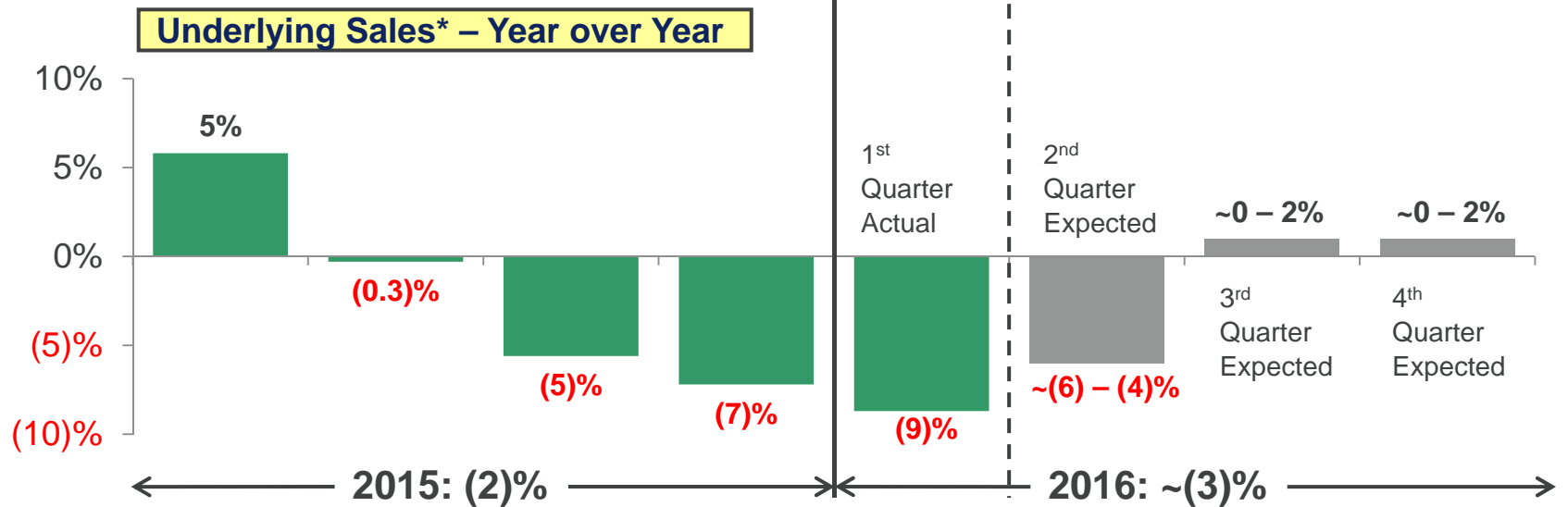
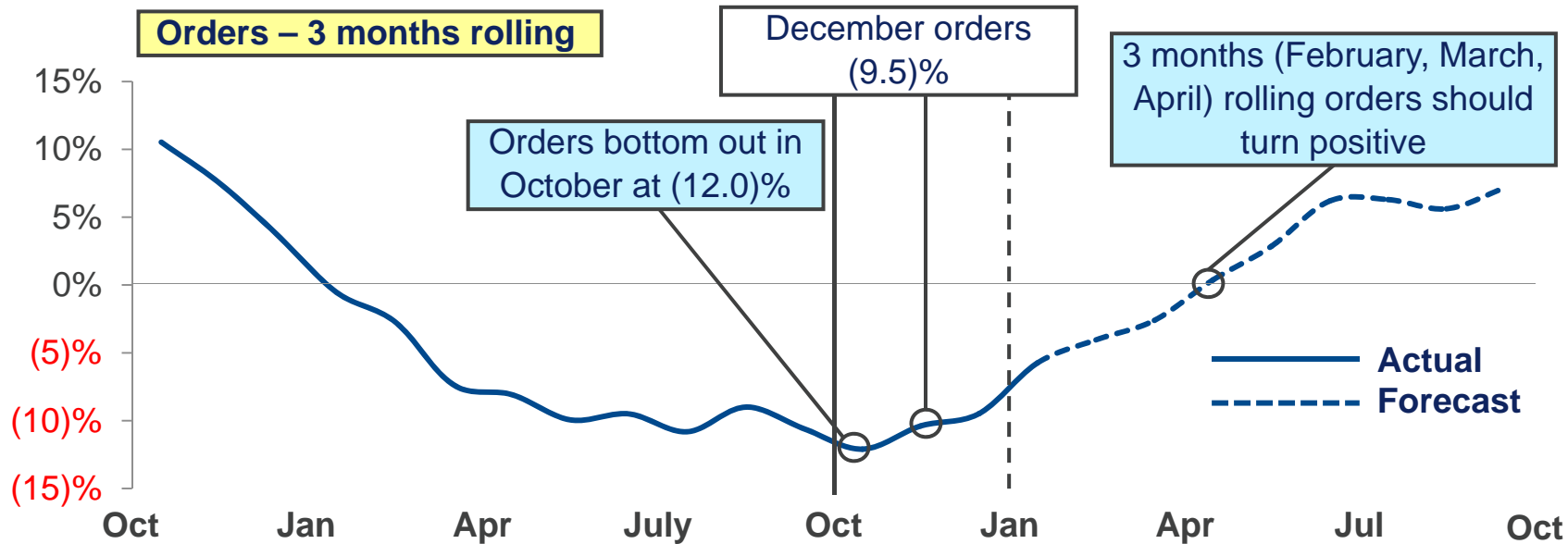
# Recent Quarterly Underlying Sales\* Growth

Emerson underlying sales\* growth year over year change by quarter

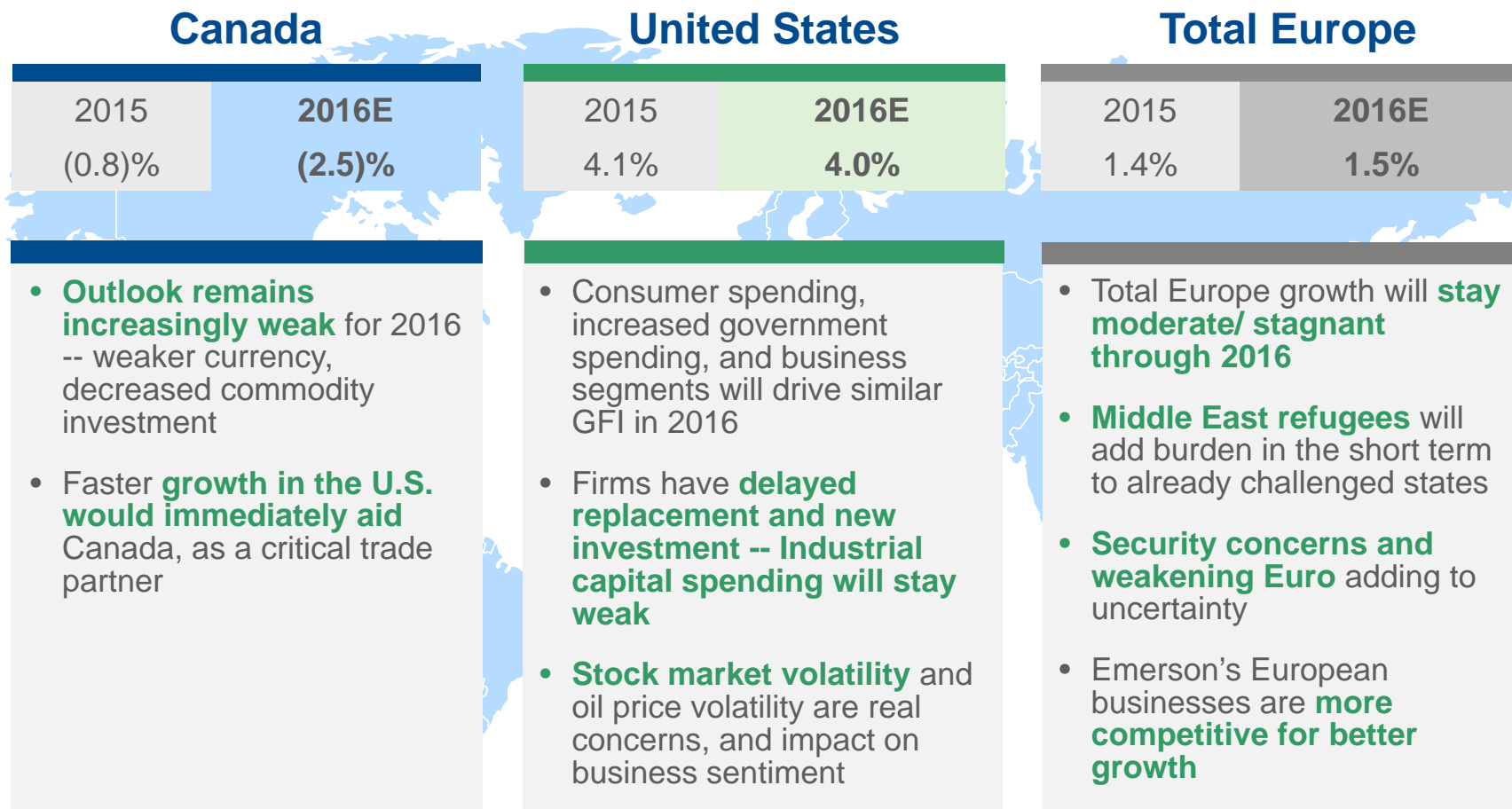


Emerson, and Many of Our Core Markets, Entered Into an Industrial Recession in the 2<sup>nd</sup> Quarter of 2015 and Have Continued to Experience Slow or Negative Growth Through the 1<sup>st</sup> Quarter of Fiscal 2016

