



# Emerson Electric (NYSE: EMR)

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Sector Head: Jack Schafer

Lead Analyst: Sophie Galperin

Ticker:  
EMR

Current Price:  
\$114.65

Target Price:  
\$125.73

Upside:  
9.66%

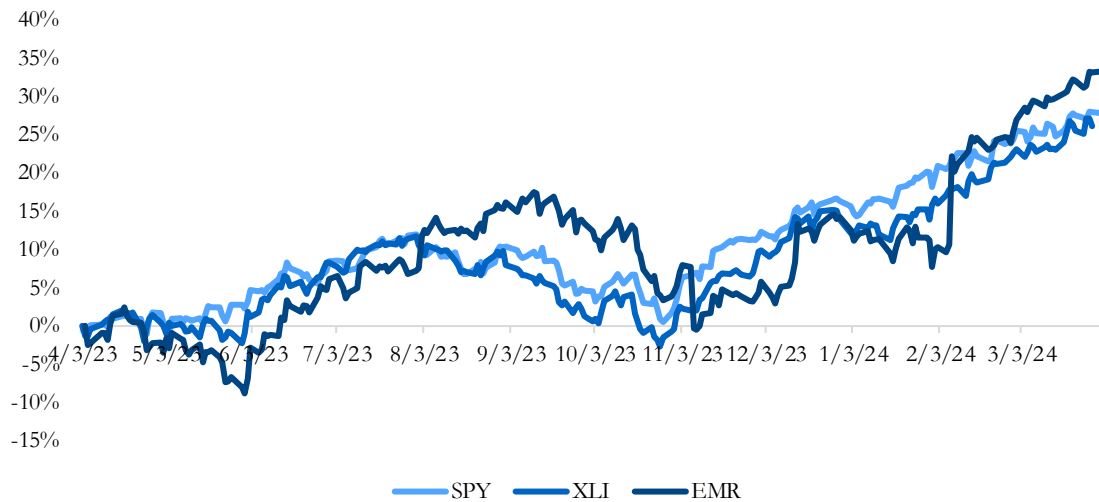


# Company Overview

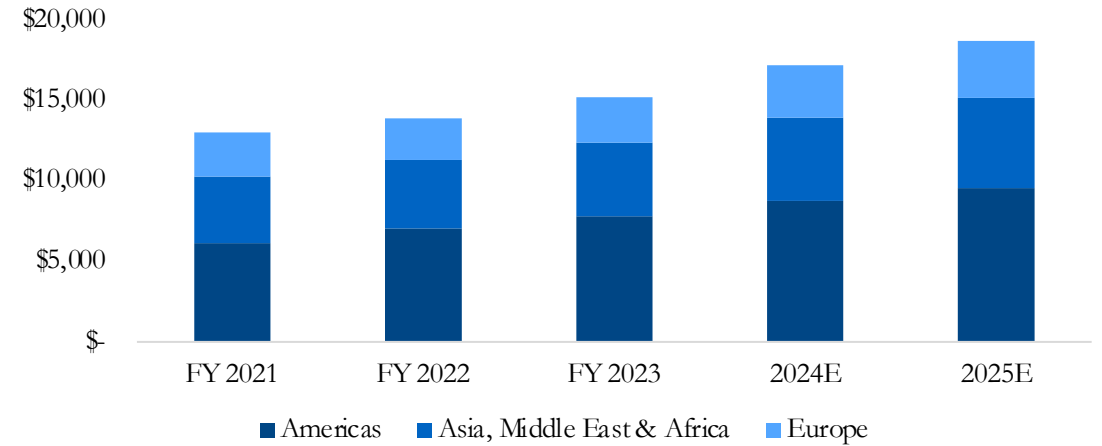
## Business Model

- ① Global tech and software company that provides innovative solutions for customers
- ② Helps process, hybrid, and discrete manufactures optimize operations, protect personnel, and reduce emissions
- ③ Products include process control systems, climate technologies, power technologies, industrial automation, electric motors, storage systems, and professional tools

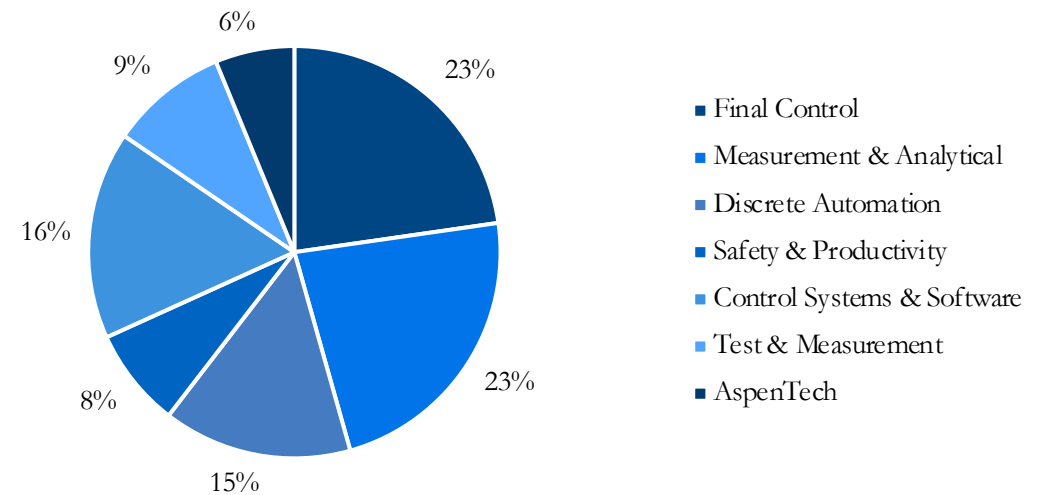
## Historical Stock Performance



## Revenue by Geography



## Revenue by Segment





# Industry Overview

## Industry Description



- Electric equipment industry produces and sells electrical components, devices, and systems
- Products include: wires and cables, generators, transformers, motors, circuit breakers, switchgear, lighting products and other electrical devices
- Electrical grids are beginning to expand as new technologies that integrate renewable energy are becoming more common

