

EMERSON ELECTRIC CO
Form 10-Q
May 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-278

EMERSON ELECTRIC CO.

(Exact name of registrant as specified in its charter)

| | |
|-------------------------------------------------------------------|-----------------------------------------|
| Missouri | 43-0259330 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

8000 W. Florissant Ave.

P.O. Box 4100

St. Louis, Missouri 63136

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (314) 553-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock of \$0.50 par value per share outstanding at April 30, 2018: 630,090,112 shares.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings

EMERSON ELECTRIC CO. & SUBSIDIARIES

Three and six months ended March 31, 2017 and 2018

(Dollars in millions, except per share amounts; unaudited)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|-------------------------------------------------------------------------------------|---------------------------------|-------|-------------------------------|-------|
| | 2017 | 2018 | 2017 | 2018 |
| Net sales | \$ 3,574 | 4,248 | 6,790 | 8,064 |
| Costs and expenses: | | | | |
| Cost of sales | 2,017 | 2,423 | 3,868 | 4,618 |
| Selling, general and administrative expenses | 868 | 1,032 | 1,690 | 2,024 |
| Other deductions, net | 83 | 99 | 116 | 187 |
| Interest expense (net of interest income of \$9, \$14, \$15 and \$25, respectively) | 41 | 36 | 87 | 74 |
| Earnings from continuing operations before income taxes | 565 | 658 | 1,029 | 1,161 |
| Income taxes | 181 | 169 | 275 | 278 |
| Earnings from continuing operations | 384 | 489 | 754 | 883 |
| Discontinued operations, net of tax | (84) | — | (139) | — |
| Net earnings | 300 | 489 | 615 | 883 |
| Less: Noncontrolling interests in earnings of subsidiaries | 8 | 7 | 14 | 9 |
| Net earnings common stockholders | \$ 292 | 482 | 601 | 874 |

Earnings common
stockholders:

| | | | | | |
|-------------------------------------------|-----|-----|-----|------|-----|
| Earnings from continuing operations | \$ | 376 | 482 | 740 | 874 |
| Discontinued operations, net of tax | (84 |) | — | (139 |) |
| Net earnings common stockholders | \$ | 292 | 482 | 601 | 874 |

Basic earnings per
share common
stockholders:

| | | | | | |
|-------------------------------------------|-------|------|------|-------|------|
| Earnings from continuing operations | \$ | 0.58 | 0.76 | 1.14 | 1.37 |
| Discontinued operations | (0.13 |) | — | (0.21 |) |
| Basic earnings per common share | \$ | 0.45 | 0.76 | 0.93 | 1.37 |

Diluted earnings per
share common
stockholders:

| | | | | | |
|-------------------------------------------|-------|------|------|-------|------|
| Earnings from continuing operations | \$ | 0.58 | 0.76 | 1.14 | 1.37 |
| Discontinued operations | (0.13 |) | — | (0.21 |) |
| Diluted earnings per common share | \$ | 0.45 | 0.76 | 0.93 | 1.37 |

| | | | | | |
|------------------------------------|----|------|-------|------|------|
| Cash dividends per common share | \$ | 0.48 | 0.485 | 0.96 | 0.97 |
|------------------------------------|----|------|-------|------|------|

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
EMERSON ELECTRIC CO. & SUBSIDIARIES

Three and six months ended March 31, 2017 and 2018
(Dollars in millions; unaudited)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|------------------------------------------------------------------------|------------------------------------|------|----------------------------------|-------|
| | 2017 | 2018 | 2017 | 2018 |
| Net earnings | \$300 | 489 | 615 | 883 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation | 259 | 148 | 156 | 155 |
| Pension and postretirement | 65 | 22 | 120 | 45 |
| Cash flow hedges | 17 | (5) | 32 | (8) |
| Total other comprehensive income | 341 | 165 | 308 | 192 |
| Comprehensive income | 641 | 654 | 923 | 1,075 |
| Less: Noncontrolling interests in comprehensive income of subsidiaries | 9 | 7 | 13 | 9 |
| Comprehensive income common stockholders | \$632 | 647 | 910 | 1,066 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets
EMERSON ELECTRIC CO. & SUBSIDIARIES

(Dollars in millions, except per share amounts; unaudited)

| | Sept 30, 2017 | Mar 31, 2018 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$3,062 | 2,444 |
| Receivables, less allowances of \$91 and \$97, respectively | 3,072 | 3,042 |
| Inventories | 1,696 | 1,897 |
| Other current assets | 422 | 342 |
| Total current assets | 8,252 | 7,725 |
| Property, plant and equipment, net | 3,321 | 3,299 |
| Other assets | | |
| Goodwill | 5,316 | 5,821 |
| Other intangible assets | 1,890 | 2,203 |
| Other | 810 | 737 |
| Total other assets | 8,016 | 8,761 |
| Total assets | \$19,589 | 19,785 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Short-term borrowings and current maturities of long-term debt | \$862 | 1,833 |
| Accounts payable | 1,776 | 1,603 |
| Accrued expenses | 2,342 | 2,362 |
| Income taxes | 65 | 147 |
| Total current liabilities | 5,045 | 5,945 |
| Long-term debt | 3,794 | 3,357 |
| Other liabilities | 1,980 | 1,946 |
| Equity | | |
| Common stock, \$0.50 par value; authorized, 1,200,000,000 shares; issued, 953,354,012 shares; outstanding, 641,691,971 shares and 631,535,208 shares, respectively | 477 | 477 |
| Additional paid-in-capital | 297 | 323 |
| Retained earnings | 21,995 | 22,254 |
| Accumulated other comprehensive income (loss) | (1,019) | (827) |
| Cost of common stock in treasury, 311,662,041 shares and 321,818,804 shares, respectively | (13,032) | (13,735) |
| Common stockholders' equity | 8,718 | 8,492 |
| Noncontrolling interests in subsidiaries | 52 | 45 |
| Total equity | 8,770 | 8,537 |
| Total liabilities and equity | \$19,589 | 19,785 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
EMERSON ELECTRIC CO. & SUBSIDIARIES

Six months ended March 31, 2017 and 2018
(Dollars in millions; unaudited)

| | Six Months Ended March 31, 2017 2018 | |
|-------------------------------------------------------------------------------------|----------------------------------------------------|--------|
| Operating activities | | |
| Net earnings | \$615 | 883 |
| Loss from discontinued operations, net of tax | 139 | — |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 283 | 378 |
| Changes in operating working capital | (126) | (363) |
| Other, net | 100 | 46 |
| Cash from continuing operations | 1,011 | 944 |
| Cash from discontinued operations | (601) | — |
| Cash provided by operating activities | 410 | 944 |
| Investing activities | | |
| Capital expenditures | (194) | (194) |
| Purchases of businesses, net of cash and equivalents acquired | (16) | (770) |
| Divestitures of businesses | — | 221 |
| Other, net | (50) | (42) |
| Cash from continuing operations | (260) | (785) |
| Cash from discontinued operations | 5,051 | — |
| Cash provided by (used in) investing activities | 4,791 | (785) |
| Financing activities | | |
| Net increase (decrease) in short-term borrowings | (2,228) | 782 |
| Payments of short-term borrowings greater than three months | (90) | — |
| Payments of long-term debt | (252) | (251) |
| Dividends paid | (621) | (618) |
| Purchases of common stock | (120) | (750) |
| Other, net | 29 | (6) |
| Cash used in financing activities | (3,282) | (843) |
| Effect of exchange rate changes on cash and equivalents | (62) | 66 |
| Increase (Decrease) in cash and equivalents | 1,857 | (618) |
| Beginning cash and equivalents | 3,182 | 3,062 |
| Ending cash and equivalents | \$5,039 | 2,444 |
| Changes in operating working capital | | |
| Receivables | \$190 | 98 |
| Inventories | (137) | (172) |
| Other current assets | 11 | (30) |
| Accounts payable | (100) | (161) |
| Accrued expenses | (98) | (149) |
| Income taxes | 8 | 51 |

| | |
|--------------------------------------------|-----------------|
| Total changes in operating working capital | \$(126) (363) |
|--------------------------------------------|-----------------|

