



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

### Enheten

Organisasjonsnummer: 992 362 936  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: AEGIR NORGE HOLDING AS  
Forretningsadresse: c/o Kjell Haver Regnskapsservice AS  
Welhavens vei 5  
4319 SANDNES

### Regnskapsår

Årsregnskapets periode: 01.10.2019 - 30.09.2020

### Konsern

Morselskap i konsern: Ja  
Konsernregnskap lagt ved: Ja

### Regnskapsregler

Regler for små foretak benyttet: Ja  
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler  
Benyttet ved utarbeidelsen av årsregnskapet til konsernet: -

### Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Martin Benedict Fernandez  
Dato for fastsettelse av årsregnskapet: 26.03.2021

### Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert  
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 13.02.2022



### Resultatregnskap

Beløp i: NOK	Note	2020	2019
<b>RESULTATREGNSKAP</b>			
<b>Kostnader</b>			
Other operating expenses	7	143 871	132 537
<b>Sum kostnader</b>		<b>143 871</b>	<b>132 537</b>
<b>Driftsresultat</b>		<b>-143 871</b>	<b>-132 537</b>
<b>Netto finans</b>			
Depreciation of financial fixed assets	2		
Annen rentekostnad		92 686	117 404
Other financial expenses		217 205	510 683
<b>Sum finanskostnader</b>		<b>309 891</b>	<b>628 088</b>
<b>Netto finans</b>		<b>-309 891</b>	<b>-628 088</b>
<b>Ordinært resultat før skattekostnad</b>		<b>-453 762</b>	<b>-760 625</b>
Tax on ordinary result	3	-99 828	-167 337
<b>Ordinært resultat etter skattekostnad</b>		<b>-353 934</b>	<b>-593 288</b>
<b>Årsresultat</b>		<b>-353 934</b>	<b>-593 288</b>
<b>Årsresultat etter minoritetsinteresser</b>		<b>-353 934</b>	<b>-593 288</b>
<b>Totalresultat</b>		<b>-353 934</b>	<b>-593 288</b>
<b>Overføringer og disponeringer</b>			
Udekket tap		-353 934	-593 288
Transferred from other equity	5		
<b>Sum overføringer og disponeringer</b>		<b>-353 934</b>	<b>-593 288</b>



## Balanse

Beløp i: NOK	Note	2020	2019
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Utsatt skattefordel	3	752 663	652 835
<b>Sum immaterielle eiendeler</b>		<b>752 663</b>	<b>652 835</b>
<b>Finansielle anleggsmidler</b>			
Investering i datterselskap	2	915 427 913	915 427 913
<b>Sum finansielle anleggsmidler</b>		<b>915 427 913</b>	<b>915 427 913</b>
<b>Sum anleggsmidler</b>		<b>916 180 576</b>	<b>916 080 748</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
<b>Sum omløpsmidler</b>		<b>0</b>	<b>0</b>
<b>SUM EIENDELER</b>		<b>916 180 576</b>	<b>916 080 748</b>
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Share capital	4, 5	280 000	280 000
Overkurs	5	1 266 083 600	1 266 083 600
<b>Sum innskutt egenkapital</b>		<b>1 266 363 600</b>	<b>1 266 363 600</b>
<b>Opptjent egenkapital</b>			
Udekket tap		356 030 026	355 676 092
<b>Sum opptjent egenkapital</b>	5	<b>-356 030 026</b>	<b>-355 676 092</b>
<b>Sum egenkapital</b>		<b>910 333 574</b>	<b>910 687 508</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			



## Balanse

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
Utsatt skatt	3		
<b>Annen langsiktig gjeld</b>			
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>0</b>
<b>Kortsiktig gjeld</b>			
Tax payable	3		
Other current debt	6	5 847 002	5 393 240
<b>Sum kortsiktig gjeld</b>		<b>5 847 002</b>	<b>5 393 240</b>
<b>Sum gjeld</b>		<b>5 847 002</b>	<b>5 393 240</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>916 180 576</b>	<b>916 080 748</b>



## Income Statement

Aegir Norge Holding AS

<b>Operating income and operating expenses</b>	<b>Note</b>	<b>01.10.19-30.09.20</b>	<b>01.10.18-30.09.19</b>
Other operating expenses	7	<u>143 871</u>	<u>132 537</u>
Total operating expenses		<u><b>143 871</b></u>	<u><b>132 537</b></u>
Operating profit		<u><b>(143 871)</b></u>	<u><b>-132 537</b></u>
<b>Financial income and expenses</b>			
Other interest expenses		92 686	117 404
Other financial expenses		217 205	510 683
Net financial items		<u><b>(309 891)</b></u>	<u><b>-628 088</b></u>
Operating result before tax		(453 762)	-760 625
Tax on ordinary result	3	<u>(99 828)</u>	<u>-167 337</u>
<b>Profit for the year</b>		<u><b>(353 934)</b></u>	<u><b>-593 288</b></u>
<b>Distribution of annual result</b>			
Loss brought forward		<u>353 934</u>	<u>593 288</u>
Total distributed		<u><b>(353 934)</b></u>	<u><b>-593 288</b></u>



## Balance Sheet

### Aegir Norge Holding AS

Assets	Note	30.09.2020	30.09.2019
<b>Fixed assets</b>			
<b>Intangible assets</b>			
Deferred tax assets	3	752 663	652 835
<b>Total intangible assets</b>		<u>752 663</u>	<u>652 835</u>
<b>Financial assets</b>			
Investments in subsidiaries	2	915 427 913	915 427 913
<b>Total financial assets</b>		<u>915 427 913</u>	<u>915 427 913</u>
<b>Total fixed assets</b>		<u>916 180 576</u>	<u>916 080 748</u>
<b>Total assets</b>		<u>916 180 576</u>	<u>916 080 748</u>



## Balance Sheet

### Aegir Norge Holding AS

Equity and liabilities	Note	30.09.2020	30.09.2019
<b>Shareholders' equity</b>			
Share capital	4, 5	280 000	280 000
Other paid in equity	5	<u>1 266 083 600</u>	<u>1 266 083 600</u>
<b>Total paid in equity</b>		<b><u>1 266 363 600</u></b>	<b><u>1 266 363 600</u></b>
<b>Retained earnings</b>			
Uncovered loss		-356 030 026	-355 676 092
<b>Total retained earnings</b>	5	<b><u>-356 030 026</u></b>	<b><u>-355 676 092</u></b>
<b>Total equity</b>		<b><u>910 333 574</u></b>	<b><u>910 687 508</u></b>
<b>Liabilities</b>			
<b>Current debt</b>			
Other current debt	6	<u>5 847 002</u>	<u>5 393 240</u>
<b>Total current liabilities</b>		<b><u>5 847 002</u></b>	<b><u>5 393 240</u></b>
<b>Total liabilities</b>		<b><u>5 847 002</u></b>	<b><u>5 393 240</u></b>
<b>Total equity and liabilities</b>		<b><u>916 180 576</u></b>	<b><u>916 080 748</u></b>

Sandnes, 26.03.2021

The board of Aegir Norge Holding AS

Martin Benedict Fernandez  
Chairman of the board

Bente Bülow Bundgaard-Antoine  
Member of the board

Terje Nødland  
Member of the board

Geir Aanensen  
Member of the board



## Indirect cash flow

### Aegir Norge Holding AS

	Note	2020	2019
<b>Cash flows from operating activities</b>			
Profit/loss before tax		-453 762	-760 625
Change in other accrual items		98 347	-49 235
Net cash flows from operating activities		<u>-355 415</u>	<u>-809 860</u>
Net change Emerson cashpool		355 415	809 860
Net cash flows from financing activities		<u>355 415</u>	<u>809 860</u>
Net change in cash and cash equivalents		0	0
Cash and cash equivalents at the start of the period		<u>0</u>	<u>0</u>
Cash and cash equivalents at the end of the period		<u>0</u>	<u>0</u>



## **Aegir Norge Holding AS**

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### **NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> SEPTEMBER 2020**

All amounts in NOK

#### **Note Accounting principles**

The financial statement includes for the period from 1<sup>st</sup> October 2019 to 30<sup>th</sup> September 2020. For 2019 the statement includes the activities from 1<sup>st</sup> October 2018 to 30<sup>th</sup> September 2019.

The financial statement has been prepared in accordance with the Accounting Act and Norwegian generally accepted accounting principles for other companies. The following accounting principles have been applied:

#### **Classification and valuation of balance sheet items**

Fixed assets are assets meant for permanent ownership or use. Current assets and short term liabilities include for items payable within one year as well as for items related to the internal circulation of goods.

Current assets are valued at the lower of cost and net realizable value. Short term liabilities are included in the balance sheet at nominal amount when established.

Fixed assets are valued at cost, but are written down to the recoverable amount at a decline in value if it is expected that the decline is not temporary. Fixed assets with a limited useful life are depreciated in accordance with a reasonable depreciation plan.

Long term liabilities are included in the balance sheet at nominal amount when established.

#### **Shares and investment in subsidiaries**

Long term investment in shares in subsidiaries have been valued at the lowest of purchase value and actual value at closing date.

#### **Foreign exchange**

Cash and cash equivalents denominated in foreign currency are assessed at the exchange rate at year end. Foreign currency transactions are recorded applying exchange rate the transaction date.

#### **Taxes**

Taxes in the profit and loss statement include both the taxes on taxable profits and changes in deferred taxes. These have been calculated a 22 % of the timing differences between accounting values and tax values. Tax increasing as well as tax reducing timing differences which reverse or may be reversed during the same period have been balanced and included at net value. Net deferred tax asset is included in the balance sheet to the extent it is likely that it may be utilized.



## Aegir Norge Holding AS

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### Note 2 Investment in subsidiaries

The parent of Aegir Norge Holding AS is Emerson Electric Nederland BV.

Like Emerson, Roxar is known for its technology innovation and market leadership. Roxar's metering and monitoring equipment and well optimization software are very complimentary to Emerson's instrumentation products and PlantWeb solutions architecture. This acquisition will assist in extending Emerson's solutions in the exploration and production market space.

The investment of subsidiaries has been included at cost value.

As the audit of Roxar AS for the year ended 30 September 2020 is yet to be completed the below data reflect the year ended 30 September 2019.

Subsidiary		Business office	Owner share/voting
<b>Roxar AS</b>		Stavanger	100 %
Equity at 30.09.19	647 908		
Result at 30.09.19	-28 677		
Cost value at 30.09.20	1 289 502		

All amounts in NOK 1 000.

Following the downturn in the industry that Roxar AS operates, the company considered it necessary in 2015 to write down its investment in the subsidiary Roxar AS by USD 44 million, equivalent to NOK 374 074 800. An impairment assessment has been performed in FY2020 and no indicator for impairment was identified.

Book value 30.09.2020 NOK 915 427 913.



## Aegir Norge Holding AS

### Note 3 Tax

<b>This year's tax expense</b>	<b>2020</b>	<b>2019</b>
Entered tax on ordinary profit/loss:		
Payable tax	0	0
Changes in deferred tax assets	-99 828	-167 337
<b>Tax expense on ordinary profit/loss</b>	<b>-99 828</b>	<b>-167 337</b>
Taxable income:		
Ordinary result before tax	-453 762	-760 625
Permanent differences	0	0
Changes in temporary differences	4 700	-49 235
<b>Taxable income</b>	<b>-449 062</b>	<b>-809 860</b>
Payable tax in the balance:		
Payable tax on this year's result	0	0
<b>Total payable tax in the balance</b>	<b>0</b>	<b>0</b>

The tax effect of temporary differences and loss for to be carried forward that has formed the basis for deferred tax and deferred tax advantages, specified on type of temporary differences

	<b>2020</b>	<b>2019</b>	<b>Difference</b>
Allocations and more	-173 700	-169 000	4 700
<b>Total</b>	<b>-173 700</b>	<b>-169 000</b>	<b>4 700</b>
Accumulated loss to be brought forward	-3 247 496	-2 798 433	449 062
<b>Basis for deferred tax assets</b>	<b>-3 421 196</b>	<b>-2 967 433</b>	<b>453 762</b>
<b>Deferred tax assets (22 %)</b>	<b>-752 663</b>	<b>-652 835</b>	<b>99 828</b>



## Aegir Norge Holding AS

### Note 4 Shareholder information

The consolidated financial statement will be prepared by Emerson Electric Co. being the ultimate parent. This company has its business office in St. Louis United States.

The share capital in Aegir Norge Holding AS as of 30.09.20 consists of:

	Total	Face value	Entered
Ordinary shares	2 800	100,00	280 000
Total	2 800	100,00	280 000

### Ownership structure

The largest shareholders in % at year end:

	Ordinary	Owner share
Emerson Electric Nederland BV	2 800	100,0
Total number of shares	2 800	100,0

The company has only one class of shares and there are no voting restrictions.

### Note 5 Equity

	Share capital	Other paid equity	Other equity/Loss brought forward	Total
Equity 01.10.19	280 000	1 266 083 600	-355 676 092	910 687 508
+/- Profit for the year			-353 934	-353 934
Equity 30.09.20	280 000	1 266 083 600	-356 030 026	910 333 574

### Note 6 Intercompany balances

The company has a cashpool balance payable together with Emerson USD Finance Company Ltd of USD -598 361 NOK -5 673 302 30.09.20. Due to the value of the US dollar compared to Norwegian currency during the financial period 2020, the company has recognised an unrealized exchange loss for the period of NOK 217 205. Bringing the total unrealized exchange loss up to NOK 544 957. There are no restrictions or limitations related to the use of the group cashpool arrangement.

The company have no liabilities due later than 5 years after 30.09.20



## **Aegir Norge Holding AS**

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### **Note 7 Specification payroll costs in the profit and loss account**

The company has no employees and therefore the company has not established the mandatory company pension scheme according to Norwegian law

### **Remuneration to executives:**

No remuneration has been paid to the Board Members during the financial year ending 30<sup>th</sup> September 2020.

### **Audit fees:**

Audit fees for 2020 have been NOK 76 080 incl. VAT.

### **Note 8 Covid-19**

On 11 March 2020, the World Health Organisation declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the Company's 30 September 2020 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Company cannot reasonably estimate the impact these events will have on the Company's financial position, results of operations or cash flows in the future. Aegir Norge Holding AS has sufficient cash available through Emersons cash pool facility in order to meet the situation that has occurred.

### **Note 9 Subsequent events**

On 10<sup>th</sup> of March 2021 Emerson Electric Netherland BV contributed USD 229 215 773 equivalent to NOK 1 943 314 243 to the Company. On the same date the Company contributed USD 229 215 773 equivalent to NOK 1 943 314 243 to its subsidiary Roxar AS. The equity contributions down the chain to the Norwegian subsidiary will improve the commercial standing of the trading sub-group.



## Aegir Norge Holding AS

### Directors' report for the financial year ended 30 September 2020

All amounts in NOK

#### **The residence and nature of the business activities**

The principal activity of the company is that of a holding company. The company's registered office is in Sandnes, Norway.

The purpose of Aegir Norge Holding AS is the ownership of the Norwegian company Roxar AS. According to the company's parent, Emerson Electric Nederland BV, the reason for the acquisition is to strengthen its business activities within Process Management. For further details the Board refers to note 2 to the financial statement.

#### **Fair view of development and result**

The Company reported a loss of NOK -353 934 for the year ended 30 September 2020. Total assets as at 30 September 2020 was NOK 916 180 576, generating an equity ratio of 99,36 %. The company's liquidity is ensured through a cash pool arrangement with Emerson Group. At the balance sheet date the Company reported a negative cash pool position under a cash pool arrangement that ensures that liquidity is adequate and satisfactory. Following the Board's consideration, the financial statement for 2020 gives a fair view of the development and results of the company's operations and of the company's position at the end of the financial year.

The company has not incurred any costs for research and development during 2020.

#### **Continued operations**

As the Aegir/Roxar group reported profits and net current liabilities for the year ended 30 September 2020 and is forecast to continue being profitable going forward, the financial statements have been prepared on a going concern basis, which the board consider to be appropriate.

The Aegir/Roxar group is reliant on borrowing from Emerson USD Finance Company Ltd and Emersub Treasury Ireland. Both these entities have indicated their intention to continue to make available such funds as are needed by the group and that they do not intend to seek repayment of the amounts due at the balance sheet date. As with any company placing reliance on other group companies for financial support, the board acknowledge that there can be no certainty that this support will continued although, at the date of approval of these financial statements, the board has no reason to believe that it will not do so. This will allow for the group to have sufficient funds to meet its liabilities as they fall due.

#### **Working environment**

The company has no employees and the Board of Directors include for 3 male and 1 female. The Board is not aware of any relations in the company which may conflict with the Norwegian Gender Equality Act.

#### **External environment**

The company's operations do not pollute the environment. As such, the company has not implemented or planned any specific environmental measures.

#### **Subsequent events**

On 10th of March 2021 Emerson Electric Netherland BV contributed USD 229 215 773 equivalent to NOK 1 943 314 243 to the Company. On the same date the Company contributed USD 229 215 773 equivalent to NOK 1 943 314 243 to its subsidiary Roxar AS. The equity contributions down the chain to the Norwegian subsidiary will improve the commercial standing of the trading sub-group



Sandnes, 26.03 2021

Martin Benedict Fernandez  
Chairman

Terje Nødland  
Board member

Bente B. Bundgaard-Antoine  
Board member

Geir Aanensen  
Board member



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To the General Meeting of Aegir Norge Holding AS

## Independent auditor's report

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Aegir Norge Holding AS showing a loss of NOK 353 934. The financial statements comprise the balance sheet as at 30 September 2020, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 30 September 2020, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

#### Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

#### Offices in:

Oslo	Elverum	Mo i Rana	Stord
Alta	Finnsnes	Molde	Strømme
Arendal	Hamar	Skien	Tromsø
Bergen	Haugesund	Sandefjord	Trondheim
Bodø	Knaresund	Sandnessjøen	Tynset
Drammen	Kristiansund	Slavanger	Ålesund

Penneo Dokumentnr: GUCYN-3Y10Q-AEZEP-AX6Mc-JVZIZ-EHJP3



*Independent Auditor's Report - 2020*  
*Aegir Norge Holding AS*

## Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors (management) are responsible for the preparation in accordance with law and regulations, including a true and fair view of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Penneo Dokumentnr: GUCYN-3Y10Q-AEZEP-AX6Mc-JVZIZ-EHJP3



*Independent Auditor's Report - 2020*  
Aegir Norge Holding AS

## Report on Other Legal and Regulatory Requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption complies with the law and regulations.

### Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 26 March 2021  
KPMG AS

Monica Rosnes  
State Authorised Public Accountant

Penneo Dokumentnr: GUCYN-3Y10Q-AEZEP-AX6M6-JVZIZ-EHJJP3



## PENNEO

Signaturene i dette dokumentet er juridisk bindende. Dokument signert med "Penneo™ - sikker digital signatur".  
De signerende parter sin identitet er registrert, og er listet nedenfor.

"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

### Monica Roth Rosnes

State Authorised Public Accountant

På vegne av: KPMG AS

Serienummer: 9578-5997-4-231508

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**Directorate of Taxes**

Inquiries to Torstein Kinden Helleland	Your date 24.10.2012	Our date 26.10.2012
Telephone 22078139	Your reference Olivia Shepherd	Our reference 2012/830873

ROXAR AS  
P.O. Box 112  
4065 STAVANGER

**Permission to prepare the annual accounts and director's report in English language for the Roxar Group**

Dear Ms Olivia Shepherd

With reference to your letter of 24 October 2012, you apply for permission to keep annual accounts and directors' report in English language. The application in question concerns the parent company Aegir Norge Holding AS as well as the Norwegian subsidiaries.

<b>Aegir Norge Holding AS</b>	<b>org. nr. 992 362 936</b>
<b>Roxar AS</b>	<b>org. nr. 966 770 198</b>
<b>Roxar Flow Measurement AS</b>	<b>org. nr. 978 658 679</b>
<b>Roxar Software Solutions AS</b>	<b>org. nr. 939 201 181</b>
<b>Roxar Xworks AS</b>	<b>org. nr. 993 766 364</b>
<b>Roxar Services AS</b>	<b>org. nr. 980 090 787</b>
<b>Roxar International AS</b>	<b>org. nr. 974 361 248</b>
<b>RSS Software Holding AS</b>	<b>org. nr. 992 092 971</b>
<b>Roxar Holding AS</b>	<b>org. nr. 992 093 005</b>
<b>RFM Holding AS</b>	<b>org. nr. 992 093 048</b>
<b>CorrOcean Mareco AS</b>	<b>org. nr. 838 442 862</b>
<b>Roxar Technologies AS</b>	<b>org. nr. 895 771 252</b>

**Conclusion**

Based on a total evaluation, the view of The Directorate of Taxes is that the companies mentioned above may make the directors' report and annual accounts in English language according to the Norwegian Accounting Act § 3-4 third paragraph.

The exemption requires that the information that the decision is based on, does not change significantly.

**Background**

The Roxar Group is part of the Emerson Group with the head office in USA. Roxar operates in the offshore sector. Roxar develops technologies that take operators through the entire reservoir lifecycle from interpretation of geological data through to collection and analysis of real-time production data. Roxar's products comprise 3D reservoir geological modelling and simulation

Postal address P.O. Box 9200 Grønland 0134 Oslo	Visiting address See <a href="http://www.skatteetaten.no">www.skatteetaten.no</a> Org. nr: 996250318	Telephone 800 80 000 Telefax 22 17 08 60
For elektronisk henvendelse se <a href="http://www.skatteetaten.no">www.skatteetaten.no</a>		



software, and a range of topside, subsea and downhole meters. The Group operates in a sector where English is the dominating language. The Group's working language is English. All communication with customers is in English. The annual report and financial statements are required to be prepared each year in the Norwegian language only in order to satisfy the requirements of the Norwegian Accounting Act.

**Permission to make the annual accounts and the directors' report in Norway in English language**

According to the Norwegian Accounting Act § 3-4, third paragraph shall *"the directors' report and annual accounts ... be in Norwegian. The Ministry can in an individual decision decide that the directors' report and/or annual accounts may be in another language"*.

Ot. prp. nr. 42 (1997-1998) About Act about annual accounts etc., says the following about the purpose of the Accounting Act, refer section 1.1:

*"The aim of the Government with respect to the Accounting Act is that it shall contribute towards providing informative accounts for different users of accounts. The users of accounts include investors and creditors which provide capital for the companies. Other groups include those who have an interest in knowing how the companies are operated, for example employees and the local community. The information to the capital market is an important basis for the correct pricing of financial instruments. The correct pricing of stocks is an important factor in securing the best possible allocation of resources in the economy. High quality accounts will also make it more difficult for market participants to obtain speculative gains as a result of non-publicly available information."*

Hence, one of the main aims of the Accounting Act is to contribute to "informative accounts for different users of accounts". The users of the accounts will include investors, creditors, employees and the local community.

Hence, it is the view of the Ministry that it is crucial that the question of dispensation from the general rule that the annual accounts and/or directors' report should be prepared in Norwegian, not in any significant way deviate from the consideration of users of the accounts.

As mentioned above it is particularly the consideration of the users of the account information which has to be taken into consideration when considering the application for permission. In this assessment, the Directorate of Taxes has emphasized that the Group is wholly-owned of an American company. The company's working language is English. Internal, English is also the only language used for reporting purpose. Further, all customers speak and use English language.



2012/830873 - Side 3 av 3

We kindly request you to mention "our reference" in all written communication with The Norwegian Tax Authorities.

Best regards

*Rune Tystad*  
Rune Tystad  
Senior Adviser  
Legal Department  
Directorate of Taxes

*Torstein Kinden Helleland*  
Torstein Kinden Helleland



**Directorate of Taxes**

Inquiries to Torstein Kinden Helleland	Your date 12.09.2012	Our date 27.09.2012
Telephone 22078139	Your reference William Lyall	Our reference 2012/711510

Emerson Aegir Norge Holding AS  
Welhavens vei 5  
4319 SANDNES

**Exemption from the obligation to prepare consolidated financial statement for  
Aegir Norge Holding AS, org. nr. 992 362 936**

Dear Mr. William Lyall

With reference to your letter of 12 September 2012, you apply for an exemption from the obligation to prepare consolidated financial statement for Aegir Norge Holding AS.

**Conclusion**

Based on a total evaluation, the view of The Directorate of Taxes is that Aegir Norge Holding AS may be given an exemption from the obligation to prepare consolidated financial statements according to the Norwegian Accounting Act section 3-7 forth paragraph.

