

A man in a yellow polo shirt stands at a wooden podium on the left, addressing a group of children seated in a classroom. The children, many wearing bright green t-shirts, are looking towards the speaker with interest. The setting is a well-lit room with wooden paneling and rows of desks.

# Third Quarter 2018 Earnings Conference Call

August 7, 2018

### Safe Harbor Statement

*Our commentary and responses to your questions may contain forward-looking statements, including our outlook for the remainder of the fiscal year, and Emerson undertakes no obligation to update any such statements to reflect later developments. Factors that could cause actual results to vary materially from those discussed today, including, among others, the impact of the Tax Cuts and Jobs Act, are provided in our most recent Annual Report on Form 10-K and subsequent reports 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](http://www.Emerson.com) under Investors.*

# Third Quarter 2018 Results

## SUMMARY

Strong market conditions and broad-based demand continued across key world areas and end markets

- Both mature and emerging markets continue to deliver strong growth
- Underlying orders have stayed in the 5-10% expected range, with June up 9%

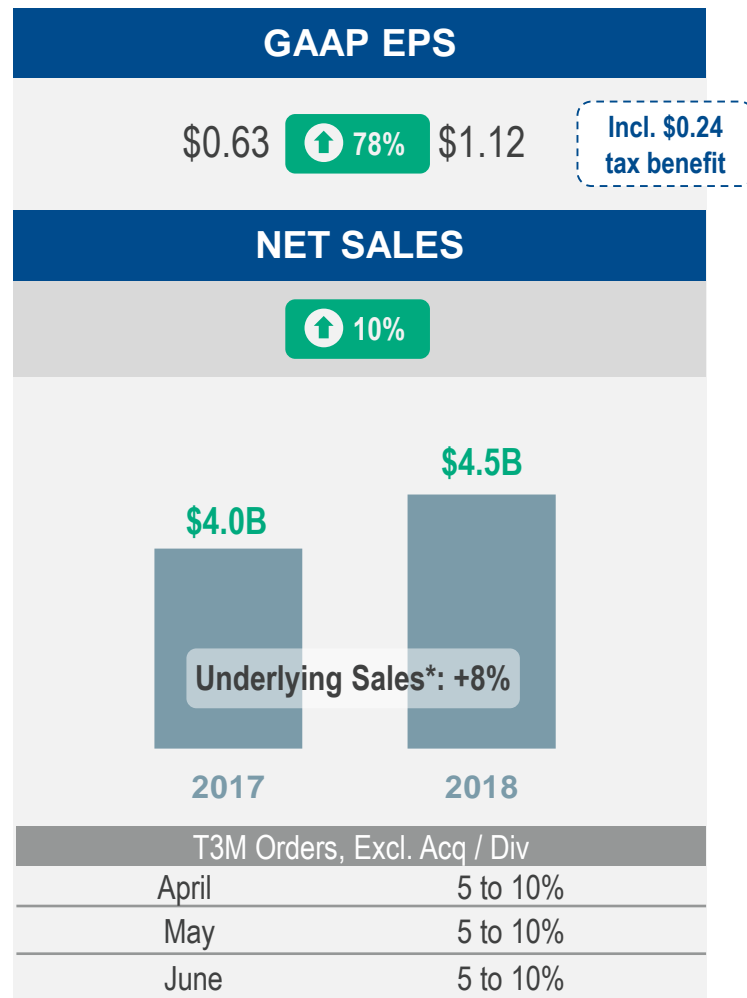
Margins improved, driven by leverage and prior year cost actions. Price/cost was slightly positive.

- Gross margin was 43.7%, up 220 basis points
- EBIT margin\* was 18.1%, up 180 basis points

GAAP EPS was \$1.12, up 78%, or was \$0.88, up 40%, excluding a one-time tax benefit\*

Generated \$924M of operating cash flow and \$804M of free cash flow\*, reflecting ~110% FCF conversion\*