See accompanying Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
EMERSON ELECTRIC CO. & SUBSIDIARIES

(Dollars in millions, except per share amounts or where noted)

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary for a fair presentation of operating results for the interim periods presented. Adjustments consist of normal and recurring accruals. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required for annual financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP). For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2017.

On December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "Act"), which made comprehensive changes to federal income tax laws by moving from a global to a modified territorial tax regime. The Act includes a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent along with the elimination of certain deductions and credits, and a one-time "deemed repatriation" of accumulated foreign earnings. In the first fiscal quarter, the Company recognized a net tax benefit of \$43 (\$0.07 per share) due to impacts of the Act, consisting of a \$98 benefit on revaluation of net deferred income tax liabilities to the lower tax rate, and \$185 of expense for the tax on deemed repatriation of accumulated foreign earnings and withholding taxes partially offset by \$130 accrued in previous periods for the planned repatriation of non-U.S. cash. The Company continues to review the impacts of the Act and subsequent interpretations. Given its complexities, the ultimate effects on repatriation cost and other tax items may differ materially from these provisional amounts due to additional regulatory guidance that may be issued and further evaluation of the Company's actions, assumptions and interpretations.

The effective tax rate for full year 2018 is currently expected to be approximately 25 to 27 percent. In 2019 and thereafter, the tax rate is expected to be approximately 25 percent.

In February 2018, the FASB issued updates to ASC 220, Comprehensive Income, which permit reclassification of stranded tax effects resulting from the Act from accumulated other comprehensive income to retained earnings. These updates are effective in the first quarter of fiscal 2020, with early adoption permitted, and are not expected to materially impact the Company's financial statements.

In the first quarter of fiscal 2018, the Company adopted updates to ASC 330, Inventory, which changed the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. These updates did not materially impact the Company's financial statements.

In the first quarter of fiscal 2018, the Company adopted updates to ASC 740, Income Taxes, requiring recognition of the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs. These updates were adopted on a modified retrospective basis and did not materially impact the Company's financial statements.

2. Reconciliations of weighted-average shares for basic and diluted earnings per common share follow. Earnings allocated to participating securities were inconsequential.

| | |
|-----------|------------|
| Three | Six Months |
| Months | Ended |
| Ended | March 31, |
| March 31, | 2017 2018 |
| 2017 2018 | 2017 2018 |

| | | | | |
|--------------------------|-------|-------|-------|-------|
| Basic shares outstanding | 643.6 | 632.6 | 643.2 | 635.4 |
|--------------------------|-------|-------|-------|-------|

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| | | | | |
|----------------------------|-------|-------|-------|-------|
| Dilutive shares | 1.2 | 3.4 | 1.3 | 2.9 |
| Diluted shares outstanding | 644.8 | 636.0 | 644.5 | 638.3 |

3. Other Financial Information

| | Sept 30, 2017 | Mar 31, 2018 |
|-----------------------------------|---------------------|--------------------|
| Inventories | | |
| Finished products | \$560 | 663 |
| Raw materials and work in process | 1,136 | 1,234 |
| Total | \$1,696 | 1,897 |

| | Sept 30, 2017 | Mar 31, 2018 |
|----------------------------------------|---------------------|--------------------|
| Property, plant and equipment, net | | |
| Property, plant and equipment, at cost | \$7,873 | 8,065 |
| Less: Accumulated depreciation | 4,552 | 4,766 |
| Total | \$3,321 | 3,299 |

| | Sept 30, 2017 | Mar 31, 2018 |
|------------------------------------|---------------------|--------------------|
| Goodwill by business segment | | |
| Automation Solutions | \$4,704 | 5,067 |
| Climate Technologies | 555 | 696 |
| Tools & Home Products | 57 | 58 |
| Commercial & Residential Solutions | 612 | 754 |

Total \$5,316 5,821

The increase in goodwill reflects the acquisitions of Paradigm and Cooper-Atkins. See Note 11.

| | Sept 30, 2017 | Mar 31, 2018 |
|----------------------------------------|---------------------|--------------------|
| Accrued expenses include the following | | |
| Employee compensation | \$531 | 606 |
| Customer advanced payments | \$505 | 533 |
| Product warranty | \$120 | 130 |

| | Sept 30, 2017 | Mar 31, 2018 |
|----------------------------------------|---------------------|--------------------|
| Other liabilities | | |
| Pension and postretirement liabilities | \$664 | 661 |
| Deferred income taxes | 425 | 262 |
| Asbestos litigation | 340 | 333 |
| Other | 551 | 690 |
| Total | \$1,980 | 1,946 |

Other long-term assets include \$131 of asbestos-related insurance receivables.

4. Following is a discussion regarding the Company's use of financial instruments:

Hedging Activities – As of March 31, 2018, the notional amount of foreign currency hedge positions was approximately \$1.6 billion, and commodity hedge contracts totaled approximately \$140 (primarily 53 million pounds of copper and aluminum). All derivatives receiving deferral accounting are cash flow hedges. The majority of hedging gains and losses deferred as of March 31, 2018 are expected to be recognized over the next 12 months as the underlying forecasted transactions occur. Gains and losses on foreign currency derivatives reported in Other deductions, net reflect hedges of balance sheet exposures that do not receive deferral accounting. The following gains and losses are included in earnings and other comprehensive income (OCI) for the three and six months ended March 31, 2018 and 2017:

| | | Into Earnings | | | | Into OCI | | | |
|------------------|-----------------------|---------------|--------|------------|-------|-------------|------|------------|------|
| | | 2nd Quarter | | Six Months | | 2nd Quarter | | Six Months | |
| | | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Gains (Losses) | Location | | | | | | | | |
| Commodity | Cost of sales | \$4 | 6 | 2 | 11 | 5 | (9) | 15 | 4 |
| Foreign currency | Sales, cost of sales | (7) |) — | (17) |) — | 20 | 8 | 22 | (4) |
| Foreign currency | Other deductions, net | (6) |) (12) |) — | (12) |) | | | |
| Total | | \$ (9) | (6) |) (15) |) (1) |) 25 | (1) |) 37 | — |

Regardless of whether derivatives receive deferral accounting, the Company expects hedging gains or losses to be essentially offset by losses or gains on the related underlying exposures. The amounts ultimately recognized will differ from those presented above for open positions, which remain subject to ongoing market price fluctuations until settlement. Derivatives receiving deferral accounting are highly effective and no amounts were excluded from the assessment of hedge effectiveness. Hedge ineffectiveness was immaterial for the three and six months ended March 31, 2018 and 2017.