**Background**

The immediate parent company of Aegir Norge Holding AS is Emerson Electric Nederland B.V., a company incorporated and resident in the Netherlands. The ultimate parent company is the U.S. incorporated company Emerson Electric Company. Emerson Electric Company prepares the consolidated financial statement in accordance with USGAAP in which Aegir Norge Holding AS is consolidated.

**Requirements for the exemption**

The exemption requires that Emerson Electric Company prepares the consolidated financial statement in accordance with USGAAP in which Aegir Norge Holding AS and its subsidiaries are consolidated. It is assumed that the consolidated financial statement is prepared in accordance with USGAAP and according to the Norwegian Accounting Act section 3-7.

The provisions of the Norwegian Accounting Act chapter 8 apply correspondingly to the consolidated financial statement. The parent company may by section 3-7-1 in the regulations of 7.9.2006 No. 1062 for supplementing and implementation etc. of the Norwegian Accounting Act prepare the consolidated financial statement in Norwegian, Swedish, Danish or English.

A copy of this letter must be sent to the Brønnøysund Register Centre together with the financial statements. It is requested upon the reporting to prove by this letter that the permit is granted.

Postal address	Visiting address	Telephone
P.O. Box 9200 Grønland	See <a href="http://www.skatteetaten.no">www.skatteetaten.no</a>	800 80 000
0134 Oslo	Org. nr: 996250318	Telefax
For elektronisk henvendelse se <a href="http://www.skatteetaten.no">www.skatteetaten.no</a>		22 17 08 60



2012/711510 Side 2 av 2

We kindly request you to mention "our reference" in all written communication with The Norwegian Tax Authorities.

Best regards

*Rune Tystad*

Rune Tystad  
Senior Adviser  
Legal Department  
Directorate of Taxes

*Torstein Kinden Helleland*

Torstein Kinden Helleland



2020 Annual Report

We drive innovation  
that makes the world  
**healthier, safer, smarter**  
and **more sustainable**





## Our Purpose

We drive innovation that makes the world  
**healthier, safer, smarter and more sustainable**

## Our Causes



### Planet

We deliver sustainable solutions that improve efficiency, reduce emissions and conserve resources.



We strive to advance health, comfort, food quality and safety.



We lead our customers through complex technical, regulatory and economic challenges.



We cultivate an environment based on trust and support.



We promote STEM education and programs that prepare the next generation of critical thinkers and problem solvers.

## Our Values

Integrity, Collaboration, Safety & Quality, Continuous Improvement,  
Customer Focus, Innovation, Support Our People



## Financial Highlights

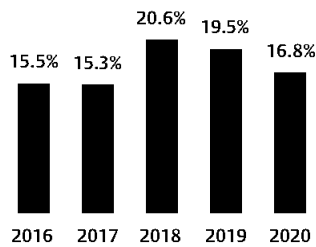
**\$3.1B**

Operating Cash Flow

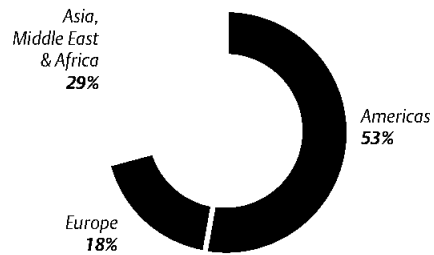
**\$16.8B**

Net Sales

### Return on Total Capital (After Tax)

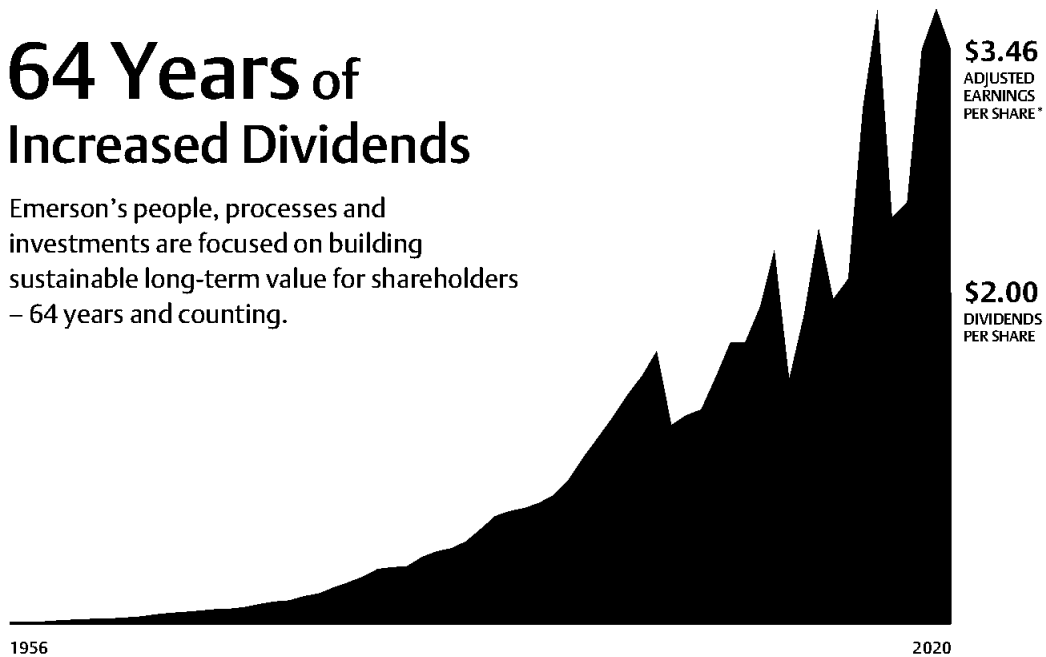


### Sales by Geographic Destination



## 64 Years of Increased Dividends

Emerson's people, processes and investments are focused on building sustainable long-term value for shareholders – 64 years and counting.



\*2020 earnings per share excludes restructuring costs and special advisory fees of \$0.42 and discrete tax benefits of \$0.20.



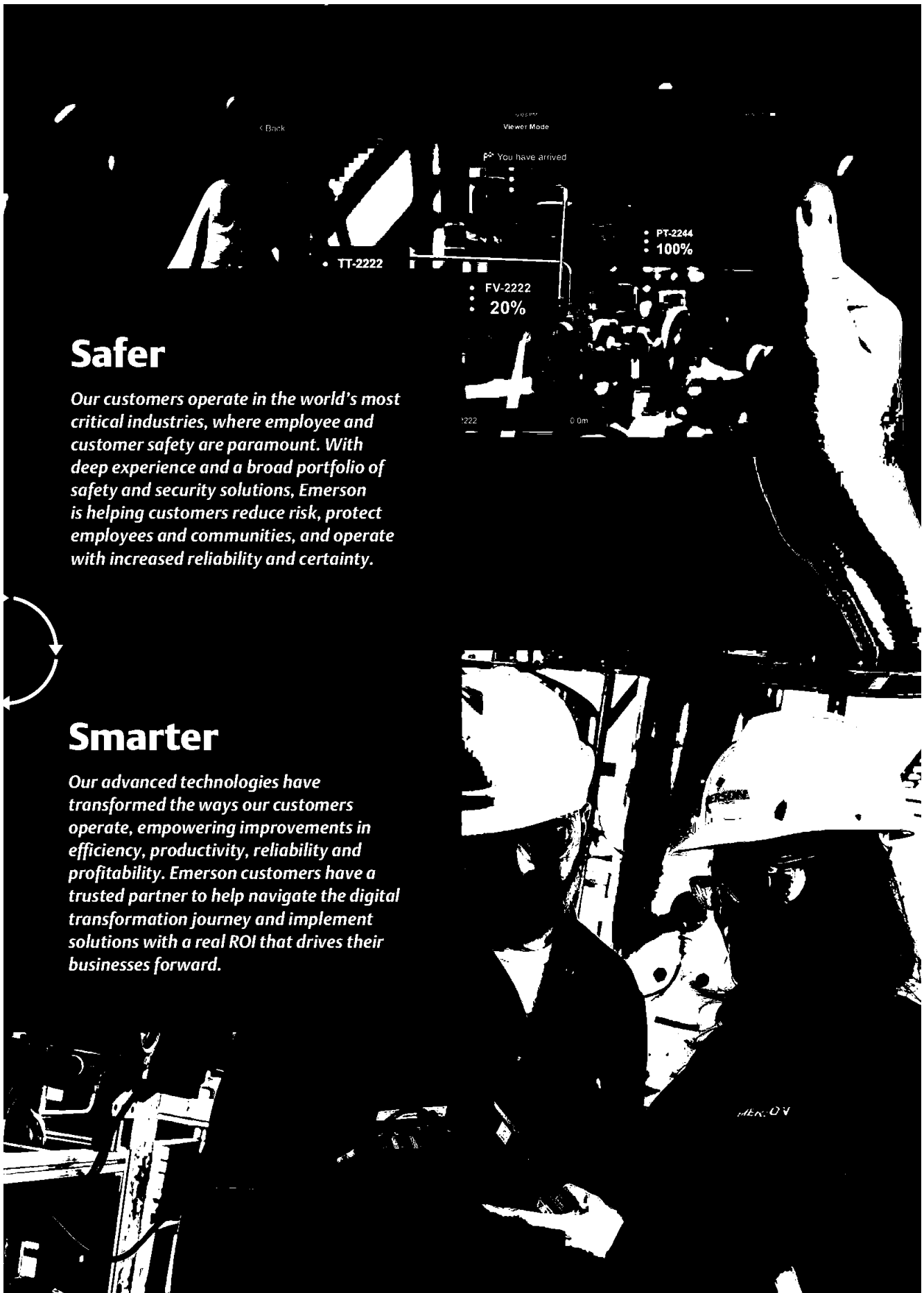
## Healthier

*We believe that health is vital to human advancement. Emerson's expertise and technologies in life sciences, food and beverage, the cold chain and environmentally responsible home comfort are helping make it more possible than ever for people to live comfortable and health-conscious lives.*

## More Sustainable

*We have a pivotal role to play in the global effort to activate sustainable business practices and manage resources efficiently. In addition to our internal sustainability efforts, Emerson technologies and expertise are helping customers achieve sustainability targets, fulfill environmental regulations and implement responsible solutions.*





## Safer

*Our customers operate in the world's most critical industries, where employee and customer safety are paramount. With deep experience and a broad portfolio of safety and security solutions, Emerson is helping customers reduce risk, protect employees and communities, and operate with increased reliability and certainty.*

## Smarter

*Our advanced technologies have transformed the ways our customers operate, empowering improvements in efficiency, productivity, reliability and profitability. Emerson customers have a trusted partner to help navigate the digital transformation journey and implement solutions with a real ROI that drives their businesses forward.*



**David N. Farr**  
*Chairman and  
Chief Executive Officer*



**For more than a century, Emerson’s history has been filled with achievements and challenges that have driven innovative thinking and bold transformations, molding us into the company we are today.**

After all, an organization cannot grow and create long-term value for 130 years without a rigorous, disciplined management approach that enables the flexibility to adapt to changing markets and customers. In that regard, our 130th year was no different. 2020 will be long remembered as a defining moment in the history of our company. This year brought obstacles of a magnitude that were impossible to foresee, but it also opened up new opportunities to adapt and rise to the needs and expectations of our employees, customers, communities and shareholders.

The COVID-19 pandemic transformed the global economic landscape and brought to the foreground the importance of prioritizing the health of employees and customers to a successful business. The pandemic also highlighted the immense responsibility we have to support critical industries around the world: life sciences, water, food and beverage, power and energy, the cold chain, and indoor air comfort and quality, just to name a few. In my two decades as CEO, never has a single external shock had such far-reaching and lasting effects on the world – and never have I been prouder of our company’s ability to meet and overcome the toughest of challenges.

My core leadership team, the Office of the Chief Executive and 20 additional leaders, remained in our offices every day throughout the challenging and dynamic days of the spring and summer. Our priorities were to keep our 83,500 employees safe, ensure business continuity and serve customers in essential industries with our critical technologies and services. We stressed and tested every aspect of the Emerson Enterprise Risk Process and it stood up well. The global supply chain and regionalization strategy we had put in place long before the pandemic began ensured we were prepared to sustain our business, enact the appropriate safety measures for each region, and pivot quickly and efficiently to meet our customers’ needs. We shifted manufacturing facilities to enable development of critical medical devices and personal protective equipment. We protected the integrity of testing kits with our cold chain technology. And we innovated technologies that helped our customers adapt to social distancing guidelines and operate efficiently at lower capacities.



**Supporting Our Communities through the Pandemic**

Families around the world have been impacted by the uncertainty and upheaval surrounding COVID-19, and we moved quickly in the first 30 days of the crisis. To strengthen our hometown community, we provided financial support to address food, housing, health care, mental health, senior care and child care needs in our headquarters location of St. Louis.

.....



## \$2.55B

Free Cash Flow

## \$2.15B

Returned to Shareholders

## \$1.7B+

Strategic Acquisitions\*

\*Open Systems International, Inc. closed on October 1, 2020.

I am tremendously proud of how Emerson employees stood up to help the world and each other through this pivotal time. For additional color on some of these remarkable efforts, please see pages 8-9.

Amid the evolving market dynamics and uncertainties, we quickly shifted and accelerated our cost containment and restructuring actions to address the new demand environment. And, thanks to our disciplined management process, we continue to deliver strong and consistent performance even in the most challenging of conditions, marking in 2020 our 64th year of consecutive increased dividends. We returned \$2.15 billion to our shareholders in 2020 and invested over \$1.7 billion in strategic acquisitions for the future prosperity of Emerson.

Our ability to adapt and rise to the call of our customers reflects a core dedication to leave the world in a better place than we found it. It's this purpose-focused mindset that drives us to achieve our full potential. In January of 2020, before COVID-19 hit, we started the process to define Emerson's purpose and reimagine the causes we work toward every day. Guided by input from more than 17,000 employees around the world, we aligned on our **Purpose: We drive innovation that makes the world healthier, safer, smarter and more sustainable.** This report is structured around those four focus areas, and it includes more information about what this purpose means to us and how we strive toward living it every

### ONE-YEAR PERFORMANCE

Years ended September 30 Dollars in millions, except per share amounts	2019	2020	PERCENT CHANGE
Sales	\$18,372	\$16,785	(9)%
Gross profit	\$ 7,815	\$ 7,009	(10)%
Adjusted EBIT	\$ 3,128	\$ 2,808	(10)%
Adjusted EBITDA	\$ 3,950	\$ 3,662	(7)%
Adjusted net earnings	\$ 2,291	\$ 2,103	(8)%
Adjusted earnings per share	\$ 3.69	\$ 3.46	(6)%
Dividends per share	\$ 1.96	\$ 2.00	2%
Operating cash flow	\$ 3,006	\$ 3,083	3%
Free cash flow	\$ 2,412	\$ 2,545	6%
Dividends as a percent of free cash flow	50%	48%	

Adjusted EBIT, EBITDA, net earnings and earnings per share exclude restructuring costs and special advisory fees of \$3.17 (\$257 after-tax; \$0.42 per share) and \$95 (\$72 after-tax; \$0.12 per share) in 2020 and 2019, respectively. Adjusted net earnings and earnings per share also exclude discrete tax benefits of \$119 (\$0.20 per share) and \$87 (\$0.14 per share) in 2020 and 2019, respectively.

### THREE-YEAR PERFORMANCE

Years ended September 30 Dollars in millions, except per share amounts	2017*	2020	THREE-YEAR CACR
Sales	\$15,264	\$16,785	3%
Gross profit	\$ 6,404	\$ 7,009	3%
Adjusted EBIT	\$ 2,671	\$ 2,808	2%
Adjusted EBITDA	\$ 3,307	\$ 3,662	3%
Adjusted net earnings	\$ 1,714	\$ 2,103	7%
Adjusted earnings per share	\$ 2.65	\$ 3.46	9%
Dividends per share	\$ 1.92	\$ 2.00	1%
Operating cash flow	\$ 2,690	\$ 3,083	5%
Free cash flow	\$ 2,214	\$ 2,545	5%
Dividends as a percent of free cash flow	56%	48%	

\*2017 results are presented on a continuing operations basis.

Adjusted EBIT, EBITDA, net earnings and earnings per share exclude restructuring costs and special advisory fees of \$3.17 (\$257 after-tax; \$0.42 per share) and \$78 (\$53 after-tax; \$0.08 per share) in 2020 and 2017, respectively, and valves and controls first year acquisition accounting charges of \$93 (\$65 after-tax; \$0.10 per share) in 2017. Adjusted net earnings and earnings per share also exclude discrete tax benefits of \$119 (\$0.20 per share) and \$47 (\$0.07 per share) in 2020 and 2017, respectively.



single day. Derived from this Purpose, our new set of Causes speaks to our commitment to responsibly steward our customers, employees and communities in everything we do.

Our people are our most valuable asset and source for sustained success. And as a global technology organization, we've seen firsthand the energy and innovation that come from encouraging and honoring diverse perspectives and backgrounds. Tragic events of the past year brought into clear view the inequities that exist in our society. Let me be clear – there is no place for racism or discrimination of any form at Emerson or in any modern business community. We remain committed to efforts aimed at continuous improvement in fostering a culture of diversity and inclusion at every level of our organization. Our leadership team continues to work in close partnership with our Blacks Reinforcing Diversity Employee Resource Group, as well as our Women in STEM, Veterans, LGBTQ+ Allies and Somos (Latin and Hispanic) employee resource groups, to identify ways to improve diversity, create opportunity and efforts to ensure our workforce reflects the industries and world we serve.

We also continue to emphasize and advance our strategy and dialogue around environmental, social and governance (ESG) issues. We are committed to ensuring our business practices are sustainable in every sense of the word, and we recognize our integral role in enabling customers and suppliers to do the same. At our core, Emerson is all about sensing, measurement, control, data management and optimization. We are dedicated to leading the industry in more efficient solutions and developing technologies that enable a better, cleaner future. We are focused on helping customers navigate regulatory changes and technical complexity in their work to manage resources and care for customers, employees, communities and the planet. This has been a key aspect of Emerson's DNA for a long time – at least the last 40 years in which I've been a part of this organization.

Our commitment to a better future – leading through all market conditions, ensuring business continuity and driving long-term sustainability – is something we are passionate about for Emerson and our customers. The accelerated growth and adoption of technology over the past two decades has transformed the ways Emerson and our industries operate. Simply stated, the events of 2020 have catapulted digital transformation technologies from basic measurement, monitoring, control, data management and optimization opportunities into critical investments for sustaining and future-proofing businesses.

### Our Purpose

We drive innovation that makes the world healthier, safer, smarter and more sustainable

### Our Causes

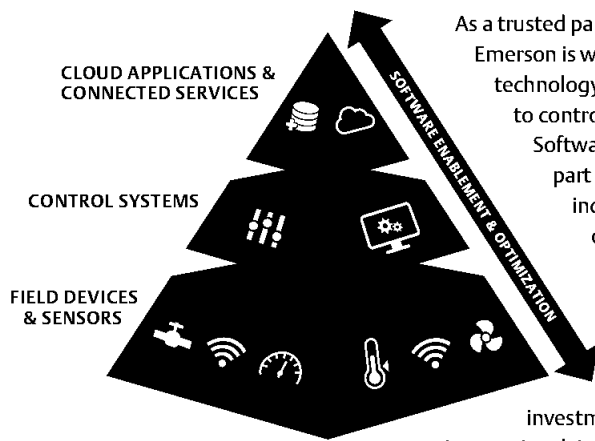


Planet



### Our Values

Integrity, Collaboration, Safety & Quality, Continuous Improvement, Customer Focus, Innovation, Support Our People



As a trusted partner to our diverse industry customers around the world, Emerson is well-positioned to provide solutions up and down the technology value pyramid – from devices, instruments and sensors, to control systems, to data management, analytics and services. Software enables each of these critical value layers. In fact, as part of our ongoing work to guide customers through their individual digital transformation journeys, we are reinforcing our commitment to software as a key value driver with our \$2.4 billion software-enabled innovation portfolio. These solutions, rich with opportunities for growth, consist of organic innovation and development efforts as well as acquisitions that broaden and complement Emerson’s unique, scalable offerings. In 2020, our investment strategy included acquisitions such as Open Systems International, Inc. (OSI Inc.), strengthening our ability to help customers incorporate renewable energy sources and improve energy efficiency and reliability; Verdant, broadening our energy management and optimization capabilities for multifamily residential and commercial applications; American Governor Company, building our technology capabilities and expertise in the renewable hydroelectric power industry; and Progea Group, expanding our robust embedded software and control portfolio for manufacturing, infrastructure and building automation applications. We are excited to welcome this new expertise and talent to the Emerson family and to further develop and scale these technologies across even more industries and customers.



**Partnering to Help Grow Emerson’s Software Expertise and Infrastructure**

We’re continuing to build our technology capabilities by cultivating our partnerships with Microsoft for key cloud infrastructure, with Dragos for robust cybersecurity solutions and with AspenTech for digital twin and analytics solutions.

.....

In addition to strategic acquisitions, Emerson remains committed to both organic product and technology development as well as partnerships. We’re continuing to build our technology capabilities by cultivating our partnerships with Microsoft for key cloud infrastructure, with Dragos for robust cybersecurity solutions and with AspenTech for digital twin and analytics solutions. In 2020, we expanded our collaboration with Mitsubishi Hitachi Power Systems Americas (MHPS) to develop solutions that drive operational excellence and create cleaner, more reliable power. These valued partners strengthen our overall offering to customers, enabling optimized operations, improved performance and protected assets.

As we build our software and other capabilities, we are also helping customers prepare for another significant change. Industries across the globe are grappling with the effects of a skills shortage resulting from a trifecta of challenges: retiring workers, a smaller skilled labor pool and a shift in required expertise from high-tech operations. We are committed



to advancing technologies that prepare the workforce of the future. Tools such as our digital twin solutions are allowing operators to be trained through dynamic high fidelity simulations that do not affect the current running processes. This year, I am pleased that our digital twin and Industrial Internet of Things technologies were selected by one of the largest refineries in India to support workforce upskilling, process optimization and plant safety. This is one of many examples of our growing digital twin installed base, which now comprises more than 4,000 systems deployed across the globe.

We are also advancing education at the professional level through a new innovation center in Boulder, Colorado, that focuses on industry training, research and new product development for our flow measurement technologies. This \$100 million investment will create 250 new jobs in Colorado and is the latest example of our commitment to customer-driven innovation and high-tech manufacturing, as well as to attracting the best and brightest talent to work for Emerson.

Our progress this year would not have been possible without the work and commitment of our experienced Board of Directors, who remained dedicated to Emerson's success throughout even the most challenging moments. I want to extend a special welcome to our newest board member, W. H. "Bill" Easter III, who was elected in October. Bill will bring a wealth of business acumen and wisdom to our ranks. On behalf of the Board and the full team at Emerson, we thank you, our shareholders, for your continued support and trust. We remain committed to creating long-term value for you every day, as we work to make the world healthier, safer, smarter and more sustainable.

As I finish my 20th year as the leader of Emerson, I am exceptionally proud of this global organization that has driven Emerson to extraordinary performance and has returned over \$36 billion in cash to our shareholders during this 20-year period.

I am certainly eager for the day when we can all see each other again, face-to-face. Until that time, please be safe and stay well.

**David N. Farr**  
*Chairman and Chief Executive Officer*



### Advancing STEM Education in Schools

Through our "We Love STEM" initiative, Emerson partners with industry and academic organizations to build a greater pipeline of talent and grow students' appreciation of science, technology, engineering and math (STEM). As schools confronted new remote learning formats in the fall, we delivered more than 7,000 STEM activity kits to elementary and middle schools in our St. Louis headquarters community, providing students with hands-on learning opportunities.

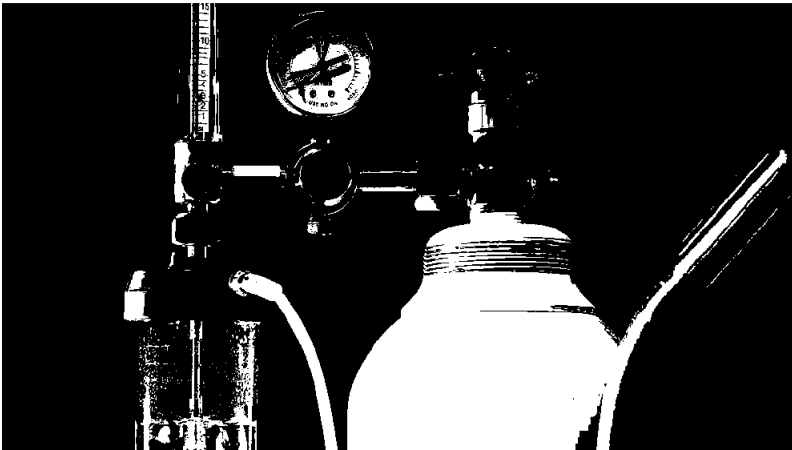
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Emerson's history is defined by proactive leadership and a drive to protect our employees, communities, customers and industries. We take seriously the key role we have in supporting essential workers in life sciences, food and beverage, chemical, power, energy and other industries critical to modern life.