# Trailing 3-Month Orders (Fixed Rate) and Underlying Sales\* Growth



# World Gross Fixed Investment (GFI) Trends: 2016 Expectations -- Mature Markets



Source: IHS Economics and Emerson Management Assessment

2015 Mature Markets Gross Fixed Investment of Approximately 2% Will Not Accelerate in 2016 Without a Stronger U.S. Investment Environment Driving World Growth

# World Gross Fixed Investment (GFI) Trends: 2016 Expectations -- Emerging Markets

## Latin America

2015	2016E
(4.6)%	(3.5)%

- Fiscal deficits & **lack of confidence will hurt many governments'** ability to make material expansionary strides -- only Mexico will see improved investment in 2016
- Corruption and low oil prices will **sustain recession in Brazil**
- **Brazil and South America will be "dead" economies in 2016**

## Middle East & Africa

2015	2016E
0.4%	flat

- Sectarian violence and upheaval from ISIS will result in increased numbers of **refugees to Europe -- political turmoil will continue**
- Entry of **Iranian oil** into the global market will keep downward pressure on prices
- But **national oil & gas companies** will have to do some investment to boost revenue

## China

2015	2016E
4.8%	4.0% or less

- **Extreme oversupply** in industrial capacity, construction, and credit will curtail growth
- Government monetary policy has **thwarted investor confidence, causing more volatility**
- See **tough first half investment environment** and some improvement in late 2016

## Asia Pacific<sup>1</sup>

2015	2016E
2.6%	2.5%

- Expecting continued **slower growth through 2016**, despite low commodity prices (Southeast Asia & India)
- **Critical trade partners** with China; economic fates intertwined
- **Middle class growth** will drive some increased consumption
- There will be growth, **but only moderate in 2016**

Source: IHS Economics and Emerson Management Assessment

<sup>1</sup>excludes Japan and China

Global Emerging Markets Economic Headwinds are Strong!!! 2016 Will be as Tough as We Saw in 2015 for Many Reasons; But, More Stability Will Start in Late 2016 Leading to a Better 2017 -- Emerging Market Growth Premium Will Return in 2017

# 2016 Expectations

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- Still see a **global industrial recession** until mid-2016 driven by volatile oil & gas prices; stronger U.S. dollar; weak industrial investment in China / Latin America; weak global economic growth of less than 3% (like in 2015)
  - Comparisons become easier in 2<sup>nd</sup> half of 2016 and some important markets will see some growth – Emerson's reposition takes hold
  - Still will have (5) – (2)% underlying sales\* growth
- Significant restructuring (~\$300M) starts to have **margin benefit in 2<sup>nd</sup> quarter of fiscal year** → improved EBIT margin\* and solid operating margin\* (~17%)
- Repositioning will get done in late 2016 and we will enter 2017 with a stronger, more focused Emerson, driving **increased investments and acquisitions** for sales and earnings growth
- **Cash flow should improve** in 2016 -- excluding separation impact

Sales and Earnings Will Reach the Bottom of This Industrial Recession in 3<sup>rd</sup> Quarter of 2016 -- Emerson Specific Actions Drive This **Undertaking Additional Short-term and Longer-term Restructuring Due to Weaker Global Economy**

# Emerson's 2016 Key Financial Guidance -- The Current Business Make-Up

	<u>2015</u>	<u>2016E Forecast</u>	<u>% Change 2015-16E</u>
Sales (GAAP)	\$22.3B	\$20.3 – \$20.9B	(9) – (6)%
Underlying Growth*	(2)%	(5) – (2)%	
Gross Margin	40.6%	~41.2%	+60 bps
EBIT Margin (Adjusted)*	14.8%	~15.4%	+60 bps
EPS Reported	\$3.99	\$2.55 – \$2.90	(36) – (27)%
EPS (Adjusted)*	\$3.17	\$3.05 – \$3.25	(4) – 3%
Dividends Per Share	\$1.88	\$1.90	+1%
Operating Cash Flow	\$2.5B	~\$3B	~20%
Cash Returned to Shareholders	\$3.8B	~\$2.4B	

Global GFI: Fiscal Year 2016	2015-16E
<u>Assumptions</u>	<u>% Change</u>
U.S.	3.5 – 4.5%
W.Europe	1.5 – 2.5%
E.Europe/Russia	0.5 – 1.5%
Japan	1.0 – 2.0%
China	3.5 – 4.5%
India	4.5 – 5.5%
Latin America	(4.0) – (3.0)%

## Other 2016 key assumptions:

- Currency Headwinds ~\$0.6B
- Divested Power Transmission Solutions (PTS) for \$1.4B on 1/30/2015.
- Divested InterMetro on 9/30/15; Lost 2015 sales of \$477M
- 2016 costs related to repositioning ~\$250M to ~\$350M, (\$0.35) to (\$0.50) per share
- Operational Tax Rate\*: ~31%
- 2016 Share Repurchase: ~\$1.2B
- Acquisitions: ~\$400M
- Capital Expenditures: ~\$625M -- 3.0% of sales
- Price / Cost: Net favorable -- Negative price (0.5)% and strongly negative net material inflation (3.0)%

2016E – Adjusted EBIT Margin and EPS exclude costs related to repositioning

2015 – Adjusted EBIT Margin and EPS exclude \$1,029M pretax divestiture gains and spin costs, net \$0.82 per share

Note: 2016E represents the Company's expectations for its consolidated results, including the expected full year results for the businesses that are the subject of the portfolio repositioning actions, and does not assume any gains or losses on the ultimate disposition of those businesses.

