



Emerson Electric Company (EMR)

Updated August 18th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$103	5 Year CAGR Estimate:	10.8%	Market Cap:	\$59 B
Fair Value Price:	\$105	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	11/16/24 ¹
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	12/10/24
Dividend Yield:	2.0%	5 Year Price Target	\$161	Years Of Dividend Growth:	67
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

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 \$59 billion diversified global leader in technology and engineering. Its global customer base and diverse product and service offerings afford it more than \$17 billion in annual revenue. The company's very impressive 67-year dividend increase streak lands it on the prestigious Dividend Kings list.

Emerson posted third quarter earnings on August 7th, 2024, and results were somewhat mixed. Adjusted earnings-per-share came to \$1.43, which was two cents ahead of estimates. Revenue was up more than 11% year-over-year to \$4.38 billion, but missed expectations by \$60 million. Both underlying orders and underlying sales were up 3% from last year's Q3.

Pretax earnings fell by almost half from the year-ago period, plummeting from \$822 million to \$455 million. The decline was from the revenue increase being more than offset by pretax profit margins being cut in half to 10.4% of revenue.

Operating cash flow was up 27% year-over-year to \$1.067 billion, while free cash flow rose by the same percentage to \$975 million.

Emerson noted it is in the process of completing the Copeland Note Receivable transaction with pretax cash proceeds of \$1.9 billion. The sale of the 40% equity stake to Blackstone will add pretax cash proceeds of \$1.5 billion. Emerson intends to use after-tax cash proceeds of \$2.9 billion from both transactions to pay down existing debt.

We have boosted our estimate of earnings-per-share by a nickel following Q3 results to \$5.50.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.75	\$3.17	\$2.46	\$2.54	\$3.46	\$3.71	\$3.46	\$4.10	\$5.25	\$4.28	\$5.50	\$8.46
DPS	\$1.72	\$1.88	\$1.90	\$1.92	\$1.94	\$1.96	\$2.00	\$2.04	\$2.06	\$2.08	\$2.10	\$2.43
Shares²	697	655	643	642	641	632	601	595	591	575	565	540

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 9% 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.

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

¹ Estimated date

² Share count in millions

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continues to focus on using its ample cash flow on acquisitions and debt reduction, not above average dividend growth, as was seen with Copeland proceeds.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.6	18.0	20.6	22.9	20.5	17.7	18.8	18.2	13.9	22.6	18.7	19.0
Avg. Yld.	2.6%	3.3%	3.8%	3.3%	2.7%	3.0%	3.1%	2.3%	2.8%	2.2%	2.0%	1.5%

Emerson's price-to-earnings ratio is down since our last update, at 18.7 times earnings, which is just below our estimate of fair value at 19. We are therefore forecasting a negligible 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, but FCF remains strong.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	61%	60%	77%	75%	58%	53%	58%	50%	39%	49%	38%	29%