As the COVID-19 pandemic devastated communities, challenged front-line workers and created uncertainty in our global economies, Emerson remained steadfast in our commitment to help the world through this difficult time. We immediately took steps to protect our 83,500 employees across the globe by following guidelines from global health experts. And we implemented stringent protocols to help ensure the health and safety of employees working in essential facilities.

Through collaboration, innovation and strength of resolve, we came together to ensure business continuity, combat the COVID-19 crisis and keep essential infrastructure operating – from power plants bringing electricity to hospitals and homes, to cold chain solutions safeguarding food for our families, to technology protecting the temperature-sensitive medications that keep us healthy.

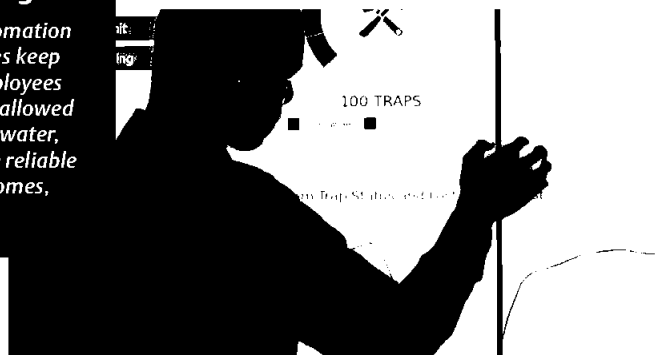


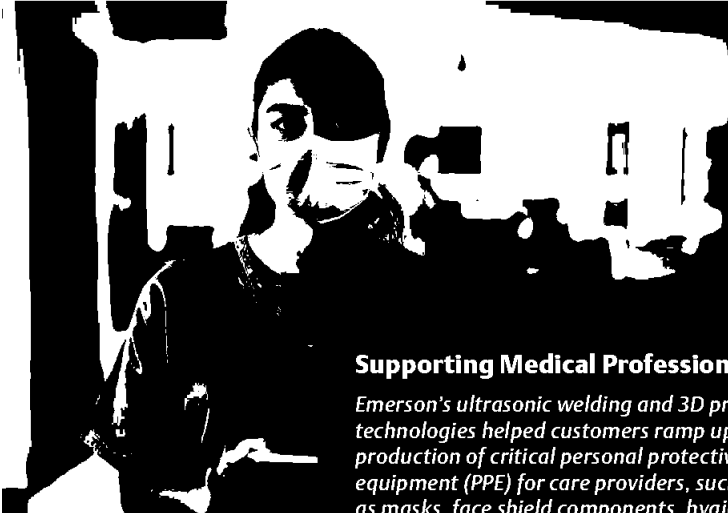
### Meeting Critical Needs for Patient Care

*We prioritized production of valves, filters and regulator technologies to meet the growing need for medical devices in hospitals and health care facilities. Our valves, for example, powered sterilizers, oxygen therapy and supply devices, and hematology equipment in hospitals and triage centers.*

### Enabling Social Distancing

*Our remote servicing and automation technologies helped companies keep facilities operational with employees working from a distance. This allowed essential industries, including water, power and energy, to preserve reliable electricity and safe water in homes, hospitals and businesses.*





### Supporting Medical Professionals

*Emerson's ultrasonic welding and 3D printing technologies helped customers ramp up production of critical personal protective equipment (PPE) for care providers, such as masks, face shield components, hygiene gowns and filter media.*



### Advancing the Race to a Vaccine

*Our DeltaV distributed control system and technologies helped biotech and pharmaceutical manufacturers produce COVID-19 vaccine clinical trial materials and expand manufacturing to quickly and safely advance therapies through the trial process and prepare for large-scale production and distribution.*

### Developing Vital Resources

*Our advanced compressors and control technologies helped "pop-up" emergency facilities and testing sites maintain temperature, humidity and filtration requirements for environmental control and medication storage. Our Copeland compressors and condensing units helped manufacturers quickly adapt production lines to develop critical supplies, including temperature-sensitive COVID-19 test kits. And we protected the integrity of such equipment through transport with Emerson's temperature and location monitoring technologies.*






”  
As a global company with broad market reach, a strong foundation of governance allows us to keep up with the challenging pace of change across the industries we serve. We are focused on being transparent, consistent and fair — especially as we navigate important issues and opportunities in these changing times. Our goal is always to serve Emerson’s many stakeholders, while protecting our assets and people.

**Sara Yang Bosco**  
*Senior Vice President, Secretary and General Counsel*

”  
Emerson’s rigorous management process fosters a culture that is inherently focused on driving financial performance. We strive to improve profitability and cash generation through all economic conditions. As a result, we have the flexibility to make balanced capital allocation decisions that both invest in Emerson’s future and provide attractive cash returns to share owners. We are proud of our record of increasing dividends for 64 consecutive years through good and difficult times, including the COVID-19 crisis our world is battling now.



**Frank J. Dellaquila**  
*Senior Executive Vice President, Chief Financial Officer*



”  
Our customers value a trusted partner they can constantly rely on, with a legacy of excellent operational performance and efficient supply chain to help them navigate ever-evolving market demands. Emerson’s operational strength has truly shone this year, especially as we’ve diligently served essential industries and supported customers during the COVID-19 pandemic.

**Steven J. Pelch**  
*Executive Vice President, Chief Operating Officer*

”  
Emerson’s drive to recognize and anticipate industry direction is part of our disciplined approach to value creation. We aim to understand customer preferences and evaluate macro trends when building strategy, developing projects and identifying potential investments. All of this is made possible with the help of our successful ecosystem of partnerships and acquisitions, which complement our technology capabilities, infrastructure and analytics to provide a unique competitive advantage.

**Mark J. Bulanda**  
*Senior Vice President, Planning and Development*





”

As global leaders, we collaborate with our partners and customers to navigate complex challenges facing society and our environment. We help them operate more efficiently, reduce emissions, protect resources and support communities where we all work and live. We step up when the unexpected happens, such as jumping into action to maintain the resilience of critical infrastructure supply chains and essential services. Our capabilities add both short- and long-term value to our customers and industries, something that was particularly important as COVID-19 swept the globe.



**Michael H. Train**  
*President*



”

Emerson’s distinctive Purpose is beyond business; it’s about making a positive impact on society. It promises to energize employees, support customer loyalty and deliver long-term value to our investors. Our ESG focus is embedded here as we drive innovation to make the world healthier, safer, smarter and more sustainable.

**Katherine Button Bell**  
*Senior Vice President, Chief Marketing Officer*

”

We deliver practical, innovative approaches to challenges and opportunities across the commercial and residential markets. Our tools, home product offerings, cold chain technologies and environmentally responsible comfort solutions help customers be more productive, improve efficiency, reduce emissions, safeguard the world’s food supply and conserve vital resources amid a fast-evolving regulatory landscape.



**James (Jamie) Froedge**  
*Executive President,  
Commercial & Residential Solutions*

”

Many of our customers have actively considered embarking on a digital transformation journey for years. The COVID-19 pandemic created a new urgency, accelerating automation as industries quickly pivoted to continue meeting needs with a reduced and distanced workforce. Our teams have decades of experience in digital transformation and are adept at demonstrating real return on investment and value to customers. When our customers needed to optimize operations, enhance productivity and achieve unprecedented levels of safety this year, our digital innovation and deep domain expertise empowered us to help.



**S. Lal Karsanbhai**  
*Executive President, Automation Solutions*



## Evaluating Strategy and Identifying Risks

Emerson Lead Independent Director Dr. Clemens A. H. Boersig provides insight on the Board's important role in governance.

***Emerson added Bill Easter as a Board member this year. How will his addition continue to ensure the Board successfully drives strategy?***

We serve at our best when we leverage our collective knowledge, which is why Emerson works hard to ensure the Board is a diverse group with deep expertise, not only in their respective industries but also in perspective. We were pleased this year to welcome Bill Easter, retired chairman, president and chief executive officer of DCP Midstream, LLC. He will bring 35 years of industrial leadership and acumen to the Board, as well as his own unique experiences and perspectives.

***Emerson has made several acquisitions in the last year. What is the Board's role in evaluating risks and optimizing and managing the business portfolio?***

One of the Board's roles is to help Emerson review opportunities for investment and manage risk, which is especially important to ensure the company's business mix is optimized for future growth and cash generation for shareholders. Emerson and the Board are very active in managing the business portfolio; this includes employing a thorough, yearly Emerson Enterprise Risk Process, overseen by the audit committee, to set strategy and identify the most important financial and operational opportunities and threats facing the company. Ultimately, this planning process helps us adapt to short-term changes in the business environment, act on macro trends and identify how an investment would fit into Emerson's business strategy.

***What is the Board's role in the upcoming CEO succession planning process and in developing and evaluating the next generation of Emerson's leadership team?***

The Board is very involved in CEO succession management, actively managing the evaluation and selection of Emerson's next chief executive. We also play an ongoing role in nurturing the entire leadership team and ensuring the right people and plans are in place to serve Emerson's customers and shareholders. Emerson has a deep bench of leaders, and we are intentional when it comes to developing this next generation, meeting with them personally to foster relationships and regularly inviting them to discuss plans with the Board. Ensuring alignment of stakeholders is also something we discuss regularly as a part of leader development and engagement. For example, this year the Board decided to add a relative total shareholder return modifier to Emerson's long-term incentive structure in order to ensure shareholder return remains top of mind for Emerson's leaders.

***What has made you most proud to serve on Emerson's Board in 2020?***

Emerson's role and success in supporting essential businesses during the COVID-19 pandemic. It was gratifying to see the company's adaptability in action as Emerson stepped up to lead its industries and support customers and employees through a difficult time.



Mark A. Blinn



William H. Easter III



Candace Kendle



Clemens A. H. Boersig



David N. Farr



Lori M. Lee



Joshua B. Bolten



Gloria A. Flach



Matthew S. Levatich



Martin S. Craighead



Arthur F. Golden

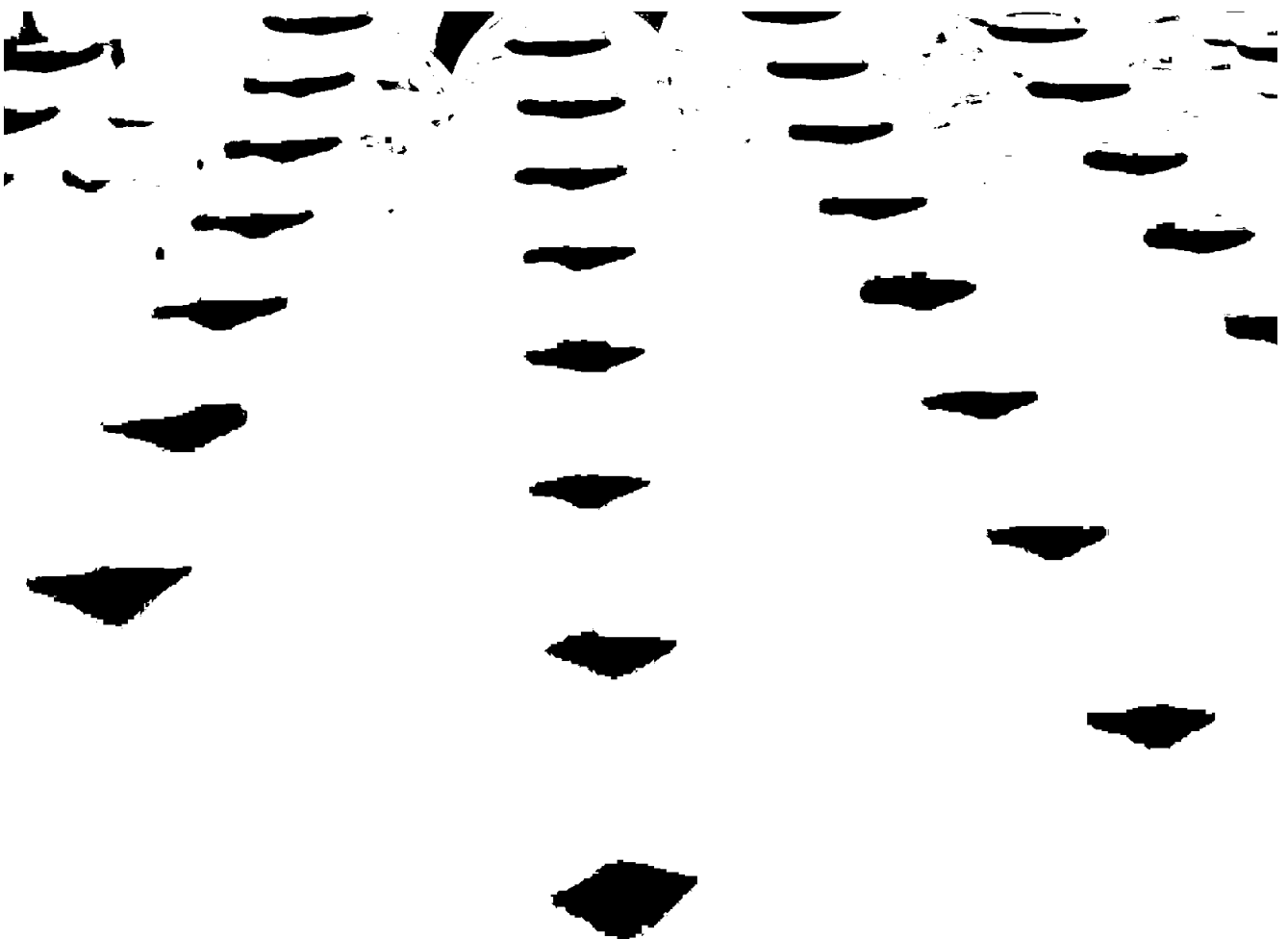


James S. Turley



# Healthier

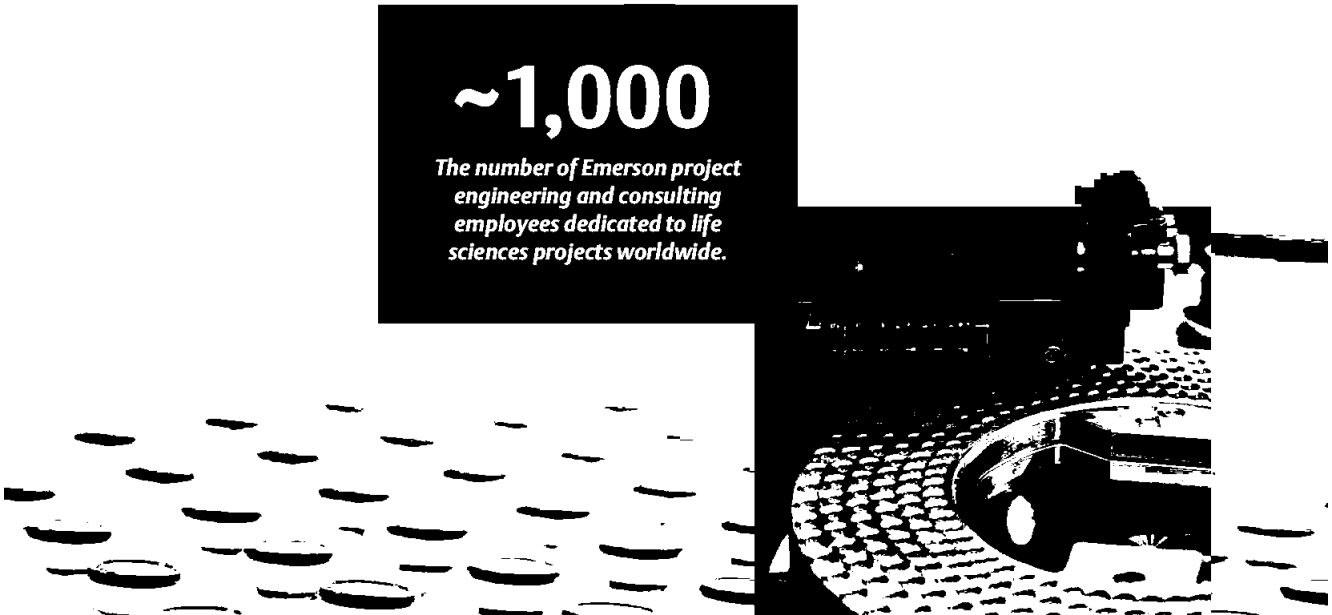
We believe that health is vital to human advancement. Emerson's expertise and technologies in life sciences, food and beverage, the cold chain and environmentally responsible home comfort are helping make it more possible than ever for people to live comfortable and health-conscious lives.





**~1,000**

*The number of Emerson project engineering and consulting employees dedicated to life sciences projects worldwide.*



### **Advancing Critical Medicine**

*Our automation expertise and technology are helping life sciences and medical device manufacturers maintain safety and quality, get life-saving medications and equipment to market faster and increase production for the patients relying on their care. With 30 locations and nearly 1,000 project engineering and consulting employees dedicated to active life sciences projects around the world, Emerson has the automation industry's largest dedicated life sciences engineering and consulting organization. We're helping customers produce therapies for everything from diabetes and cancer to potential COVID-19 vaccines. We have more than 3,000 installed systems in life science sites globally, including at all the top 20 science and pharmaceutical manufacturing companies. A leading biologics manufacturer, for example, has been able to increase production, reduce downtime and save nearly \$6 million per year using our integrated approach to automation and advanced software.*

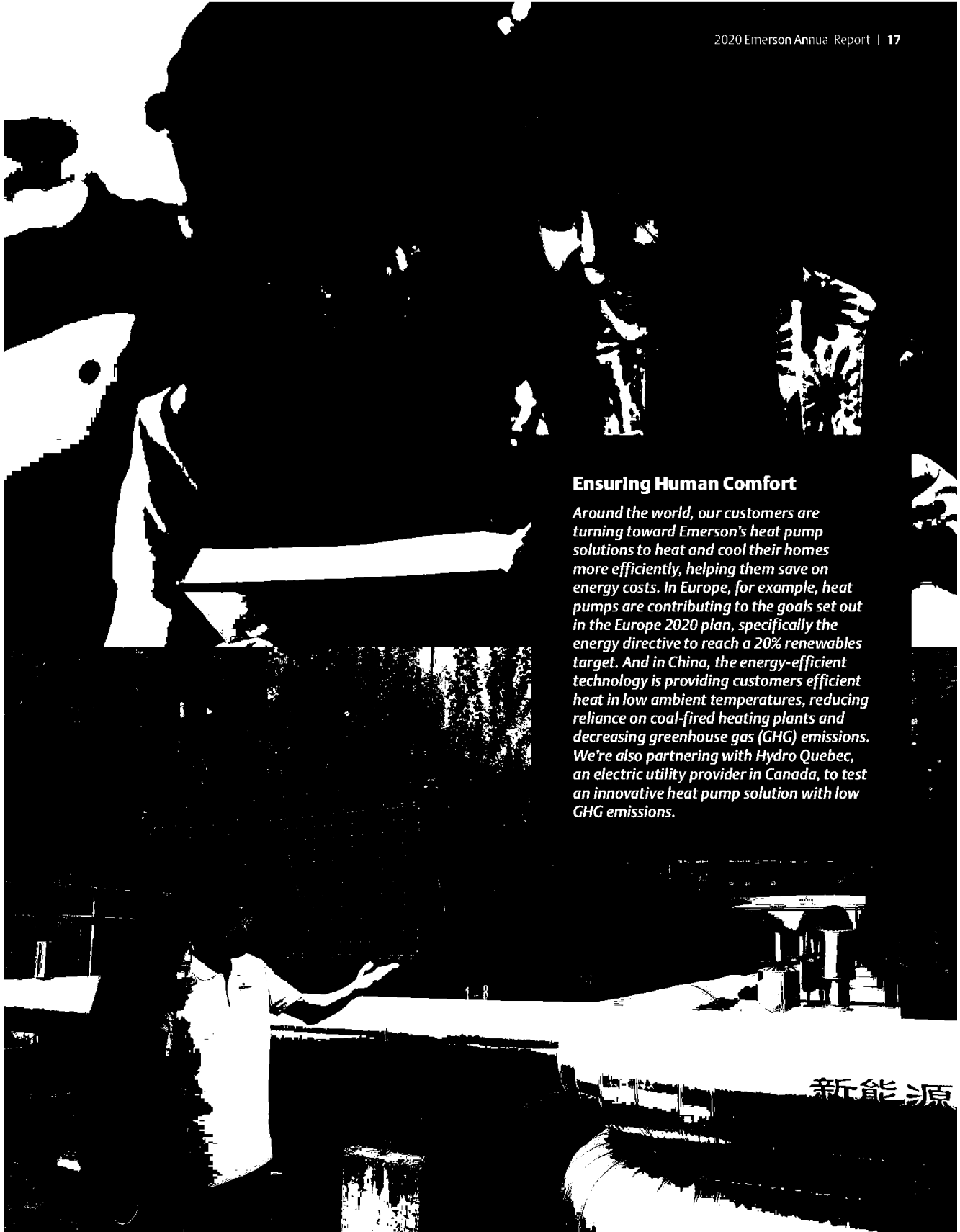


16 | 2020 Emerson Annual Report

### Reducing Food Waste

*An estimated 30% of food is wasted along the supply chain, according to the UN Food and Agriculture Organization. Our cold chain technology helps customers keep perishable food at proper temperatures. Emerson's end-to-end data, services and expertise are unlocking valuable insights and empowering visibility across the complete cold chain to ensure food quality, extend the life of perishable goods and reduce waste from farm to fork.*

*In addition, our Vilter carbon dioxide compressors, which use carbon dioxide as a refrigerant with low global warming potential (GWP), are helping customers control storage temperatures sustainably by meeting high-capacity needs with high performance, efficiency and lowered ammonia charge.*



2020 Emerson Annual Report | 17

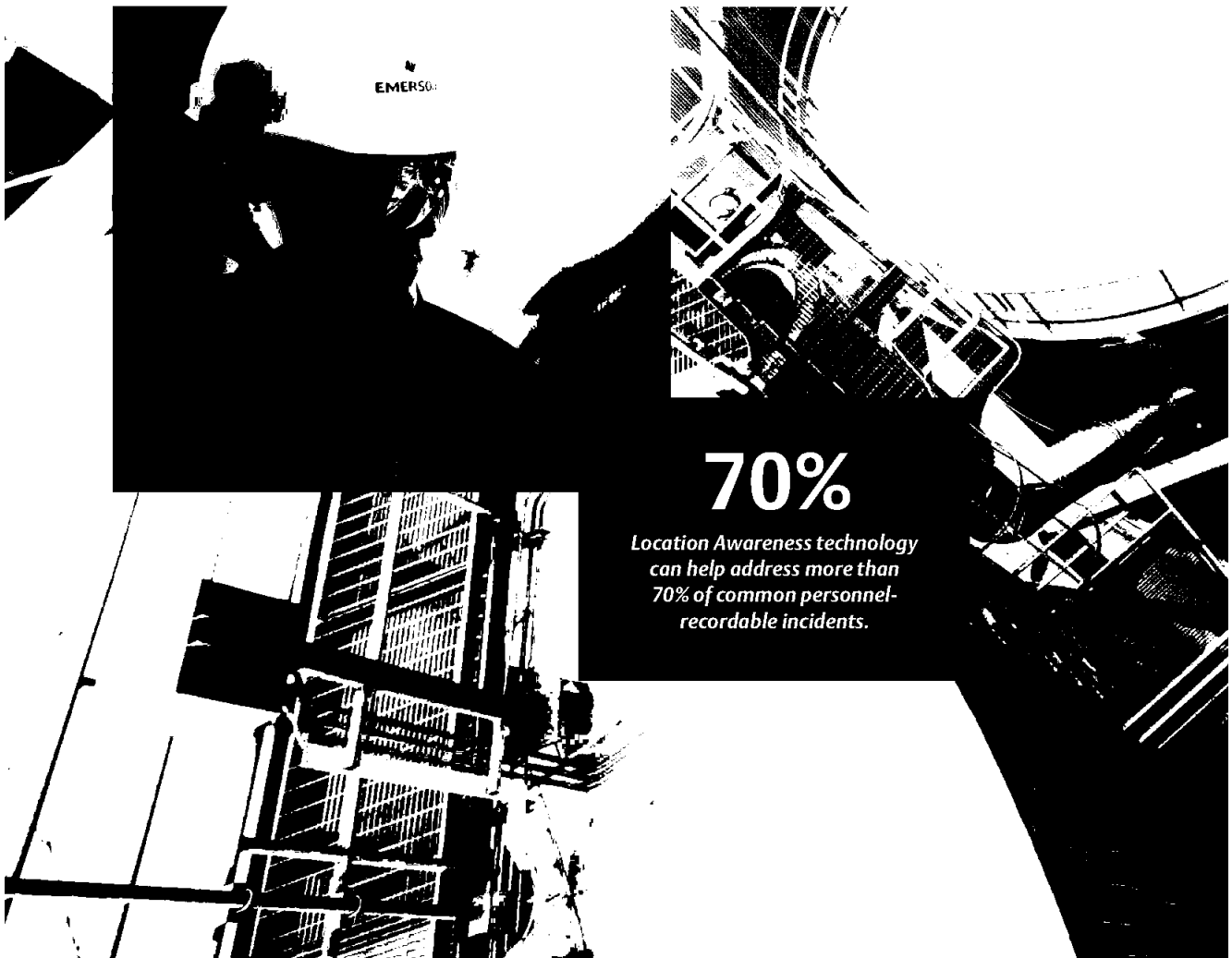
### **Ensuring Human Comfort**

*Around the world, our customers are turning toward Emerson's heat pump solutions to heat and cool their homes more efficiently, helping them save on energy costs. In Europe, for example, heat pumps are contributing to the goals set out in the Europe 2020 plan, specifically the energy directive to reach a 20% renewables target. And in China, the energy-efficient technology is providing customers efficient heat in low ambient temperatures, reducing reliance on coal-fired heating plants and decreasing greenhouse gas (GHG) emissions. We're also partnering with Hydro Quebec, an electric utility provider in Canada, to test an innovative heat pump solution with low GHG emissions.*