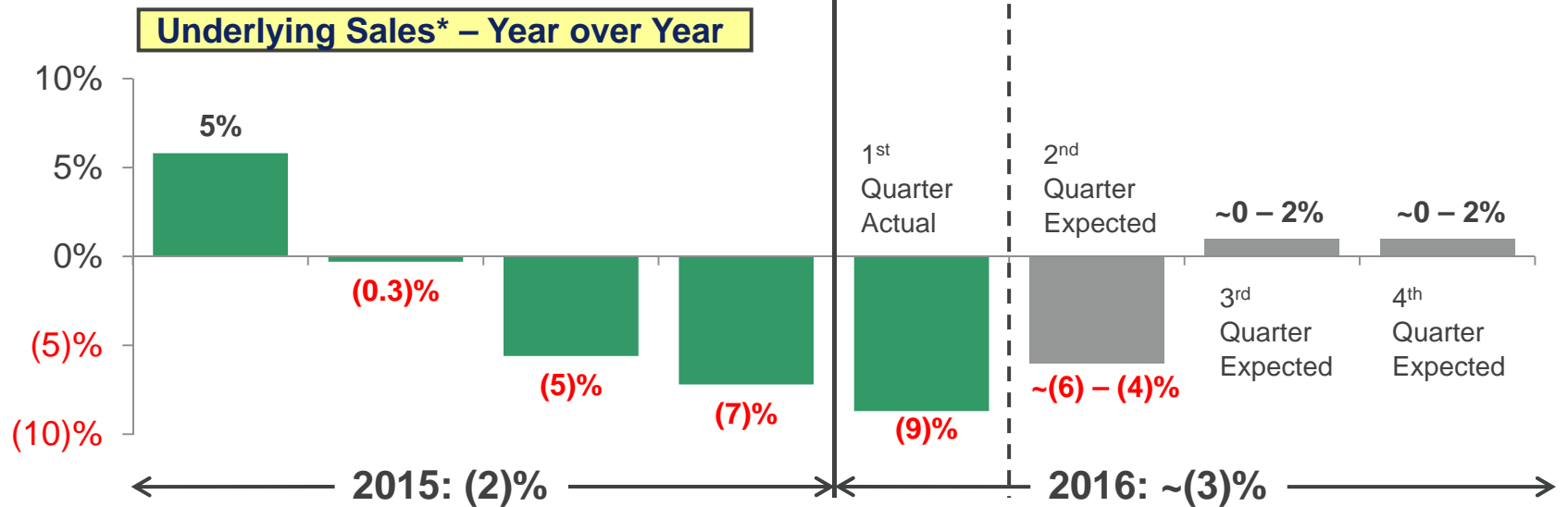
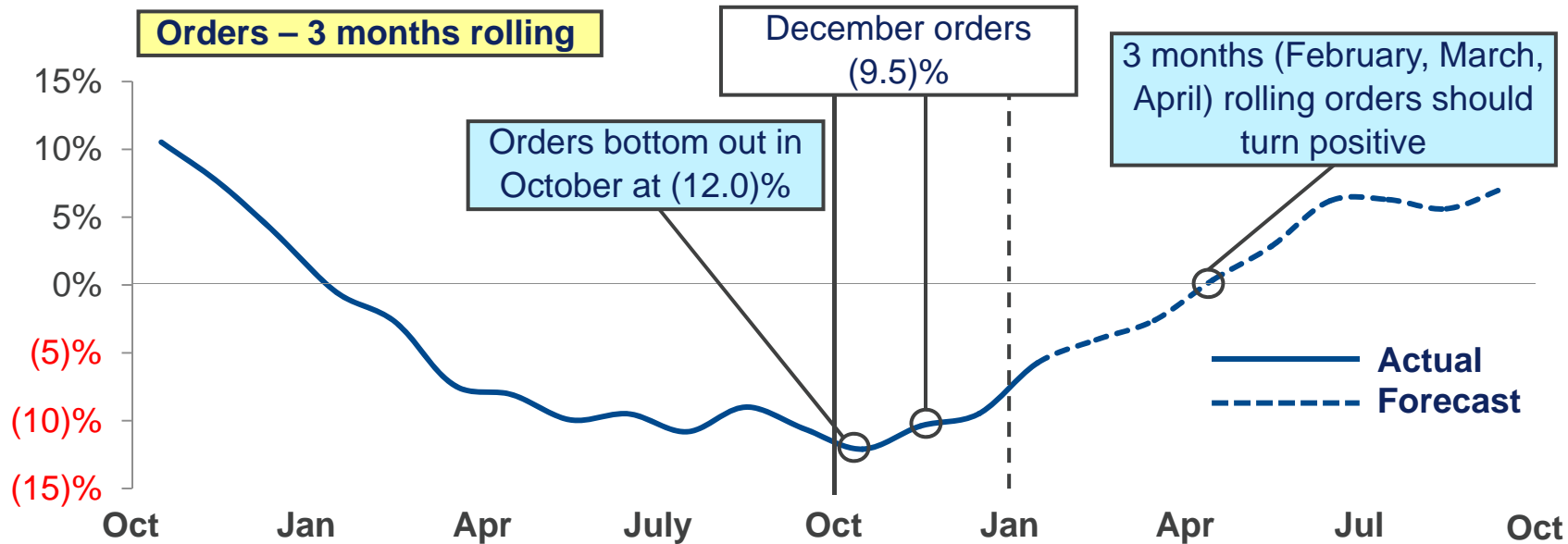


# 2016 Guidance By Business -- The Current Business Make-Up

	<u>Underlying Growth*</u> (Excludes Currency Impact and Acquisitions / Divestitures)	<u>Current Market Risk Assessment</u>	<u>EBIT Margin</u>
<b>Process Management</b>	(9) – (7)%	↓	~18.2%
<b>Climate Technologies</b>	0 – 3%	↑	~19.1%
<b>Commercial &amp; Residential Solutions</b>	1 – 4%	↑	~23.7%
<b>Network Power</b>	(2) – 0%	→	~8.7%
<b>Industrial Automation</b>	(6) – (3)%	↓	~15.0%

Underlying Sales\* of (5) - (2)% Range with a ~15.4% Adjusted EBIT Margin\*


# Trailing 3-Month Orders (Fixed Rate) and Underlying Sales\* Growth




# Process Management

## 2016 End Markets Outlook

Underlying Growth	EBIT Margin
(9)-(7)%	~18.2%




**O&G  
Exploration &  
Production**




**2016E: (18) - (15)%**

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Oil price driven by oversupply and falling demand




**O&G  
Midstream**




**2016E: 0 - 1%**

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Infrastructure build out in North America & Asia, LNG, storage and terminals




**Refining**




**2016E: 0 - 1%**

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Benefit from low feedstock prices




**Chemical**




**2016E: 0 - 1%**

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Increasing demand, benefit from low feedstock prices




**Power**




**2016E: 1 - 2%**

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Increasing demand in emerging markets; technology conversion



**Hybrid  
Industries**



**2016E: 1 - 2%**

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Aging population, growing middle class; regulatory reform

Outlook based on Composite Market Indicator (GFI, MRO, Turnarounds) at fixed currency, October 2015

Low and Volatile Oil Prices Create Challenges in 2016 With Slower Recovery in Oil and Gas Markets; But Investments Continue in Other Industries and We Have Shifted Focus and Resources to the Other 75% of the \$100+B Market

# Process Management

## 2016 End Markets Outlook and Trends

Underlying  
Growth

(9)-(7)%

EBIT  
Margin

~18.2%

Oil & Gas Upstream  
investments impacted  
by low oil prices

- Low and volatile oil price driven by oversupply resulting in significant reduction in capital spending
- Oil & Gas **upstream orders expected to decline again** in 2016, but the result will not be zero dollars

Steady investments  
continue in other  
vertical industries

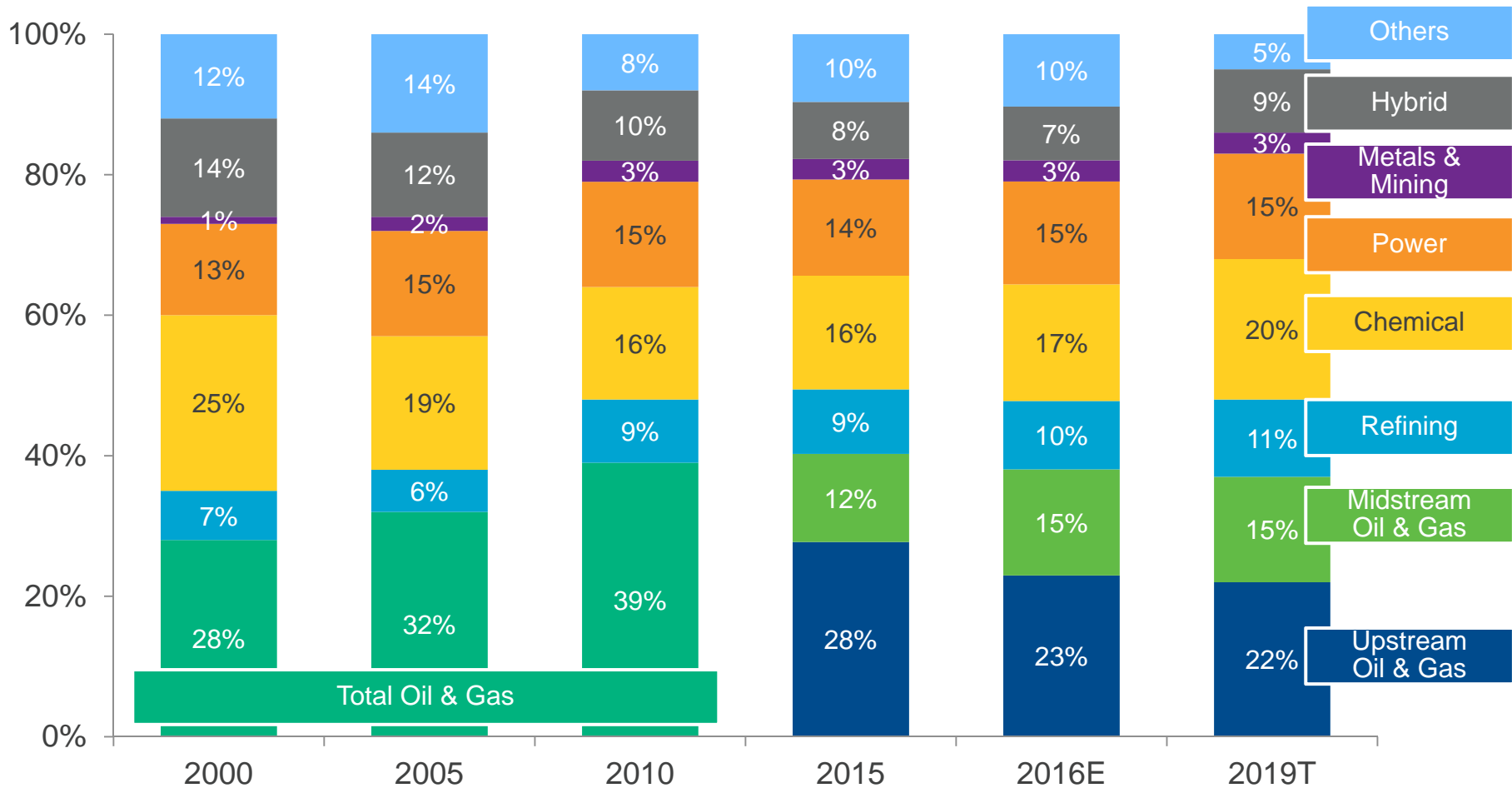
- **Continued investments in Midstream** driven by increased global demand for energy
- Solid **Chemical** investments in North America based on **reduced feedstock costs**
- **Power** investments driven by **demand in emerging markets**, modernization spend and key new environmental regulations