## Industry Trends

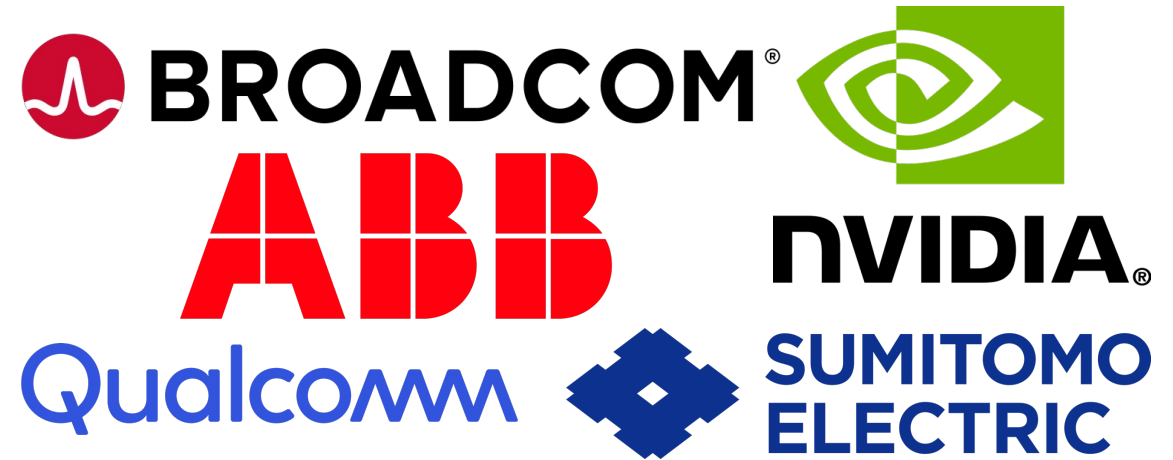
### Tailwinds

-  Increasing need for electrical equipment in developed and underdeveloped countries
-  Increasing focus on energy efficiency and adoption of smart grid technologies

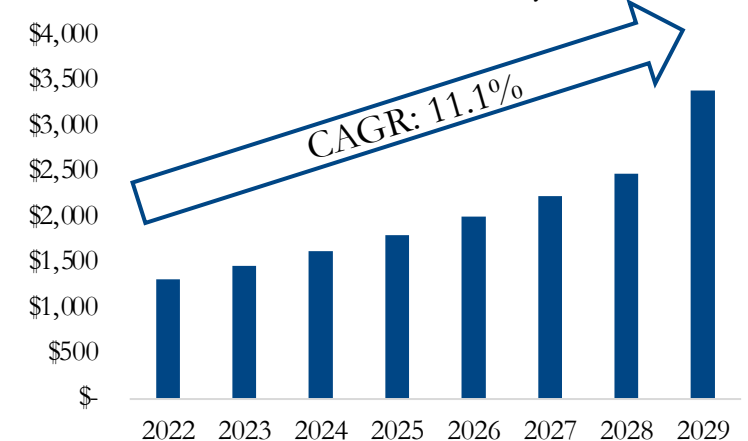
### Headwinds

-  Rising sustainability issues and new regulation standards starting to hinder international organizations
-  Geopolitical tensions strain supply chains and make it difficult for manufacturers to receive materials