Fair Value Measurement – Valuations for all derivatives and the Company's long-term debt fall within Level 2 of the GAAP valuation hierarchy. As of March 31, 2018, the fair value of long-term debt was \$4,013, which exceeded the carrying value by \$198. At March 31, 2018, the fair values of commodity contracts and foreign currency contracts were reported in other current assets and accrued expenses. Valuations of derivative contract positions are summarized below:

| | September 30, 2017 | | March 31, 2018 | |
|------------------|--------------------|-------------|----------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Foreign Currency | \$ 26 | 18 | 22 | 13 |
| Commodity | \$ 12 | — | 6 | 2 |

Counterparties to derivatives arrangements are companies with investment-grade credit ratings. The Company has bilateral collateral arrangements with counterparties with credit rating-based posting thresholds that vary depending on the arrangement. If credit ratings on the Company's debt fall below pre-established levels, counterparties can require immediate full collateralization of all derivatives in net liability positions. The maximum amount that could potentially have been required was \$2. The Company also can demand full collateralization of derivatives in net asset positions should any counterparty credit ratings fall below certain thresholds. No collateral was posted with counterparties and none was held by the Company as of March 31, 2018.

5. The change in equity for the first six months of 2018 is shown below:

| | Common Stockholders' Equity | Noncontrolling Interests in Subsidiaries | Total Equity |
|-------------------------------|-----------------------------|------------------------------------------|--------------|
| Balance at September 30, 2017 | \$ 8,718 | 52 | 8,770 |
| Net earnings | 874 | 9 | 883 |

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| | | | |
|-----------------------------------------------|----------|-------|--------|
| Other comprehensive income (loss) | 192 | — | 192 |
| Cash dividends | (618) | (16) | (634) |
| Purchases of treasury stock, net of issuances | (677) | — | (677) |
| Adoption of accounting standard update | 3 | — | 3 |
| Balance at March 31, 2018 | \$ 8,492 | 45 | 8,537 |

6. Activity in Accumulated other comprehensive income (loss) for the three and six months ended March 31, 2018 and 2017 is shown below:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|------------------------------------------------------------------------|---------------------------------|--------|----------------------------------|--------|
| | 2017 | 2018 | 2017 | 2018 |
| Foreign currency translation | | | | |
| Beginning balance | \$(913) | (362) | (812) | (369) |
| Other comprehensive income (loss) before reclassifications | 139 | 148 | (228) | 172 |
| Reclassified to gain/loss on sale of businesses | 119 | — | 385 | (17) |
| Ending balance | (655) | (214) | (655) | (214) |
| Pension and postretirement | | | | |
| Beginning balance | (1,107) | (639) | (1,162) | (662) |
| Amortization of deferred actuarial losses into earnings | 35 | 22 | 70 | 45 |
| Reclassified to gain/loss on sale of businesses | 30 | — | 50 | — |
| Ending balance | (1,042) | (617) | (1,042) | (617) |
| Cash flow hedges | | | | |
| Beginning balance | (10) | 9 | (25) | 12 |
| Deferral of gains (losses) arising during the period | 15 | (1) | 23 | — |
| Reclassification of realized (gains) losses to sales and cost of sales | 2 | (4) | 9 | (8) |
| Ending balance | 7 | 4 | 7 | 4 |
| Accumulated other comprehensive income (loss) | \$(1,690) | (827) | (1,690) | (827) |

Activity above is shown net of income taxes for the three and six months ended March 31, 2018 and 2017, respectively, as follows: amortization of pension and postretirement deferred actuarial losses: \$(8), \$(18), \$(16), and \$(36); pension and postretirement divestiture: \$-, \$(15), \$-, and \$(22); deferral of cash flow hedging gains (losses): \$-, \$(10), \$-, and \$(14); reclassification of realized cash flow hedging (gains) losses: \$2, \$(1), \$3 and \$(6).

7. Total periodic pension and postretirement expense is summarized below:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--------------------------------|---------------------------------------|-------|----------------------------------|-------|
| | 2017 | 2018 | 2017 | 2018 |
| Service cost | \$21 | 19 | 42 | 38 |
| Interest cost | 42 | 47 | 84 | 93 |
| Expected return on plan assets | (86) | (88) | (172) | (175) |
| Net amortization | 53 | 30 | 106 | 61 |
| Total | \$30 | 8 | 60 | 17 |

8. Other deductions, net are summarized below:

| | Three Months Ended March 31, 2017 | | Six Months Ended March 31, 2017 | |
|-----------------------------|-----------------------------------------------|------|------------------------------------------|------|
| | 2018 | 2017 | 2018 | 2018 |
| Amortization of intangibles | \$21 | 51 | 43 | 107 |
| Restructuring costs | 13 | 9 | 24 | 24 |
| Other | 49 | 39 | 49 | 56 |
| Total | \$83 | 99 | 116 | 187 |

The increase in amortization for the three and six months ended March 31, 2018 is primarily due to the valves & controls acquisition. In the second quarter of 2018, Other included lower bad debt expense of \$19 and a favorable comparative impact from foreign currency transactions of \$19, partially offset by an increase in acquisition/divestiture-related costs of \$27.

Restructuring expense reflects costs associated with the Company's ongoing efforts to improve operational efficiency and deploy assets globally in order to remain competitive on a worldwide basis. The Company expects full year 2018 restructuring expense to be approximately \$65. The full year expense includes \$24 incurred to date, as well as costs to complete actions initiated before the end of the second quarter and actions anticipated to be approved and initiated during the remainder of the year. Costs for the three and six months ended March 31, 2018 largely relate to restructuring of the global cost structure consistent with the current level of economic activity, as well as the redeployment of resources for future growth.

Restructuring expense by business segment follows:

| | Three Months Ended March 31, 2017 | | Six Months Ended March 31, 2017 | |
|------------------------------------|-----------------------------------------------|------|---------------------------------------------|------|
| | 2018 | 2017 | 2018 | 2018 |
| Automation Solutions | \$9 | 7 | 15 | 17 |
| Climate Technologies | 3 | 2 | 7 | 7 |
| Tools & Home Products | — | — | 1 | — |
| Commercial & Residential Solutions | 3 | 2 | 8 | 7 |
| Corporate | 1 | — | 1 | — |
| Total | \$13 | 9 | 24 | 24 |

Details of the change in the liability for restructuring costs during the six months ended March 31, 2018 follow:

| | Sept 30, 2017 | Expense | Utilized/Paid | Mar 31, 2018 |
|---------------------------------------|---------------------|---------|---------------|--------------------|
| Severance and benefits | \$ 60 | 15 | 30 | 45 |
| Lease and other contract terminations | 4 | 2 | 2 | 4 |
| Asset write-downs | — | 1 | 1 | — |

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| | | | | |
|------------------------------------------|-------|----|----|----|
| Vacant facility and other shutdown costs | 1 | 2 | 1 | 2 |
| Start-up and moving costs | — | 4 | 4 | — |
| Total | \$ 65 | 24 | 38 | 51 |

Business Segments – The Company designs and manufactures products and delivers services that bring technology and engineering together to provide innovative solutions for customers in a wide range of industrial, commercial and consumer markets around the world.