User focus is on  
Operational Excellence  
and Project Execution

- Investments focus on **improving margins through operational excellence** -- huge investments in the past 8 years need to deliver increased output with lower costs
- **Scrutiny of capital projects** drives increased demand for confidence in project execution

# Process Management Sales Mix Evolution -- \$100B Process Market

Underlying Growth	EBIT Margin
(9)-(7)%	~18.2%

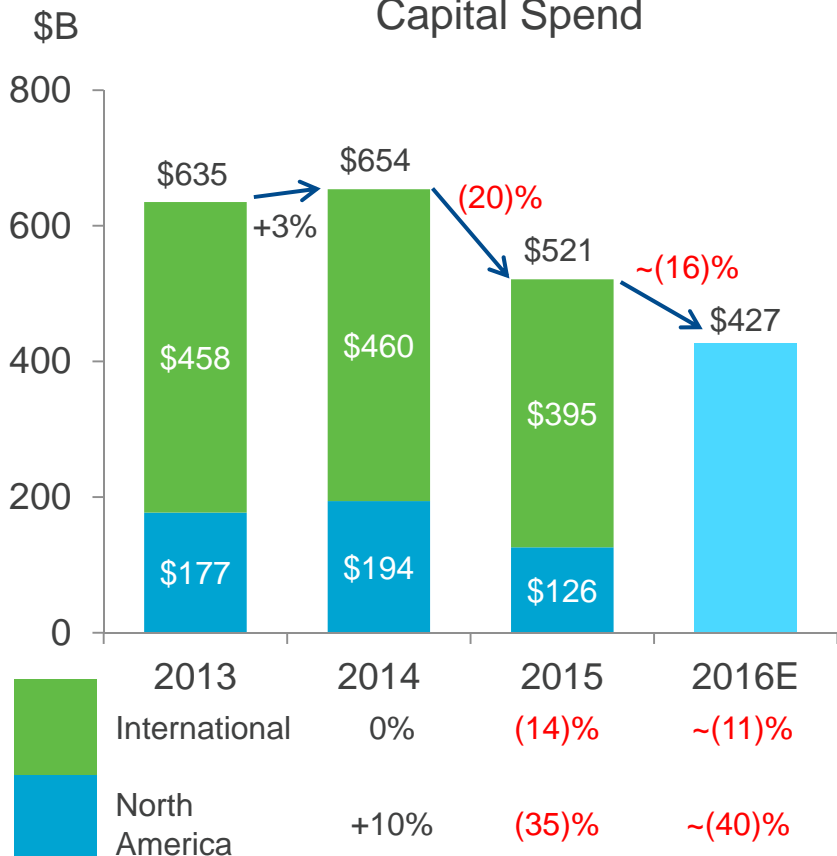


Emerson Has Performed Extremely Well in the Oil & Gas Markets for the Last 10 Years and Now We Will Rebalance on Other Key Process Markets. Upstream Oil & Gas Spending Will Continue to Decline -- **But Won't Reach Zero.** Midstream Oil & Gas and Refining Markets Will Expand

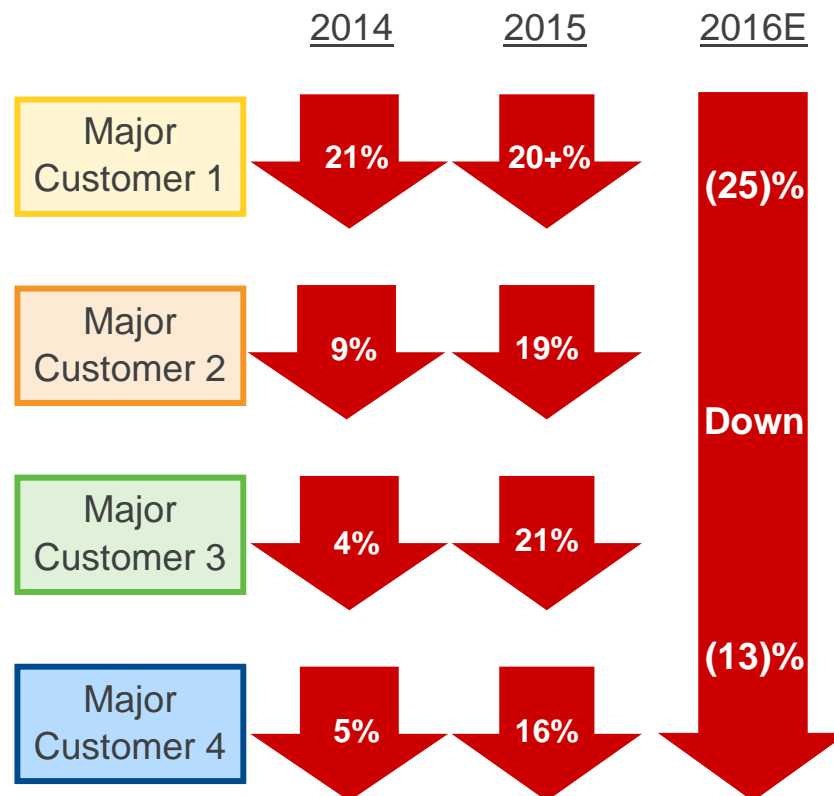
# 2016 Outlook For Oil & Gas Capital Spending Is Mixed and Driven by Oil Price Volatility

Underlying Growth	EBIT Margin
(9)-(7)%	~18.2%

### Global Exploration and Production Capital Spend



### Key Customers Capital Expenditures




Source: Barclays Research, Worldwide E&P Capital Spending 2013 – 2016E, Capital IQ, Emerson Assessment

We Expect the Capital Spending for Our Main Customers to Be Down in 2016, **But Not Zero**, and Will Focus On Key Operational Improvement Areas for Spending -- Good for Emerson

# Climate Technologies

## 2016 End Markets Outlook


Underlying Growth	EBIT Margin
0-3%	~19.1%



**Residential A/C**

2016E: 4 - 6%


Solid housing starts; summer weather is key driver



**Commercial A/C**

2016E: 1 - 3%


New efficiency standards drive modulation technology adoption



**Commercial Refrigeration**

2016E: 0 - 2%

DOE & EPA regulations creating widespread redesigns



**Transport**

2016E: 1 - 3%

Asia rail, truck & trailer driving market demand



**Retail Solutions**

2016E: 2 - 4%

Rising energy costs, food quality management & profitability



# Climate Technologies

## 2016 End Markets Outlook and Trends

Underlying  
Growth

0-3%

EBIT  
Margin

~19.1%

### New Efficiency Standards

- Driving modulation technology and system optimization using electronic solutions
- Facility maintenance & optimization via monitoring and new solutions
- Favorable multi-year trend for Emerson

### Refrigerant Regulations & Environmental Responsibility

- Trend towards refrigerants with lower global warming potential (GWP)
- CO<sub>2</sub> systems & alternate architectures gaining traction in food retail
- Driving widespread system redesigns with customers
- A positive for our technology strength and solutions

### Smart Systems & Connectivity Becoming Increasingly Important

- Compressors with on-board diagnostics and integrated electronics
- Expanding wireless capabilities and products
- Growth of enriched business models
- A positive trend


### Evolving Cold Chain Infrastructure

- Reduction of food spoilage & increase of food safety
- Intelligent cold storages with increased monitoring & focus on lifecycle costs
- A positive trend




# Commercial & Residential Solutions 2016 End Markets Outlook

Underlying Growth	EBIT Margin
1-4%	~23.7%




**U.S. Residential Construction**


2016E: 7 - 9% 

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Increased housing starts and private residential spending




**U.S. Housing Starts**


2016E: ~ 10% 

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Robust building permits, and elevated homebuilder optimism fuel the growth



**U.S. Home Improvements**

2016E: ~ 5% 

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Driven by improved consumer wealth and increase in spending




**U.S. Non-Residential Construction**


2016E: 1 - 2% 

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Aided by growth in manufacturing construction



**Oil & Gas**

2016E: ~ (25)% 

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Reduced equipment spending due to rapid decline in oil price

# Commercial & Residential Solutions

## 2016 End Markets Outlook and Trends

Underlying  
Growth

1-4%

EBIT  
Margin

~23.7%

### U.S. Residential Construction

- Residential construction stays strong as a result of increased household formation driven by renters and also increased consumer wealth
- Single-family and multifamily construction are on a positive trajectory after several tough years
- Also home improvements stays solid, ~5%