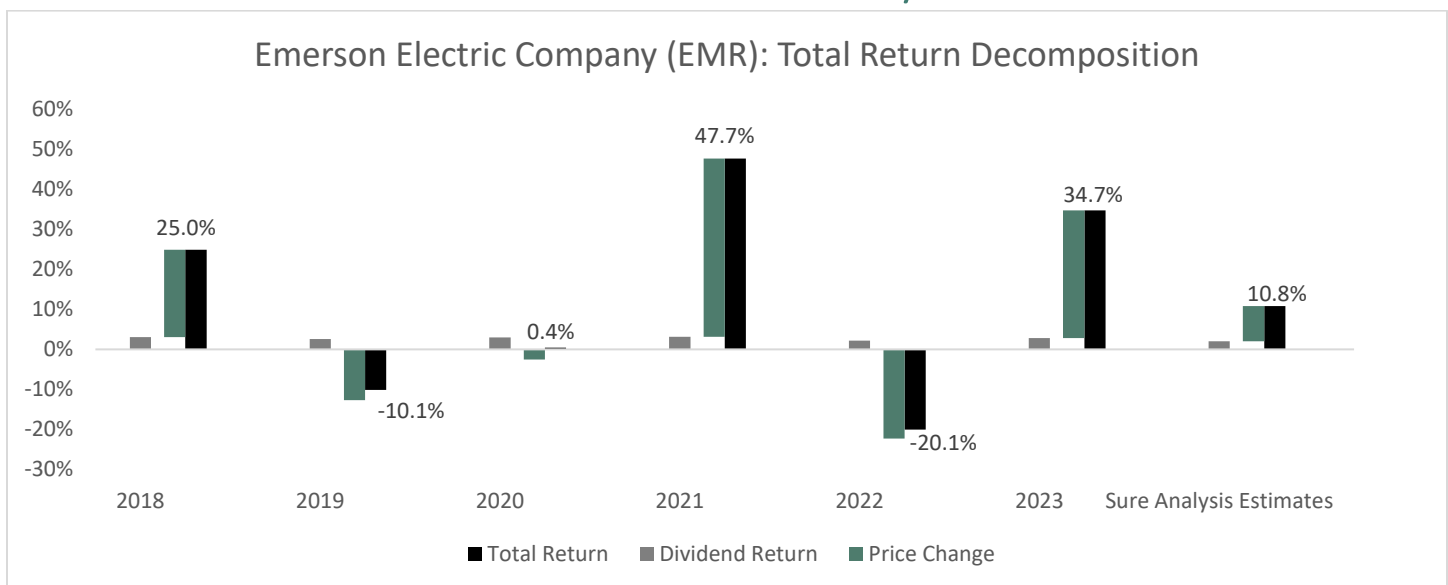
Emerson's payout ratio is well under half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is decent, so it is a suitable dividend stock. We also note that Emerson likes to buy back its stock, 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 now slightly undervalued in our view. Our 9% growth forecast, combined with shares at 99% of our estimate of fair value and a modest dividend yield, means we are forecasting 10.8% total annual returns in the coming years. We are therefore boosting the stock to buy from hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	17,733	16,249	14,522	15,264	17,408	18,372	16,785	18,236	19,629	15,165
Gross Profit	7,762	7,008	6,262	6,431	7,432	7,815	7,009	7,563	8,188	7,427
Gross Margin	43.8%	43.1%	43.1%	42.1%	42.7%	42.5%	41.8%	41.5%	41.7%	49.0%
SG&A Exp.	4,164	3,735	3,464	3,607	4,269	4,457	3,986	4,179	4,248	4,186
D&A Exp.	569	573	568	636	758	822	854	969	1,039	1,051
Operating Profit	3,503	3,179	2,714	2,688	2,952	3,120	2,784	3,084	3,583	2,630
Op. Margin	19.8%	19.6%	18.7%	17.6%	17.0%	17.0%	16.6%	16.9%	18.3%	17.3%
Net Profit	2,147	2,710	1,635	1,518	2,203	2,306	1,965	2,303	3,231	13,219
Net Margin	12.1%	16.7%	11.3%	9.9%	12.7%	12.6%	11.7%	12.6%	16.4%	87.2%
Free Cash Flow	3,041	1,941	2,434	1,436	2,275	2,412	2,545	2,994	2,391	274
Income Tax	953	1,267	697	660	443	531	345	585	855	599

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	24,177	22,088	21,732	19,589	20,390	20,497	22,882	24,715	35,672	42,746
Cash & Equivalents	3,149	3,054	3,182	3,062	1,093	1,494	3,315	2,354	1,804	8,051
Acc. Receivable	5,019	2,870	2,701	3,072	3,023	2,985	2,802	2,971	3,008	2,518
Inventories	2,057	1,265	1,208	1,696	1,813	1,880	1,928	2,050	2,191	2,006
Goodwill & Int.	8,871	4,785	4,811	7,206	9,206	9,151	9,202	10,600	21,386	20,743
Total Liabilities	14,010	13,960	14,114	10,819	11,400	12,224	14,435	14,792	19,356	16,148
Accounts Payable	2,951	1,537	1,517	1,776	1,943	1,874	1,715	2,108	2,028	1,275
Long-Term Debt	6,024	6,841	6,635	4,656	4,760	5,721	7,486	6,665	10,374	8,157
Total Equity	10,119	8,081	7,568	8,718	8,947	8,233	8,405	9,883	10,364	20,689
LTD/E Ratio	0.60	0.85	0.88	0.53	0.53	0.69	0.89	0.67	1.00	0.39

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.8%	11.7%	7.5%	7.3%	11.0%	11.3%	9.1%	9.7%	10.7%	33.7%
Return on Equity	20.7%	29.8%	20.9%	18.6%	24.9%	26.8%	23.6%	25.2%	31.9%	85.1%
ROIC	13.2%	17.4%	11.2%	11.0%	16.2%	16.6%	13.1%	14.2%	14.9%	43.0%
Shares Out.	697	655	643	642	641	632	601	602	596	577
Revenue/Share	25.19	24.02	22.45	23.72	27.40	29.60	27.67	30.30	32.92	26.27
FCF/Share	4.32	2.87	3.76	2.23	3.58	3.89	4.20	4.98	4.01	0.48

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

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