Returned more than \$550M to shareholders



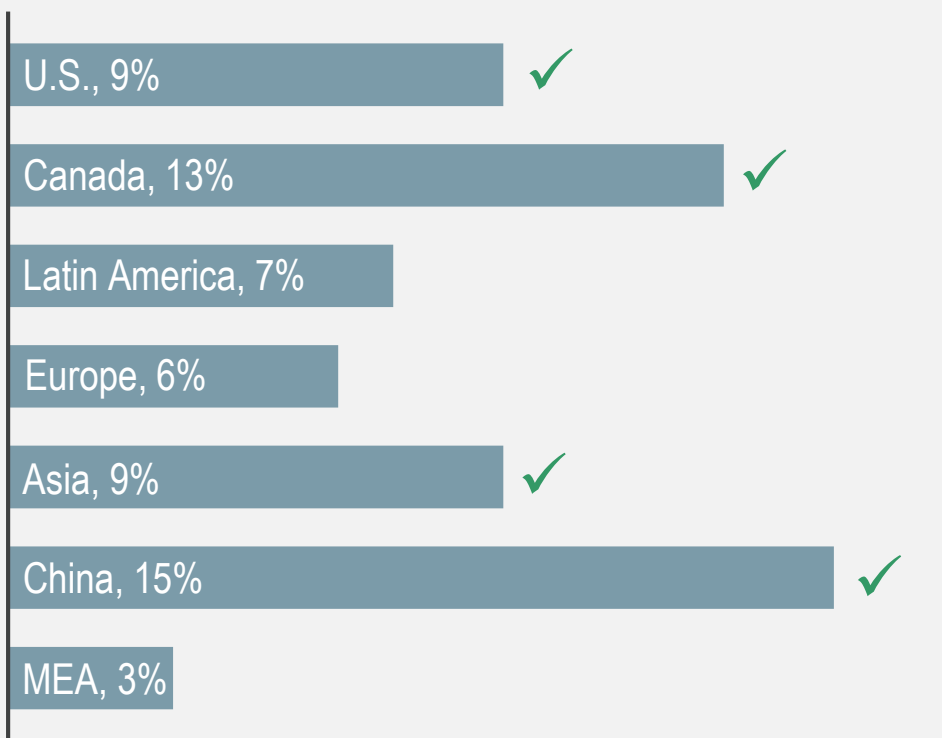
**BROAD-BASED MOMENTUM CONTINUED  
STRONG GROWTH, MARGIN IMPROVEMENT AND CASH FLOW**

# Third Quarter 2018, P&L Summary

(\$M EXCEPT EPS)	2017	2018	Chg.	
Sales	\$4,039	\$4,456	10%	Underlying sales* +8%
Gross profit	\$1,678	\$1,949	16%	
% of sales	41.5%	43.7%	+220 bps	+180 bps excluding prior year V&C acquisition accounting charges and timing impact* (closed April 28, 2017)
SG&A expense	(\$931)	(\$1,054)		
Other deductions, net	<u>(\$87)</u>	<u>(\$88)</u>		
EBIT*	\$660	\$807	22%	
% of sales*	16.3%	18.1%	+180 bps	
Shares	643.8	632.9		
GAAP EPS, Continuing Ops	\$0.63	\$1.12	78%	Incl. \$0.24 one-time tax benefit for updated estimate of TCJA
GAAP EPS	\$0.64	\$1.12	75%	Includes discontinued operations in Q3'17

# Third Quarter 2018, Underlying Sales

## UNDERLYING SALES CHANGE



Underlying sales*	8%
Acq/Div	1 pt
FX impact	1 pt
Net sales	10%



GROWTH ACROSS ALL WORLD AREAS AS MOMENTUM CONTINUED  
IN BOTH MATURE AND EMERGING MARKETS

# Third Quarter 2018, Business Segment Earnings & Cash Flow

(\$M)	2017	2018	CHG.	
Business segment EBIT*	\$780	\$881	13%	
% of sales*	19.3%	19.7%	+40 bps	+100 bps excluding prior year V&C acquisition timing impact* (closed April 28, 2017)
Accounting methods	\$38	\$57		
Corporate & other	(\$158)	(\$131)		Q3'17 includes \$37M first year acquisition accounting charges related to V&C
Interest expense, net	<u>(\$39)</u>	<u>(\$39)</u>		
Pretax earnings	\$621	\$768	24%	
% of sales	15.4%	17.2%	+180 bps	
Operating cash flow <i>from continuing operations</i>	\$774	\$924	19%	Strong profitability and working capital performance
Capital expenditures	(\$106)	(\$120)		
Free cash flow* <i>from continuing operations</i>	\$668	\$804	20%	YTD FCF* is \$1.6B, up 5 percent
Trade working capital	\$3,204	\$3,185		
% of sales	19.4%	17.9%	(150) bps	Receivables collection performance and inventory management