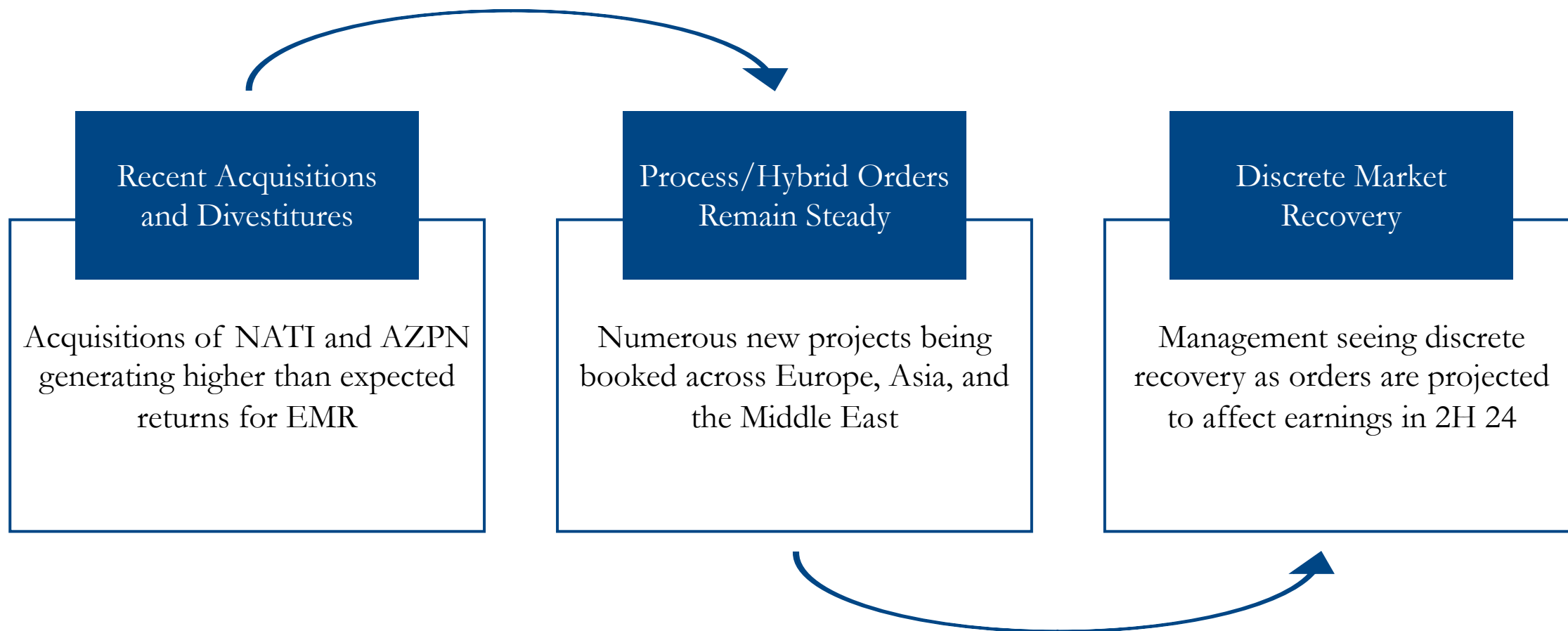
## Key Competitors



Growth Within Industry



# Investment Thesis





# Acquisition and Divesting Activities

## Acquisition and Divesting History

### Acquisitions

Jan-20: Acquisition of Open Systems International (OSI), operations and technology software provider in global power industry for \$1.6 billion

Apr-22: Completed acquisition of AspenTech, a diversified, high performance industrial software leader

Oct-23: Acquisition of National Instruments Corporation (NI), a software-connected test and measurement systems company that helps enterprises bring products to market faster and at a lower cost, for \$8.2 equity value

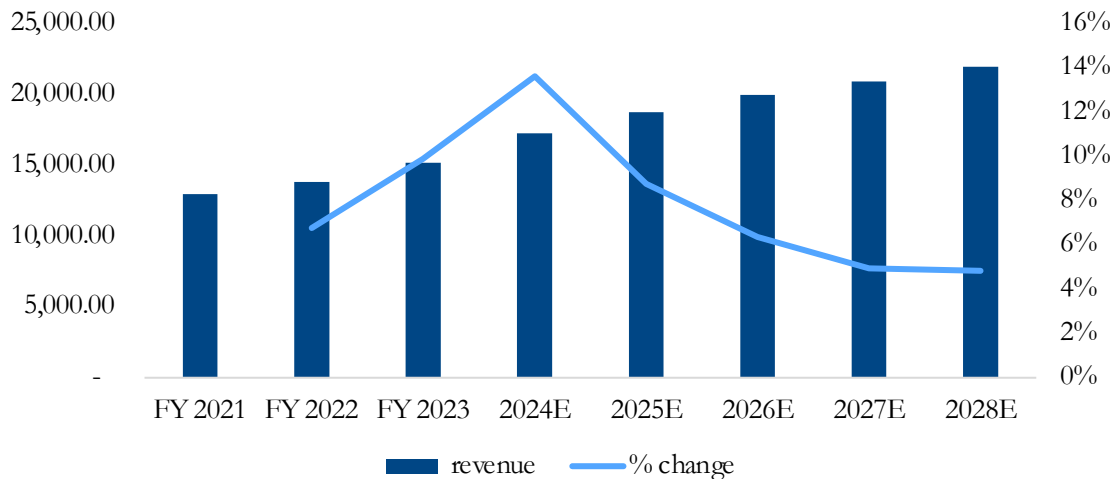
### Divestitures

May-22: Therm-O-Disc sensing and protection technologies business divested to One Rock Capital Partners LLC

Oct-22: InSinkErator business, a food waste disposer manufacture, sold to Whirlpool Corporation for \$3.0 billion

Mar-23: Sold majority stake in Climate Technologies business to PE funds managed by Blackstone for \$14 billion; Divested Metran, Russia based manufacturing subsidiary

## Revenue Growth



## Inorganic Growth Potential

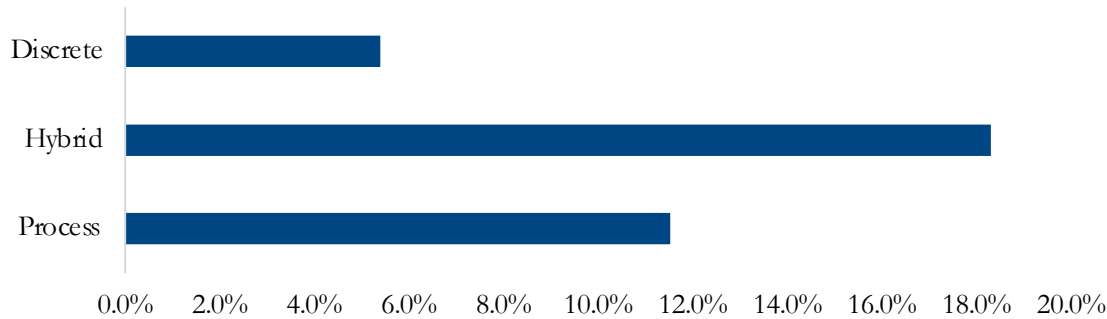
Cost Synergies	Target of \$185M over a 3 year timeline
Sales Contribution	Expected at \$1.5-1.6B
Accretion	Raised from 35-40c to 40-45c