The Automation Solutions segment enables process, hybrid and discrete manufacturers to maximize production, protect personnel and the environment, and optimize their energy efficiency and operating costs through a broad offering of integrated solutions and products, including measurement and analytical instrumentation, industrial valves and equipment, and process control systems. Significant end markets serviced

include oil and gas, refining, chemicals and power generation, as well as pharmaceuticals, food and beverage, automotive, pulp and paper, metals and mining, and municipal water supplies. The segment's major product offerings are described below.

Measurement & Analytical Instrumentation products measure the physical properties of liquids or gases in a process stream and communicate this information to a process control system or other software applications, and analyze the chemical composition of process fluids and emissions to enhance quality and efficiency, as well as environmental compliance.

Valves, Actuators & Regulators consists of control, isolation and pressure relief valves which respond to commands from a control system to continuously and precisely modulate the flow of process fluids, smart actuation and control technologies, pressure management products, and industrial and residential regulators that reduce the pressure of fluids moving from high-pressure supply lines into lower pressure systems.

Industrial Solutions provides fluid power and control mechanisms, electrical distribution equipment, and materials joining and precision cleaning products which are used in a variety of manufacturing operations to provide integrated solutions to customers.

Process Control Systems & Solutions provides a digital ecosystem that controls plant processes by communicating with and adjusting the "intelligent" plant devices described above to provide precision measurement, control, monitoring, asset optimization, and plant safety and reliability for plants that produce power, or process fluids or other items.

The Commercial & Residential Solutions business consists of the Climate Technologies and Tools & Home Products segments. This business provides products and solutions that promote energy efficiency, enhance household and commercial comfort, and protect food quality and sustainability through heating, air conditioning and refrigeration technology, as well as a broad range of tools and appliance solutions.

The Climate Technologies segment provides products, services and solutions for all areas of the climate control industry, including residential heating and cooling, commercial air conditioning, commercial and industrial refrigeration, and cold chain management. Products include compressors, temperature sensors and controls, thermostats, flow controls, and stationary and mobile remote monitoring technologies and services that enable homeowners and businesses to better manage their heating, air conditioning and refrigeration systems for improved control and comfort, and lower energy costs.

The Tools & Home Products segment offers tools for professionals and homeowners and appliance solutions. Products include professional pipe-working tools, residential and commercial food waste disposers, and wet-dry vacuums.

Summarized information about the Company's results of operations by business segment follows:

| | Three Months Ended March 31, | | | | Six Months Ended March 31, | | | |
|------------------------------------|------------------------------|-------|----------|-------|----------------------------|-------|----------|-------|
| | Sales | | Earnings | | Sales | | Earnings | |
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Automation Solutions | \$2,117 | 2,771 | 328 | 436 | 4,084 | 5,343 | 654 | 822 |
| Climate Technologies | 1,058 | 1,128 | 249 | 253 | 1,917 | 2,050 | 410 | 418 |
| Tools & Home Products | 402 | 355 | 96 | 96 | 795 | 685 | 184 | 183 |
| Commercial & Residential Solutions | 1,460 | 1,483 | 345 | 349 | 2,712 | 2,735 | 594 | 601 |
| Differences in accounting methods | | | 35 | 55 | | | 68 | 106 |
| Corporate and other | | | (102) | (146) | | | (200) | (294) |
| Eliminations/Interest | (3) | (6) | (41) | (36) | (6) | (14) | (87) | (74) |
| Total | \$3,574 | 4,248 | 565 | 658 | 6,790 | 8,064 | 1,029 | 1,161 |

For the second quarter of 2018, corporate and other included an increase in acquisition/divestiture-related costs of \$27. Year-to-date results included higher incentive stock compensation of \$51 and valves & controls first year

acquisition accounting charges of \$10 related to inventory and \$19 for backlog amortization.

Automation Solutions sales by major product offering are summarized below:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|------------------------------------------|------------------------------------|-------|----------------------------------|-------|
| | 2017 | 2018 | 2017 | 2018 |
| Measurement & Analytical Instrumentation | \$736 | 860 | 1,418 | 1,632 |
| Valves, Actuators & Regulators | 497 | 926 | 946 | 1,793 |
| Industrial Solutions | 419 | 479 | 786 | 903 |
| Process Control Systems & Solutions | 465 | 506 | 934 | 1,015 |
| Total | \$2,117 | 2,771 | 4,084 | 5,343 |

On April 18, 2018, the Company entered into an agreement to purchase Textron's tools and test equipment business for \$810, subject to certain post-closing adjustments. This business, with annual sales of approximately 11. \$470, is a manufacturer of electrical and utility tools, diagnostics, and test and measurement instruments, and will be reported in the Tools & Home products segment. The transaction is expected to close in the fourth quarter, subject to various regulatory approvals and other customary closing conditions.

On January 10, 2018, the Company completed the acquisition of Cooper-Atkins for \$247, net of cash acquired. This business, which manufactures temperature management and monitoring products for foodservice markets, is reported in the Climate Technologies segment. The Company recognized goodwill of \$134 (all of which is expected to be tax deductible), and identifiable intangible assets of \$105, primarily intellectual property and customer relationships with weighted-average useful lives of approximately 12 years. During the first six months of 2018, the Company also acquired three smaller business, two in the Automation Solutions segment and one in the Climate Technologies segment. These four businesses had combined annual sales of approximately \$70.

On December 1, 2017, the Company acquired Paradigm, a provider of software solutions for the oil and gas industry, for \$505, net of cash acquired. This business had annual sales of approximately \$140 and is included in the Measurement & Analytical Instrumentation product offering within Automation Solutions. The Company recognized goodwill of \$332 (\$160 of which is expected to be tax deductible), and identifiable intangible assets of \$238, primarily intellectual property and customer relationships with weighted-average useful lives of approximately 11 years.

On April 28, 2017, the Company completed the acquisition of Pentair's valves & controls business for \$2.960 billion, net of cash acquired of \$207. This business, with annualized sales of approximately \$1.4 billion, is a manufacturer of control, isolation and pressure relief valves and actuators, and complements the Valves, Actuators & Regulators product offering within Automation Solutions. Results for the six months ended March 31, 2018 included first year pretax acquisition accounting charges related to inventory and backlog of \$29, \$22 after-tax, \$0.03 per share.

Valuations of acquired assets and liabilities are in process and subject to refinement. Total cash paid for all businesses for the first six months of 2018 was \$770, net of cash acquired.

On October 2, 2017, the Company sold its residential storage business for \$200 in cash, and recognized a small pretax gain and an after-tax loss of \$24 (\$0.04 per share) in the first quarter of 2018 due to income taxes resulting from nondeductible goodwill. The Company realized \$150 in after-tax cash proceeds from the sale. Assets and liabilities for this business were classified as held-for-sale in the consolidated balance sheet at September 30, 2017 as follows: current assets, \$73; other assets, \$176; and accrued expenses and other liabilities, \$61. This business was previously reported within the Tools & Home Products segment.