# Third Quarter 2018 Automation Solutions

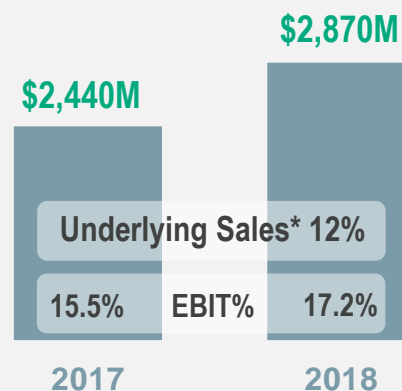
## UNDERLYING SALES CHANGE VS. PY

North America	16%
Asia	13%
<i>China</i>	28%
Europe	6%
Latin America	5%
Middle East/Africa	8%
Automation Solutions	12%
FX Impact	2 pts
Acq Impact	4 pts

- Strong growth in mature markets continued and emerging markets accelerated
- Broad-based growth in North America reflects strong demand in both the U.S. and Canada
- Asia accelerated, driven by investment in China and India
- Margin increased +170 bps. on leverage, favorable price-cost and benefit of restructuring actions, offset by prior year V&C acquisition timing (closed April 28, 2017)

## REPORTED SALES

↑ 18%



2017

2018

### T3M Orders, Excl. Acq / Div

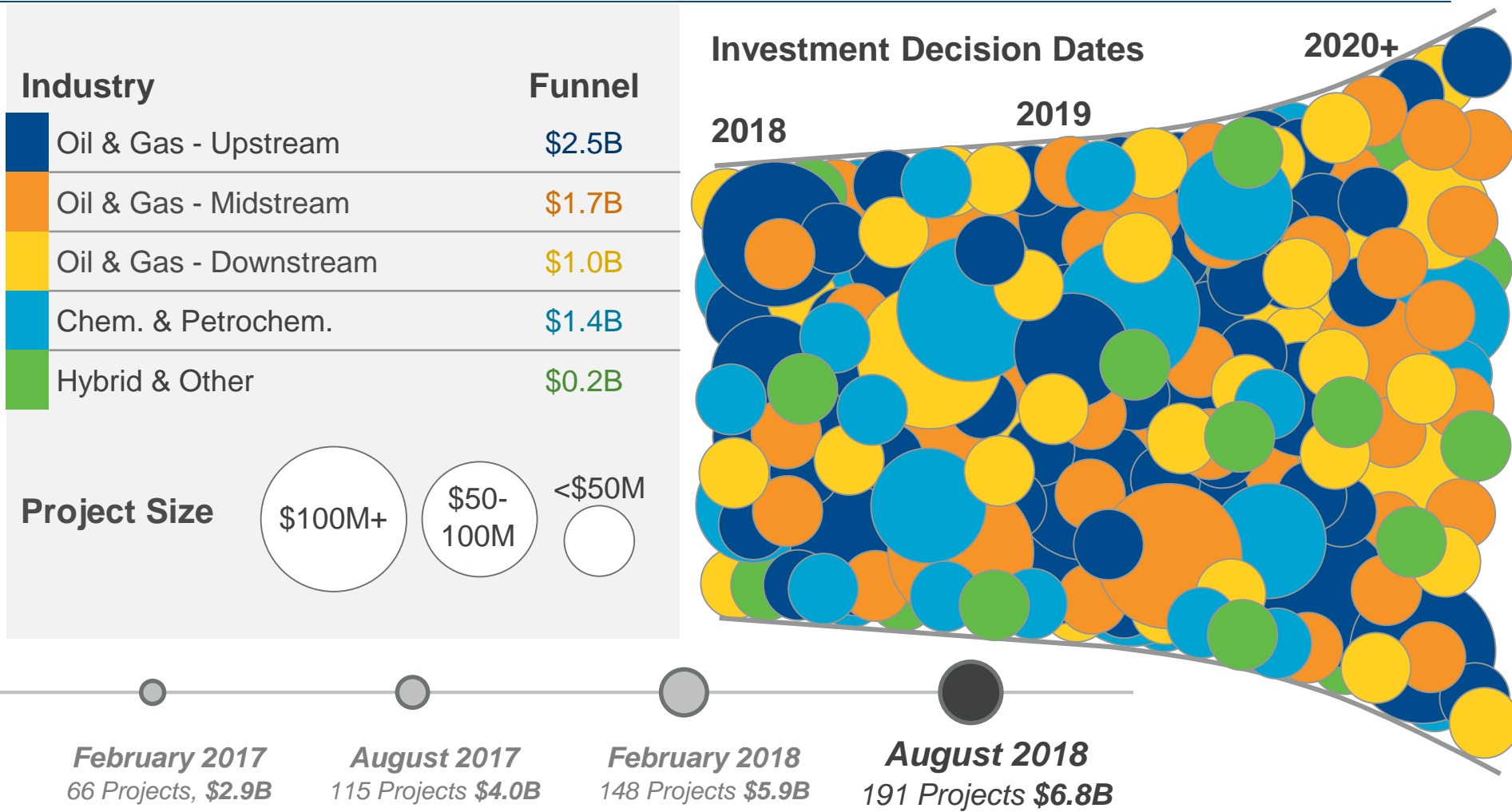
April	10 to 15%
May	5 to 10%
June	5 to 10%

