



Emerson Electric Company (EMR)

Updated November 15th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$129	5 Year CAGR Estimate:	8.7%	Market Cap:	\$74 B
Fair Value Price:	\$120	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	11/15/24
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	12/10/24
Dividend Yield:	1.6%	5 Year Price Target	\$185	Years Of Dividend Growth:	68
Dividend Risk Score:	A	Retirement Suitability Score:	B	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 \$74 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 68-year dividend increase streak lands it on the prestigious Dividend Kings list.

Emerson posted fourth quarter and full-year earnings on November 5th, 2024, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$1.48 for the quarter, which was a penny ahead of estimates. Revenue was up 13% year-over-year to \$4.62 billion, which was \$60 million ahead of expectations. Organic sales were up 4%, with the balance accruing from net acquisitions and divestitures.

Adjusted profit margin was up 70 basis points year-over-year in the fourth quarter, rising to 26.2% of revenue. Operating cash flow was up 8% year-over-year to \$1.073 billion, while free cash flow was up 10% to \$905 million.

Separately, Emerson has proposed to buy AspenTech (AZPN), an industrial technology specialist focused in automation for \$240 per share in cash. The proposed price represents a 35% premium to where shares were trading prior to the announcement. It values the firm at just over \$15 billion.

Emerson also boosted its dividend for the 68th consecutive year, this time adding just 0.5% to a new payout of \$2.11 per share.

We start fiscal 2025 with an estimate of \$6 per share in adjusted earnings.

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	\$6.00	\$9.23
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 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 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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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	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	21.5	20.0
Avg. Yld.	3.3%	3.8%	3.3%	2.7%	3.0%	3.1%	2.3%	2.8%	2.2%	1.9%	1.6%	1.3%

Emerson's price-to-earnings ratio is up since our last update, at 21.5 times earnings, which is meaningfully ahead of our estimate of fair value at 20. We are therefore forecasting a modest 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%	27%

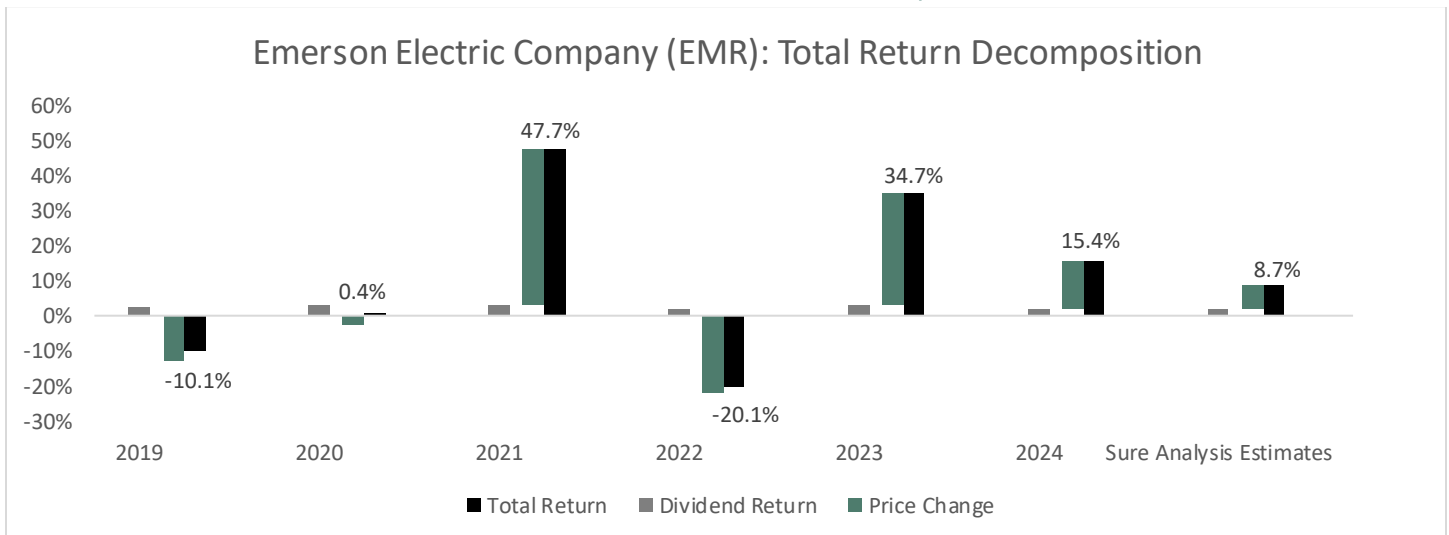
Emerson's payout ratio is well under half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is decent, so it is a suitable 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 now overvalued in our view. Our 9% growth forecast, combined with shares at 108% of our estimate of fair value and a modest dividend yield, means we are forecasting 8.7% total annual returns in the coming years. We are therefore moving the stock from buy to hold.

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.

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