# End Market Growth

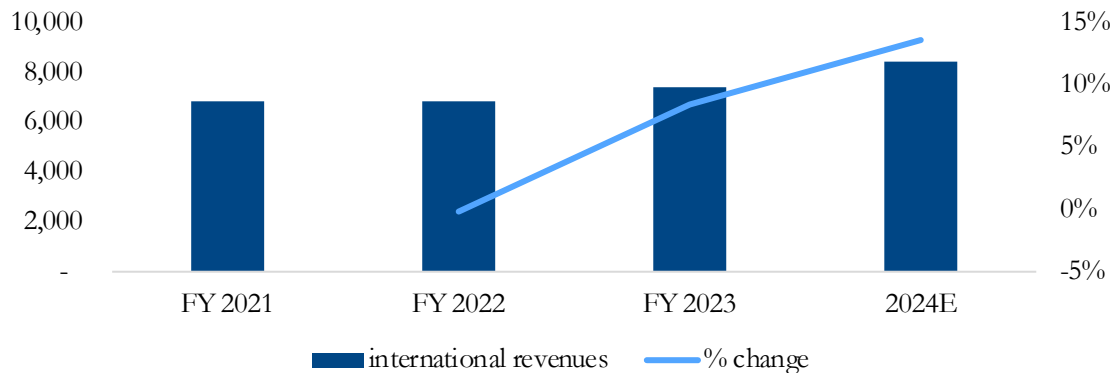
## End Market Growth CAGR

2023-2032 CAGR



## International Revenue Increase

LNG Products Booked in AMEA



## Process & Hybrid Market Strength

Funnel grew due to robust activity in energy transition driven by demand strength in AMEA, sustainability areas and metals & mining

~\$400mm revenue booked

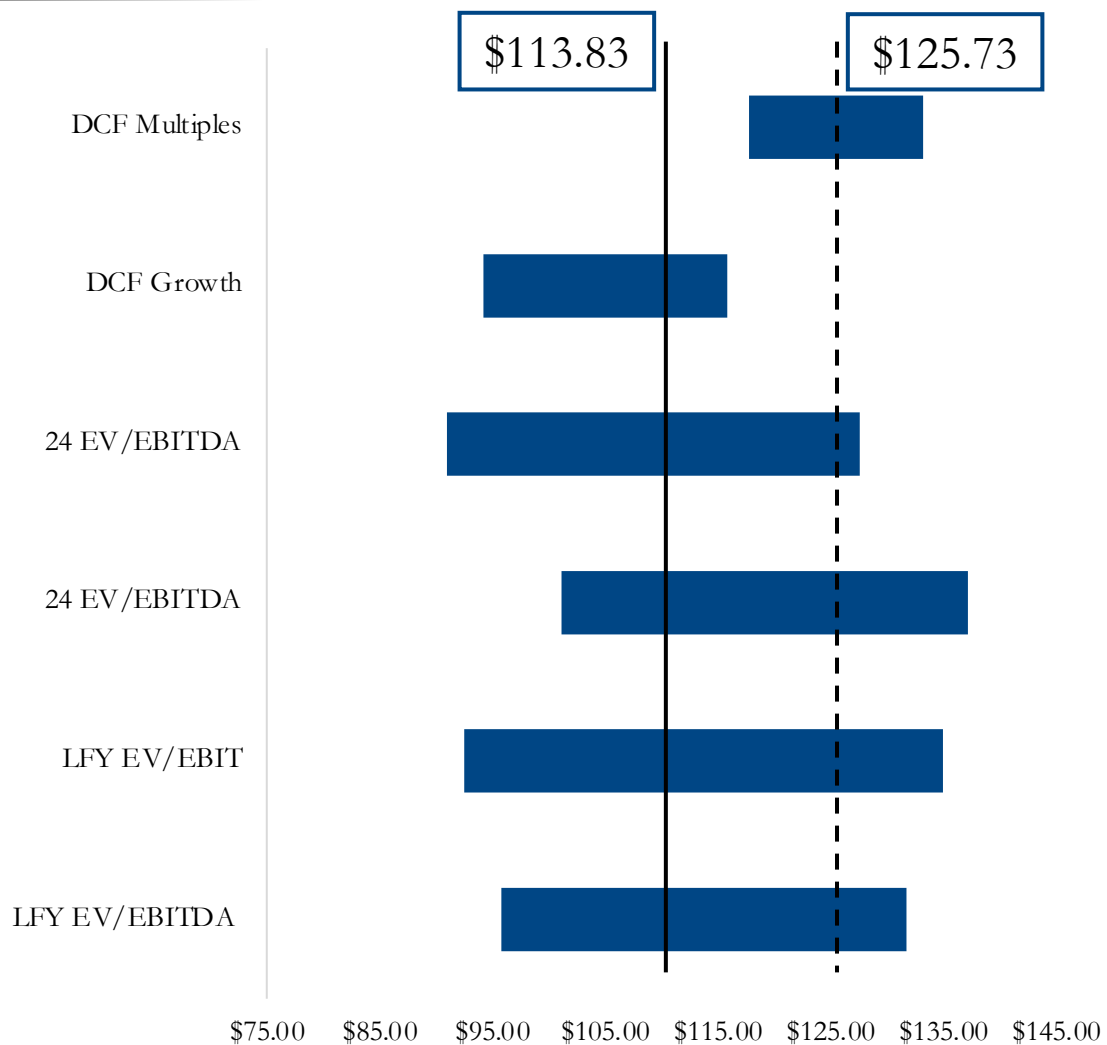
90+ projects existed funnel

## Discrete Automation Price Normalization

- Automation peers echoing a 2H recovery
- Expected jump in revenue in 2H due to challenges in Discrete being fixed by management
- Pricing drops for inputs will help stabilize margins and cause even more cost savings on top of synergies