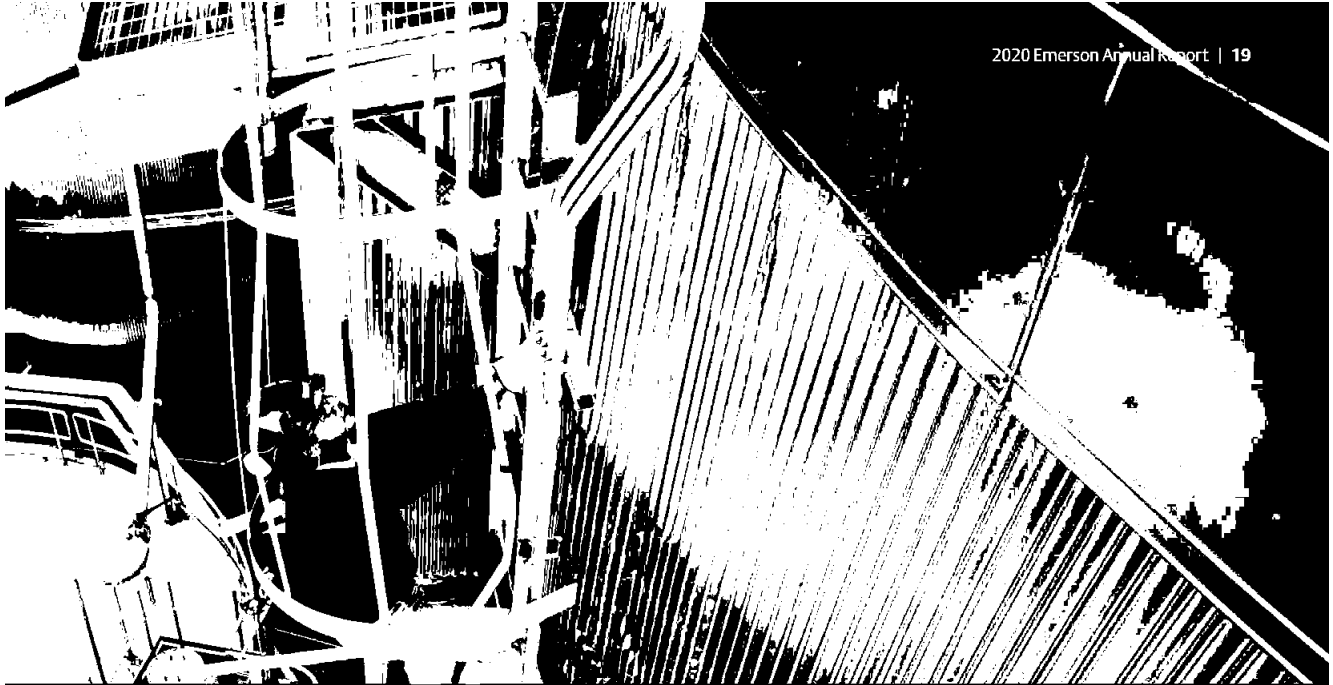
# Safer

Our customers operate in the world's most critical industries, where employee and customer safety are paramount. With deep experience and a broad portfolio of safety and security solutions, Emerson is helping customers reduce risk, protect employees and communities, and operate with increased reliability and certainty.



**70%**

*Location Awareness technology can help address more than 70% of common personnel-recordable incidents.*

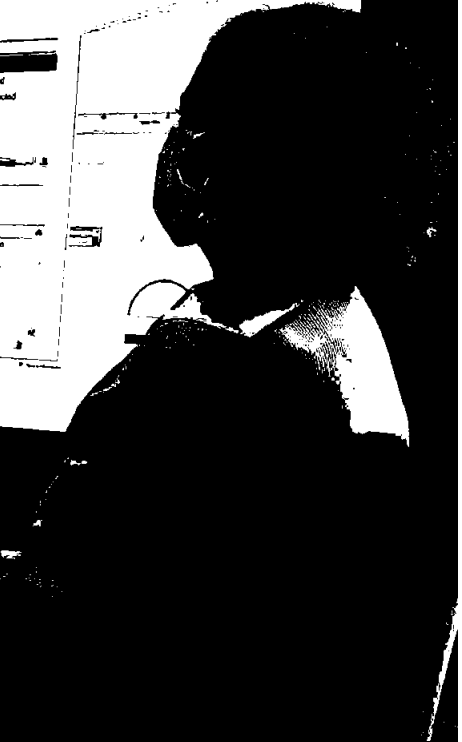
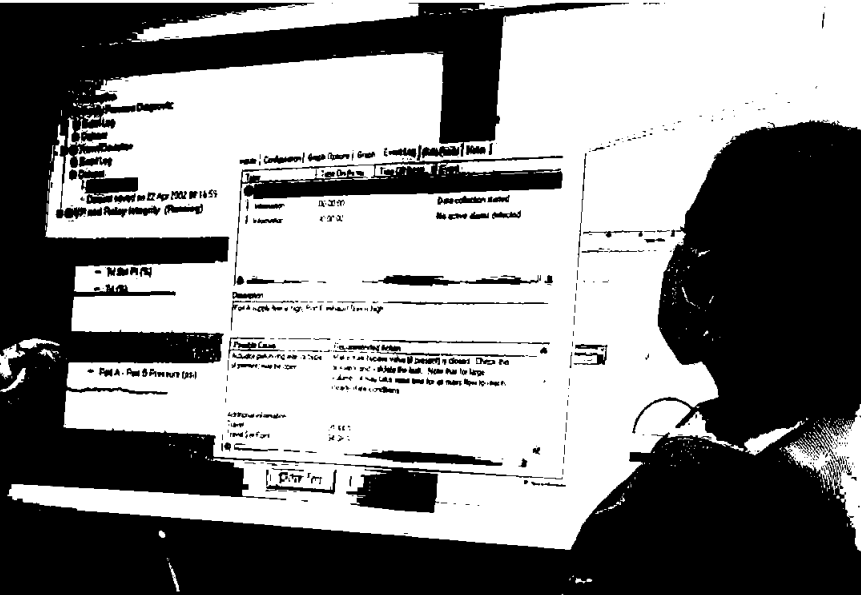


2020 Emerson Annual Report | 19

### Protecting Industry Workers

*Emerson's location tracking solution helps our customers monitor worker safety in real time. Our Location Awareness technology uses WirelessHART® networks, a secure standard adopted in industrial plants worldwide, along with battery-powered anchors and rechargeable personnel location tags. This enables enhanced geofencing and monitoring, improved safety mustering and more effective safety alerts. And, this year, we enhanced this offering to include social density management and contact tracing to protect employee health and help essential industries safely continue operations while social distancing.*





### Enabling Remote Work

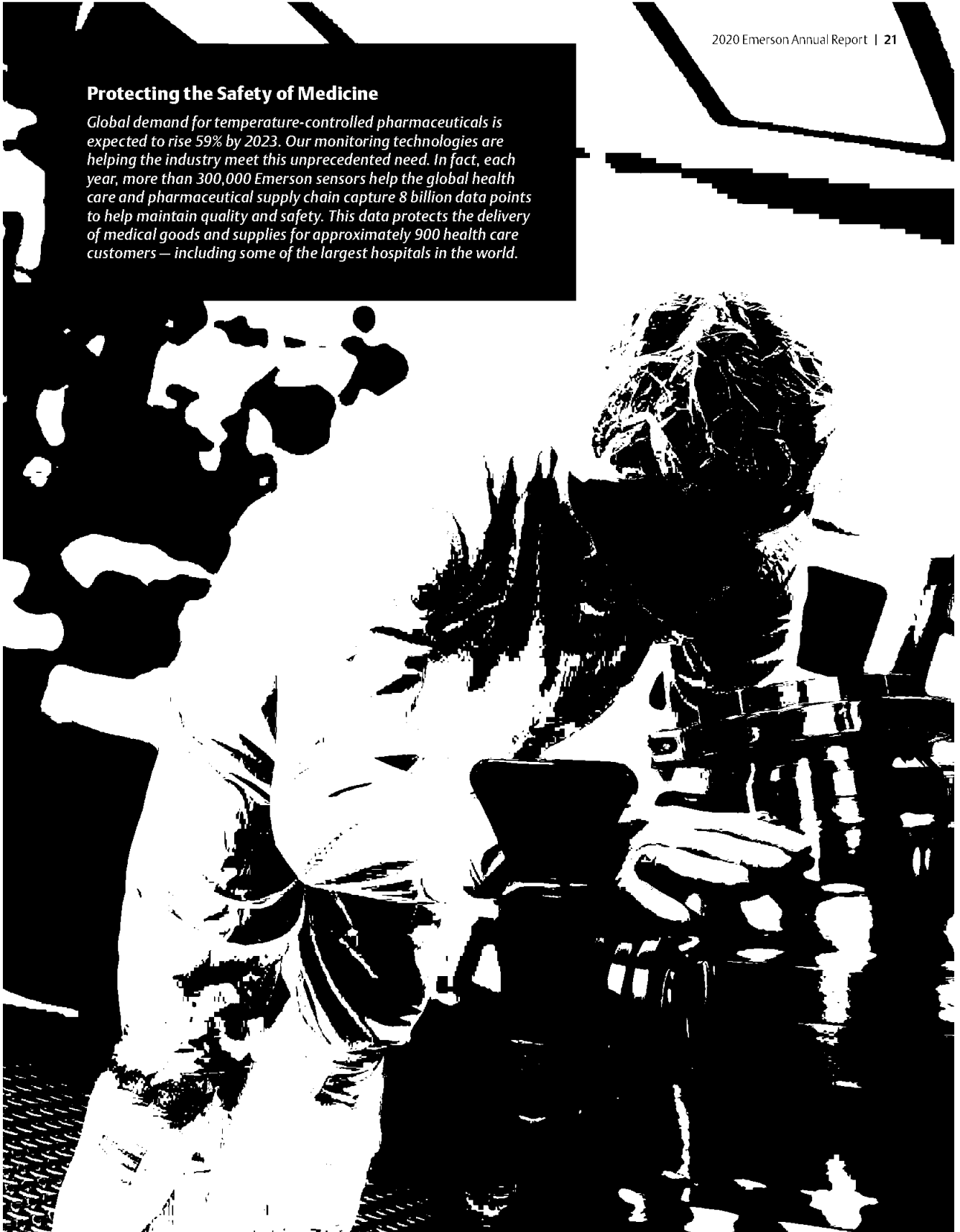
*Our Plantweb™ Optics asset performance platform leverages artificial intelligence, machine learning analytics and data contextualization to provide visibility into plant reliability and operational performance from anywhere in the world. This year, we expanded the platform with augmented reality (AR) technology, enhancing access to real-time diagnostics, analytics and remote assistance for industrial plant workers responsible for maintaining and optimizing plant equipment. This enhancement is helping workers continue to monitor asset health and improve productivity, collaboration and operational performance from safer locations, instead of a potentially hazardous or remote plant environment.*





### Protecting the Safety of Medicine

*Global demand for temperature-controlled pharmaceuticals is expected to rise 59% by 2023. Our monitoring technologies are helping the industry meet this unprecedented need. In fact, each year, more than 300,000 Emerson sensors help the global health care and pharmaceutical supply chain capture 8 billion data points to help maintain quality and safety. This data protects the delivery of medical goods and supplies for approximately 900 health care customers — including some of the largest hospitals in the world.*





# Smarter

Our advanced technologies have transformed the ways our customers operate, empowering improvements in efficiency, productivity, reliability and profitability. Emerson customers have a trusted partner to help navigate the digital transformation journey and implement solutions with a real ROI that drives their businesses forward.





### Empowering Bold & Disruptive Innovation

*We're strengthening our \$2.4 billion software portfolio to drive new solutions for customers that help them generate value. Through organic development, partnerships and acquisitions, these software capabilities are helping customers digitally transform their operations and implement data management and control architectures that provide and implement insights based on data from devices, instruments and sensors.*

*At our Helix Innovation Center, a 40,000-square-foot facility in Dayton, Ohio, we provide a collaborative environment for researchers, academia and industry professionals to develop solutions to industry challenges. The Helix includes a fully functional smart home to test ambient temperature control and solar heating, a licensed high density commercial kitchen to test connected concepts and controls as well as Grind2Energy technology, and a retail center to test and optimize our food safety, lighting and HVAC solutions for supermarkets.*



### Safeguarding Data & Information

*Cybersecurity is an integral part of any conversation about digital transformation, and more relevant now than ever with the increase of remote working. We're helping customers leverage Industrial Internet of Things technologies that prevent exposure to cyber incidents and empower workers with the knowledge, behaviors and tools they need to reduce threats. With our expertise and technologies, customers are building and applying robust defensive strategies to ward off attackers and stay in control of their facilities.*



2020 Emerson Annual Report

### **Transforming Maintenance & Remote Monitoring**

*Our customers are relying on digital solutions and proactive strategies to reach increasing plant production goals and fill a growing shortage of skilled workers. Emerson's portfolio of products, including valve condition monitoring and maintenance tools, provides actionable data and expertise that help customers reduce downtime and ensure valves and other equipment are operating as expected.*

*To help provide better tools for maintenance – especially challenging for facilities with thousands of devices – our secure, scalable MyEmerson ecosystem keeps a digital installed base record of devices at a plant and provides a single record of their location, specifications, product instructions, maintenance history and spare parts, allowing facility planners and technicians to make faster decisions and work more efficiently – whether onsite or remote.*



# More Sustainable

We have a pivotal role to play in the global effort to activate sustainable business practices and manage resources efficiently. In addition to our internal sustainability efforts, Emerson technologies and expertise are helping customers achieve sustainability targets, fulfill environmental regulations and implement responsible solutions.





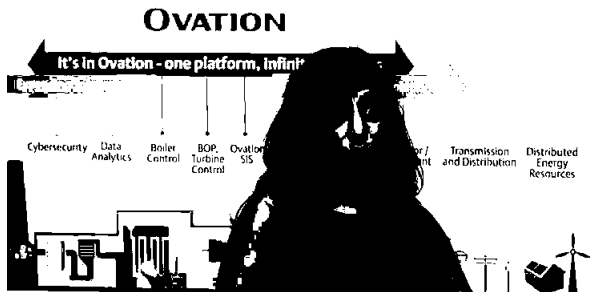
### Enabling Carbon Capture

*Carbon capture utilization and storage (CCUS) processes allow industrial facilities to reduce carbon dioxide emissions – and our DeltaV technologies, valves and instrumentation are helping companies seamlessly make this a reality. The Abu Dhabi National Oil Company (ADNOC), for example, is using Emerson technologies in its Al Reyadah facility, the world's first fully commercial CO<sub>2</sub> capture facility from the iron and steel industry, and the first commercial scale carbon capture plant in the Middle East. The facility is critical to achieving ADNOC's sustainability goals, and it captures the CO<sub>2</sub> equivalent of 1 million acres of forest.*





tion and Technology Strategy



Comprehensive Solutions for Combined Cycle Plants

- Steam Turbine & Generator Control
  - Steam turbine control
  - Rotor stress
  - Machinery health monitoring
  - Automatic voltage regulation
  - Turbine mechanical retrofits
- Operator interface
- Engineering & development
- Cybersecurity
- Dispatch
- Unit & plant performance
- Plant optimization
- Simulation

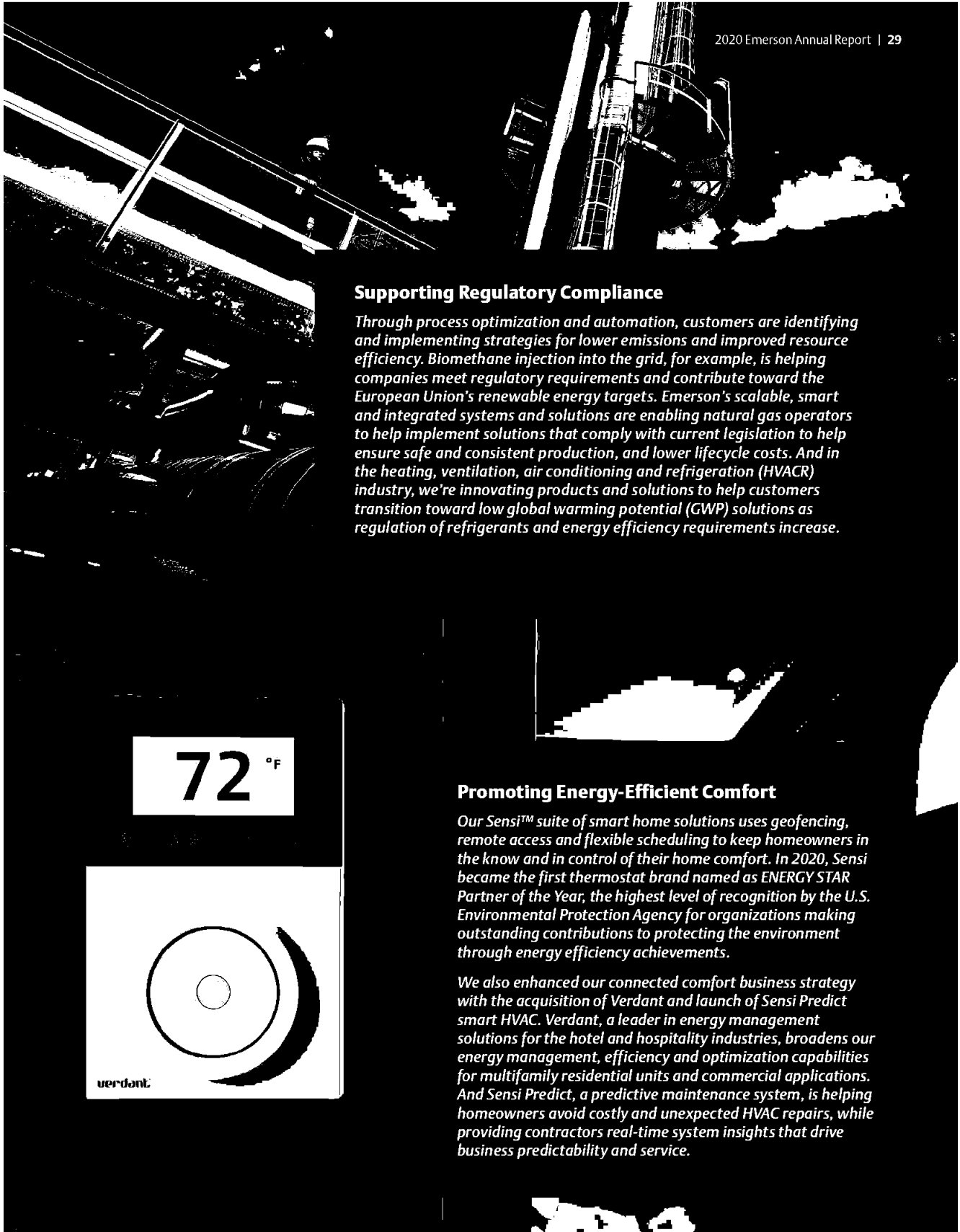
- HRSG
- Ducl
- Water
- Swit

- Gas t
- Mach
- tator

**Advancing Cleaner Power & Energy**

*Our robust software is promoting sustainability in the global power industry. Acquisitions we made this year are broadening our capabilities in this area, including American Governor, a leader in hydroelectric turbine controls that enable utilities to provide reliable power highly responsive to the dynamic needs of the electrical grid. Open Systems International, Inc., which we acquired in the fall, is a leading operations technology software provider helping the power industry transform and digitize operations to incorporate renewable energy sources. In addition, our expanded partnership with Mitsubishi Hitachi Power Systems Americas, a leading global provider of power generation and energy storage solutions, is helping drive the next generation of power plants with digital solutions that increase efficiencies, reduce carbon emissions, strengthen reliability and lower maintenance costs.*



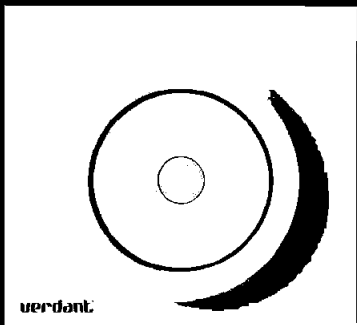


2020 Emerson Annual Report | 29

### Supporting Regulatory Compliance

*Through process optimization and automation, customers are identifying and implementing strategies for lower emissions and improved resource efficiency. Biomethane injection into the grid, for example, is helping companies meet regulatory requirements and contribute toward the European Union's renewable energy targets. Emerson's scalable, smart and integrated systems and solutions are enabling natural gas operators to help implement solutions that comply with current legislation to help ensure safe and consistent production, and lower lifecycle costs. And in the heating, ventilation, air conditioning and refrigeration (HVACR) industry, we're innovating products and solutions to help customers transition toward low global warming potential (GWP) solutions as regulation of refrigerants and energy efficiency requirements increase.*

72 °F



### Promoting Energy-Efficient Comfort

*Our Sensi™ suite of smart home solutions uses geofencing, remote access and flexible scheduling to keep homeowners in the know and in control of their home comfort. In 2020, Sensi became the first thermostat brand named as ENERGY STAR Partner of the Year, the highest level of recognition by the U.S. Environmental Protection Agency for organizations making outstanding contributions to protecting the environment through energy efficiency achievements.*

*We also enhanced our connected comfort business strategy with the acquisition of Verdant and launch of Sensi Predict smart HVAC. Verdant, a leader in energy management solutions for the hotel and hospitality industries, broadens our energy management, efficiency and optimization capabilities for multifamily residential units and commercial applications. And Sensi Predict, a predictive maintenance system, is helping homeowners avoid costly and unexpected HVAC repairs, while providing contractors real-time system insights that drive business predictability and service.*



## Financial Review

### Report of Management

The Company's management is responsible for the integrity and accuracy of the financial statements. Management believes that the financial statements for each of the years in the three-year period ended September 30, 2020 have been prepared in conformity with U.S. generally accepted accounting principles appropriate in the circumstances. In preparing the financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed. The Company's disclosure controls and procedures ensure that material information required to be disclosed is recorded, processed, summarized and communicated to management and reported within the required time periods.

In meeting its responsibility for the reliability of the financial statements, management relies on a system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The design of this system recognizes that errors or irregularities may occur and that estimates and judgments are required to assess the relative cost and expected benefits of the controls. Management believes that the Company's internal accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, is responsible for overseeing the Company's financial reporting process. The Audit Committee meets with management and the Company's internal auditors periodically to review the work of each and to monitor the discharge by each of its responsibilities. The Audit Committee also meets periodically with the independent auditors, who have free access to the Audit Committee and the Board of Directors, to discuss the quality and acceptability of the Company's financial reporting and internal controls, as well as nonaudit-related services.