Pro Forma Financial Information

The following unaudited pro forma consolidated condensed financial results of operations are presented as if the acquisition of the valves & controls business occurred on October 1, 2015. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved had the acquisition occurred as of that time.

| | Three Months Ended March 31, 2017 | Six Months Ended March 31, 2017 |
|-------------------------------------------------------------|--------------------------------------------|------------------------------------------|
| Net sales | \$3,925 | \$7,545 |
| Net earnings from continuing operations common stockholders | \$368 | \$730 |
| Diluted earnings per share from continuing operations | \$0.57 | \$1.13 |

Discontinued Operations – In fiscal 2017, the Company completed the previously announced strategic repositioning actions to streamline its portfolio and drive growth in its core businesses. On November 30, 2016, the Company completed the sale of its network power systems business for \$4 billion in cash and retained a subordinated interest in distributions, contingent upon the equity holders first receiving a threshold return on their initial investment. Additionally, on January 31, 2017, the Company completed the sale of its power generation, motors and drives business for approximately \$1.2 billion, subject to post-closing adjustments.

The financial results of the network power systems and power generation, motors and drives businesses reported as discontinued operations for the three and six months ended March 31, 2017 were as follows:

| | Three Months Ended March 31, 2017 | Six Months Ended March 31, 2017 |
|-------------------------------------|-----------------------------------------------|---------------------------------------------|
| Net sales | \$97 | \$1,037 |
| Cost of sales | 75 | 701 |
| SG&A | 21 | 263 |
| Other (income) deductions, net | 4 | (417) |
| Earnings (Loss) before income taxes | (3) | 490 |
| Income taxes | 81 | 629 |
| Earnings (Loss), net of tax | \$(84) | \$(139) |

In 2017, the loss of \$139, consisted of an after-tax loss of \$172 (\$38 pretax loss) on the divestiture of the power generation, motors and drives business, an after-tax gain on the divestiture of the network power systems business of \$100 (\$465 pretax), income tax expense of \$103 for the planned repatriation of sales proceeds and existing cash from the businesses, lower expense of \$30 due to ceasing depreciation and amortization for the discontinued businesses held-for-sale, and net earnings from operations of \$6.

Net cash from operating and investing activities for the network power systems and power generation, motors and drives businesses for the six months ended March 31, 2017 were as follows:

Six
Months
Ended

Mar 31,
2017

Cash from operating activities \$(601)
Cash from investing activities \$5,051

Operating cash flow used by discontinued operations of \$601 for the six months ended March 31, 2017 primarily included payments for income taxes on completion of the divestitures and repatriation of cash, and professional fees and other costs.

Items 2 and 3.

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Net sales for the second quarter of 2018 were \$4.2 billion, up 19 percent, supported by acquisitions net of a divestiture, which added 8 percent. Underlying sales increased 8 percent reflecting favorable global trends in energy-related, general industrial, HVAC and refrigeration markets.

Earnings from continuing operations common stockholders were \$482 million, up 28 percent compared with \$376 million in 2017, and diluted earnings per share from continuing operations were \$0.76, up 31 percent compared with \$0.58 in 2017, due to the increase in sales and strong operational performance. Net earnings common stockholders were \$482 million, up 65 percent, and diluted earnings per share were \$0.76, up 69 percent, reflecting the impact of discontinued operations in the prior year.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31

Following is an analysis of the Company's operating results for the second quarter ended March 31, 2018, compared with the second quarter ended March 31, 2017.

| | 2017 | 2018 | Change |
|---------------------------------------------------------|---------|--------|--------|
| (dollars in millions, except per share amounts) | | | |
| Net sales | \$3,574 | 4,248 | 19 % |
| Gross profit | \$1,557 | 1,825 | 17 % |
| Percent of sales | 43.6 % | 43.0 % | |
| SG&A | \$868 | 1,032 | |
| Percent of sales | 24.3 % | 24.3 % | |
| Other deductions, net | \$83 | 99 | |
| Interest expense, net | \$41 | 36 | |
| Earnings from continuing operations before income taxes | \$565 | 658 | 16 % |
| Percent of sales | 15.8 % | 15.5 % | |
| Earnings from continuing operations common stockholders | \$376 | 482 | 28 % |
| Net earnings common stockholders | \$292 | 482 | 65 % |
| Percent of sales | 8.2 % | 11.4 % | |
| Diluted EPS - Earnings from continuing operations | \$0.58 | 0.76 | 31 % |
| Diluted EPS - Net earnings | \$0.45 | 0.76 | 69 % |

Net sales for the second quarter of 2018 were \$4.2 billion, an increase of \$674 million compared with \$3.6 billion in 2017. Underlying sales, which exclude foreign currency translation, acquisitions and divestitures, increased 8 percent (\$277 million) on higher volume. Acquisitions added 10 percent (\$362 million) and foreign currency translation added 3 percent (\$110 million), while the divestiture of the residential storage business subtracted 2 percent (\$75 million). Underlying sales increased 9 percent in the U.S. and 7 percent internationally. Asia was up 10 percent (China up 21 percent), while sales in Europe were flat. Canada increased 12 percent while Latin America decreased 6 percent. Middle East/Africa was up 20 percent. Sales increased \$654 million in Automation Solutions, supported by acquisitions and continued broad-based demand across energy-related and general industrial markets. Commercial & Residential Solutions sales were up \$23 million, as favorable demand in global HVAC and refrigeration markets was largely offset by the divestiture of the residential storage business.

Cost of sales for the second quarter of 2018 were \$2.4 billion, an increase of \$406 million compared with \$2.0 billion in 2017, primarily due to acquisitions, higher volume and the impact of foreign currency translation. Gross margin of 43.0 percent decreased 0.6 percentage points, reflecting dilution of 1.0 percentage points due to the valves & controls acquisition and slightly unfavorable mix, partially offset by leverage on higher volume and savings from cost reduction actions.

Selling, general and administrative (SG&A) expenses of \$1.0 billion increased \$164 million compared with the prior year, primarily due to acquisitions and an increase in volume. SG&A as a percent of sales was 24.3 percent, flat versus the prior year reflecting leverage on the higher volume, offset by the impact of acquisitions.

Other deductions, net were \$99 million in 2018, an increase of \$16 million compared with the prior year, due to higher intangibles amortization of \$30 million, primarily related to the valves & controls acquisition. Lower bad debt expense of \$19 million and a favorable comparative impact from foreign currency transactions of \$19 million was partially offset by an increase in acquisition/divestiture-related costs of \$27 million. See Note 8.

Pretax earnings from continuing operations of \$658 million increased \$93 million, or 16 percent. Earnings increased \$108 million in Automation Solutions and \$4 million in Commercial & Residential Solutions. See Note 10 and the following Business Segments discussion.

Income taxes were \$169 million for 2018 and \$181 million for 2017, resulting in effective tax rates of 26 percent and 32 percent, respectively. The decrease in the effective rate is largely due to the impact of U.S. tax reform, which included a reduction of the U.S. corporate income tax rate. See Note 1. The effective tax rate for full year 2018 is currently expected to be approximately 25 to 27 percent. In 2019 and thereafter, the tax rate is expected to be approximately 25 percent.