June 3-month underlying orders were up 12%



**NORTH AMERICA AND ASIA DROVE 12% UNDERLYING SALES\* GROWTH**  
**FULL-YEAR UNDERLYING SALES\* OUTLOOK IS INCREASED TO ~9%**

# Three Year Large Project Funnel \$6.8B, Continues to Grow

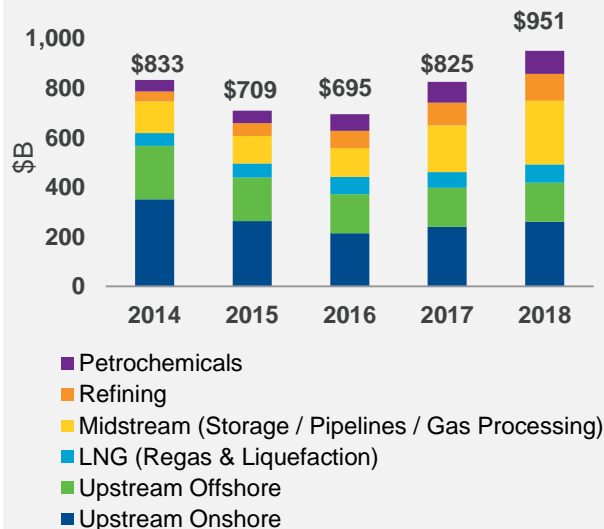


UPSTREAM PROJECTS HAVE LED AWARDS WITH NEARLY DOUBLE ANY OTHER SEGMENT, CHEMICAL AND PETROCHEMICAL SHOWED GREATEST NET GROWTH



# Leading Project Indicators Show Strong Forward Investment Trends in Core Process Industries

## GLOBAL CAPEX ACROSS THE O&G VALUE CHAIN



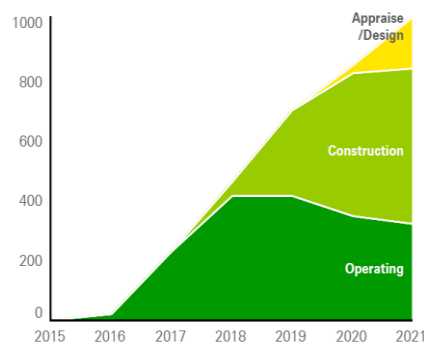
- Capex will **exceed 2014 peak** this year in our core industries
- 2016-2018 **CAGR of 17%**
- **Automation spend follows 12-24 months** based on size, type of project