# Valuation

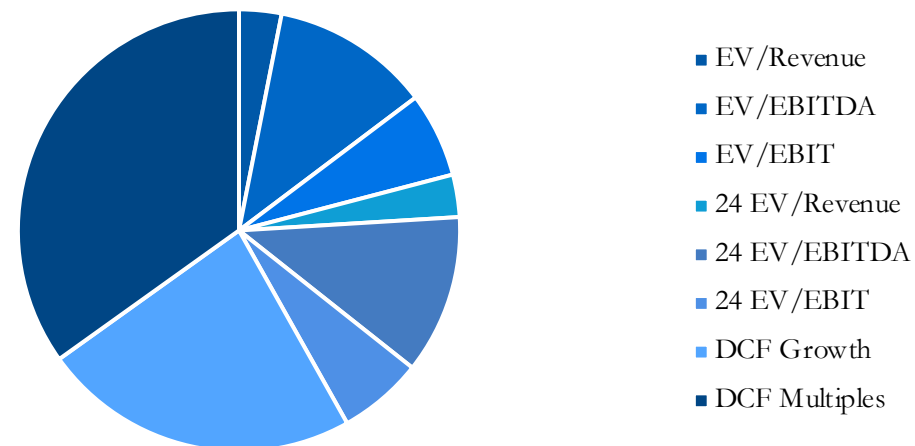
## Football Field



## Analyst Recommendation

Mizuho Securities	Buy
Wolfe Research	Outperform
Citi	Buy
Deutsche Bank	Hold
KeyBanc	Overweight
JP Morgan	Overweight

## Valuation Weight



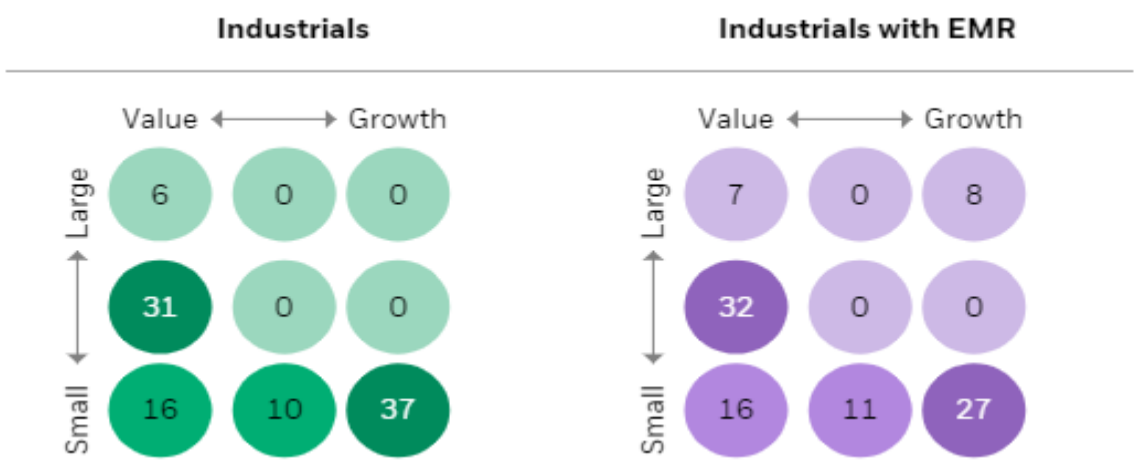


# Portfolio Assessment

## Risk



## Growth/Value Assessment

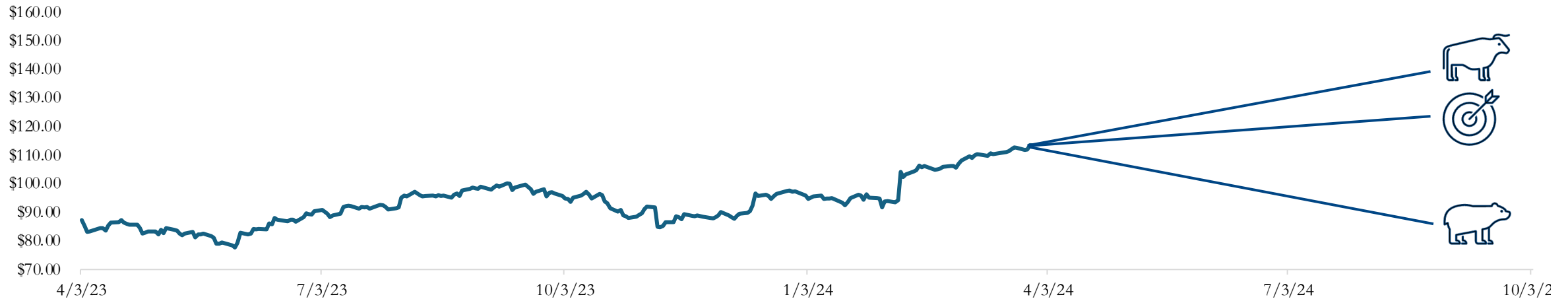






# Bear Base Bull

## Bear vs. Bull



## Scenario Analysis

### Bear

Price: \$88.69, Downside 22%

- Synergies are not recognized
- Process and hybrid orders stop and revenue expectations are not met
- Company does not recover due to price normalization

### Base

Price: \$125.73, Upside: 9%

- Projected synergies from Acquisitions are recognized
- Process and hybrid orders generate expected revenue
- Discrete recovery helps boost 2H '24 earnings

### Bull

Price: \$134.29, Upside: 17%

- Better than expected synergies are recognized
- More process and hybrid orders help EMR generate higher than expected earnings

# Thank You

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Questions?