### U.S. Housing Starts

- Robust permits, combined with inventories of new homes for sale that remain well below their long-term trend, and relatively elevated homebuilder optimism, point to stronger housing starts

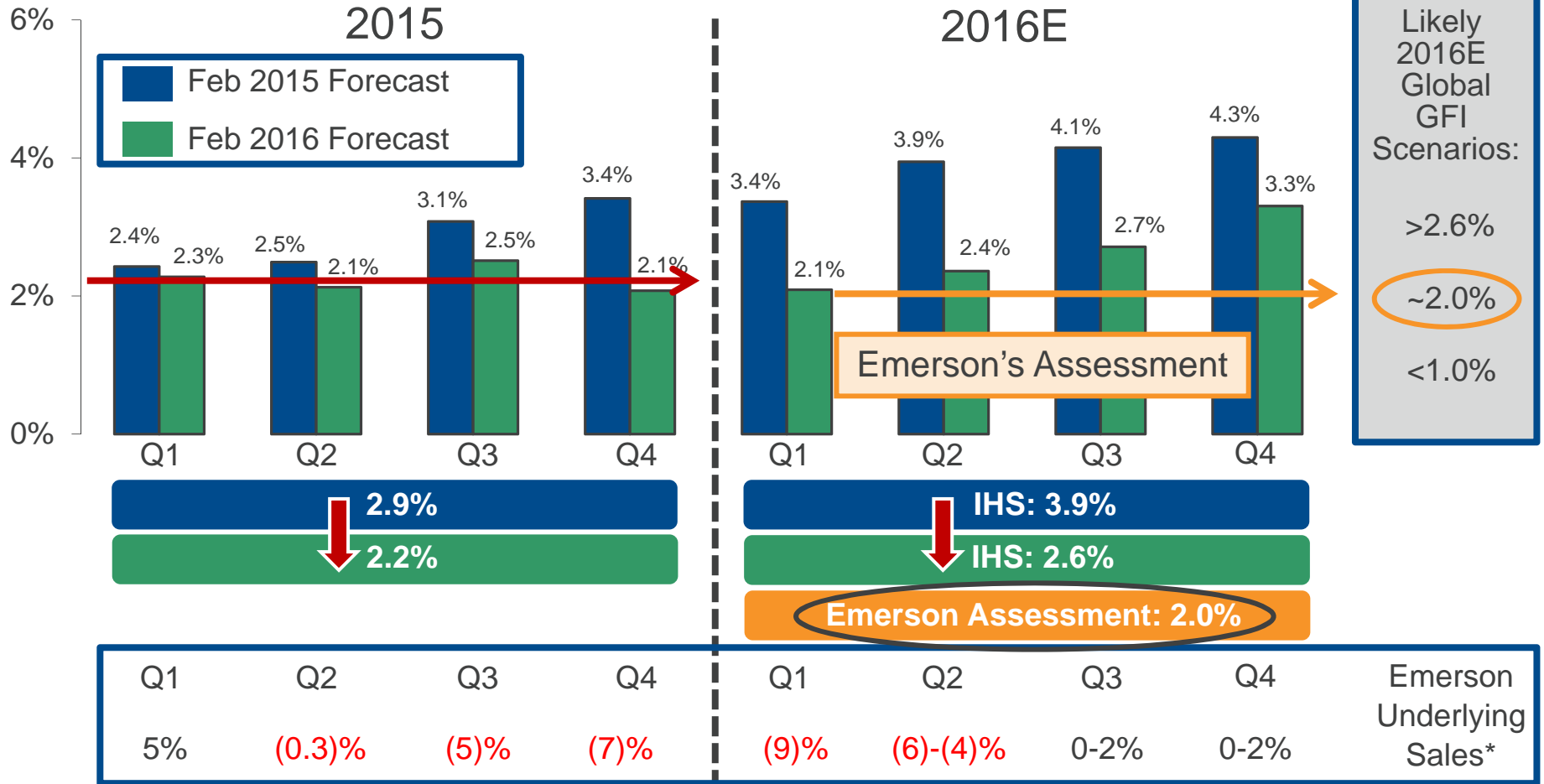
### U.S. Non-Residential Construction

- Spending remains okay but only modest growth in 2016 versus a solid 2015
- A key category to watch is manufacturing construction, which is at elevated levels (mostly because of spending on chemical plants) -- and will begin to decline later in 2016

### Oil & Gas (Equipment Spending)

- Oil & Gas upstream orders expected to decline again in 2016
- Continued investments in Midstream are driven by global demand for energy, and also need to improve gas infrastructure

# Global Real Gross Fixed Investment (GFI) Emerson Fiscal Year (Year over Year)



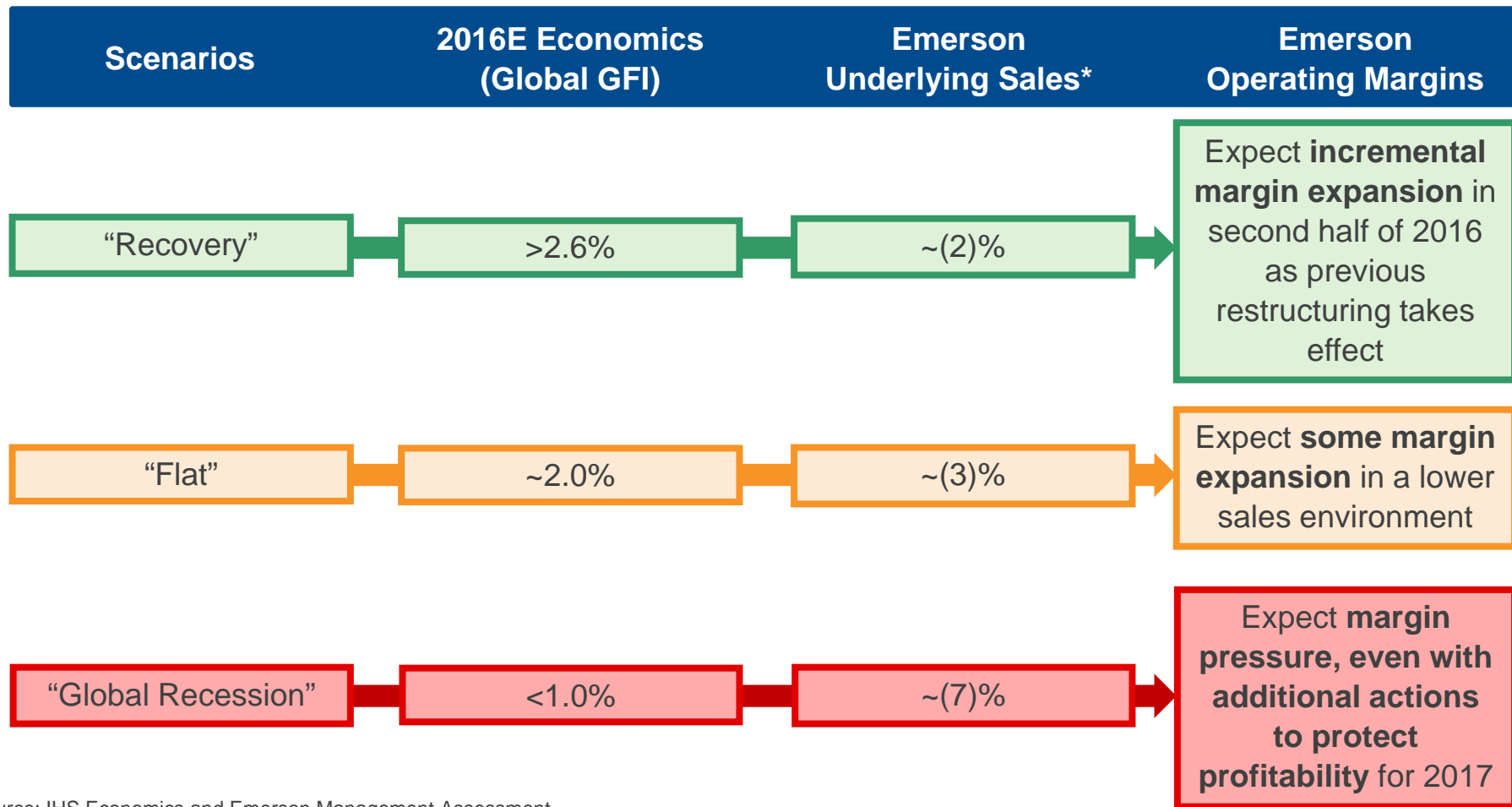
Likely 2016E Global GFI Scenarios:

- >2.6%
- ~2.0%
- <1.0%

Source: IHS Economics and Emerson Management Assessment

Emerson's World GFI Base Forecast for 2016 Is About the Same as 2015 at ~2%. The Global Industrial Recession for Key Emerson Markets Eases by the 2<sup>nd</sup> Half of 2016