Source: GlobalData

## END USER AND EPC PROJECTIONS

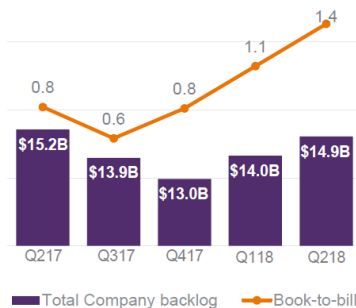
### BP

#### BP net production from major projects mboed



### TechnipFMC

#### Orders drive backlog higher



## Mexico plans additional \$9.4B investment in state-run energy companies next year:

- **+\$4B** in next year for **upstream** to raise output from 1.95 to 2.5 million barrels a day in two years
- **+\$2.6B** over next two years in **refinery upgrades**
- **+\$8.6B** on **new refinery** in port of Dos Bocas

Source: WSJ, July 27, 2018

“We laid out the **900,000 barrels a day by 2021** of major project production. **We’ll approach this year around 400,000** barrels a day of that 900,000.”

Source: BP May 2018 , Earnings Call

“We are demonstrating **good success in rebuilding the backlogs**, ultimately transitioning the company back to a **period of growth.**”

Source: Technip July, 2018 Earnings Call



MARKET RESEARCH AND CUSTOMER INSIGHTS SUPPORT OUR VIEW OF A STRONG AUTOMATION MARKET OVER THE NEXT TWO TO THREE YEARS

# Third Quarter 2018 Commercial & Residential Solutions

## UNDERLYING SALES CHANGE VS. PY

North America	2%
Asia	1%
<i>China</i>	(5%)
Europe	5%
Latin America	10%
Middle East/Africa	(11%)
Commercial & Residential Solutions	2%
FX Impact	1 pts
Acq/Div Impact	(4) pts

N.A. air conditioning demand improved and expected to accelerate in Q4; strong professional tools demand

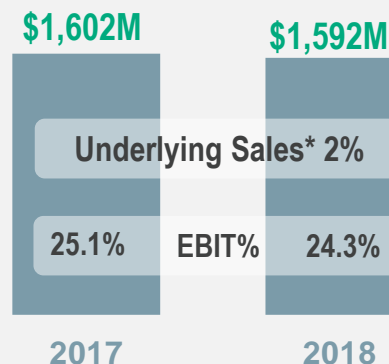
China impacted by government subsidy timing. Strength in the rest of Asia was broad-based

Europe growth was steady as HVACR trends remained favorable

Margin (80) bps. as material inflation and unfavorable mix was partially offset by leverage, higher price, cost reduction actions, and aided by the ClosetMaid divestiture.

## REPORTED SALES

↓ (1%)



### T3M Orders, Excl. Acq / Div

April	0 to 5%
May	0 to 5%
June	0 to 5%

June 3-month underlying orders were up 3%



CONTINUED FAVORABLE HVACR AND CONSTRUCTION-RELATED MARKETS  
UPDATED 2018 UNDERLYING SALES\* OUTLOOK OF ~4.5%

# Driving Synergies Across the Mechanical-Electrical-Plumbing (M-E-P) Market with Professional Tools

## EMERSON PROFESSIONAL TOOLS



JOINING



M-E-P  
CONTRACTOR



DIAGNOSTICS

### SYNERGY PLAN

Merge Ridge Tool and Tools & Test into a single Professional Tools org.  
Leverage combined global footprint and scale for growth  
Optimize combined N. America sales, marketing and manufacturing  
Consolidate material spend and containment -- Leverage the buy  
Receivables Days: Harmonize channel policies & terms  
Supplier Payable Days: Apply Emerson standard terms

Year 5

**Synergies**  
~\$40M

**Op Cash Flow**  
~\$100M



NEW COMBINED PROFESSIONAL TOOLS TEAM IS IN PLACE  
PRIORITY SYNERGY PLAN ACTIONS ARE UNDERWAY -- STRONG FIRST MONTH

# Asia Growth Continues to be Driven by Strong Programs that Have Room to Run

China's Clean Air Initiatives Are Driving an Extended Upgrade Cycle, Replacing Traditional Coal Burning Technology

## CHINA HEATING MARKET SEGMENTATION

- Individual** ■ ■  
Rural & urban residential

---

- District** ■ ■  
Commercial & municipal buildings

---

- Industrial** ■ ■  
Manufacturing & processing

---

- Sanitary** ■ ■ ■ ■  
Pools, beauty salons, etc.