Earnings from continuing operations attributable to common stockholders were \$482 million, up 28 percent, and diluted earnings per share were \$0.76, up 31 percent.

Net earnings common stockholders in the second quarter of 2018 were \$482 million, up 65 percent, compared with \$292 million in the prior year, and earnings per share were \$0.76, up 69 percent, compared with \$0.45 in 2017. Results for 2017 included the impact of discontinued operations, which was a net loss of \$84 million (\$0.13 per share). See Note 12.

Business Segments

Following is an analysis of operating results for the Company's business segments for the second quarter ended March 31, 2018, compared with the second quarter ended March 31, 2017. The Company defines segment earnings as earnings before interest and taxes. See Notes 1 and 10 for a discussion of the Company's business segments.

AUTOMATION SOLUTIONS

Three Months Ended Mar 31 2017 2018 Change
(dollars in millions)

| | | | | |
|------------------------------------------|---------|--------|----|---|
| Sales | \$2,117 | 2,771 | 31 | % |
| Earnings | \$328 | 436 | 33 | % |
| Margin | 15.5 | % 15.7 | % | |
| Sales by Major Product Offering | | | | |
| Measurement & Analytical Instrumentation | \$736 | 860 | 17 | % |
| Valves, Actuators & Regulators | 497 | 926 | 86 | % |
| Industrial Solutions | 419 | 479 | 14 | % |
| Process Control Systems & Solutions | 465 | 506 | 9 | % |
| Total | \$2,117 | 2,771 | 31 | % |

Automation Solutions sales were \$2.8 billion in the second quarter, an increase of \$654 million, or 31 percent. Underlying sales increased 10 percent (\$220 million) on higher volume. Acquisitions added 17 percent (\$354 million) and foreign currency translation had a 4 percent (\$80 million) favorable impact. Sales for Measurement & Analytical Instrumentation increased 17 percent and Process Control Systems & Solutions increased 9 percent, reflecting

continued favorable demand from global oil and gas customers, as well as for MRO and small and mid-sized projects focused on facility expansion and optimization. Valves, Actuators & Regulators increased \$429 million, or 86 percent, led by the valves & controls acquisition (\$329 million) and broad-based demand across end markets, including energy, power and life sciences. Industrial Solutions sales increased \$60 million, or 14 percent,

driven by favorable global trends in general industrial end markets. Underlying sales increased 16 percent in the U.S. and decreased 1 percent in Europe. Sales increased 7 percent in Asia as China was up 20 percent, supported by strong demand in process automation and discrete markets, while Canada was up 13 percent and Latin America was down 10 percent. Sales increased 29 percent in Middle East/Africa. Earnings were \$436 million, an increase of \$108 million, or 33 percent reflecting higher volume and leverage, cost reduction savings, lower bad debt expense of \$19 million and favorable foreign currency transactions of \$19 million compared with the prior year. Margin increased 0.2 percentage points to 15.7 percent. Margin improved 2.4 percentage points to 17.9 percent, excluding dilution of 2.2 percentage points from the valves & controls acquisition, which includes intangibles amortization of \$20 million.

COMMERCIAL & RESIDENTIAL SOLUTIONS

Three Months Ended Mar 31 2017 2018 Change
(dollars in millions)

Sales:

| | | | | |
|-----------------------|---------|-------|------|---|
| Climate Technologies | \$1,058 | 1,128 | 7 | % |
| Tools & Home Products | 402 | 355 | (12) | % |
| Total | \$1,460 | 1,483 | 2 | % |

Earnings:

| | | | | |
|-----------------------|-------|--------|---|---|
| Climate Technologies | \$249 | 253 | 2 | % |
| Tools & Home Products | 96 | 96 | — | % |
| Total | \$345 | 349 | 1 | % |
| Margin | 23.7 | % 23.6 | % | |

Commercial & Residential Solutions sales were \$1.5 billion in the second quarter, up \$23 million, or 2 percent compared to the prior year. Underlying sales were up 4 percent (\$57 million) on higher volume and slightly higher price. Foreign currency translation added 2 percent (\$30 million) and the divestiture of the residential storage business, net of acquisitions, deducted 4 percent (\$64 million). Climate Technologies sales were \$1.1 billion in the second quarter, an increase of \$70 million, or 7 percent. Global HVAC sales were up modestly on robust growth in commercial air conditioning and heating in China and solid growth in Europe, partially offset by a modest decline in U.S. commercial and residential air conditioning. Global refrigeration sales were strong, reflecting robust growth in China and modest growth in the U.S. Sensors had strong growth and temperature controls was up slightly. Tools & Home Products sales were \$355 million in the second quarter, a decrease of \$47 million, or 12 percent, reflecting the impact of the residential storage divestiture (\$75 million). Sales for professional tools were strong on favorable demand in oil and gas and construction-related markets. Wet/dry vacuums also had strong sales growth, while food waste disposers were up modestly. Overall, underlying sales increased 1 percent in the U.S., 5 percent in Europe and 17 percent in Asia (China up 22 percent). Sales increased 8 percent in Canada, decreased 4 percent in Middle East/Africa and were flat in Latin America. Earnings were \$349 million, an increase of \$4 million, while margin declined 0.1 percentage points, reflecting higher materials costs and unfavorable mix, partially offset by leverage on higher volume, favorable price and savings from cost reduction actions. In addition, the residential storage divestiture reduced earnings by \$6 million, but benefited margin comparisons 0.8 percentage points.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31

Following is an analysis of the Company's operating results for the six months ended March 31, 2018, compared with the six months ended March 31, 2017.

| | 2017 | 2018 | Change |
|---------------------------------------------------------|---------|--------|--------|
| (dollars in millions, except per share amounts) | | | |
| Net sales | \$6,790 | 8,064 | 19 % |
| Gross profit | \$2,922 | 3,446 | 18 % |
| Percent of sales | 43.0 % | 42.7 % | |
| SG&A | \$1,690 | 2,024 | |
| Percent of sales | 24.8 % | 25.1 % | |
| Other deductions, net | \$116 | 187 | |
| Interest expense, net | \$87 | 74 | |
| Earnings from continuing operations before income taxes | \$1,029 | 1,161 | 13 % |
| Percent of sales | 15.2 % | 14.4 % | |
| Earnings from continuing operations common stockholders | \$740 | 874 | 18 % |
| Net earnings common stockholders | \$601 | 874 | 46 % |
| Percent of sales | 8.8 % | 10.8 % | |
| Diluted EPS - Earnings from continuing operations | \$1.14 | 1.37 | 20 % |
| Diluted EPS - Net earnings | \$0.93 | 1.37 | 47 % |

Net sales for the first six months of 2018 were \$8.1 billion, an increase of \$1.3 billion, or 19 percent compared with \$6.8 billion in 2017. Underlying sales were up 8 percent (\$511 million) on higher volume. Acquisitions added 11 percent (\$730 million) and foreign currency translation added 3 percent (\$185 million), while the divestiture of the residential storage business subtracted 3 percent (\$152 million). Underlying sales increased 8 percent in the U.S. and 7 percent internationally. Sales were flat in Europe, up 12 percent in Asia (China up 22 percent) and decreased 1 percent in Latin America. Canada increased 13 percent and Middle East/Africa was up 9 percent. Sales increased \$1.3 billion in Automation Solutions supported by acquisitions and broad-based demand across energy-related and general industrial markets. Commercial & Residential Solutions sales increased \$23 million reflecting favorable demand in global HVAC and refrigeration markets, largely offset by the divestiture of the residential storage business.