# 2016 Macroeconomic Trajectories and Considerations for Additional Restructuring



Source: IHS Economics and Emerson Management Assessment

Increasingly Negative Underlying Sales\* Growth Will Be the Primary Decision Driver for Any Required Additional Restructuring Actions in Late 2016 and 2017  
 Our Current Underlying Orders and Sales Forecast Have Bracketed a Weaker Global Economy -- But the First 30 Days of 2016 Oil, Markets, and Economic Expectations Could Create More 2<sup>nd</sup> Half Issues

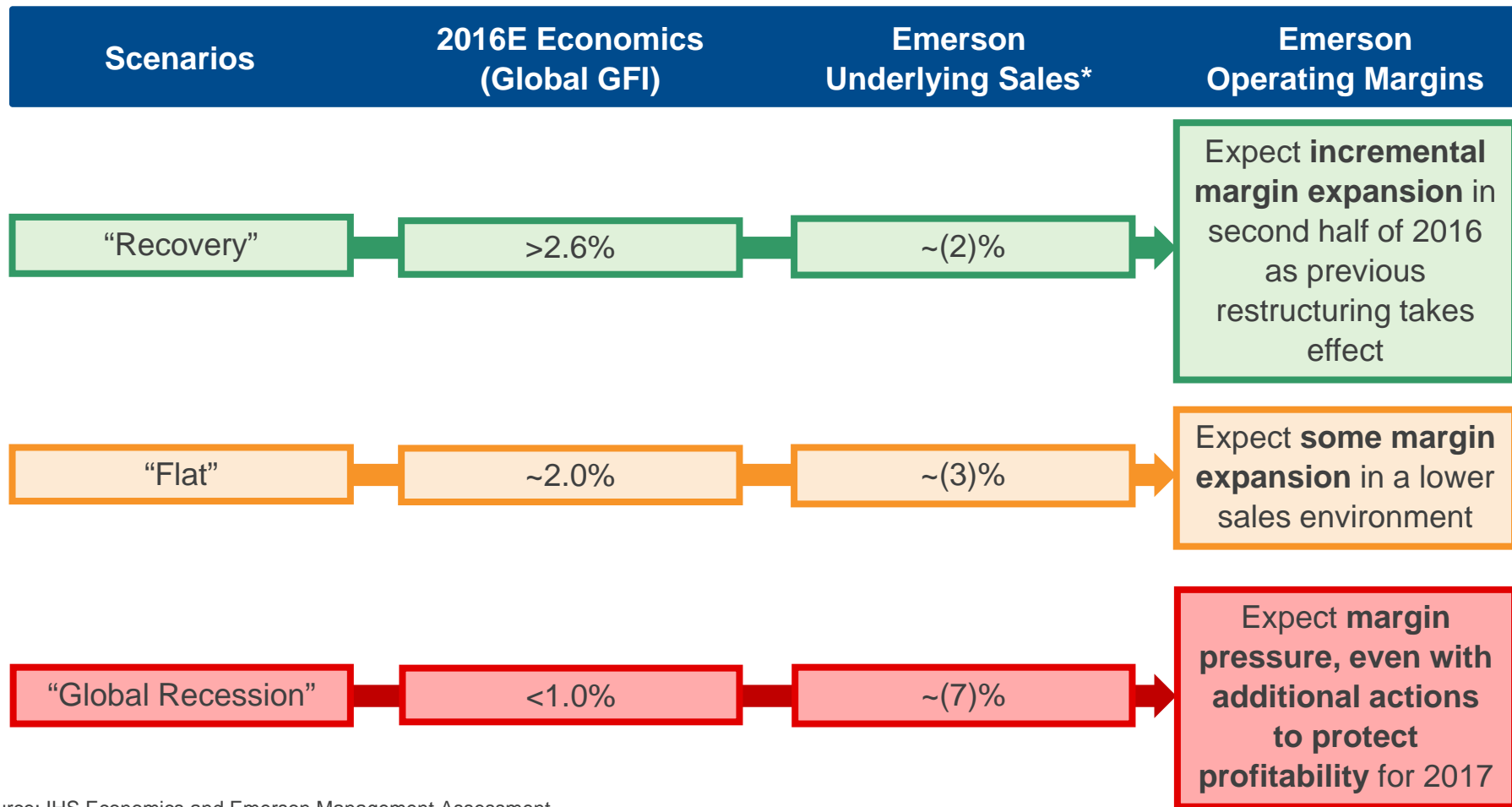
# Impact of Worsening Economic Environment For Emerson Markets -- Additional Restructuring in 2016 and 2017

If Global Gross Fixed Investment (GFI) continues on a downward trend toward 1.0% or worse...

	<u>Current Expectations</u>	<u>Expectations if</u> <u>Global GFI &lt;1%</u>
	<u>2016E</u>	<u>2016E</u>
<b>Underlying Sales*</b>	(5) - (2)%	~(7)%
<b>Operating Margin*</b>	~17%	~16%
<b>EBIT Margin*</b>	~15%	~14 - 15%
<b>Restructuring Spend</b>	\$221M in 2015 ~\$60 in 2016	Additional ~\$25M in 2016 Additional \$100M in 2017

If Global Economics Worsen, We Expect to See Margin Pressure From Lower Volume, 2015 / 2016 Restructuring, and Will Take Additional Restructuring Actions in Preparation for a Slower Start to 2017 -- Already Being Planned

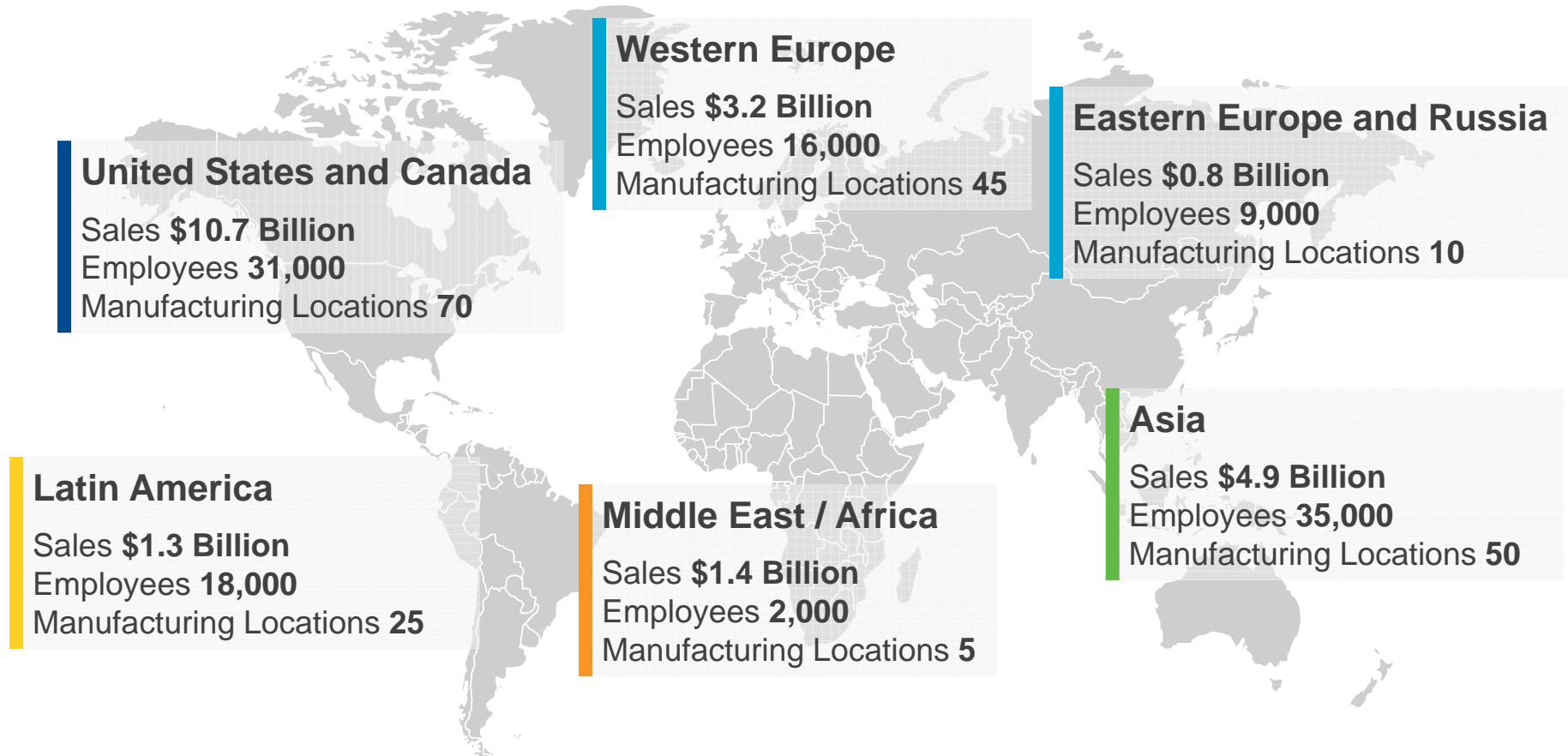
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# Emerson's 2015 Global Footprint Enabled Cost Savings as Regionalized Manufacturing Was an Operational Focal Point