Ticker:  
EMR

Current Price:  
\$114.65

Target Price:  
\$125.73

Upside:  
9.66%

# Appendix

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- I. Income Statement
- II. Cash Flows Statement
- III. Balance Sheet
- IV. D&A and NWC
- V. WACC and Beta
- VI. DCF
- VII. Comps

# A: Income Statement



Emerson Electric								
Income Statement								
<i>\$ in millions</i>	FY 2021	FY 2022	FY 2023	2024E	2025E	2026E	2027E	2028E
Intelligent Devices	10,380	10,836	11,588	12,561	13,477	14,376	15,078	15,838
Software and Control	2,640	3,054	3,648	4,667	5,256	5,544	5,827	6,076
Eliminations/Interest	(88)	(86)	(71)					
<b>Net sales</b>	<b>12,932</b>	<b>13,804</b>	<b>15,165</b>	<b>17,228</b>	<b>18,733</b>	<b>19,920</b>	<b>20,906</b>	<b>21,914</b>
Cost of sales	7,202	7,498	7,738	8,613.87	9,366.29	9,960.20	10,452.76	10,957.05
<i>as a % of revenue</i>	56%	54%	51%	50% <span style="color: green;">▲</span>	50% <span style="color: green;">▲</span>	50% <span style="color: green;">▲</span>	50% <span style="color: green;">▲</span>	50% <span style="color: green;">▲</span>
Selling, general and administrative expenses	3,494	3,614	4,186	4,479.21	4,870.47	5,179.30	5,435.43	5,697.66
<i>as a % of revenue</i>	27%	26%	28%	26% <span style="color: red;">▼</span>	26% <span style="color: red;">▼</span>	26% <span style="color: red;">▼</span>	26% <span style="color: red;">▼</span>	26% <span style="color: red;">▼</span>
Gain on subordinated interest	-	(453)	(161)	-	-	-	-	-
Other deductions, net	319	519	683 <span style="color: green;">▲</span>	763.63 <span style="color: green;">▲</span>	830.34 <span style="color: green;">▲</span>	882.99 <span style="color: green;">▲</span>	926.66 <span style="color: green;">▲</span>	971.36
<i>as a % of revenue</i>	2%	4%	5%	4% <span style="color: red;">▼</span>	4% <span style="color: red;">▼</span>	4% <span style="color: red;">▼</span>	4% <span style="color: red;">▼</span>	4% <span style="color: red;">▼</span>
Total operating expenses	11,015	11,178	12,446	13,857	15,067	16,022	16,815	17,626
EBIT	1,917	2,626	2,719	3,371	3,665	3,898	4,091	4,288
Interest expense, net of interest income of: 2021, \$10; 2022, \$34; 2023, \$227	155	194	34					
EBT	1,762	2,432	2,685	3,371	3,665	3,898	4,091	4,288
Income taxes	346	549	599	708	770	819	859	900
<i>Tax Rate</i>	20%	23%	22%	21% <span style="color: red;">▼</span>	21% <span style="color: red;">▼</span>	21% <span style="color: red;">▼</span>	21% <span style="color: red;">▼</span>	21% <span style="color: red;">▼</span>
Earnings from continuing operations	1,416	1,883	2,086	2,663	2,896	3,079	3,232	3,388
Discontinued operations, net of tax of \$239, \$306 and \$3,012, respectively	911	1,347	11,073					
Net earnings	2,327	3,230	13,159	2,663	2,896	3,079	3,232	3,388
Less: Noncontrolling interests in earnings of subsidiaries	24	(1)	(19)					
Net earnings common stockholders	2,303	3,231	13,178	2,663	2,896	3,079	3,232	3,388
<b>Weighted average outstanding shares:</b>								
Basic (in shares)	598.10	592.90	574.20	574.20	574.20	574.20	574.20	574.20
Diluted (in shares)	601.80	596.30	577.30	577.30	577.30	577.30	577.30	577.30
Basic earnings per common share (in dollars per share)	3.85	5.45	22.95	4.64	5.04	5.36	5.63	5.90
Diluted earnings per common share (in dollars per share)	3.83	5.42	22.83	4.61	5.02	5.33	5.60	5.87

# B: Cash Flows Statement

Emerson Electric								
Cash Flows Statement								
<i>\$ in millions</i>	FY 2021	FY 2022	FY 2023	2024E	2025E	2026E	2027E	2028E
<b>Operating activities</b>								
Net earnings	2,327	3,230	13,159					
Earnings from discontinued operations, net of tax	(911)	(1,347)	(11,073)					
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>								
Depreciation and amortization	762	842	1,051	808	712	613	521	442
Stock compensation	197	125	250					
Pension expense (income)	28	2	(71)					
Pension funding	(41)	(43)	(43)					
Changes in operating working capital	167	(312)	(190)					
Gain on subordinated interest	-	(453)	(161)					
Other, net	(71)	4	(237)					
Cash from continuing operations	2,458	2,048	2,726					
Cash from discontinued operations	1,117	874	(2,089)					
Cash provided by operating activities	3,575	2,922	637					
<b>Investing activities</b>								
Capital expenditures	(404)	(299)	(363)	(345)	(375)	(398)	(418)	(438)
Purchases of businesses, net of cash and equivalents acquired	(1,592)	(5,702)	(705)					
Divestitures of businesses	30	17	-					
Proceeds from subordinated interest	-	438	176					
Other, net	(25)	(138)	(141)					
Cash from continuing operations	(1,991)	(5,684)	(115)					
Cash from discontinued operations	(129)	350	12,530					
Cash provided by (used in) investing activities	(2,120)	(5,334)	12,415					
<b>Financing activities</b>								
Net increase (decrease) in short-term borrowings	(504)	1,241	(1,578)					
Proceeds from short-term borrowings greater than three months	71	1,162	395					
Payments of short-term borrowings greater than three months	(71)	(1,165)	(400)					
Proceeds from long-term debt	-	2,975	-					
Payments of long-term debt	(308)	(522)	(741)					
Dividends paid	(1,210)	(1,223)	(1,198)					
Purchases of common stock	(500)	(500)	(2,000)					
AspenTech purchases of common stock	-	-	(214)					
Other, net	100	80	(169)					
Cash provided by (used in) financing activities	(2,422)	2,048	(6,823)					
Effect of exchange rate changes on cash and equivalents	6	(186)	18					
Increase (Decrease) in cash and equivalents	(961)	(550)	6,247					
Beginning cash and equivalents	3,315	2,354	1,804					
Ending cash and equivalents	2,354	1,804	8,051					