Cost of sales for 2018 were \$4.6 billion, an increase of \$750 million versus \$3.9 billion in 2017, primarily due to acquisitions, higher volume and the impact of foreign currency translation. Gross margin declined slightly to 42.7 percent reflecting dilution of 1.3 percentage points due to the valves & controls operations and first year acquisition accounting charges of \$10 million related to inventory, partially offset by leverage on higher volume and savings from cost reduction actions.

SG&A expenses of \$2.0 billion increased \$334 million primarily due to acquisitions and an increase in volume. SG&A as a percent of sales of 25.1 percent increased 0.3 percentage points, reflecting higher incentive stock compensation of \$51 million due to an increase in the Company's stock price and the impact of acquisitions, partially offset by leverage on higher volume.

Other deductions, net were \$187 million in 2018, an increase of \$71 million compared with the prior year, due to higher intangibles amortization of \$45 million and backlog amortization of \$19 million, primarily related to the valves & controls acquisition. An increase in acquisition/divestiture-related costs of \$23 million was partially offset by lower

bad debt expense of \$16 million. See Note 8.

Pretax earnings from continuing operations of \$1.2 billion increased \$132 million, or 13 percent. Earnings increased \$168 million in Automation Solutions and \$7 million in Commercial & Residential Solutions. See Note 10 and the following Business Segments discussion.

On December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "Act"), which made comprehensive changes to federal income tax laws by moving from a global to a modified territorial tax regime. The

Act includes a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent along with the elimination of certain deductions and credits, and a one-time “deemed repatriation” of accumulated foreign earnings. In the first quarter of fiscal year 2018, the Company recognized a net tax benefit of \$43 million (\$0.07 per share) due to impacts of the Act, consisting of a \$98 million benefit on revaluation of net deferred income tax liabilities to the lower tax rate, and \$185 million of expense for the tax on deemed repatriation of accumulated foreign earnings and withholding taxes partially offset by \$130 million accrued in previous periods for the planned repatriation of non-U.S. cash. The Company continues to review the impacts of the Act and subsequent interpretations. Given its complexities, the ultimate effects on repatriation cost and other tax items may differ materially from these provisional amounts due to additional regulatory guidance that may be issued and further evaluation of the Company’s actions, assumptions and interpretations.

Income taxes were \$278 million for 2018 and \$275 million for 2017, resulting in effective tax rates of 24 percent and 27 percent, respectively. The effective tax rate for 2017 included a \$47 million (\$0.07 per share) income tax benefit from restructuring a foreign subsidiary.

Earnings from continuing operations attributable to common stockholders for 2018 were \$874 million, up 18 percent, and diluted earnings per share were \$1.37, up 20 percent. Earnings per share include a \$0.07 per share benefit from the lower corporate federal income tax rate on 2018 earnings. Results also include an additional \$0.07 per share net benefit due to impacts of the tax law change on net deferred income tax liabilities and taxes on repatriation of non-U.S. earnings and cash, offset by a \$0.04 per share loss on the residential storage divestiture and \$0.03 per share from first year acquisition accounting charges.

Net earnings common stockholders in 2018 were \$874 million, up 46 percent, compared with \$601 million in the prior year, and earnings per share were \$1.37, up 47 percent compared with \$0.93 in 2017. Results for 2017 included the impact of discontinued operations, which was a net loss of \$139 million (\$0.21 per share). See Note 12.

Business Segments

Following is an analysis of operating results for the Company’s business segments for the six months ended March 31, 2018, compared with the six months ended March 31, 2017. The Company defines segment earnings as earnings before interest and taxes.

AUTOMATION SOLUTIONS

| Six Months Ended Mar 31 | 2017 | 2018 | Change |
|-------------------------|---------|--------|--------|
| (dollars in millions) | | | |
| Sales | \$4,084 | 5,343 | 31 % |
| Earnings | \$654 | 822 | 26 % |
| Margin | 16.0 | % 15.4 | % |

Sales by Major Product Offering

| | | | |
|------------------------------------------|---------|-------|------|
| Measurement & Analytical Instrumentation | \$1,418 | 1,632 | 15 % |
| Valves, Actuators & Regulators | 946 | 1,793 | 90 % |
| Industrial Solutions | 786 | 903 | 15 % |
| Process Control Systems & Solutions | 934 | 1,015 | 9 % |
| Total | \$4,084 | 5,343 | 31 % |

Automation Solutions sales were \$5.3 billion in the first six months of 2018, an increase of \$1.3 billion, or 31 percent. Underlying sales increased 10 percent (\$397 million) on higher volume. Acquisitions added 18 percent (\$727 million) and foreign currency translation had a 3 percent (\$135 million) favorable impact. Sales for Measurement & Analytical Instrumentation increased 15 percent and Process Control Systems & Solutions increased 9 percent due to increased

spending by global oil and gas customers, strong MRO demand and growth of small and mid-sized projects focused on facility expansion and optimization. Valves, Actuators & Regulators increased \$847 million, or 90 percent, led by the valves & controls acquisition (\$678 million) and broad-based demand across end markets, including energy, power and life sciences. Industrial Solutions sales increased \$117 million, or 15 percent, driven by favorable global trends in general industrial end markets. Underlying sales

increased 15 percent in the U.S. while sales declined 1 percent in Europe. Sales increased 10 percent in Asia as China was up 21 percent, supported by strong demand in process automation and discrete markets, while sales declined 3 percent in Latin America. Sales were up 12 percent in Middle East/Africa and 15 percent in Canada. Earnings were \$822 million, an increase of \$168 million, or 26 percent. The increase was driven by higher volume, leverage, cost reduction savings and lower bad debt expense of \$16 million, partially offset by unfavorable foreign currency transactions of \$7 million compared with the prior year. Margin declined 0.6 percentage points to 15.4 percent. Margin improved 1.9 percentage points to 17.9 percent, excluding dilution of 2.5 percentage points from the valves & controls acquisition, which includes intangibles amortization of \$38 million.