The independent auditors are engaged to express an opinion on the Company's consolidated financial statements and on the Company's internal control over financial reporting. Their opinions are based on procedures that they believe to be sufficient to provide reasonable assurance that the financial statements contain no material errors and that the Company's internal controls are effective.

### Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework and the criteria established in *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of September 30, 2020.

The Company's auditor, KPMG LLP, an independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting.

David N. Farr

*Chairman of the Board  
and Chief Executive Officer*

Frank J. Dellaquila

*Senior Executive Vice President  
and Chief Financial Officer*



## Results of Operations

Years ended September 30 | (Dollars in the Financial Review section are in millions, except per share amounts or where noted)

	2018	2019	2020	19 vs. 18	20 vs. 19
Net sales	\$ 17,408	18,372	<b>16,785</b>	6%	<b>(9)%</b>
Gross profit	\$ 7,432	7,815	<b>7,009</b>	5%	<b>(10)%</b>
<i>Percent of sales</i>	42.7%	42.5%	<b>41.8%</b>		
SG&A	\$ 4,269	4,457	<b>3,986</b>		
<i>Percent of sales</i>	24.5%	24.2%	<b>23.8%</b>		
Other deductions, net	\$ 337	325	<b>532</b>		
<i>Amortization of intangibles</i>	\$ 211	238	<b>239</b>		
<i>Restructuring costs</i>	\$ 65	95	<b>284</b>		
Interest expense, net	\$ 159	174	<b>156</b>		
Earnings before income taxes	\$ 2,667	2,859	<b>2,335</b>	7%	<b>(18)%</b>
<i>Percent of sales</i>	15.3%	15.6%	<b>13.9%</b>		
Net earnings common stockholders	\$ 2,203	2,306	<b>1,965</b>	5%	<b>(15)%</b>
<i>Percent of sales</i>	12.7%	12.6%	<b>11.7%</b>		
Diluted EPS	\$ 3.46	3.71	<b>3.24</b>	7%	<b>(13)%</b>
Return on common stockholders' equity	24.9%	26.8%	<b>23.6%</b>		
Return on total capital	20.6%	19.5%	<b>16.8%</b>		

### COVID-19 UPDATE

Emerson's business, operations and end markets were negatively impacted in 2020 by the global outbreak and rapid spread of the coronavirus (COVID-19). As the situation rapidly evolved, the Company's leadership and global operations remained focused on safely serving our customers and protecting the health and safety of our employees. In response to the pandemic, the Company took actions aligned with the World Health Organization and the Centers for Disease Control and Prevention to protect its workforce so they could more safely and effectively perform their work. The Company embraced guidelines set by these organizations, including social distancing, good hygiene, restrictions on employee travel and in-person meetings, and changes to employee work arrangements including remote work arrangements where appropriate.

The outbreak began in the Company's second fiscal quarter and resulted in a rapid decline in demand which impacted most of the Company's end markets and geographies in the second half of the year, particularly in North America. Overall, sales declined 9 percent compared with the prior year, consistent with management's guidance provided in April 2020. Demand has begun to return in the Commercial & Residential Solutions business and stabilize in the Automation Solutions business.

In response to COVID-19, the Company increased its restructuring and cost reset actions that began in the third quarter of fiscal 2019. These incremental efforts and prior actions resulted in fiscal 2020 savings of approximately \$220 and supported the Company's profitability despite the headwind from lower sales. The Company also benefited in

the second half of the year from a salary and hiring freeze, furloughs, compensation reductions for the Board of Directors and key executives across Emerson, and curtailed travel, meetings and discretionary spending. Overall, selling, general and administrative expenses as a percent of sales decreased 0.9 percentage points in the second half of the year despite the negative impact from deleverage on lower sales, and the restructuring initiatives are expected to yield improved operating margins as sales volumes recover.

The Company also increased its cash holdings to support liquidity in response to the potential effects of COVID-19. In April 2020, the Company issued \$1.5 billion of long-term debt at a weighted-average rate of approximately 2.15% to further manage its liquidity and balance sheet, and in September 2020, issued an additional \$750 of long-term debt at 0.875%, a portion of which was used to fund the acquisition of Open Systems International, Inc., which closed on October 1, 2020. The Company also took actions to conservatively manage its cash through reductions in planned capital expenditures for fiscal 2020 and by suspending its share repurchases in the third quarter. The Company's long-term debt ratings, which are A2 by Moody's Investors Service and A by Standard and Poor's, remain unchanged. Management's actions to adjust to the lower demand caused by COVID-19 supported the Company's commitment to its dividend plan and on November 3, 2020, it approved an increase to its dividend for the 65th consecutive year.

See "Outlook" and Item 1A – "Risk Factors" in our Annual Report on Form 10-K for additional discussion of the impacts of COVID-19 and the Company's response.



## OVERVIEW

Overall, sales for 2020 were \$16.8 billion, down 9 percent compared with the prior year, and were adversely impacted by foreign currency translation which deducted 1 percent. During the year, the Company took restructuring and other actions to protect its operating results from the deleverage caused by lower sales.

Net earnings common stockholders were \$1,965 in 2020, down 15 percent compared with prior year earnings of \$2,306, and diluted earnings per share were \$3.24, down 13 percent versus \$3.71 per share in 2019, largely due to higher restructuring charges related to the Company's initiatives to improve operating margins.

The Company generated operating cash flow of \$3.1 billion in 2020, an increase of \$77, or 3 percent, due in part to lower working capital needs associated with lower demand. The Company also took actions to ensure adequate liquidity and successfully raised over \$2.2 billion in the debt markets.

## NET SALES

Net sales for 2020 were \$16.8 billion, a decrease of \$1.6 billion, or 9 percent compared with 2019. Sales decreased \$1,047 in Automation Solutions and \$526 in Commercial & Residential Solutions. Underlying sales, which exclude foreign currency translation, acquisitions and divestitures, decreased 8 percent (\$1.4 billion) on lower volume. Divestitures net of acquisitions subtracted \$11 and foreign currency translation subtracted 1 percent (\$161). Underlying sales decreased 11 percent in the U.S. and 5 percent internationally.

Net sales for 2019 were \$18.4 billion, an increase of \$1.0 billion, or 6 percent compared with 2018. Sales increased \$761 in Automation Solutions and \$187 in Commercial & Residential Solutions. Underlying sales increased 3 percent (\$526) on higher volume and slightly higher price. Acquisitions added 5 percent (\$759) while foreign currency translation subtracted 2 percent (\$321). Underlying sales increased 2 percent in the U.S. and 4 percent internationally.

## INTERNATIONAL SALES

Emerson is a global business with international sales representing 56 percent of total sales in 2020, including U.S. exports. The Company generally expects faster economic growth in emerging markets in Asia, Latin America, Eastern Europe and Middle East/Africa.

International destination sales, including U.S. exports, decreased 6 percent, to \$9.4 billion in 2020, reflecting decreases in both the Automation Solutions and Commercial & Residential Solutions businesses. U.S. exports of \$1.0 billion were down 10 percent compared with 2019. Underlying international destination sales were down 5 percent, as foreign currency translation had a 1 percent unfavorable impact on the comparison. Underlying sales decreased 4 percent in Europe, 4 percent in Asia, Middle East & Africa (China down 5 percent),

7 percent in Latin America and 11 percent in Canada. Origin sales by international subsidiaries, including shipments to the U.S., totaled \$8.5 billion in 2020, down 5 percent compared with 2019.

International destination sales, including U.S. exports, increased 5 percent, to \$10.0 billion in 2019, reflecting increases in both the Automation Solutions and Commercial & Residential Solutions businesses. U.S. exports of \$1.1 billion were up 2 percent compared with 2018. Underlying international destination sales were up 4 percent, as acquisitions had a 5 percent favorable impact, while foreign currency translation had a 4 percent unfavorable impact on the comparison. Underlying sales increased 3 percent in Europe, 2 percent in Asia, Middle East & Africa (China up 3 percent), 17 percent in Latin America and 4 percent in Canada. Origin sales by international subsidiaries, including shipments to the U.S., totaled \$9.0 billion in 2019, up 5 percent compared with 2018.

## ACQUISITIONS AND DIVESTITURES

On October 1, 2020, the Company completed the acquisition of Open Systems International, Inc., a leading operations technology software provider in the global power industry, for approximately \$1.6 billion, net of cash acquired. This business, which has annual sales of approximately \$170, will be reported in the Automation Solutions segment.

In 2020, the Company acquired three businesses, two in the Automation Solutions segment and one in the Climate Technologies segment, for \$126, net of cash acquired.

The Company acquired eight businesses in 2019, all in the Automation Solutions segment, for \$469, net of cash acquired. These eight businesses had combined annual sales of approximately \$300.

On July 17, 2018, the Company completed the acquisition of Aventics, a global provider of smart pneumatics technologies that power machine and factory automation applications, for \$622, net of cash acquired. This business, which has annual sales of approximately \$425, is included in the Industrial Solutions product offering within the Automation Solutions segment.

On July 2, 2018, the Company completed the acquisition of Textron's tools and test equipment business for \$810, net of cash acquired. This business, with annual sales of approximately \$470, is a manufacturer of electrical and utility tools, diagnostics, and test and measurement instruments, and is reported in the Tools & Home products segment.

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.



In fiscal 2018, the Company also acquired four smaller businesses, two in the Automation Solutions segment and two in the Climate Technologies segment.

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 2018 due to income taxes resulting from nondeductible goodwill. The Company realized approximately \$150 in after-tax cash proceeds from the sale.

See Note 4 for further information on acquisitions and divestitures, including pro forma financial information.

## COST OF SALES

Cost of sales for 2020 were \$9,776, a decrease of \$781 compared with \$10,557 in 2019, primarily due to lower volume. Gross profit was \$7,009 in 2020 compared to \$7,815 in 2019, while gross margin decreased 0.7 percentage points to 41.8 percent, reflecting deleverage on lower sales volume and unfavorable mix within Automation Solutions, partially offset by favorable price-cost.

Cost of sales for 2019 were \$10,557, an increase of \$581 compared with \$9,976 in 2018. The increase is primarily due to acquisitions and higher volume, partially offset by the impact of foreign currency translation. Gross profit was \$7,815 in 2019 compared to \$7,432 in 2018. Gross margin decreased 0.2 percentage points to 42.5 percent, reflecting unfavorable mix and the impact of acquisitions, partially offset by savings from cost reduction actions. Gross margin was 42.7 percent in 2018.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses of \$3,986 in 2020 decreased \$471 compared with 2019 and SG&A as a percent of sales decreased 0.4 percentage points to 23.8 percent. Savings of approximately \$220 from the Company's restructuring and cost reset actions that began in the third quarter of fiscal 2019 offset deleverage on lower sales volume. The Company's restructuring initiatives are expected to yield improved operating margins as sales volumes recover. The Company also benefited in the second half of the year from a salary and hiring freeze, furloughs, compensation reductions for the Board of Directors and key executives across Emerson, and curtailed travel, meetings and discretionary spending.

SG&A expenses of \$4,457 in 2019 increased \$188 compared with 2018 due to acquisitions and higher volume. SG&A as a percent of sales of 24.2 percent decreased 0.3 percentage points due to leverage on higher volume and lower incentive stock compensation of \$96, reflecting a decreasing stock price in the current year compared to an increasing stock price in the prior year, partially offset by a negative impact from acquisitions of 0.4 percentage points and higher investment spending.

## OTHER DEDUCTIONS, NET

Other deductions, net were \$532 in 2020, an increase of \$207 compared with 2019. The increase reflects increased restructuring costs of \$189 and an unfavorable impact on comparisons from pensions of \$48, partially offset by lower acquisition/divestiture and litigation costs. See Note 5.

Other deductions, net were \$325 in 2019, a decrease of \$12 compared with 2018. The decrease primarily reflects lower acquisition/divestiture costs of \$29, pension expenses of \$42 and foreign currency transactions of \$13, partially offset by higher intangibles amortization and restructuring expense of \$27 and \$30, respectively.

## INTEREST EXPENSE, NET

Interest expense, net was \$156, \$174 and \$159 in 2020, 2019 and 2018, respectively. The decrease in 2020 reflects the maturity of long-term debt with relatively higher interest rates, partially offset by lower interest income. The increase in 2019 was due to lower interest income.

## EARNINGS BEFORE INCOME TAXES

Pretax earnings of \$2,335 decreased \$524 in 2020, down 18 percent compared with 2019. Earnings decreased \$424 in Automation Solutions and \$153 in Commercial & Residential Solutions. Costs reported at Corporate decreased \$35, as an increase in unallocated pension and postretirement costs of \$55 was more than offset by a decline in all other corporate costs of \$90. See the Business discussion that follows and Note 18.

Pretax earnings of \$2,859 increased \$192 in 2019, up 7 percent compared with 2018. Earnings increased \$61 in Automation Solutions and decreased \$81 in Commercial & Residential Solutions, while costs reported at Corporate decreased \$227.

## INCOME TAXES

On December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "Tax Act"), which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. The Tax Act includes a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent in calendar year 2018 along with the elimination of certain deductions and credits, and a one-time "deemed repatriation" of accumulated non-U.S. earnings. During 2018, the Company recognized a net tax benefit of \$189 (\$0.30 per share) due to impacts of the Tax Act, consisting of a \$94 benefit on revaluation of net deferred income tax liabilities to the lower tax rate, \$35 of expense for the tax on deemed repatriation of accumulated non-U.S. earnings and withholding taxes, and the reversal of \$130 accrued in previous periods for the planned repatriation of non-U.S. cash. The Company completed its accounting for the Tax Act in the first quarter of fiscal 2019.



Effective in fiscal 2019, the Tax Act also subjects the Company to U.S. tax on global intangible low-taxed income earned by certain of its non-U.S. subsidiaries. The Company has elected to recognize this tax as a period expense when it is incurred. In the second quarter of fiscal 2019, the Company recorded a \$13 (\$0.02 per share) tax benefit due to the issuance of final regulations related to the one-time tax on deemed repatriation.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic, and among other things, provides tax relief to businesses. Tax provisions of the CARES Act include the deferral of certain payroll taxes, relief for retaining employees, and other provisions. The Company expects to defer \$75 of certain payroll taxes through the end of calendar year 2020, of which \$48 was deferred through September 30, 2020.

Income taxes were \$345, \$531 and \$443 for 2020, 2019 and 2018, respectively, resulting in effective tax rates of 15 percent, 19 percent and 17 percent in 2020, 2019 and 2018, respectively. The rates in all years include benefits from restructuring subsidiaries of \$103 (\$0.17 per share), \$74 (\$0.12 per share) and \$53 (\$0.08 per share), respectively. The 2020 rate also included the impact of a research and development tax credit study, while 2019 and 2018 included discrete tax benefits due to the impacts of the Tax Act described above. See Note 14.

## NET EARNINGS AND EARNINGS PER SHARE; RETURNS ON EQUITY AND TOTAL CAPITAL

Net earnings attributable to common stockholders in 2020 were \$1,965, down 15 percent compared with 2019, and diluted earnings per share were \$3.24, down 13 percent compared with \$3.71 in 2019. The decline in sales volume, largely attributable to the negative effects of COVID-19, resulted in a decline in operating results of \$0.27 per share, while restructuring costs and special advisory fees reduced earnings by \$0.42 per share in the current year (\$0.12 per share in the prior year). Higher pension expense partially offset by lower stock compensation expense negatively affected comparisons by \$0.07 per share and unfavorable foreign currency deducted \$0.06 per share. Results were favorably impacted by discrete tax items recognized in the fourth quarter (\$0.20 per share), which included the subsidiary restructurings discussed above, while other discrete tax items provided a benefit of \$0.08 per share. The prior year included discrete tax benefits of \$0.12 per share. Share repurchases and lower interest expense provided a combined benefit of \$0.09 per share.

Net earnings attributable to common stockholders in 2019 were \$2,306, up 5 percent compared with 2018, and diluted earnings per share were \$3.71, up 7 percent, due to modest sales growth and lower corporate expenses. Earnings per share comparisons were also impacted by the prior year net tax benefit due to impacts of the Tax Act of \$0.30 per share discussed above, which was partially offset by 2018 first year acquisition accounting charges of \$0.09 per share and a \$0.04 per share loss on the residential storage business.

Return on common stockholders' equity (net earnings attributable to common stockholders divided by average common stockholders' equity) was 23.6 percent in 2020 compared with 26.8 percent in 2019 and 24.9 percent in 2018. Return on total capital was 16.8 percent in 2020 compared with 19.5 percent in 2019 and 20.6 percent in 2018 (computed as net earnings attributable to common stockholders excluding after-tax net interest expense, divided by average common stockholders' equity plus short- and long-term debt less cash and short-term investments). Lower net earnings negatively impacted returns in 2020. In 2019, higher net earnings benefited the returns, while an increase in long-term debt negatively impacted the return on total capital.

## Business Segments

Following is an analysis of segment results for 2020 compared with 2019, and 2019 compared with 2018. The Company defines segment earnings as earnings before interest and income taxes.

### AUTOMATION SOLUTIONS

	2018	2019	2020	19 vs. 18	20 vs. 19
Sales	\$11,441	12,202	11,155	7%	(9)%
Earnings	\$ 1,886	1,947	1,523	3%	(22)%
Margin	16.5%	16.0%	13.6%		
<b>Sales by Major Product Offering</b>					
Measurement & Analytical Instrumentation	\$ 3,604	3,807	3,237	6%	(15)%
Valves, Actuators & Regulators	3,749	3,794	3,589	1%	(5)%
Industrial Solutions	1,967	2,232	2,012	14%	(10)%
Process Control Systems & Solutions	2,121	2,369	2,317	12%	(2)%
Total	\$11,441	12,202	11,155	7%	(9)%

**2020 vs. 2019** – Automation Solutions sales were \$11.2 billion in 2020, a decrease of \$1,047, or 9 percent. Underlying sales decreased 8 percent (\$963) on lower volume. The Machine Automation Solutions acquisition added \$47 and foreign currency translation had a 1 percent (\$131) unfavorable impact. Sales for Measurement & Analytical Instrumentation decreased \$570, or 15 percent, due to weakness in process industries, primarily in North America. Valves, Actuators & Regulators decreased \$205, or 5 percent, reflecting slower demand in most end markets. Industrial Solutions sales decreased \$220, or 10 percent, on lower global demand in discrete end markets. Process Control Systems & Solutions decreased \$52, or 2 percent, due to weakness in power end markets in China and process end markets in the U.S., partially offset by the Machine Automation Solutions acquisition. Underlying sales decreased 14 percent in the Americas (U.S. down 14 percent), 5 percent in Europe, and 1 percent in Asia, Middle East & Africa (China down 2 percent). Earnings of \$1,523 decreased \$424 from the prior



year, primarily due to higher restructuring expenses of \$179 and lower volume. Margin decreased 2.4 percentage points to 13.6 percent, reflecting a negative impact from restructuring expenses of 1.7 percentage points and unfavorable mix. Savings from cost reduction actions offset deleverage on lower sales volume.

**2019 vs. 2018** – Automation Solutions sales were \$12.2 billion in 2019, an increase of \$761, or 7 percent. Underlying sales increased 5 percent (\$582) on higher volume and slightly higher price. Acquisitions added 4 percent (\$426) and foreign currency translation had a 2 percent (\$247) unfavorable impact. Sales for Measurement & Analytical Instrumentation increased \$203, or 6 percent, reflecting broad-based strength across process and hybrid end markets. Valves, Actuators & Regulators increased \$45, or 1 percent, on favorable global oil and gas demand. Industrial Solutions sales increased \$265, or 14 percent, due to the Aventics acquisition (\$292), while discrete manufacturing end markets were slow in the U.S. and Europe. Process Control Systems & Solutions increased \$248, or 12 percent, driven by greenfield investment and modernization activity, while acquisitions added \$134. Underlying sales increased 4 percent in the Americas (U.S. up 2 percent), 4 percent in Europe, and 8 percent in Asia, Middle East & Africa (China up 13 percent), supported by infrastructure investment across the region. Earnings of \$1,947 increased \$61 from the prior year driven by higher volume and price. Margin decreased 0.5 percentage points to 16.0 percent, reflecting a dilutive impact from acquisitions of 0.7 percentage points and increased restructuring expense of \$24. Excluding these items, margin increased due to leverage on the higher volume.

## COMMERCIAL & RESIDENTIAL SOLUTIONS

	2018	2019	2020	19 vs. 18	20 vs. 19
<b>Sales:</b>					
Climate Technologies	\$4,454	4,313	<b>3,980</b>	(3)%	<b>(8)%</b>
Tools & Home Products	1,528	1,856	<b>1,663</b>	22 %	<b>(10)%</b>
Total	\$5,982	6,169	<b>5,643</b>	3 %	<b>(9)%</b>
<b>Earnings:</b>					
Climate Technologies	\$ 972	883	<b>801</b>	(9)%	<b>(9)%</b>
Tools & Home Products	380	388	<b>317</b>	2 %	<b>(18)%</b>
Total	\$1,352	1,271	<b>1,118</b>	(6)%	<b>(12)%</b>
Margin	22.6%	20.6%	<b>19.8%</b>		

**2020 vs. 2019** – Commercial & Residential Solutions sales were \$5.6 billion in 2020, a decrease of \$526, or 9 percent. Underlying sales decreased 7 percent (\$454) on lower volume. The divestiture of two small non-core businesses subtracted 1 percent (\$42) and foreign currency translation deducted 1 percent (\$30). Climate Technologies sales were \$4.0 billion in 2020, a decrease of \$333, or 8 percent. Air conditioning and heating sales declined, reflecting a sharp decline in Asia and moderate decline in the U.S. due to the effects of COVID-19. Global cold chain sales were also down, reflecting double-digit declines in Asia and Europe, while North America was down moderately. Tools & Home Products sales were \$1.7 billion in

2020, down \$193 or 10 percent compared to the prior year, reflecting sharp declines in global professional tools markets. Sales for wet/dry vacuums were down moderately and food waste disposers were down slightly. Overall, underlying sales decreased 7 percent in the Americas (U.S. down 8 percent) and 3 percent in Europe, while Asia, Middle East & Africa decreased 11 percent (China down 11 percent). Earnings were \$1,118, a decrease of \$153, and margin was down 0.8 percentage points, due to deleverage on lower sales volume and higher restructuring expenses which negatively impacted margins by 0.5 percentage points, partially offset by savings from cost reduction actions and favorable price-cost.

**2019 vs. 2018** – Commercial & Residential Solutions sales were \$6.2 billion in 2019, an increase of \$187, or 3 percent. Underlying sales decreased 1 percent (\$59) on lower volume partially offset by higher price. Acquisitions added 5 percent (\$320) while foreign currency translation subtracted 1 percent (\$74). Climate Technologies sales were \$4.3 billion in 2019, a decrease of \$141, or 3 percent. HVAC sales were down sharply in Asia, Middle East & Africa, particularly in China air conditioning and heating markets, while growth in the U.S. was modest. Global cold chain sales were down slightly, as modest growth in the U.S. was more than offset by slower demand in Asia and Europe. Tools & Home Products sales were \$1.9 billion in 2019, up \$328 or 22 percent compared to the prior year, reflecting the tools and test acquisition and modest growth for professional tools. Sales for wet/dry vacuums were up moderately due to higher price, while food waste disposers were flat. Overall, underlying sales increased 3 percent in the Americas (U.S. up 2 percent) and 1 percent in Europe, while Asia, Middle East & Africa decreased 12 percent (China down 15 percent). Earnings were \$1,271, a decrease of \$81, and margin was down 2.0 percentage points, primarily due to a dilutive impact from the tools and test acquisition of 0.8 percentage points, deleverage on lower volume in the Climate Technologies segment and unfavorable mix.

## Financial Position, Capital Resources and Liquidity

Emerson maintains a conservative financial structure to provide the strength and flexibility necessary to achieve our strategic objectives and has been successful in efficiently deploying cash where needed worldwide to fund operations, complete acquisitions and sustain long-term growth. During fiscal 2020, the Company increased its cash holdings to support liquidity in response to the potential effects of COVID-19. In April 2020, the Company issued \$1.5 billion of long-term debt at a weighted-average rate of approximately 2.15% to further manage its liquidity and balance sheet, and in September 2020, issued an additional \$750 of long-term debt at 0.875%, a portion of which was used to fund the acquisition of Open Systems International, Inc. (OSI), which closed on October 1, 2020.