# C: Balance Sheet

Emerson Electric								
Balance Sheet								
<i>\$ in millions</i>	FY 2021	FY 2022	FY 2023	2024E	2025E	2026E	2027E	2028E
<b>Current assets</b>								
Cash and equivalents	2,354	1,804	8,051					
Receivables, less allowances of \$100 in 2022 and \$100 in 2023	2,971	2,261	2,518	3,058	3,325	3,536	3,710	3,890
Inventories	2,050	1,742	2,006	2,448	2,662	2,831	2,971	3,114
Other current assets	1,057	1,301	1,244	1,408	1,531	1,628	1,708	1,791
Current assets held-for-sale	-	1,398	-					
Total current assets	8,432	8,506	13,819	6,914	7,518	7,995	8,390	8,795
Property, plant and equipment, net	3,738	2,239	2,363					
<b>Other assets</b>								
Goodwill	7,723	13,946	14,480					
Other intangible assets	2,877	6,572	6,263					
Copeland note receivable and equity investment	-	-	3,255					
Other	1,945	2,151	2,566					
Noncurrent assets held-for-sale	-	2,258	-					
Total other assets	12,545	24,927	26,564	-	-	-	-	-
Total assets	24,715	35,672	42,746	6,914	7,518	7,995	8,390	8,795
<b>Current liabilities</b>								
Short-term borrowings and current maturities of long-term debt	872	2,115	547					
Accounts payable	2,108	1,276	1,275	1,322	1,437	1,528	1,604	1,681
Accrued expenses	3,266	3,038	3,210	4,022	4,373	4,650	4,880	5,116
Current liabilities held-for-sale	-	1,348	-					
Total current liabilities	6,246	7,777	5,032	5,343	5,810	6,178	6,484	6,797
Long-term debt	5,793	8,259	7,610					
Other liabilities	2,753	3,153	3,506					
Noncurrent liabilities held-for-sale	-	167	-					
Total liabilities	14,792	19,356	16,148	5,343	5,810	6,178	6,484	6,797
<b>Equity</b>								
Common stock, \$0.50 par value; authorized, 1,200.0 shares; issued, 953.4 shares; outstanding, 591.4 shares in 2022; 572.0 shares in 2023	477	477	477					
Additional paid-in-capital	522	57	62					
Retained earnings	26,047	28,053	40,070					
Accumulated other comprehensive income (loss)	(872)	(1,485)	(1,253)					
Cost of common stock in treasury, 362.0 shares in 2022; 381.4 shares in 2023	16,291	(16,738)	(18,667)					
Common stockholders' equity	9,883	10,364	20,689					
Noncontrolling interests in subsidiaries	40	5,952	5,909					
Total equity	9,923	16,316	26,598					
Total liabilities and equity	24,715	35,672	42,746	5,343	5,810	6,178	6,484	6,797

# D: D&A & NWC



Emerson Electric								
D&A Projection								
<i>\$ in millions</i>	FY 2021	FY 2022	FY 2023	2024E	2025E	2026E	2027E	2028E
Revenue	12,932	13,804	15,165	17,228	18,733	19,920	20,906	21,914
CapEx	(404)	(299)	(363)	(345)	(375)	(398)	(418)	(438)
<i>as a % of Revenue</i>	3%	2%	2%	2%	2%	2%	2%	2%
Depreciation & Amortization	762	842	1,051	808	712	613	521	442
<i>as a % of CapEx</i>	189%	282%	290%	235%	190%	154%	125%	101%

Emerson Electric								
NWC								
<i>\$ in millions</i>	FY 2021	FY 2022	FY 2023	2024E	2025E	2026E	2027E	2028E
<b>Revenue</b>	12,932	13,804	15,165	17,228	18,733	19,920	20,906	21,914
<b>Current Assets:</b>								
Receivables, less allowances of \$100 in 2022 and \$100 in 2023	2,971	2,261	2,518	3,058	3,325	3,536	3,710	3,890
<i>AR days</i>	84	60	61	65	65	65	65	65
Inventories	2,050	1,742	2,006	2,448	2,662	2,831	2,971	3,114
<i>Inventory days</i>	58	46	48	52	52	52	52	52
Other current assets	1,057	1,301	1,244	1,408	1,531	1,628	1,708	1,791
<i>as a % of revenue</i>	8%	9%	8%	8%	8%	8%	8%	8%
Total Current Assets	6,078	5,304	5,768	6,914	7,518	7,995	8,390	8,795
<b>Current Liabilities:</b>								
Accounts payable	2,108	1,276	1,275	1,322	1,437	1,528	1,604	1,681
<i>AP days</i>	59	34	31	28	28	28	28	28
Accrued expenses	3,266	3,038	3,210	4,022	4,373	4,650	4,880	5,116
<i>as a % of revenue</i>	25%	22%	21%	23%	23%	23%	23%	23%
Total Current Liabilities	5,374	4,314	4,485	5,343	5,810	6,178	6,484	6,797
NWC	704	990	1,283	1,571	1,708	1,816	1,906	1,998
Change in NWC		276	1,427	(56)	137	108	90	92