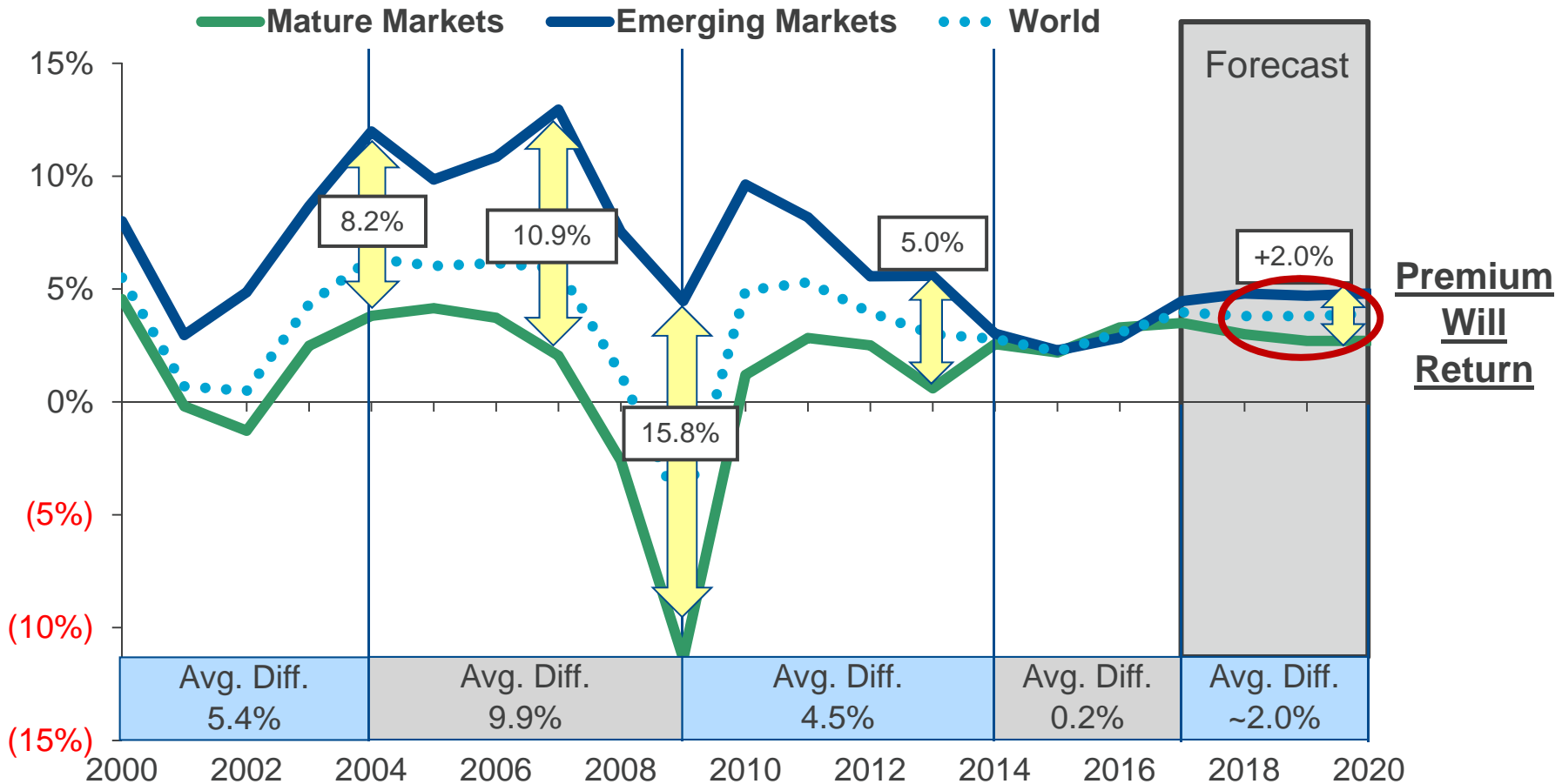
Despite Global Economic Challenges in the Near Term, Emerson Will Remain a Global Organization, With Emerging Markets Playing an Increasingly Vital Role For Longer Term Growth Opportunities



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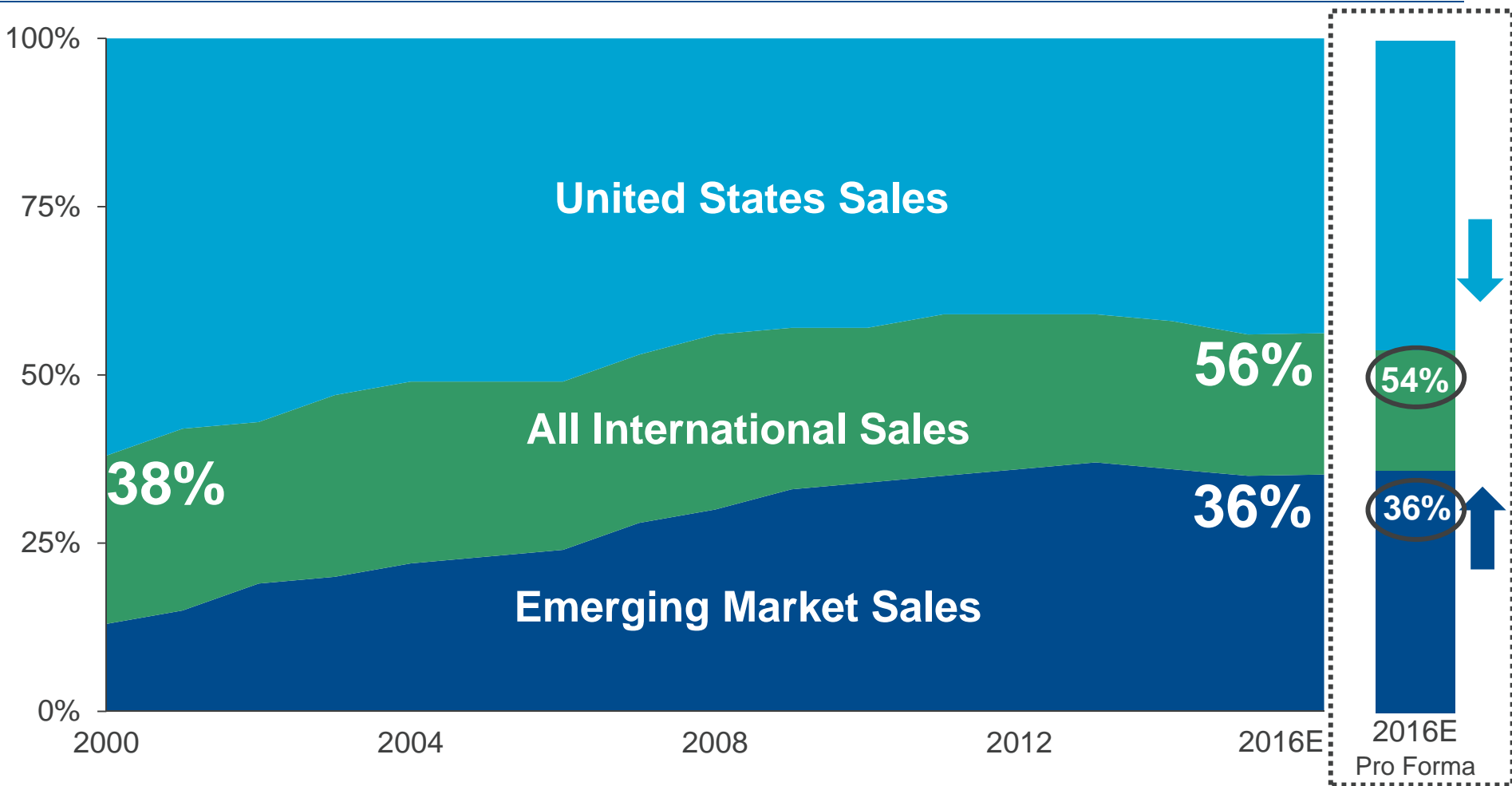
# Emerging Versus Mature Markets Historical Gross Fixed Investment



Source: IHS Economics and Emerson Management Assessment

Since 2000, We Had Seen a Sustained Growth Differential Between Mature and Emerging Markets -- We Expect to See This Growth Gap Re-Emerge After the Current Down-cycle -- but Smaller -- Therefore, Emerson Remains Committed to Emerging Markets Investment

# International and Emerging Markets Will Remain Relevant for Emerson



Despite Global Economic Challenges in the Near Term, Emerson Will Remain a Global Organization, With Emerging Markets Still Playing an Important Growth Role in the Years Ahead -- Post This "Global Turmoil"