COMMERCIAL & RESIDENTIAL SOLUTIONS

Six Months Ended Mar 31 2017 2018 Change
(dollars in millions)

Sales:

| | | | | |
|-----------------------|---------|-------|------|---|
| Climate Technologies | \$1,917 | 2,050 | 7 | % |
| Tools & Home Products | 795 | 685 | (14) | % |
| Total | \$2,712 | 2,735 | 1 | % |

Earnings:

| | | | | |
|-----------------------|-------|--------|-----|---|
| Climate Technologies | \$410 | 418 | 2 | % |
| Tools & Home Products | 184 | 183 | (1) | % |
| Total | \$594 | 601 | 1 | % |
| Margin | 21.9 | % 22.0 | % | |

Commercial & Residential Solutions sales were \$2.7 billion in the first six months of 2018, an increase of \$23 million, or 1 percent, compared to the prior year. Underlying sales were up 4 percent (\$114 million) on higher volume and slightly higher price. Foreign currency translation added 2 percent (\$50 million) and the divestiture of the residential storage business, net of acquisitions, subtracted 5 percent (\$141 million). Climate Technologies sales were \$2.1 billion in the first six months of 2018, an increase of \$133 million, or 7 percent. Global HVAC sales were solid, reflecting robust growth in China and modest growth in Europe, while the U.S. was down slightly. Global refrigeration sales were strong, led by robust growth in China, while sales in the U.S. were up slightly. Sensors had strong growth, while temperature controls was up slightly. Tools & Home Products sales were \$685 million in the first six months of 2018, down \$110 million or 14 percent compared to the prior year, reflecting the impact of the residential storage divestiture (\$152 million). Sales for professional tools were strong on favorable demand in oil and gas and construction-related markets. Wet/dry vacuums also had strong sales growth, while food waste disposers were up modestly. Overall, underlying sales increased 1 percent in the U.S., 3 percent in Europe and 17 percent in Asia (China up 23 percent). Sales increased 1 percent in Latin America and 6 percent in Canada while sales declined 1 percent in Middle East/Africa. Earnings were \$601 million, an increase of \$7 million, and margin improved 0.1 percentage points. Higher materials costs and unfavorable mix were partially offset by leverage on higher volume, favorable price and savings from cost reduction actions. In addition, the residential storage divestiture reduced earnings by \$12 million, but benefited margin comparisons 0.8 percentage points, while higher warranty costs of \$10 million associated with a specific product issue in Climate Technologies partially offset this benefit.

FINANCIAL CONDITION

Key elements of the Company's financial condition for the six months ended March 31, 2018 as compared to the year ended September 30, 2017 follow.

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| | Sept 30, 2017 | | Mar 31, 2018 | |
|-------------------------------|------------------|---|--------------------|---|
| Working capital (in millions) | \$ 3,207 | | 1,780 | |
| Current ratio | 1.6 | | 1.3 | |
| Total debt-to-total capital | 34.8 | % | 37.9 | % |
| Net debt-to-net capital | 15.4 | % | 24.4 | % |
| Interest coverage ratio | 12.6 | X | 12.7 | X |

The Company's debt-to-capital ratio increased primarily due to higher borrowings to support acquisitions and share repurchases. The interest coverage ratio (earnings before income taxes plus interest expense, divided by interest expense) of 12.7X for the first six months of 2018 compares to 11.1X for the first six months of 2017. The increase reflects higher pretax earnings in the current year.

Operating cash flow from continuing operations for the first six months of 2018 was \$944 million, a decrease of \$67 million compared with \$1.0 billion in the prior year, reflecting an investment in working capital to support higher levels of sales activity and income taxes paid on the residential storage divestiture, partially offset by higher earnings. Operating cash flow from continuing operations funded dividends of \$618 million and capital expenditures of \$194 million. Free cash flow from continuing operations of \$750 million (operating cash flow of \$944 million less capital expenditures of \$194 million) decreased \$67 million in 2018. Free cash flow from continuing operations was \$817 million in 2017 (operating cash flow of \$1.0 billion less capital expenditures of \$194 million). In the second quarter of 2018, the Company repatriated \$800 million of cash held by non-U.S. subsidiaries, which was part of the Company's previously announced plans. These funds along with increased short-term borrowings and divestiture proceeds supported acquisitions of \$770 million and common stock purchases of \$750 million.

Emerson's financial structure provides the flexibility necessary to achieve its strategic objectives. The Company has been successful in efficiently deploying cash where needed worldwide to fund operations, complete acquisitions and sustain long-term growth. The Company believes that sufficient funds will be available to meet the Company's needs in the foreseeable future through operating cash flow, existing resources, short- and long-term debt capacity or backup credit lines.

FISCAL 2018 OUTLOOK

Results for the first six months of 2018 reflected favorable global demand and strong operational performance. The Company expects increasing capital investment in Automation Solutions' end markets, and continued steady demand in Commercial & Residential Solutions' end markets. For the full year, consolidated net sales are expected to increase approximately 13 percent, with underlying sales up approximately 7 percent, excluding a 4 percent impact from acquisitions and divestitures and 2 percent from currency translation. Automation Solutions fiscal 2018 net sales are expected to increase approximately 20 percent, with underlying sales up approximately 8 percent, excluding a 9 percent impact from acquisitions and 3 percent from currency translation. Commercial & Residential Solutions full year net sales are expected to increase approximately 2 percent, with underlying sales up approximately 5 percent, excluding a 5 percent negative impact from acquisitions and divestitures and 2 percent from favorable currency translation. The Company expects full year earnings per share to be \$3.10 to \$3.20, operating cash flow of approximately \$2.9 billion and capital spending of \$575 million. The outlook contained herein excludes any impact related to the Company's pending acquisition of Textron's Tools & Test business, which is expected to close in the fourth quarter and will be reported in Commercial & Residential Solutions.

Statements in this report that are not strictly historical may be "forward-looking" statements, which involve risks and uncertainties, and Emerson undertakes no obligation to update any such statements to reflect later developments. These risks and uncertainties include economic and currency conditions, market demand, pricing, protection of intellectual property, and competitive and technological factors, among others, which are set forth in the "Risk Factors" of Part I, Item 1A, and the "Safe Harbor Statement" of Part II, Item 7, to the Company's Annual Report on Form 10-K for the year ended September 30, 2017 and in subsequent reports filed with the SEC, which are hereby incorporated by reference, as well as the impact of U.S. tax reform as discussed in Note 1 of Notes to Consolidated Financial Statements set forth in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported in a timely manner. This system also is designed to ensure information is accumulated and communicated to management, including the Company's certifying officers, to allow timely decisions regarding required disclosure. Based on an evaluation performed, the certifying officers have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to report material information otherwise required to be set forth in the Company's reports.

There was no change in the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities (shares in 000s).

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| January 2018 | — | \$0.00 | — | 49,068 |
| February 2018 | 1,791 | \$69.80 | 1,791 | 47,277 |
| March 2018 | 1,788 | \$69.91 | 1,788 | 45,489 |
| Total | 3,579 | \$69.85 | 3,579 | 45,489 |

In November 2015, the Board of Directors authorized the purchase of up to 70 million shares, and 45.5 million shares remain available.

Item 6. Exhibits

(a) Exhibits (Listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K).

12 Ratio of Earnings to Fixed Charges.

31 Certifications pursuant to Exchange Act Rule 13a-14(a).

32 Certifications pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.

101 Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the three and six months ended March 31, 2018 and 2017, (ii) Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2018 and 2017, (iii) Consolidated Balance Sheets as of September 30, 2017 and March 31, 2018, (iv) Consolidated Statements of Cash Flows for the three and six months ended March 31, 2018 and 2017, and (v) Notes to Consolidated Financial Statements for the three and six months ended March 31, 2018.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMERSON ELECTRIC CO.

By/s/ Frank J. Dellaquila

Frank J. Dellaquila

Senior Executive Vice President and Chief Financial Officer

(on behalf of the registrant and as Chief Financial Officer)

May 2, 2018