---

- Systems** ■ ■ ■  
Emerson residential heat system



We Are Delivering Cold Chain Solutions to Some of the Largest Retail Players in Asia

MAJOR CONVENIENCE STORE CHAIN, 2,000+ STORES



- Digital condensing units
- Energy controls
- Lowering life cycle costs

SUPERMARKET GIANT, 500+ STORES



- Integrated scroll rack solution
- Compressor and flow components

## CHINA UNDERLYING SALES

Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18E
40%	20%	32%	18%	24%	22%	(5%)	10%+

# 2018 EPS Guidance Bridge

	EPS Range
<b>GAAP EPS, Prior Guidance May 1, 2018 Q2 Earnings Release</b>	<b>\$3.10 to \$3.20</b>
Stronger business performance and growth outlook	+0.05
One-time benefit for Tax Cuts and Jobs Act, Q3	+0.24
Tools & Test and Aventics acquisition and restructuring charges, Q4	(0.06)
Special one-time 401(k) contribution to U.S. Employees, Q4	(0.03)
<b>GAAP EPS Guidance</b>	<b>\$3.30 to \$3.40</b>



INCREASED FULL-YEAR EPS GUIDANCE REFLECTS STRONG MACRO ENVIRONMENT AND SOLID EXECUTION BY OUR GLOBAL MANAGEMENT TEAMS  
MID-POINT OF Q4 GUIDE IS \$0.86, UP 12%

# 2018 Outlook

	Earnings Call May 1, 2018	Updated Guidance August 7, 2018
<b>Net Sales Growth</b>	~13%	~14%
Automation Solutions	~20%	~21%
Commercial & Residential Solutions	~2%	~3%
<b>Underlying Sales* Growth</b>	~7%	~7.5%
Automation Solutions	~8%	~9%
Commercial & Residential Solutions	~5%	~4.5%
<b>GAAP EPS</b>	<b>\$3.10 to \$3.20</b>	<b>\$3.30 to \$3.40</b>
% change vs. PY Cont. Ops.	22% to 26%	30% to 34%
Tax Rate	25% to 27%	~19%
<b>Operating Cash Flow</b>	<b>\$2.9B</b>	<b>\$2.9B</b>
Capex	~\$575M	~\$575M
Free Cash Flow Conversion*	~115%	~110%

Updated guidance includes Tools & Test and Aventics acquisitions, which closed early in Q4'18