The Company also took actions to conservatively manage its cash through reductions in planned capital expenditures for fiscal 2020 and by suspending its share repurchases in the third quarter. The Company's long-term debt ratings, which



are A2 by Moody's Investors Service and A by Standard and Poor's, remain unchanged. The Company currently believes that sufficient funds will be available to meet its needs for the foreseeable future through operating cash flow, existing resources, short- and long-term debt capacity, or its \$3.5 billion revolving backup credit facility under which it has not incurred any borrowings. The Company remains committed to its dividend plan and on November 3, 2020, approved an increase to its dividend for the 65th consecutive year.

Emerson is in a strong financial position, with total assets of \$23 billion and stockholders' equity of \$8 billion, and has the resources available for reinvestment in existing businesses, strategic acquisitions and managing its capital structure on a short- and long-term basis. The Company continues to generate substantial operating cash flow, including over \$3.0 billion in each of the last two years.

## CASH FLOW

	2018	2019	2020
Operating Cash Flow	\$2,892	3,006	<b>3,083</b>
Percent of sales	16.6%	16.4%	<b>18.4%</b>
Capital Expenditures	\$ 617	594	<b>538</b>
Percent of sales	3.5%	3.2%	<b>3.2%</b>
Free Cash Flow (Operating Cash Flow less Capital Expenditures)	\$2,275	2,412	<b>2,545</b>
Percent of sales	13.1%	13.1%	<b>15.2%</b>
Operating Working Capital	\$985	1,113	<b>866</b>
Percent of sales	5.7%	6.1%	<b>5.2%</b>

Operating cash flow for 2020 was \$3.1 billion, a \$77, or 3 percent increase compared with 2019, as lower working capital needs associated with lower demand more than offset a decrease in earnings. Operating cash flow of \$3.0 billion in 2019 increased 4 percent compared to \$2.9 billion in 2018, due to higher earnings, partially offset by higher operating working capital. At September 30, 2020, operating working capital as a percent of sales was 5.2 percent compared with 6.1 percent in 2019 and 5.7 percent in 2018. Contributions to pension plans were \$66 in 2020, \$60 in 2019 and \$61 in 2018.

Capital expenditures were \$538, \$594 and \$617 in 2020, 2019 and 2018, respectively. Free cash flow (operating cash flow less capital expenditures) was \$2.5 billion in 2020, up 6 percent. Free cash flow was \$2.4 billion in 2019, compared with \$2.3 billion in 2018. The Company is targeting capital spending of approximately \$600 in 2021. Net cash paid in connection with acquisitions was \$126, \$469 and \$2.2 billion in 2020, 2019 and 2018, respectively. This does not reflect the OSI acquisition, which closed on October 1, 2020 for approximately \$1.6 billion. Proceeds from divestitures were \$14 and \$201 in 2019 and 2018, respectively.

Dividends were \$1,209 (\$2.00 per share) in 2020, compared with \$1,209 (\$1.96 per share) in 2019 and \$1,229 (\$1.94 per share) in 2018. In November 2020, the Board of Directors voted to increase the quarterly cash dividend 1 percent, to an annualized rate of \$2.02 per share.

Purchases of Emerson common stock totaled \$942, \$1,250 and \$1,000 in 2020, 2019 and 2018, respectively, at average per share prices of \$57.41, \$62.83 and \$66.25.

The Board of Directors authorized the purchase of up to 70 million common shares in November 2015. In March 2020, the Board of Directors authorized the purchase of an additional 60 million shares and a total of 66 million shares remain available for purchase under the authorizations. The Company purchased 16.4 million shares in 2020, 19.9 million shares in 2019 and 15.1 million shares in 2018 under the authorizations.

## LEVERAGE/CAPITALIZATION

	2018	2019	2020
Total Assets	\$20,390	20,497	<b>22,882</b>
Long-term Debt	\$ 3,137	4,277	<b>6,326</b>
Common Stockholders' Equity	\$ 8,947	8,233	<b>8,405</b>
Total Debt-to-Total Capital Ratio	34.7%	41.0%	<b>47.1%</b>
Net Debt-to-Net Capital Ratio	29.1%	33.9%	<b>33.2%</b>
Operating Cash Flow-to-Debt Ratio	60.7%	52.5%	<b>41.2%</b>
Interest Coverage Ratio	14.2X	15.2X	<b>14.4X</b>

Total debt, which includes long-term debt, current maturities of long-term debt, commercial paper and other short-term borrowings, was \$7,486, \$5,721 and \$4,760 as of September 30, 2020, 2019 and 2018, respectively. During the year, the Company repaid \$500 of 4.875% notes that matured in October 2019. In April 2020, the Company issued \$500 of 1.8% notes due October 2027, \$500 of 1.95% notes due October 2030 and \$500 of 2.75% notes due October 2050. In September 2020, the Company issued \$750 of 0.875% notes due October 2026. The net proceeds from the sale of the notes were used to reduce commercial paper borrowings and for general corporate purposes. A portion of the proceeds from the notes issued in September were also used to fund the acquisition of OSI, which closed on October 1, 2020. In 2019, the Company repaid \$400 of 5.25% notes that matured in October 2018 and \$250 of 5.0% notes that matured in April 2019, while \$250 of 5.375% notes that matured in October 2017 were paid in fiscal 2018. In January 2019, the Company issued €500 of 1.25% notes due October 2025 and €500 of 2.0% notes due October 2029. In May 2019, the Company issued €500 of 0.375% notes due May 2024.

The total debt-to-capital ratio increased in 2020 due to the long-term debt issuances described above. The net debt-to-net capital ratio (less cash and short-term investments) decreased slightly, reflecting the timing of the acquisition of OSI, which closed shortly after year-end. In 2019 the total debt-to-capital ratio and the net debt-to-net capital ratio increased due to increased borrowings. The operating cash flow-to-debt ratio decreased in 2020 due to the increased borrowings. The decrease in 2019 was due to the increased borrowings, partially offset by a modest increase in operating cash flows. The interest coverage ratio is computed as earnings before income taxes plus interest expense, divided by interest expense. The decrease in 2020 reflects lower earnings, partially offset by lower interest



expense. The increase in 2019 was due to higher earnings as compared to 2018.

In May 2018, the Company entered into a \$3.5 billion five-year revolving backup credit facility with various banks, which replaced the April 2014 \$3.5 billion facility. The credit facility is maintained to support general corporate purposes, including commercial paper borrowings. The Company has not incurred any borrowings under this or previous facilities. The credit facility contains no financial covenants and is not subject to termination based on a change of credit rating or material adverse changes. The facility is unsecured and may be accessed under various interest rate and currency denomination alternatives at the Company's option. Fees to maintain the facility are immaterial. The Company also maintains a universal shelf registration statement on file with the SEC under which it can issue debt securities, preferred stock, common stock, warrants, share purchase contracts or share purchase units without a predetermined limit. Securities can be sold in one or more separate offerings with the size, price and terms to be determined at the time of sale.

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. At September 30, 2020, \$1.7 billion of the Company's cash was held in the U.S., primarily to fund the OSI acquisition. The remaining \$1.6 billion of cash was held outside the U.S. (primarily in Europe and Asia). The Company routinely repatriates a portion of its non-U.S. cash from earnings each year, or otherwise when it can be accomplished tax efficiently, and provides for withholding taxes and any applicable U.S. income taxes as appropriate. The Company has been able to readily meet all its funding requirements and currently 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.

#### CONTRACTUAL OBLIGATIONS

At September 30, 2020, the Company's contractual obligations, including estimated payments, are as follows:

	TOTAL	AMOUNTS DUE BY PERIOD			
		LESS THAN 1 YEAR	1 - 3 YEARS	3 - 5 YEARS	MORE THAN 5 YEARS
Long-term Debt (including Interest)	\$8,462	464	1,324	1,327	5,347
Operating Leases	565	159	216	105	85
Purchase Obligations	889	726	121	36	6
Total	\$9,916	1,349	1,661	1,468	5,438

Purchase obligations consist primarily of inventory purchases made in the normal course of business to meet operational requirements. The table above does not include the majority of other noncurrent liabilities (except for lease-related

obligations), which total \$2,324 and consist primarily of pension and postretirement plan liabilities, asbestos litigation, deferred income taxes and unrecognized tax benefits, because it is not certain when these amounts will become due. See Note 12 for estimated future benefit payments and Note 14 for additional information on deferred income taxes.

#### FINANCIAL INSTRUMENTS

The Company is exposed to market risk related to changes in interest rates, foreign currency exchange rates and commodity prices, and selectively uses derivative financial instruments, including forwards, swaps and purchased options to manage these risks. The Company does not hold derivatives for trading or speculative purposes. The value of derivatives and other financial instruments is subject to change as a result of market movements in rates and prices. Sensitivity analysis is one technique used to forecast the impact of these movements. Based on a hypothetical 10 percent increase in interest rates, a 10 percent decrease in commodity prices or a 10 percent weakening in the U.S. dollar across all currencies, the potential losses in future earnings, fair value or cash flows are not material. Sensitivity analysis has limitations; for example, a weaker U.S. dollar would benefit future earnings through favorable translation of non-U.S. operating results, and lower commodity prices would benefit future earnings through lower cost of sales. See Notes 1, and 9 through 11.

#### Critical Accounting Policies

Preparation of the Company's financial statements requires management to make judgments, assumptions and estimates regarding uncertainties that could affect reported revenue, expenses, assets, liabilities and equity. Note 1 describes the significant accounting policies used in preparation of the consolidated financial statements. The most significant areas where management judgments and estimates impact the primary financial statements are described below. Actual results in these areas could differ materially from management's estimates under different assumptions or conditions.

#### REVENUE RECOGNITION

The Company evaluates its contracts with customers to identify the promised goods or services and recognizes revenue for the identified performance obligations at the amount the Company expects to be entitled to in exchange for those goods or services. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. Revenue is recognized when, or as, performance obligations are satisfied and control has transferred to the customer, typically when products are shipped or delivered, title and risk of loss pass to the customer, and the Company has a present right to payment. The vast majority of the Company's revenues relate to a broad offering of manufactured products which are recognized at the point in time when control transfers, generally in accordance with shipping terms. A portion of the Company's revenues relate to the sale of software and post-contract customer support, parts and labor for repairs, and engineering services.



In limited circumstances, contracts include multiple performance obligations, where revenue is recognized separately for each good or service, as well as contracts where revenue is recognized over time as control transfers to the customer. Tangible products represent a large majority of the delivered items in contracts with multiple performance obligations or where revenue is recognized over time, while a smaller portion is attributable to installation, service and maintenance. In sales arrangements that involve multiple performance obligations, revenue is allocated based on the relative standalone selling price for each performance obligation. Observable selling prices from actual transactions are used whenever possible. In other instances, the Company determines the standalone selling price based on third-party pricing or management's best estimate. For revenues recognized over time, the Company typically uses an input method to determine progress and recognize revenue, based on costs incurred. The Company believes costs incurred closely correspond with its performance under the contract and the transfer of control to the customer.

#### LONG-LIVED ASSETS

Long-lived assets, which include property, plant and equipment, goodwill and identifiable intangible assets, are reviewed for impairment whenever events or changes in business circumstances indicate impairment may exist. If the Company determines that the carrying value of a long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its estimated fair value. Reporting units are also reviewed for possible goodwill impairment at least annually, in the fourth quarter. If an initial assessment indicates it is more likely than not an impairment may exist, it is evaluated by comparing the unit's estimated fair value to its carrying value. Fair value is generally estimated using an income approach that discounts estimated future cash flows using discount rates judged by management to be commensurate with the applicable risk. Estimates of future sales, operating results, cash flows and discount rates are subject to changes in the economic environment, including such factors as the general level of market interest rates, expected equity market returns and the volatility of markets served, particularly when recessionary economic circumstances continue for an extended period of time. Management believes the estimates of future cash flows and fair values are reasonable; however, changes in estimates due to variance from assumptions could materially affect the evaluations.

#### RETIREMENT PLANS

The Company maintains a prudent long-term investment strategy consistent with the duration of pension obligations. The determination of defined benefit plan expense and liabilities is dependent on various assumptions, including the expected annual rate of return on plan assets, the discount rate and the rate of annual compensation increases. Management believes the assumptions used are appropriate; however,

actual experience may differ. In accordance with U.S. generally accepted accounting principles, actual results that differ from the Company's assumptions are accumulated as deferred actuarial gains or losses and amortized to expense in future periods. The Company's principal U.S. defined benefit plan is closed to employees hired after January 1, 2016 while shorter-tenured employees ceased accruing benefits effective October 1, 2016.

As of September 30, 2020, the U.S. pension plans were underfunded by \$142 in total, including unfunded plans totaling \$223. The non-U.S. plans were underfunded by \$266, including unfunded plans totaling \$319. The Company contributed a total of \$66 to defined benefit plans in 2020 and expects to contribute approximately \$50 in 2021. At year-end 2020, the discount rate for U.S. plans was 2.81 percent, and was 3.22 percent in 2019. The assumed investment return on plan assets was 6.75 percent in 2020, 7.00 percent in 2019 and 7.00 percent in 2018, and will be 6.50 percent for 2021. Deferred actuarial losses to be amortized to expense in future years were \$1,253 (\$950 after-tax) as of September 30, 2020. See Notes 12 and 13.

#### CONTINGENT LIABILITIES

The Company is a party to a number of pending legal proceedings and claims, including those involving general and product liability (including asbestos) and other matters, several of which claim substantial amounts of damages. The Company accrues for such liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. Accruals are based on developments to date; management's estimates of the outcomes of these matters; and the Company's experience in contesting, litigating and settling similar matters. The Company engages an outside expert to develop an actuarial estimate of its expected costs to resolve all pending and future asbestos claims, including defense costs, as well as its related insurance receivables. The reserve for asbestos litigation, which is recorded on an undiscounted basis, is based on projected claims through 2065.

Although it is not possible to predict the ultimate outcome of these matters, the Company historically has been largely successful in defending itself against claims and suits that have been brought against it, and will continue to defend itself vigorously in all such matters. While the Company believes a material adverse impact is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future development could have a material adverse impact on the Company. See Note 13.

#### INCOME TAXES

Income tax expense and tax assets and liabilities reflect management's assessment of taxes paid or expected to be paid (received) on items included in the financial statements. Deferred tax assets and liabilities arise from temporary



differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and consideration of operating loss and tax credit carryforwards. Deferred income taxes are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. The impact on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are provided to reduce deferred tax assets to the amount that will more likely than not be realized. This requires management to make judgments and estimates regarding the amount and timing of the reversal of taxable temporary differences, expected future taxable income, and the impact of tax planning strategies.

Uncertainty exists regarding tax positions taken in previously filed tax returns which remain subject to examination, along with positions expected to be taken in future returns. The Company provides for unrecognized tax benefits, based on the technical merits, when it is more likely than not that an uncertain tax position will not be sustained upon examination. Adjustments are made to the uncertain tax positions when facts and circumstances change, such as the closing of a tax audit; changes in applicable tax laws, including tax case rulings and legislative guidance; or expiration of the applicable statute of limitations.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. As a result, cash repatriated to the U.S. is generally no longer subject to U.S. federal income taxes. No provision is made for withholding taxes and any applicable U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries where these earnings are considered indefinitely invested or otherwise retained for continuing international operations. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable. See Notes 1 and 14.

## Other Items

### LEGAL MATTERS

At September 30, 2020, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that management believes will be material in relation to the Company's financial statements, nor were there any material commitments outside the normal course of business.

### NEW ACCOUNTING PRONOUNCEMENTS

On October 1, 2019, the Company adopted ASC 842, *Leases*, which requires rights and obligations related to lease arrangements to be recognized on the balance sheet, using the optional transition method under which prior periods were not adjusted. The Company elected the package of practical

expedients for leases that commenced prior to the adoption date, which included carrying forward the historical lease classification as operating or finance. The adoption of ASC 842 resulted in the recognition of operating lease right-of-use assets and related lease liabilities of approximately \$500 as of October 1, 2019, but did not materially impact the Company's earnings or cash flows for the year ended September 30, 2020.

On October 1, 2019, the Company adopted updates to ASC 815, *Derivatives and Hedging*, which permit hedging certain contractually specified risk components. Additionally, the updates eliminate the requirement to separately measure and report hedge ineffectiveness and simplify hedge documentation and effectiveness assessment requirements. These updates were adopted using a modified retrospective approach and were immaterial to the Company's financial statements for the year ended September 30, 2020.

On October 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers*, which updated and consolidated revenue recognition guidance from multiple sources into a single, comprehensive standard to be applied for all contracts with customers. The fundamental principle of the revised standard is to recognize revenue based on the transfer of goods and services to customers at the amount the Company expects to be entitled to in exchange for those goods and services. The Company adopted the new standard using the modified retrospective approach and applied the guidance to open contracts which were not completed at the date of adoption. The cumulative effect of adoption resulted in a \$30 increase to beginning retained earnings as of October 1, 2018. This increase primarily related to contracts where a portion of revenue for delivered goods or services was previously deferred due to contingent payment terms. The adoption of ASC 606 did not materially impact the Company's consolidated financial statements as of and for the year ended September 30, 2019.

In January 2017, the FASB issued updates to ASC 350, *Intangibles - Goodwill and Other*, eliminating the requirement to measure impairment based on the implied fair value of goodwill compared to the carrying amount of a reporting unit's goodwill. Instead, goodwill impairment will be measured as the excess of a reporting unit's carrying amount over its estimated fair value. These updates are effective prospectively beginning in fiscal 2021 and are not expected to impact the Company's financial statements unless a potential goodwill impairment is identified.

In August 2018, the FASB issued updates to ASC 350, *Intangibles - Goodwill and Other*, which align the requirements for capitalizing implementation costs incurred in a software hosting arrangement with the requirements for costs incurred to develop or obtain internal-use software. The Company plans to adopt these updates prospectively in the first quarter of fiscal 2021 and they are not expected to materially impact the Company's results of operations.

In June 2016, the FASB issued ASC 326, *Financial Instruments - Credit Losses*, which amends the impairment model by



requiring entities to use a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The new standard is effective in the first quarter of fiscal 2021 and is expected to have an immaterial impact on the Company's financial statements.

In August 2018, the FASB issued updates to ASC 715, *Compensation - Retirement Benefits*, which modify the disclosure requirements for employers that sponsor defined benefit plans or other postretirement plans. These updates are effective in fiscal 2021 and must be adopted on a retrospective basis. The updates change disclosures only and will not impact the Company's results of operations.

## Fiscal 2021 Outlook

Despite the uncertainties and challenges from COVID-19, Emerson ended the year with strong profitability, earnings and cash flow, driven by its ongoing cost containment and restructuring actions. As the broader macroeconomic outlook begins to stabilize, the Company is well-positioned with a more agile and lean cost structure to sustain and build upon its strong profitability, particularly as late cycle end markets begin their recovery. Although much of the attention this year was focused on reacting to the pandemic, Emerson also continued to invest and build on its innovation and technology footprint, including the strategic acquisition of Open Systems International, Inc. (OSI).

Emerson's outlook for fiscal 2021 assumes a conservative forecast for the macroeconomic environment given the current uncertainty, with slow-but-steady improvement in demand over the course of the year as economies, companies and communities continue to gradually reopen and learn to safely operate with the virus. Overall, revenue is expected to return to growth in the third quarter of 2021, with Commercial & Residential Solutions returning to growth in the first quarter and Automation Solutions returning to growth later in the year.

For the full year, consolidated net sales are expected to be up 1 to 4 percent, with underlying sales down 1 to up 2 percent excluding a 1 percent favorable impact from foreign currency translation and a 1 percent favorable impact from the OSI acquisition. Automation Solutions net sales are expected to

be down 1 to up 2 percent, with underlying sales down 1 to 4 percent excluding a 1 percent favorable impact from foreign currency translation and a 2 percent favorable impact from the OSI acquisition. Commercial & Residential Solutions net sales are expected to be up 5 to 8 percent, with underlying sales up 4 to 7 percent excluding a 1 percent impact from favorable foreign currency translation. Earnings per share are expected to be \$3.06 to \$3.16, while adjusted earnings per share, which exclude a \$0.28 per share impact from restructuring actions and a \$0.06 per share impact from OSI first year acquisition accounting charges, are expected to be \$3.40 to \$3.50. Operating cash flow is expected to be approximately \$3.1 billion and free cash flow, which excludes targeted capital spending of \$600 million, is expected to be approximately \$2.5 billion. The Company intends to resume share repurchases in fiscal 2021 in the amount of \$500 million to \$1 billion, while concurrently maintaining optionality for further acquisitions should the opportunity arise. The guidance discussed herein assumes no major operational or supply chain disruptions and oil prices in the \$35 to \$50 range during this period. However, future developments related to COVID-19, including further actions taken by governmental authorities, potential shutdowns of our operations, or delays in the stabilization and recovery of economic conditions could further adversely affect our operations and financial results, as well as those of our customers and suppliers. See Item 1A – "Risk Factors" in our Annual Report on Form 10-K.

## BREXIT UPDATE

The United Kingdom's (UK) withdrawal from the European Union (EU), commonly known as "Brexit", was completed on January 31, 2020. The UK is now in a transition period and has begun negotiating the terms of a trade agreement and other laws and regulations with the EU. The Company's net sales in the UK are principally in the Automation Solutions segment and represent less than two percent of consolidated sales. Sales of products manufactured in the UK and sold within the EU are immaterial. The Company is evaluating several potential outcomes of the UK's negotiations with the EU and believes the direct cost of incremental tariffs, logistics and other items would be immaterial.



## Consolidated Statements of Earnings

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts

	2018	2019	2020
<b>Net sales</b>	\$17,408	18,372	<b>16,785</b>
Costs and expenses:			
Cost of sales	9,976	10,557	<b>9,776</b>
Selling, general and administrative expenses	4,269	4,457	<b>3,986</b>
Other deductions, net	337	325	<b>532</b>
Interest expense, net of interest income of: 2018, \$43; 2019, \$27; 2020, \$19	159	174	<b>156</b>
<b>Earnings before income taxes</b>	2,667	2,859	<b>2,335</b>
Income taxes	443	531	<b>345</b>
<b>Net earnings</b>	2,224	2,328	<b>1,990</b>
Less: Noncontrolling interests in earnings of subsidiaries	21	22	<b>25</b>
<b>Net earnings common stockholders</b>	\$ 2,203	2,306	<b>1,965</b>
<b>Basic earnings per common share</b>	\$ 3.48	3.74	<b>3.26</b>
<b>Diluted earnings per common share</b>	\$ 3.46	3.71	<b>3.24</b>

See accompanying Notes to Consolidated Financial Statements.



42 | 2020 Emerson Annual Report

## Consolidated Statements of Comprehensive Income

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions

	2018	2019	2020
<b>Net earnings</b>	\$2,224	2,328	<b>1,990</b>
Other comprehensive income (loss), net of tax:			
Foreign currency translation	(231)	(194)	<b>85</b>
Pension and postretirement	242	(508)	<b>64</b>
Cash flow hedges	(7)	(5)	<b>(2)</b>
Total other comprehensive income (loss)	4	(707)	<b>147</b>
<b>Comprehensive income</b>	<b>2,228</b>	<b>1,621</b>	<b>2,137</b>
Less: Noncontrolling interests in comprehensive income of subsidiaries	21	22	<b>27</b>
<b>Comprehensive income common stockholders</b>	<b>\$2,207</b>	<b>1,599</b>	<b>2,110</b>

See accompanying Notes to Consolidated Financial Statements.



## Consolidated Balance Sheets

### EMERSON ELECTRIC CO. & SUBSIDIARIES

September 30 | Dollars and shares in millions, except per share amounts

	2019	2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 1,494	3,315
Receivables, less allowances of \$112 in 2019 and \$138 in 2020	2,985	2,802
Inventories	1,880	1,928
Other current assets	780	761
Total current assets	7,139	8,806
<b>Property, plant and equipment, net</b>	3,642	3,688
<b>Other assets</b>		
Goodwill	6,536	6,734
Other intangible assets	2,615	2,468
Other	565	1,186
Total other assets	9,716	10,388
<b>Total assets</b>	<b>\$20,497</b>	<b>22,882</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings and current maturities of long-term debt	\$ 1,444	1,160
Accounts payable	1,874	1,715
Accrued expenses	2,658	2,910
Total current liabilities	5,976	5,785
<b>Long-term debt</b>	4,277	6,326
<b>Other liabilities</b>	1,971	2,324
<b>Equity</b>		
Common stock, \$0.50 par value; authorized, 1,200.0 shares; issued, 953.4 shares; outstanding, 611.0 shares in 2019; 598.0 shares in 2020	477	477
Additional paid-in-capital	393	470
Retained earnings	24,199	24,955
Accumulated other comprehensive income (loss)	(1,722)	(1,577)
	23,347	24,325
Less: Cost of common stock in treasury, 342.4 shares in 2019; 355.4 shares in 2020	15,114	15,920
<b>Common stockholders' equity</b>	8,233	8,405
Noncontrolling interests in subsidiaries	40	42
<b>Total equity</b>	8,273	8,447
<b>Total liabilities and equity</b>	<b>\$20,497</b>	<b>22,882</b>

See accompanying Notes to Consolidated Financial Statements.