# Emerson's 2016 Key Financial Guidance -- Current Business Make-up

	2015	2016 Forecast	% Change 2015-16E
<b>Sales (GAAP)</b>	\$22.3B	\$20.3 – \$20.9B	(9) – (6)%
<b>Underlying Growth*</b>	(2)%	(5) – (2)%	
<b>Gross Margin</b>	40.6%	~41.2%	+60 bps
<b>EBIT Margin (Adjusted)*</b>	14.8%	~15.4%	+60 bps
<b>EPS (GAAP)</b>	\$3.99	\$2.55 – \$2.90	(36) – (27)%
<b>EPS (Adjusted for Separation Costs of ~\$250 - ~\$350M)*</b>	\$3.17	\$3.05 – \$3.25	(4) – 3%
<b>Dividends Per Share</b>	\$1.88	\$1.90	+1%
<b>Operating Cash Flow</b>	\$2.5B	~\$3B	~20%
<b>Cash Returned to Shareholders</b>	\$3.8B	~\$2.4B	

2016E – Adjusted EBIT Margin and EPS exclude costs related to repositioning

2015 – Adjusted EBIT Margin and EPS exclude \$1,029M pretax divestiture gains and spin costs, net \$0.82 per share

Note: 2016E represents the Company's expectations for its consolidated results, including the expected full year results for the businesses that are the subject of the portfolio repositioning actions, and does not assume any gains or losses on the ultimate disposition of those businesses.

**2016 Will Be a Challenging Year -- But Our Aggressive Cost Restructuring Efforts Are Paying Off -- The Spin / Sale of Non-Strategic Assets Is Well Underway -- And Increased Efforts to Grow the Company Through a Focused Acquisitions Program Are Also Underway**

# Key Messages For 2016 Actions

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## Actions

### Step 1

Restructure and reduce costs in-line with a challenging global economy and a smaller, more focused Emerson

Started February 2015 and ongoing through 2016 – 2017, until global growth returns

### Step 2

Complete the spin or sale of the Network Power business, and sale of the Motors & Drives / Power Generation businesses and the remaining storage business

Started June 2015 -- Targeted to be completed by September 2016 (ClosetMaid by 1<sup>st</sup> half of 2017)

### Step 3

Aggressively pursue acquisitions to rebuild the new core, focused Emerson to ~\$20B

On-going and increasing focus

# Non-GAAP Reconciliations

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- The 2016E financial measures contained herein represent the Company's expectations for its consolidated results including the expected full year results for the businesses that are the subject of the portfolio repositioning actions, and does not assume any gain or loss on the sale of those businesses.
- Any "pro forma" or "rebased" financial measures contained herein represent the businesses that are expected to remain part of Emerson and comprise the Automation Solutions and Commercial & Residential Solutions business groups after completion of Emerson's portfolio repositioning actions described herein.
- Operational tax rate excludes the impact of the costs associated with the planned spinoff or sale of the network power systems business and the other strategic repositioning actions being undertaken by the Company to provide additional insight into the tax rate applicable to the Company's ordinary on-going operations and facilitate period-to-period comparisons. Management believes that presenting operational tax rate may be more useful for investors (U.S. GAAP measures: *tax rate*).
- References to underlying orders in this presentation refer to the Company's trailing three-month average orders growth versus the prior year, excluding currency, acquisitions and divestitures.

# Non-GAAP Reconciliations

## Sales % chg. vs. PY

Underlying growth\*

Acq/Div/FX

GAAP growth

2013				2014			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6%	2%	(1%)	2%	3%	2%	3%	4%
(1%)	(1%)	(1%)	0%	(2%)	(4%)	(4%)	(4%)
5%	1%	(2%)	2%	1%	(2%)	(1%)	0%

## Sales % chg. vs. PY

Underlying growth\*

Acq/Div/FX

GAAP growth

2015				
Q1	Q2	Q3	Q4	FY
5%	0%	(5%)	(7%)	(2%)
(6%)	(7%)	(8%)	(8%)	(7%)
(1%)	(7%)	(13%)	(15%)	(9%)

## 2016E sales % chg. vs 2015

Underlying growth\*

Acq/Div/FX

GAAP growth

Process Management	Industrial Automation	Network Power	Climate Technologies	Commercial & Residential Solutions	Total
~(9) - (7%)	~(6) - (3%)	~(2) - 0%	~0 - 3%	~1 - 4%	~(5) - (2%)
~(1%)	~(8%)	~(3%)	~(1%)	~(16%)	~(4%)
~(10) - (8%)	~(14) - (11%)	~(5) - (3%)	~(1) - 2%	~(15) - (12%)	~(9) - (6%)

## Sales % chg. vs. PY

Underlying growth\*

Acq/Div/FX

GAAP growth

2016	2016E
Q1	Q2
(9%)	~(6) - (4%)
(7%)	~(4%)
(16%)	~(10) - (8%)

## Sales % chg. vs. PY

**High Mid-Range of (5) – (2)% Guidance**

Underlying growth\*

Acq/Div/FX

GAAP growth

2016E		
Q3	Q4	FY
~0 - 2%	~0 - 2%	~(3%)
~(3%)	~(3%)	~(4%)
~(3) - (1%)	~(3) - (1%)	~(7%)

# Non-GAAP Reconciliations

## EBIT

	Q1 2015	Q1 2016	Q1 '15 vs Q1 '16
EBIT*	\$ 811	549	(32%)
Interest expense, net	(46)	(46)	(2%)
Pretax earnings	\$ 765	503	(34%)

## EBIT%

	1990	2000	2014	2015	2016E	14 vs '15	'15 vs '16E	Q1 2015	Q1 2016	Q1 '15 vs Q1 '16	2019T
Adjusted*, %	14.6%	15.9%	16.5%	14.8%	~15.4%	(170) bps	~60 bps	14.5%	11.7%	(280) bps	~18%
Goodwill impairment charges, divestiture gains, separation costs and interest expense, net, %	(1.5%)	(1.9%)	(2.9%)	3.9%	~(1.8%)	680 bps	~(570) bps	(0.8%)	(1.0%)	(20) bps	~(1%)
Pretax earnings, %	13.1%	14.0%	13.6%	18.7%	~13.6%	510 bps	~(510) bps	13.7%	10.7%	(300) bps	~17%

## OP%

	2014	2015	2016E	14 vs '15	2019T
Operating margin, %	18.1%	17.3%	17%	(80) bps	~18 - 20%
Other deductions and interest expense, net, %	(4.5%)	1.4%	(3%)	590 bps	~(2%)
Pretax earnings, %	13.6%	18.7%	14%	510 bps	~16 - 18%

# Non-GAAP Reconciliations

## EPS

	2014	2015	2016E	'14 vs '15	'15 vs '16E	Q1 2015	Q1 2016	Q1 '15 vs Q1 '16
Adjusted*	\$ 3.75	\$ 3.17	~\$3.05 - \$3.25	(15%)	~(4) - 3%	\$ 0.75	\$ 0.56	(25%)
Goodwill impairment charges, divestiture gains and separation costs	(0.72)	0.82	~(0.50) - (0.35)	47%	~(32) - (30%)	-	(0.03)	(4%)
GAAP	\$ 3.03	\$ 3.99	~\$2.55 - \$2.90	32%	~(36) - (27%)	\$ 0.75	\$ 0.53	(29%)

## ROTC

	2014	2015	2015 chg.
Adjusted*	20.2%	18.3%	(190) bps
Goodwill impairment charges, divestiture gains and separation costs	(2.7%)	4.5%	720 bps
GAAP	17.5%	22.8%	530 bps

## Operational Tax Rate

	2016E
Operational tax rate*	~31%
Separation costs	~3 - 6%
Effective tax rate	~34 - 37%

## Free Cash Flow, % of Sales\*

	2019T
Free cash flow*, %	~10 - 14%
Capital expenditures, %	~3%
Operating cash flow, %	~13 - 17%



# Non-GAAP Reconciliations

## Automation Solutions

	<b>2016E</b>
Underlying*	Pro Forma
Acq./Div./FX	(8) - (6%)
	<u>(2%)</u>
GAAP Reported	(10) - (8%)

## Commercial & Residential Solutions

	<b>2016E</b>
Underlying*	Pro Forma
Acq./Div./FX	1 - 3%
	<u>(2%)</u>
GAAP Reported	(1) - 1%

## Debt / EBITDA\*

Debt / EBITDA, adjusted\*

Impact of planned strategic actions, divestiture gains, separation costs, depreciation and amortization, interest expense, net and income taxes

Debt / Net earnings

	2015	2016PF
	1.7	1.3
	0.8	0.8
	<u>2.5</u>	<u>2.1</u>

2016 Pro forma (PF) assumes all strategic actions have been completed