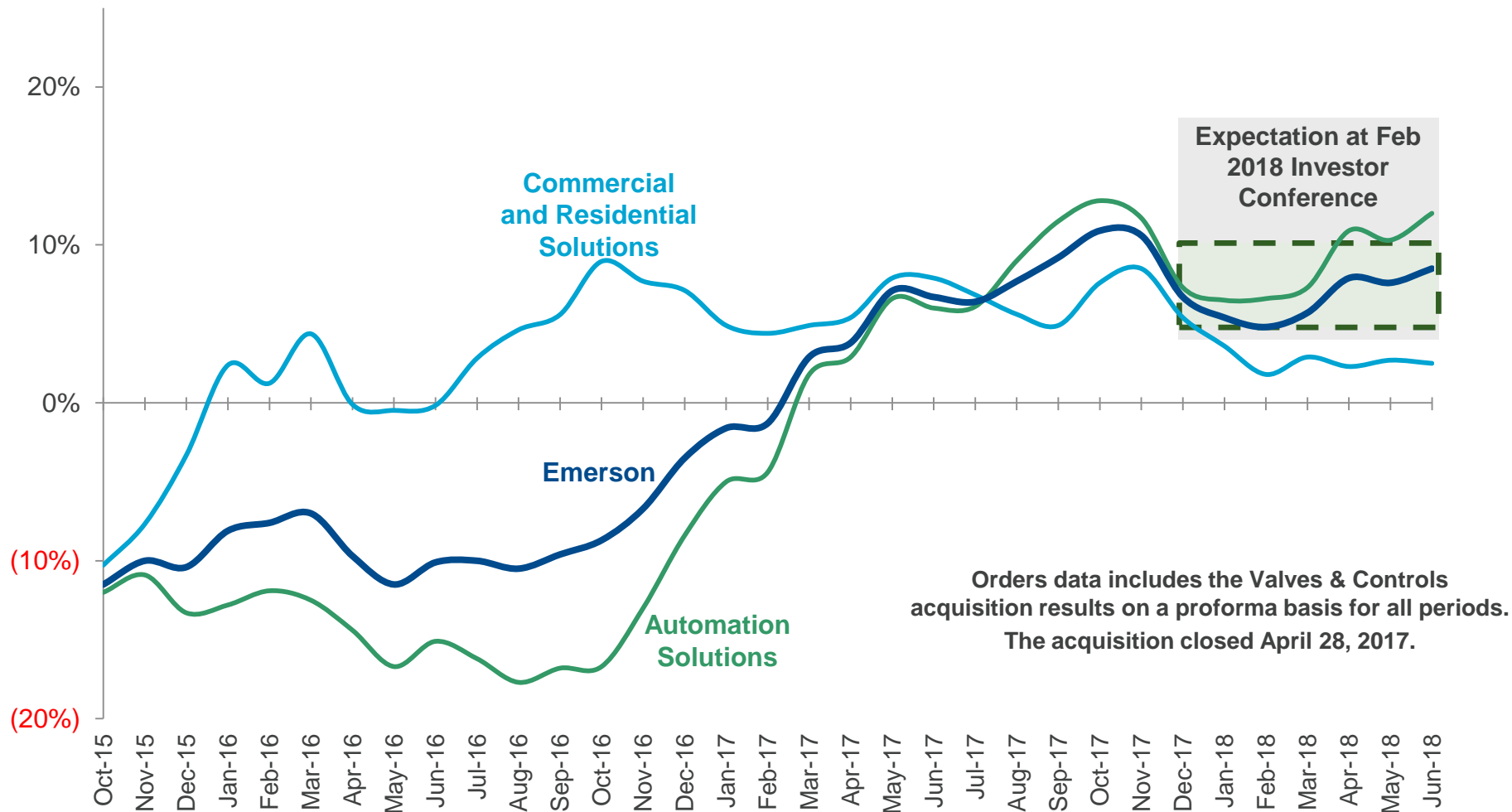


**STRONG GROWTH, PROFITABILITY AND CASH FLOW**  
**2018 FCF CONVERSION MODESTLY BETTER EXCLUDING Q3 ONE-TIME TAX BENEFIT**



# Total Emerson Underlying Order Trends

Trailing 3-Month Average vs. Prior Year



**UNDERLYING ORDERS HAVE PROGRESSED IN-LINE WITH EXPECTATIONS AND PROVIDE A STRONG SET-UP FOR Q4'18 AND THE START OF 2019**

# U.S. Compensation & Benefits Actions In Response to U.S. Tax Reform -- \$27M Cost Impact in 2018

## HEALTH & WELFARE BENEFITS

Medical and Dental plan enhancements

Life, Long-term & Short-term disability

## PAID PARENTAL LEAVE IMPROVEMENTS

12 weeks primary and 2 weeks secondary

## VACATION PLAN IMPROVEMENTS

Improved year 1 benefit plus accelerated schedule

## RETIREMENT IMPROVEMENTS

Special one-time 401(k) contribution – cost ~\$24M

Plus, improved certain business unit plans



EMERSON WILL REMAIN AN EMPLOYER OF CHOICE IN A ROBUST U.S. ECONOMY AND INCREASINGLY COMPETITIVE GLOBAL TALENT ENVIRONMENT

# APPENDIX

# Reconciliation of Non-GAAP Measures

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure. (dollars in millions, except per share amounts)

<b>Q3 2018 Underlying Sales Change</b>	<b>Comm &amp;</b>		
	<b>Auto Solns</b>	<b>Res Solns</b>	<b>Emerson</b>
Reported (GAAP)	18%	(1)%	10%
FX	(2)%	(1)%	(1)%
Acquisitions/Divestitures	(4)%	4%	(1)%
Underlying*	12%	2%	8%