## Consolidated Statements of Equity

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts

	2018	2019	2020
<b>Common stock</b>	\$ 477	477	477
<b>Additional paid-in-capital</b>			
Beginning balance	297	348	393
Stock plans	51	45	77
Ending balance	348	393	470
<b>Retained earnings</b>			
Beginning balance	21,995	23,072	24,199
Net earnings common stockholders	2,203	2,306	1,965
Dividends paid (per share: 2018, \$1.94; 2019, \$1.96; 2020, \$2.00)	(1,229)	(1,209)	(1,209)
Adoption of accounting standard updates	103	30	—
Ending balance	23,072	24,199	24,955
<b>Accumulated other comprehensive income (loss)</b>			
Beginning balance	(1,019)	(1,015)	(1,722)
Foreign currency translation	(231)	(194)	83
Pension and postretirement	242	(508)	64
Cash flow hedges	(7)	(5)	(2)
Ending balance	(1,015)	(1,722)	(1,577)
<b>Treasury stock</b>			
Beginning balance	(13,032)	(13,935)	(15,114)
Purchases	(1,000)	(1,250)	(942)
Issued under stock plans	97	71	136
Ending balance	(13,935)	(15,114)	(15,920)
<b>Common stockholders' equity</b>	8,947	8,233	8,405
<b>Noncontrolling interests in subsidiaries</b>			
Beginning balance	52	43	40
Net earnings	21	22	25
Other comprehensive income	—	—	2
Dividends paid	(30)	(25)	(25)
Ending balance	43	40	42
<b>Total equity</b>	\$ 8,990	8,273	8,447

See accompanying Notes to Consolidated Financial Statements.



## Consolidated Statements of Cash Flows

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions

	2018	2019	2020
<b>Operating activities</b>			
Net earnings	\$ 2,224	2,328	1,990
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	758	822	854
Stock compensation expense	216	120	110
Pension expense	49	2	67
Pension funding	(61)	(60)	(66)
Transition impact of Tax Act	(189)	—	—
Changes in operating working capital	(83)	(150)	148
Other, net	(22)	(56)	(20)
Cash provided by operating activities	2,892	3,006	3,083
<b>Investing activities</b>			
Capital expenditures	(617)	(594)	(538)
Purchases of businesses, net of cash and equivalents acquired	(2,203)	(469)	(126)
Divestitures of businesses	201	14	—
Other, net	(101)	(125)	(76)
Cash used in investing activities	(2,720)	(1,174)	(740)
<b>Financing activities</b>			
Net increase (decrease) in short-term borrowings	343	(6)	(90)
Proceeds from short-term borrowings greater than three months	—	—	1,043
Payments of short-term borrowings greater than three months	—	—	(1,043)
Proceeds from long-term debt	—	1,691	2,233
Payments of long-term debt	(241)	(656)	(503)
Dividends paid	(1,229)	(1,209)	(1,209)
Purchases of common stock	(1,000)	(1,250)	(942)
Other, net	35	39	2
Cash used in financing activities	(2,092)	(1,391)	(509)
Effect of exchange rate changes on cash and equivalents	(49)	(40)	(13)
<b>Increase (Decrease) in cash and equivalents</b>	(1,969)	401	1,821
Beginning cash and equivalents	3,062	1,093	1,494
<b>Ending cash and equivalents</b>	\$ 1,093	1,494	3,315
<b>Changes in operating working capital</b>			
Receivables	\$ (175)	51	207
Inventories	17	(87)	(6)
Other current assets	(42)	(87)	33
Accounts payable	115	(37)	(196)
Accrued expenses	2	10	110
Total changes in operating working capital	\$ (83)	(150)	148

See accompanying Notes to Consolidated Financial Statements.



## Notes to Consolidated Financial Statements

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts or where noted

## (1) Summary of Significant Accounting Policies

### FINANCIAL STATEMENT PRESENTATION

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates. Certain prior year amounts have been reclassified to conform with current year presentation.

On October 1, 2019, the Company adopted ASC 842, *Leases*, which requires rights and obligations related to lease arrangements to be recognized on the balance sheet, using the optional transition method under which prior periods were not adjusted. The Company elected the package of practical expedients for leases that commenced prior to the adoption date, which included carrying forward the historical lease classification as operating or finance. The adoption of ASC 842 resulted in the recognition of operating lease right-of-use assets and related lease liabilities of approximately \$500 as of October 1, 2019, but did not materially impact the Company's earnings or cash flows for the year ended September 30, 2020. The Company's financial statements for 2018 and 2019 continue to be reported in accordance with the Company's historical accounting under ASC 840, *Leases*.

On October 1, 2019, the Company adopted updates to ASC 815, *Derivatives and Hedging*, which permit hedging certain contractually specified risk components. Additionally, the updates eliminate the requirement to separately measure and report hedge ineffectiveness and simplify hedge documentation and effectiveness assessment requirements. These updates were adopted using a modified retrospective approach and were immaterial to the Company's financial statements for the year ended September 30, 2020.

On October 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers*, which updated and consolidated revenue recognition guidance from multiple sources into a single, comprehensive standard to be applied for all contracts with customers. The fundamental principle of the revised standard is to recognize revenue based on the transfer of goods and services to customers at the amount the Company expects to be entitled to in exchange for those goods and services. The Company adopted the new standard using the modified retrospective approach and applied the guidance to open contracts which were not completed at the date of adoption. The cumulative effect of adoption resulted in a \$30 increase to beginning retained earnings as of October 1, 2018. This increase primarily related to contracts where a portion of revenue for delivered goods or services was previously deferred due to contingent payment terms. The adoption of ASC 606 did not materially impact the Company's consolidated financial statements as of and for the year ended September 30, 2019. Amounts reported for the year ended September 30, 2018 continue to be reported in accordance with the Company's historical accounting under ASC 605, *Revenue Recognition*.

In the first quarter of fiscal 2019, the Company adopted updates to ASC 715, *Compensation - Retirement Benefits*, which permit only the service cost component of net periodic pension and postretirement expense to be reported with compensation costs, while all other components are required to be reported separately in other deductions. These updates were adopted retrospectively and resulted in the reclassification of \$40 of income in 2018 from cost of sales and SG&A to other deductions, net. Segment earnings were not impacted by the updates to ASC 715.

In the fourth quarter of 2018, the Company adopted updates to ASC 220, *Comprehensive Income*, which permit reclassification of stranded tax effects resulting from U.S. tax reform from accumulated other comprehensive income to retained earnings. The Company reclassified \$100 of stranded tax effects from accumulated other comprehensive income to retained earnings upon adoption of these updates. See Note 17.

In the first quarter of 2018, the Company adopted updates to ASC 740, *Income Taxes*, which require recognition of the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs, on a modified retrospective basis. The adoption of these updates resulted in an increase of \$3 to retained earnings.

In the first quarter of 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 were adopted prospectively and did not materially impact the Company's financial statements.



## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its controlled affiliates. Intercompany transactions, profits and balances are eliminated in consolidation. Investments of 20 percent to 50 percent of the voting shares of other entities are accounted for by the equity method. Investments in publicly traded companies of less than 20 percent are carried at fair value, with changes in fair value reflected in accumulated other comprehensive income. Investments in nonpublicly traded companies of less than 20 percent are carried at cost, minus impairment, and adjusted for observable price changes in orderly transactions.

## FOREIGN CURRENCY TRANSLATION

The functional currency for most of the Company's non-U.S. subsidiaries is the local currency. Adjustments resulting from translating local currency financial statements into U.S. dollars are reflected in accumulated other comprehensive income.

## CASH EQUIVALENTS

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

## INVENTORIES

Inventories are stated at the lower of cost and net realizable value. The majority of inventory is valued based on standard costs, which approximate average costs, while the remainder is principally valued on a first-in, first-out basis. Cost standards are revised at the beginning of each year. The annual effect of resetting standards plus any operating variances incurred during each period are allocated to inventories and recognized in cost of sales as product is sold. Following are the components of inventory as of September 30:

	2019	2020
Finished products	\$ 578	584
Raw materials and work in process	1,302	1,344
Total inventories	\$1,880	1,928

## FAIR VALUE MEASUREMENT

ASC 820, *Fair Value Measurement*, establishes a formal hierarchy and framework for measuring certain financial statement items at fair value, and requires disclosures about fair value measurements and the reliability of valuation inputs. Under ASC 820, measurement assumes the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for an identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or other approaches using market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market, such as company-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Company's financial instruments fall within Level 2. The fair value of the Company's long-term debt is Level 2, estimated using current interest rates and pricing from financial institutions and other market sources for debt with similar maturities and characteristics.

## PROPERTY, PLANT AND EQUIPMENT

The Company records investments in land, buildings, and machinery and equipment at cost. Depreciation is computed principally using the straight-line method over estimated service lives, which for principal assets are 30 to 40 years for buildings and 8 to 12 years for machinery and equipment. Long-lived tangible assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized based on estimated fair values if the sum of estimated future undiscounted cash flows of the related assets is less than the carrying values. The components of property, plant and equipment as of September 30 follow:

	2019	2020
Land	\$ 336	350
Buildings	2,219	2,335
Machinery and equipment	5,645	5,907
Construction in progress	471	463
Property, plant and equipment, at cost	8,671	9,055
Less: Accumulated depreciation	5,029	5,367
Property, plant and equipment, net	\$3,642	3,688



## GOODWILL AND OTHER INTANGIBLE ASSETS

Assets and liabilities acquired in business combinations are accounted for using the acquisition method and recorded at their respective fair values. Substantially all goodwill is assigned to the reporting unit that acquires a business. A reporting unit is an operating segment as defined in ASC 280, *Segment Reporting*, or a business one level below an operating segment if discrete financial information for that business unit is prepared and regularly reviewed by the segment manager. The Company conducts annual impairment tests of goodwill in the fourth quarter. If an initial assessment indicates it is more likely than not goodwill might be impaired, it is evaluated by comparing the reporting unit's estimated fair value to its carrying value. Goodwill is also tested for impairment between annual tests if events or circumstances indicate the fair value of a unit may be less than its carrying value. If the carrying amount exceeds the estimated fair value, impairment is recognized to the extent that recorded goodwill exceeds the implied fair value of that goodwill. Estimated fair values of reporting units are Level 3 measures and are developed generally under an income approach that discounts estimated future cash flows using risk-adjusted interest rates, as well as earnings multiples or other techniques as warranted. Fair values are subject to changes in underlying economic conditions.

All of the Company's identifiable intangible assets are subject to amortization on a straight-line basis over their estimated useful lives. Identifiable intangibles consist of intellectual property such as patents and trademarks, customer relationships and capitalized software. Identifiable intangibles are also subject to evaluation for potential impairment if events or circumstances indicate the carrying amount may not be recoverable. See Note 8.

## LEASES

The Company leases offices; manufacturing facilities and equipment; and transportation, information technology and office equipment under operating lease arrangements. Finance lease arrangements are immaterial. The Company determines whether an arrangement is, or contains, a lease at contract inception. An arrangement contains a lease if the Company has the right to direct the use of and obtain substantially all of the economic benefits of an identified asset. Right-of-use assets and lease liabilities are recognized at lease commencement based on the present value of lease payments over the lease term. Leases with an initial term of 12 months or less are not recognized on the balance sheet and are recorded as short-term lease expense. The discount rate used to calculate present value is the Company's incremental borrowing rate based on the lease term and the economic environment of the applicable country or region.

Certain leases contain renewal options or options to terminate prior to lease expiration, which are included in the measurement of right-of-use assets and lease liabilities when it is reasonably certain they will be exercised. The Company has elected to account for lease and non-lease components as a single lease component for its offices and manufacturing facilities. Some lease arrangements include payments that are adjusted periodically based on actual charges incurred for common area maintenance, utilities, taxes and insurance, or changes in an index or rate referenced in the lease. The fixed portion of these payments is included in the measurement of right-of-use assets and lease liabilities at lease commencement, while the variable portion is recorded as variable lease expense. The Company's leases typically do not contain material residual value guarantees or restrictive covenants.

## PRODUCT WARRANTY

Warranties vary by product line and are competitive for the markets in which the Company operates. Warranties are largely offered to provide assurance that the product will function as intended and generally extend for a period of one to two years from the date of sale or installation. Provisions for warranty expense are estimated at the time of sale based on historical experience and adjusted quarterly for any known issues that may arise. Product warranty expense is less than one percent of sales.

## REVENUE RECOGNITION

Emerson is a global manufacturer that designs and manufactures products and delivers services that bring technology and engineering together to provide innovative solutions for its customers, largely in the form of tangible products. The Company evaluates its contracts with customers to identify the promised goods or services and recognizes revenue for the identified performance obligations at the amount the Company expects to be entitled to in exchange for those goods or services. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. Revenue is recognized when, or as, performance obligations are satisfied and control has transferred to the customer, typically when products are shipped or delivered, title and risk of loss pass to the customer, and the Company has a present right to payment. The vast majority of the Company's revenues relate to a broad offering of manufactured products which are recognized at the point in time when control transfers, generally in accordance with shipping terms. A portion of the Company's revenues relate to the sale of software and post-contract customer support, parts and labor for repairs, and engineering services. In limited circumstances, contracts include multiple performance obligations, where revenue is recognized separately for each good or service, as well as contracts where revenue is recognized over time as control transfers to the customer.

Revenue is recognized over time for approximately 5 percent of the Company's revenues. These contracts largely relate to projects in the Process Control Systems & Solutions product offering within the Automation Solutions segment where revenue is recognized



using the percentage-of-completion method to reflect the transfer of control over time, while a small amount is attributable to long-term maintenance and service contracts where revenue is typically recognized on a straight-line basis as the services are provided. Approximately 5 percent of revenues relate to sales arrangements with multiple performance obligations, principally in the Automation Solutions segment. Tangible products represent a large majority of the delivered items in contracts with multiple performance obligations or where revenue is recognized over time, while a smaller portion is attributable to installation, service and maintenance.

For revenues recognized over time, the Company typically uses an input method to determine progress and recognize revenue, based on costs incurred. The Company believes costs incurred closely correspond with its performance under the contract and the transfer of control to the customer.

In sales arrangements that involve multiple performance obligations, revenue is allocated based on the relative standalone selling price for each performance obligation. Observable selling prices from actual transactions are used whenever possible. In other instances, the Company determines the standalone selling price based on third-party pricing or management's best estimate. Generally, contract duration is short-term, and cancellation, termination or refund provisions apply only in the event of contract breach and are rarely invoked.

Payment terms vary but are generally short-term in nature. The Company's long-term contracts, where revenue is generally recognized over time, are typically billed as work progresses in accordance with the contract terms and conditions, either at periodic intervals or upon achievement of certain milestones. The timing of revenue recognition and billings under these contracts results in either unbilled receivables (contract assets) when revenue recognized exceeds billings, or customer advances (contract liabilities) when billings exceed revenue recognized. Unbilled receivables are reclassified to accounts receivable when an unconditional right to consideration exists, typically when a milestone in the contract is achieved. The Company does not evaluate whether the transaction price includes a significant financing component for contracts where the time between cash collection and performance is less than one year.

Certain arrangements with customers include variable consideration, typically in the form of rebates, cash discounts or penalties. In limited circumstances, the Company sells products with a general right of return. In most instances, returns are limited to product quality issues. The Company records a reduction to revenue at the time of sale to reflect the ultimate amount of consideration it expects to receive. The Company's estimates are updated quarterly based on historical experience, trend analysis, and expected market conditions. Variable consideration is typically not constrained at the time revenue is recognized. See Notes 2 and 18 for additional information about the Company's revenues.

## DERIVATIVES AND HEDGING

In the normal course of business, the Company is exposed to changes in interest rates, foreign currency exchange rates and commodity prices due to its worldwide presence and diverse business profile. The Company's foreign currency exposures relate to transactions denominated in currencies that differ from the functional currencies of its business units, primarily in euros and Mexican pesos. Primary commodity exposures are price fluctuations on forecasted purchases of copper and aluminum and related products. As part of the Company's risk management strategy, derivative instruments are selectively used in an effort to minimize the impact of these exposures. Foreign exchange forwards and options are utilized to hedge foreign currency exposures impacting sales or cost of sales transactions, firm commitments and the fair value of assets and liabilities, while swap and option contracts may be used to minimize the effect of commodity price fluctuations on the cost of sales. Non-U.S. dollar obligations are utilized to reduce foreign currency risk associated with the Company's net investments in foreign operations. All derivatives are associated with specific underlying exposures and the Company does not hold derivatives for trading or speculative purposes. The duration of hedge positions is generally two years or less, except for the Company's net investment hedges.

All derivatives are accounted for under ASC 815, *Derivatives and Hedging*, and recognized at fair value. For derivatives hedging variability in future cash flows, any gain or loss is deferred in stockholders' equity and recognized when the underlying hedged transaction impacts earnings. The majority of the Company's derivatives that are designated as hedges and qualify for hedge accounting are cash flow hedges. For derivatives hedging the fair value of existing assets or liabilities, both the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in earnings each period. Currency fluctuations on non-U.S. dollar obligations that have been designated as hedges of net investments in foreign operations are recognized in accumulated other comprehensive income (loss) and reclassified to income in the same period when a foreign operation is sold or substantially liquidated and the gain or loss related to the sale is included in income. To the extent that any hedge is not fully effective at offsetting changes in the underlying hedged item, there could be a net earnings impact. The Company also uses derivatives to hedge economic exposures that do not receive hedge accounting under ASC 815. The underlying exposures for these hedges relate primarily to purchases of commodity-based components used in the Company's manufacturing processes, and the revaluation of certain foreign-currency-denominated assets and liabilities. Gains or losses on derivative instruments not designated as hedges are recognized in the income statement immediately.



Counterparties to derivative arrangements are companies with high credit ratings, and the Company has bilateral collateral arrangements with them for which credit rating-based posting thresholds vary depending on the arrangement. If credit ratings on the Company's debt fall below preestablished levels, counterparties can require immediate full collateralization on all instruments in net liability positions. No collateral was posted with counterparties and none was held by the Company at year end. If contractual thresholds had been exceeded, the maximum collateral the Company could have been required to post was immaterial. The Company can also demand full collateralization of instruments in net asset positions should any of the Company's counterparties' credit ratings fall below certain thresholds. Risk from credit loss when derivatives are in asset positions is not considered material. The Company has master netting arrangements in place with its counterparties that allow the offsetting of certain derivative-related amounts receivable and payable when settlement occurs in the same period. Accordingly, counterparty balances are netted in the consolidated balance sheet and are reported in other current assets or accrued expenses as appropriate, depending on positions with counterparties as of the balance sheet date. See Note 9.

### INCOME TAXES

The provision for income taxes is based on pretax income reported in the consolidated statements of earnings and tax rates currently enacted in each jurisdiction. Certain income and expense items are recognized in different time periods for financial reporting and income tax filing purposes, and deferred income taxes are provided for the effect of temporary differences. The Company also provides for withholding taxes and any applicable U.S. income taxes on earnings intended to be repatriated from non-U.S. locations. No provision has been made for these taxes on approximately \$4.6 billion of undistributed earnings of non-U.S. subsidiaries as of September 30, 2020, as these earnings are considered indefinitely invested or otherwise retained for continuing international operations. Recognition of withholding taxes and any applicable U.S. income taxes on undistributed non-U.S. earnings would be triggered by a management decision to repatriate those earnings. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable. See Note 14.

## (2) Revenue Recognition

The following table summarizes the balances of the Company's unbilled receivables (contract assets), which are reported in Other current assets, and its customer advances (contract liabilities), which are reported in Accrued expenses.

	2019	2020
Unbilled receivables (contract assets)	\$ 456	458
Customer advances (contract liabilities)	(519)	(583)
Net contract liabilities	\$ (63)	(125)

The majority of the Company's contract balances relate to arrangements where revenue is recognized over time and payments from customers are made according to a contractual billing schedule. The increase in net contract liabilities was due to customer billings which exceeded revenue recognized for performance completed during the period. Revenue recognized for 2020 included approximately \$420 that was included in the beginning contract liability balance. Other factors that impacted the change in net contract liabilities were immaterial.

Revenue recognized for 2020 for performance obligations that were fully satisfied in previous periods, including cumulative catchup adjustments on the Company's long-term contracts, was not material. Capitalized amounts related to incremental costs to obtain customer contracts and costs to fulfill contracts are immaterial.

As of September 30, 2020, the Company's backlog relating to unsatisfied (or partially unsatisfied) performance obligations in contracts with its customers was approximately \$5.3 billion. The Company expects to recognize approximately 85 percent of its remaining performance obligations as revenue over the next 12 months, with the remainder substantially over the subsequent two years thereafter.

See Note 18 for additional information about the Company's revenues.

## (3) Weighted-Average Common Shares

Basic earnings per common share consider only the weighted-average of common shares outstanding while diluted earnings per common share also consider the dilutive effects of stock options and incentive shares. An inconsequential number of shares of common stock were excluded from the computation of diluted earnings per share in 2020, 2019 and 2018 as the effect would have been antidilutive. Earnings allocated to participating securities were inconsequential for all years presented.



Reconciliations of weighted-average shares for basic and diluted earnings per common share follow (shares in millions):

	2018	2019	2020
Basic shares outstanding	632.0	616.2	602.9
Dilutive shares	3.3	4.4	3.7
Diluted shares outstanding	635.3	620.6	606.6

## (4) Acquisitions and Divestitures

On October 1, 2020, the Company completed the acquisition of Open Systems International, Inc., a leading operations technology software provider in the global power industry, for approximately \$1.6 billion, net of cash acquired. This business, which has annual sales of approximately \$170 will be reported in the Automation Solutions segment. Based upon preliminary estimates, the Company expects to recognize goodwill of approximately \$1,000 (none of which is expected to be tax deductible), identifiable intangible assets of approximately \$800, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 11 years, and deferred tax liabilities of approximately \$180.

In 2020, the Company acquired three businesses, two in the Automation Solutions segment and one in the Climate Technologies segment, for \$126, net of cash acquired. Valuations of certain acquired assets and liabilities are in-process and subject to refinement.

The Company acquired eight businesses in 2019, all in the Automation Solutions segment, for \$469, net of cash acquired. These eight businesses had combined annual sales of approximately \$300. The Company recognized goodwill of \$209 (\$155 of which is expected to be tax deductible) and other identifiable intangible assets of \$158, primarily customer relationships and intellectual property with a weighted-average useful life of approximately nine years.

On July 17, 2018, the Company completed the acquisition of Aventics, a global provider of smart pneumatics technologies that power machine and factory automation applications, for \$622, net of cash acquired. This business, which has annual sales of approximately \$425, is reported in the Industrial Solutions product offering in the Automation Solutions segment. The Company recognized goodwill of \$372 (\$20 of which is expected to be tax deductible), and identifiable intangible assets of \$278, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 12 years.

On July 2, 2018, the Company completed the acquisition of Textron's tools and test equipment business for \$810, net of cash acquired. This business, with annual sales of approximately \$470, is a manufacturer of electrical and utility tools, diagnostics, and test and measurement instruments, and is reported in the Tools & Home products segment. The Company recognized goodwill of \$366 (\$11 of which is expected to be tax deductible), and identifiable intangible assets of \$358, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 14 years.

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 \$309 (\$170 of which is expected to be tax deductible), and identifiable intangible assets of \$238, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 11 years.

During 2018, the Company also acquired four smaller businesses, two in the Automation Solutions segment and two in the Climate Technologies segment.

Total cash paid for all businesses for the fiscal year ended 2018 was \$2.2 billion, net of cash acquired. The purchase price of the 2018 acquisitions was allocated to assets and liabilities as follows.