# E: Beta & WACC

Emerson Electric	
WACC	
Share price	113.31
Shares outstanding	577.30
Market Cap	65,413.86
Total debt	8,157
Risk-free rate	4.20%
Beta	1.04
Market risk premium	5.80%
Cost of equity	10.24%
Interest coverage ratio	1.42%
Cost of debt	5.62%
Tax rate	22.31%
Tax affected cost of debt	4.37%
Weight of Equity	88.91%
Weight of Debt	11.09%
WACC	9.59%

covariance	0.0007873
variance	0.0007565
beta	1.040679



# F: DCF



Emerson Electric								
DCF								
<i>\$ in millions</i>	FY 2021	FY 2022	FY 2023	2024E	2025E	2026E	2027E	2028E
EBIT	1,917	2,626	2,719	3,371	3,665	3,898	4,091	4,288
Tax rate	20%	23%	22%	21%	21%	21%	21%	21%
NOPAT	1,541	2,033	2,112	2,663	2,896	3,079	3,232	3,388
Add: D&A	762	842	1,051	808	712	613	521	442
Less: CapEx	(404)	(299)	(363)	(345)	(375)	(398)	(418)	(438)
Less: Change in NWC	-	276	1,427	(56)	137	108	90	92
FCFF	2,707	2,898	2,099	3,871	3,845	3,982	4,081	4,176
Discount Factor				0.25	1.25	2.25	3.25	4.25
PV of FCFF				3,784	3,429	3,241	3,031	2,830

Gordon Growth Method	
Terminal Value	65,323
PV of TV	44,271
Enterprise Value	60,587
Add: Cash	8,051
Less: Debt	8,705
Equity Value	59,933
Shares Outstanding	577.30
Share Price	\$ 103.82

WACC x Growth Rate					
	2.50%	2.75%	3.00%	3.25%	3.50%
8.59%	113.54	117.44	121.68	126.32	131.42
9.09%	105.21	108.47	112.01	115.85	120.03
9.59%	98.05	100.82	<b>103.81</b>	107.03	110.51
10.09%	91.84	94.22	96.76	99.49	102.43
10.59%	86.39	88.45	90.64	92.99	95.50

Multiples Method	
Terminal Value	83,688.24
PV of TV	56,717.84
Enterprise Value	73,033.57
Add: Cash	8,051
Less: Debt	8,705
Equity Value	72,379.57
Shares Outstanding	577.30
Share Price	\$ 125.38

WACC x Terminal Multiple					
	15.69x	16.69x	17.69x	18.69	19.69
8.59%	118.28	124.06	129.83	135.60	141.38
9.09%	116.25	121.91	127.58	133.24	138.90
9.59%	114.27	119.82	<b>125.37</b>	130.93	136.48
10.09%	112.33	117.77	123.22	128.67	134.12
10.59%	110.43	115.78	121.12	126.46	131.80

Terminal Growth Rate	3.00%
Terminal Multiple	17.69x
WACC	9.59%

# G: Comps

## Emerson Electric Comparable Companies Analysis

Company	Ticker	Share Price	Shares Outs.	Market Cap (B)	Cash	Total Debt	EV
<b>Emerson Electric</b>	<b>EMR</b>	<b>\$113.31</b>	<b>577.30</b>	<b>\$65,413.86</b>	<b>8,051</b>	<b>8,705</b>	<b>66,068</b>
Johnson Controls International	JCI	\$65.32	680.4	\$44,443.73	835	10,252	53,861
Dover Corp	DOV	\$177.19	139.9	\$24,788.88	399	3,691	28,081
Illinois Tool Works Ince	ITW	\$268.33	299.3	\$80,311.17	1,065	8,370	87,616
Xylem Inc	XYL	\$129.24	241.6	\$31,224.38	1,019	2,748	32,953

Last FY							
Revenue	EBITDA	EBIT	EPS	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
<b>15,165</b>	<b>3,770</b>	<b>2,719</b>	<b>22.95</b>	<b>4.36x</b>	<b>17.52x</b>	<b>24.30x</b>	<b>4.94x</b>
26,793	4,246	3,014	3.50	2.01x	12.69x	17.87x	18.66x
8,438	1,805	1,366	7.87	3.33x	15.56x	20.55x	22.51x
16,107	4,506	4,040	9.66	5.44x	19.44x	21.69x	27.78x
7,364	1,428	652	3.64	4.47x	23.08x	50.54x	35.51x

2024 Forecast							
Revenue	EBITDA	EBIT	EPS	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
<b>17,228</b>	<b>4,179</b>	<b>3,371</b>	<b>4.64</b>	<b>3.83x</b>	<b>15.81x</b>	<b>19.60x</b>	<b>24.43x</b>
27,851	4,356	3,436	3.18	1.93x	12.37x	15.67x	20.54x
8,576	1,909	1,777	15.08	3.27x	14.71x	15.80x	11.75x
16,506	4,640	4,234	10.15	5.31x	18.88x	20.70x	26.44x
8,500	1,666	1,262	4.12	3.88x	19.78x	26.11x	31.37x

	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Min	2.01x	12.69x	17.87x	18.66x
Q1	3.00x	14.84x	19.88x	21.55x
Median	3.90x	17.50x	21.12x	25.15x
Q3	4.72x	20.35x	28.90x	29.71x
Max	5.44x	23.08x	50.54x	35.51x
Mean	3.81x	17.69x	27.66x	26.12x

	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Min	1.93x	12.37x	15.67x	11.75x
Q1	2.94x	14.13x	15.77x	18.34x
Median	3.58x	16.80x	18.25x	23.49x
Q3	4.23x	19.11x	22.05x	27.67x
Max	5.31x	19.78x	26.11x	31.37x
Mean	3.60x	16.43x	19.57x	22.52x