<b>FY 2018E <u>Updated Guidance</u> Underlying Sales Change</b>	<b>Comm &amp;</b>		
	<b>Auto Solns</b>	<b>Res Solns</b>	<b>Emerson</b>
Reported (GAAP)	~ 21%	~ 3%	~ 14%
FX	~ (2)%	~ (1)%	~ (2)%
Acquisitions/Divestitures	~ (10)%	~ 3%	~ (5)%
Underlying*	~ 9%	~ 4.5%	~7.5%

<b>FY 2018E <u>Prior Guidance</u> Underlying Sales Change</b>	<b>Comm &amp;</b>		
	<b>Auto Solns</b>	<b>Res Solns</b>	<b>Emerson</b>
Reported (GAAP)	~ 20%	~ 2%	~ 13%
FX	~ (3)%	~ (2)%	~ (2)%
Acquisitions/Divestitures	~ (9)%	~ 5%	~ (4)%
Underlying*	~ 8%	~ 5 %	~ 7%

# Reconciliation of Non-GAAP Measures

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure. (dollars in millions, except per share amounts)

<b>Gross Margin</b>	<b>Q3 FY17</b>	<b>Q3 FY18</b>	<b>Change</b>
Gross margin (GAAP)	41.5%	43.7%	220 bps
Valves & Controls acquisition accounting charges and timing impact	0.8%	0.4%	(40) bps
Gross margin excluding Valves & Controls*	42.3%	44.1%	180 bps
<b>EBIT</b>	<b>Q3 FY17</b>	<b>Q3 FY18</b>	<b>Change</b>
Pretax earnings (GAAP)	\$ 621	\$ 768	24%
Interest expense, net	39	39	(2)%
Earnings before interest and taxes*	\$ 660	\$ 807	22%
<b>EBIT Margin</b>	<b>Q3 FY17</b>	<b>Q3 FY18</b>	<b>Change</b>
Pretax margin (GAAP)	15.4%	17.2%	180 bps
Interest expense, net	0.9%	0.9%	- bps
Earnings before interest and taxes margin*	16.3%	18.1%	180 bps
<b>Business Segment EBIT</b>	<b>Q3 FY17</b>	<b>Q3 FY18</b>	<b>Change</b>
Pretax margin (GAAP)	15.4%	17.2%	180 bps
Corp. & other, differences in accounting methods & interest expense, net % of sales	3.9%	2.5%	(140) bps
Business segment EBIT margin*	19.3%	19.7%	40 bps
Valves & Controls acquisition timing impact	0.0%	0.6%	60 bps
Business segment EBIT margin excluding Valves & Controls*	19.3%	20.3%	100 bps

# Reconciliation of Non-GAAP Measures

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure. (dollars in millions, except per share amounts)

## Cash Flow From Continuing Operations For the 9 Months Ended June 30

	<u>FY17</u>	<u>FY18</u>	<u>Change</u>
Operating cash flow from continuing operations (GAAP)	\$ 1,785	\$ 1,868	5%
Capital expenditures	(300)	(314)	-%
Free cash flow from continuing operations*	\$ 1,485	\$ 1,554	5%

## Cash Flow to Net Earnings Conversion

	<u>Q3 FY18</u>	<u>Prior Guidance FY18E</u>	<u>FY18E</u>
Operating cash flow conversion (GAAP)	~ 130%	~ 145%	~ 130%
Capital expenditures	~ (20)	~ (30)	~ (20)
Free cash flow conversion*	~ 110%	~ 115%	~ 110%

## Earnings Per Share

	<u>Q3 FY17</u>	<u>Q3 FY18</u>	<u>Change</u>
Earnings per share from continuing operations (GAAP)	\$ 0.63	\$ 1.12	78%
Benefit from the Tax Cuts and Jobs Act	-	(0.24)	(38)%
Earnings per share from continuing ops excluding tax benefit related to the Tax Cuts and Jobs Act*	\$ 0.63	\$ 0.88	40%

References to trailing 3-month or T3M orders in this presentation refer to the Company's trailing three-month average orders growth versus the prior year, excluding acquisitions and divestitures

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

References to underlying sales in this presentation exclude the impact of acquisitions, divestitures and currency translation.