Accounts receivable	\$ 153
Inventory	187
Property, plant and equipment	140
Goodwill	1,176
Intangibles	1,013
Other assets	77
Total assets	2,746
Accounts payable	73
Other current liabilities	134
Deferred taxes and other liabilities	325
Cash paid, net of cash acquired	\$2,214



Results of operations for the 2018 acquisitions included sales of \$365 and a net loss of \$3, including intangibles amortization of \$40 and restructuring expense of \$3. These results also included first year pretax acquisition accounting charges related to inventory and deferred revenue of \$39 and \$11, respectively, which are reported in Corporate and other. See Note 18.

The results of operations of the acquired businesses discussed above have been included in the Company's consolidated results of operations since the respective dates of acquisition.

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 2018 due to income taxes resulting from nondeductible goodwill. The Company realized \$150 in after-tax cash proceeds from the sale.

In 2017, the Company sold its network power systems business and retained a subordinated interest in distributions which is contingent upon the equity holders first receiving a threshold return on their initial investment. The Company has not received any distributions through the year ended September 30, 2020.

## PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

Pro forma net sales, net earnings common stockholders and diluted earnings per share for 2018 were approximately \$18.2 billion, \$2.3 billion and \$3.56 per share, respectively. These results are presented as if the 2018 acquisitions occurred on October 1, 2016 and the 2017 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 acquisitions occurred as of that time.

The 2018 pro forma results exclude acquisition costs and first year acquisition accounting charges related to inventory, backlog and deferred revenue of \$102. Of these charges, \$73 related to businesses acquired in 2018 and \$29 related to the valves & controls acquisition.

## (5) Other Deductions, Net

Other deductions, net are summarized as follows:

	2018	2019	2020
Amortization of intangibles (intellectual property and customer relationships)	\$211	238	239
Restructuring costs	65	95	284
Special advisory fees	—	—	13
Other	61	(8)	(4)
Total	\$337	325	532

The increase in amortization for 2019 is due to higher intangibles amortization of \$46 which largely relates to acquisitions completed in 2018, partially offset by backlog amortization of \$19 incurred in 2018 related to the valves & controls acquisition. Other is composed of several items, including acquisition/divestiture costs, foreign currency transaction gains and losses, litigation, pension expense and other items. The change in 2020 was primarily due to an unfavorable impact from pensions of \$48 offset by lower acquisition/divestiture and litigation costs. The decrease in 2019 is primarily due to lower acquisition/divestiture costs of \$29, pension expenses of \$42 and foreign currency transactions of \$13.

## (6) Restructuring Costs

Each year the Company incurs costs to size its businesses to levels appropriate for current economic conditions and to continually improve its cost structure and operational efficiency, deploy assets globally, and remain competitive on a worldwide basis. Costs result from numerous individual actions implemented across the Company's various operating units on an ongoing basis and can include costs for moving facilities to best-cost locations, restarting plants after relocation or geographic expansion to better serve local markets, reducing forcecount or the number of facilities, exiting certain product lines, and other costs resulting from asset deployment decisions (such as contract termination costs, asset write-downs and vacant facility costs).

Restructuring expenses were \$284, \$95 and \$65 for 2020, 2019 and 2018, respectively, and included \$7 and \$19 related to acquisitions in 2019 and 2018. The Company expects fiscal year 2021 restructuring expense to exceed \$200.



Restructuring costs by business segment follows:

	2018	2019	2020
<b>Automation Solutions</b>	\$41	65	<b>232</b>
Climate Technologies	20	20	<b>23</b>
Tools & Home Products	3	7	<b>21</b>
<b>Commercial &amp; Residential Solutions</b>	23	27	<b>44</b>
Corporate	1	3	<b>8</b>
<b>Total</b>	<b>\$65</b>	<b>95</b>	<b>284</b>

Costs incurred in 2020 relate to the Company's initiatives to improve operating margins that began in the third quarter of fiscal 2019 and were expanded in the third quarter of fiscal 2020 in response to the effects of COVID-19 on demand for the Company's products. Actions taken in 2020 included workforce reductions of approximately 5,400 positions and the exit of six production facilities worldwide. Costs incurred in 2019 and 2018 primarily relate to the deployment of resources to better serve local markets and higher growth areas, and the integration of acquisitions. Expenses incurred in 2019 and 2018 included actions to exit two and six facilities, and eliminate approximately 1,100 and 1,200 positions, respectively.

The change in the liability for restructuring costs during the years ended September 30 follows:

	2019	EXPENSE	UTILIZED/PAID	2020
Severance and benefits	\$62	<b>239</b>	<b>125</b>	<b>176</b>
Other	7	<b>45</b>	<b>47</b>	<b>5</b>
<b>Total</b>	<b>\$69</b>	<b>284</b>	<b>172</b>	<b>181</b>

	2018	EXPENSE	UTILIZED/PAID	2019
Severance and benefits	\$46	72	56	62
Other	6	23	22	7
<b>Total</b>	<b>\$52</b>	<b>95</b>	<b>78</b>	<b>69</b>

The tables above do not include \$20 of costs related to restructuring actions incurred for the year ended September 30, 2020 that are required to be reported in cost of sales.

## (7) Leases

The components of lease expense for the year ended September 30, 2020 were as follows:

	2020
Operating lease expense	<b>\$207</b>
Variable lease expense	<b>\$ 19</b>

Short-term lease expense and sublease income were immaterial for the year ended September 30, 2020. Cash paid for operating leases is classified within operating cash flows and was \$201 for the year ended September 30, 2020. Operating lease right-of-use asset additions were \$210 for the year ended September 30, 2020.

The following table summarizes the balances of the Company's operating lease right-of-use assets and operating lease liabilities as of September 30, 2020, the vast majority of which relates to offices and manufacturing facilities:

	2020
Right-of-use assets (Other assets)	<b>\$508</b>
Current lease liabilities (Accrued expenses)	<b>\$148</b>
Noncurrent lease liabilities (Other liabilities)	<b>\$373</b>

The weighted-average remaining lease term for operating leases was 4.6 years and the weighted-average discount rate was 2.8 percent as of September 30, 2020.



Future maturities of operating lease liabilities as of September 30, 2020 are summarized below:

	2020
2021	\$159
2022	122
2023	94
2024	66
2025	39
Thereafter	85
Total lease payments	565
Less: Interest	44
Total lease liabilities	\$521

Lease commitments that have not yet commenced were immaterial as of September 30, 2020.

The future minimum annual rentals under noncancelable long-term leases as of September 30, 2019 were as follows: \$159 in 2020, \$112 in 2021, \$82 in 2022, \$57 in 2023, \$38 in 2024 and \$63 thereafter.

## (8) Goodwill and Other Intangibles

The change in the carrying value of goodwill by business segment follows:

	AUTOMATION SOLUTIONS	CLIMATE TECHNOLOGIES	TOOLS & HOME PRODUCTS	COMMERCIAL & RESIDENTIAL SOLUTIONS	TOTAL
Balance, September 30, 2018	\$5,355	670	430	1,100	6,455
Acquisitions	210	—	—	—	210
Foreign currency translation and other	(98)	(2)	(29)	(31)	(129)
Balance, September 30, 2019	5,467	668	401	1,069	6,536
Acquisitions	23	59	—	59	82
Foreign currency translation and other	93	3	20	23	116
<b>Balance, September 30, 2020</b>	<b>\$5,583</b>	<b>730</b>	<b>421</b>	<b>1,151</b>	<b>6,734</b>

The gross carrying amount and accumulated amortization of identifiable intangible assets by major class follow:

	CUSTOMER RELATIONSHIPS		INTELLECTUAL PROPERTY		CAPITALIZED SOFTWARE		TOTAL	
	2019	2020	2019	2020	2019	2020	2019	2020
Gross carrying amount	\$1,973	2,059	1,565	1,628	1,334	1,419	4,872	5,106
Less: Accumulated amortization	582	731	650	773	1,025	1,134	2,257	2,638
Net carrying amount	\$1,391	1,328	915	855	309	285	2,615	2,468

Intangible asset amortization expense for the major classes included above for 2020, 2019 and 2018 was \$369, \$359 and \$314, respectively. Based on intangible asset balances as of September 30, 2020, amortization expense is expected to approximate \$352 in 2021, \$316 in 2022, \$291 in 2023, \$256 in 2024 and \$236 in 2025. These amounts do not include the impact of the acquisition of Open Systems International, Inc., which closed on October 1, 2020.

## (9) Financial Instruments

### HEDGING ACTIVITIES

As of September 30, 2020, the notional amount of foreign currency hedge positions was approximately \$2.2 billion, while commodity hedge contracts totaled approximately \$80 (primarily 34 million pounds of copper and aluminum). All derivatives receiving hedge accounting are cash flow hedges. The majority of hedging gains and losses deferred as of September 30, 2020 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 hedge accounting.



## NET INVESTMENT HEDGE

In fiscal 2019, the Company issued euro-denominated debt of €1.5 billion. The euro notes reduce foreign currency risk associated with the Company's international subsidiaries that use the euro as their functional currency and have been designated as a hedge of a portion of the investment in these operations. Foreign currency gains or losses associated with the euro-denominated debt are deferred in accumulated other comprehensive income (loss) and will remain until the hedged investment is sold or substantially liquidated.

Amounts included in earnings and other comprehensive income follow:

		GAIN (LOSS) TO EARNINGS			GAIN (LOSS) TO OCI		
		2018	2019	2020	2018	2019	2020
	<u>Location</u>						
Commodity	Cost of sales	\$ 13	(11)	(8)	(7)	(10)	10
Foreign currency	Sales	(2)	(7)	(5)	(11)	(8)	4
Foreign currency	Cost of sales	4	20	4	20	14	(25)
Foreign currency	Other deductions, net	(15)	66	(40)			
<b>Net Investment Hedge</b>							
Euro denominated debt					—	70	(123)
Total		\$ —	68	(49)	2	66	(134)

Regardless of whether derivatives and non-derivative financial instruments receive hedge 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 hedge accounting are highly effective and no amounts were excluded from the assessment of hedge effectiveness.

## FAIR VALUE MEASUREMENT

The estimated fair value of long-term debt was \$7.3 billion and \$5.3 billion, respectively, as of September 30, 2020 and 2019, which exceeded the carrying value by \$629 and \$469, respectively. The fair values of commodity and foreign currency contracts were reported in Other current assets and Accrued expenses as summarized below:

	2019		2020	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Commodity	\$ —	8	11	—
Foreign currency	\$ 29	12	26	25

## (10) Short-Term Borrowings and Lines of Credit

Short-term borrowings and current maturities of long-term debt are as follows:

	2019	2020
Current maturities of long-term debt	\$ 515	322
Commercial paper	929	838
Total	\$1,444	1,160
Interest rate for weighted-average short-term borrowings at year end	2.1%	0.1%

In May 2018, the Company entered into a \$3.5 billion five-year revolving backup credit facility with various banks, which replaced the April 2014 \$3.5 billion facility. The credit facility is maintained to support general corporate purposes, including commercial paper borrowings. The Company has not incurred any borrowings under this or previous facilities. The credit facility contains no financial covenants and is not subject to termination based on a change of credit rating or material adverse changes. The facility is unsecured and may be accessed under various interest rate and currency denomination alternatives at the Company's option. Fees to maintain the facility are immaterial.



## (11) Long-Term Debt

The details of long-term debt follow:

	2019	2020
4.875% notes due October 2019	\$ 500	—
4.25% notes due November 2020	300	300
2.625% notes due December 2021	500	500
2.625% notes due February 2023	500	500
0.375% notes due May 2024	545	586
3.15% notes due June 2025	500	500
1.25% notes due October 2025	545	586
0.875% notes due October 2026	—	750
1.8% notes due October 2027	—	500
2.0% notes due October 2029	545	586
1.95% notes due October 2030	—	500
6.0% notes due August 2032	250	250
6.125% notes due April 2039	250	250
5.25% notes due November 2039	300	300
2.75% notes due October 2050	—	500
Other	57	40
Long-term debt	4,792	6,648
Less: Current maturities	515	322
Total, net	\$4,277	6,326

Long-term debt maturing during each of the four years after 2021 is \$525, \$511, \$582 and \$497, respectively. Total interest paid on long-term debt was approximately \$163, \$195 and \$193 in 2020, 2019 and 2018, respectively. During the year, the Company repaid \$500 of 4.875% notes that matured in October 2019. In April 2020, the Company issued \$500 of 1.8% notes due October 2027, \$500 of 1.95% notes due October 2030 and \$500 of 2.75% notes due October 2050. In September 2020, the Company issued \$750 of 0.875% notes due October 2026.

In 2019, the Company repaid \$400 of 5.25% notes that matured in October 2018 and \$250 of 5.0% notes that matured in April 2019. In January 2019, the Company issued €500 of 1.25% notes due October 2025 and €500 of 2.0% notes due October 2029. In May 2019, the Company issued €500 of 0.375% notes due May 2024.

The Company maintains a universal shelf registration statement on file with the SEC under which it can issue debt securities, preferred stock, common stock, warrants, share purchase contracts or share purchase units without a predetermined limit. Securities can be sold in one or more separate offerings with the size, price and terms to be determined at the time of sale.

## (12) Pension and Postretirement Plans

Retirement plans expense includes the following components:

	U.S. PLANS			NON-U.S. PLANS		
	2018	2018	2020	2018	2019	2020
Defined benefit plans:						
Service cost (benefits earned during the period)	\$ 52	47	57	24	24	30
Interest cost	141	155	125	39	38	30
Expected return on plan assets	(283)	(281)	(268)	(67)	(68)	(72)
Net amortization and other	129	81	148	14	6	17
Net periodic pension expense	39	2	62	10	—	5
Defined contribution plans	132	125	112	52	56	56
Total retirement plans expense	\$ 171	127	174	62	56	61

Net periodic pension expense increased in 2020 primarily due to higher amortization expense. For defined contribution plans, the Company makes cash contributions based on plan requirements, which are expensed as incurred.



The Company's principal U.S. defined benefit plan is closed to employees hired after January 1, 2016 while shorter-tenured employees ceased accruing benefits effective October 1, 2016.

Details of the changes in the actuarial present value of the projected benefit obligation and the fair value of plan assets for defined benefit pension plans follow:

	U.S. PLANS		NON-U.S. PLANS	
	2019	2020	2019	2020
Projected benefit obligation, beginning	\$ 3,957	4,410	1,442	1,584
Service cost	47	57	24	30
Interest cost	155	125	38	30
Actuarial loss	608	260	216	3
Benefits paid	(206)	(202)	(36)	(37)
Settlements	(152)	(111)	(41)	(46)
Foreign currency translation and other	1	(14)	(59)	69
Projected benefit obligation, ending	\$ 4,410	4,525	1,584	1,633
Fair value of plan assets, beginning	\$ 4,233	4,208	1,243	1,284
Actual return on plan assets	316	466	135	58
Employer contributions	16	20	44	46
Benefits paid	(206)	(202)	(36)	(37)
Settlements	(152)	(111)	(41)	(46)
Foreign currency translation and other	1	2	(61)	62
Fair value of plan assets, ending	\$ 4,208	4,383	1,284	1,367
Net amount recognized in the balance sheet	\$ (202)	(142)	(300)	(266)
Location of net amount recognized in the balance sheet:				
Noncurrent asset	\$ 67	140	97	125
Current liability	(11)	(11)	(14)	(15)
Noncurrent liability	(258)	(271)	(383)	(376)
Net amount recognized in the balance sheet	\$ (202)	(142)	(300)	(266)
Pretax accumulated other comprehensive loss	\$(1,040)	(937)	(307)	(316)

Approximately \$159 of the \$1,253 of pretax losses deferred in accumulated other comprehensive income (loss) at September 30, 2020 will be amortized to expense in 2021. As of September 30, 2020, U.S. pension plans were underfunded by \$142 in total, including unfunded plans totaling \$223. The non-U.S. plans were underfunded by \$266, including unfunded plans totaling \$319.

As of the September 30, 2020 and 2019 measurement dates, the plans' total accumulated benefit obligation was \$5,859 and \$5,682, respectively. The total projected benefit obligation, accumulated benefit obligation and fair value of plan assets for individual plans with accumulated benefit obligations in excess of plan assets were \$1,153, \$1,034 and \$492, respectively, for 2020, and \$1,113, \$991 and \$456, respectively, for 2019.

Future benefit payments by U.S. plans are estimated to be \$212 in 2021, \$219 in 2022, \$225 in 2023, \$231 in 2024, \$235 in 2025 and \$1,219 in total over the five years 2026 through 2030. Based on foreign currency exchange rates as of September 30, 2020, future benefit payments by non-U.S. plans are estimated to be \$72 in 2021, \$72 in 2022, \$72 in 2023, \$78 in 2024, \$79 in 2025 and \$441 in total over the five years 2026 through 2030. The Company expects to contribute approximately \$50 to its retirement plans in 2021.



The weighted-average assumptions used in the valuation of pension benefits follow:

	U.S. PLANS			NON-U.S. PLANS		
	2018	2019	2020	2018	2019	2020
Net pension expense:						
Discount rate used to determine service cost	3.95%	4.33%	<b>3.40%</b>	2.6%	2.7%	<b>1.9%</b>
Discount rate used to determine interest cost	3.25%	3.98%	<b>2.87%</b>	2.6%	2.7%	<b>1.9%</b>
Expected return on plan assets	7.00%	7.00%	<b>6.75%</b>	5.7%	6.1%	<b>5.8%</b>
Rate of compensation increase	3.25%	3.25%	<b>3.25%</b>	3.4%	3.5%	<b>3.7%</b>
Benefit obligations:						
Discount rate	4.26%	3.22%	<b>2.81%</b>	2.7%	1.9%	<b>1.9%</b>
Rate of compensation increase	3.25%	3.25%	<b>3.25%</b>	3.5%	3.7%	<b>3.6%</b>

The discount rate for the U.S. retirement plans was 2.81 percent as of September 30, 2020. An actuarially developed, company-specific yield curve is used to determine the discount rate. To determine the service and interest cost components of pension expense for its U.S. retirement plans, the Company applies the specific spot rates along the yield curve, rather than the single weighted-average rate, to the projected cash flows to provide more precise measurement of these costs. The expected return on plan assets assumption is determined by reviewing the investment returns of the plans for the past 10 years plus longer-term historical returns of an asset mix approximating the Company's asset allocation targets, and periodically comparing these returns to expectations of investment advisors and actuaries to determine whether long-term future returns are expected to differ significantly from the past.

The Company's asset allocations at September 30, 2020 and 2019, and weighted-average target allocations follow:

	U.S. PLANS			NON-U.S. PLANS		
	2019	2020	TARGET	2019	2020	TARGET
Equity securities	53%	<b>49%</b>	45-55%	42%	<b>41%</b>	40-50%
Debt securities	46	<b>45</b>	40-50	47	<b>48</b>	45-55
Other	1	<b>6</b>	0-10	11	<b>11</b>	5-15
Total	100%	<b>100%</b>	100%	100%	<b>100%</b>	100%

The primary objective for the investment of pension assets is to secure participant retirement benefits by earning a reasonable rate of return. Plan assets are invested consistent with the provisions of the prudence and diversification rules of ERISA and with a long-term investment horizon. The Company continuously monitors the value of assets by class and routinely rebalances to remain within target allocations. The equity strategy is to minimize concentrations of risk by investing primarily in a mix of companies that are diversified across geographies, market capitalization, style, sectors and industries worldwide. The approach for bonds emphasizes investment-grade corporate and government debt with maturities matching a portion of the longer duration pension liabilities. The bonds strategy also includes a high-yield element which is generally shorter in duration. For diversification, a small portion of U.S. plan assets is allocated to private equity partnerships and real asset fund investments, providing opportunities for above market returns. Leveraging techniques are not used and the use of derivatives in any fund is limited and inconsequential.

The fair values of defined benefit pension assets as of September 30, organized by asset class and by the fair value hierarchy of ASC 820, *Fair Value Measurement*, follow. Investments valued based on the net asset value (NAV) of fund units held, as derived from the fair value of the underlying assets, are excluded from the fair value hierarchy.

	LEVEL 1	LEVEL 2	LEVEL 3	MEASURED AT NAV	TOTAL	PERCENTAGE
<b>2020</b>						
U.S. equities	\$ 785	10		536	1,331	23%
International equities	513	16		635	1,164	20%
Emerging market equities				237	237	4%
Corporate bonds		1,202		446	1,648	29%
Government bonds		450		531	981	17%
Other	4	8	133	244	389	7%
<b>Total</b>	<b>\$1,302</b>	<b>1,686</b>	<b>133</b>	<b>2,629</b>	<b>5,750</b>	<b>100%</b>



	LEVEL 1	LEVEL 2	LEVEL 3	MEASURED AT NAV	TOTAL	PERCENTAGE
2019						
U.S. equities	\$ 789	5	386	284	1,464	27%
International equities	459	15		615	1,089	20%
Emerging market equities				213	213	4%
Corporate bonds		1,008		464	1,472	27%
Government bonds		512		540	1,052	19%
Other	1	8	129	64	202	3%
Total	\$1,249	1,548	515	2,180	5,492	100%

### Asset Classes

U.S. equities reflect companies domiciled in the U.S., including multinational companies. International equities are comprised of companies domiciled in developed nations outside the U.S. Emerging market equities are comprised of companies domiciled in portions of Asia, Eastern Europe and Latin America. Corporate bonds represent investment-grade debt of issuers primarily from the U.S. Government bonds include investment-grade instruments issued by federal, state and local governments, primarily in the U.S. Other includes cash, interests in mixed asset funds investing in commodities, natural resources, agriculture, real estate and infrastructure funds, life insurance contracts (U.S.), and shares in certain general investment funds of financial institutions or insurance arrangements (non-U.S.) that typically ensure no market losses or provide for a small minimum return guarantee.

### Fair Value Hierarchy Categories

Valuations of Level 1 assets for all classes are based on quoted closing market prices from the principal exchanges where the individual securities are traded. Cash is valued at cost, which approximates fair value. Debt securities categorized as Level 2 assets are generally valued based on independent broker/dealer bids or by comparison to other debt securities having similar durations, yields and credit ratings. Valuation techniques and inputs for these assets include discounted cash flow analysis, earnings multiple approaches, recent transactions, transfer restrictions, prevailing discount rates, volatilities, credit ratings and other factors. In the Other class, interests in mixed asset funds are Level 2, and U.S. life insurance contracts and non-U.S. general fund investments and insurance arrangements are Level 3. Investments measured at NAV are primarily nonexchange-traded commingled or collective funds where the underlying securities have observable prices available from active markets and typically provide liquidity daily or within a few days. The NAV category also includes fund investments in private equities, real estate and infrastructure where the fair value of the underlying assets is determined by the investment manager. Total unfunded commitments for the private equity funds were approximately \$240 at September 30, 2020. These investments cannot be redeemed, but instead the funds will make distributions through liquidation of the underlying assets, which is expected to occur over approximately the next 10 years. The real estate and infrastructure funds typically offer quarterly redemption.

### Postretirement Plans

The Company also sponsors unfunded postretirement benefit plans (primarily health care) for certain U.S. retirees and their dependents. The Company's principal U.S. postretirement plan has been frozen to new employees since 1993. The postretirement benefit liability for all plans was \$135 and \$147 as of September 30, 2020 and 2019, respectively, and included deferred actuarial gains in accumulated other comprehensive income of \$106 and \$118, respectively. Service and interest costs are negligible and more than offset by the amortization of deferred actuarial gains, which resulted in net postretirement income of \$12 for each of the last three years. Benefits paid were \$12 and \$13 for 2020 and 2019, respectively, and the Company estimates that future health care benefit payments will be approximately \$12 per year for 2021 through 2025, and \$42 in total over the five years 2026 through 2030.

## (13) Contingent Liabilities and Commitments

The Company is a party to a number of pending legal proceedings and claims, including those involving general and product liability (including asbestos) and other matters, several of which claim substantial amounts of damages. The Company accrues for such liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. Accruals are based on developments to date; management's estimates of the outcomes of these matters; and the Company's experience in contesting, litigating and settling similar matters. The Company engages an outside expert to develop an actuarial estimate of its expected costs to resolve all pending and future asbestos claims, including defense costs, as well as its related insurance receivables. The reserve for asbestos litigation, which is recorded on an undiscounted basis, is based on projected claims through 2065.



Although it is not possible to predict the ultimate outcome of these matters, the Company historically has been largely successful in defending itself against claims and suits that have been brought against it, and will continue to defend itself vigorously in all such matters. While the Company believes a material adverse impact is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future development could have a material adverse impact on the Company. The Company enters into certain indemnification agreements in the ordinary course of business in which the indemnified party is held harmless and is reimbursed for losses incurred from claims by third parties, usually up to a prespecified limit. In connection with divestitures of certain assets or businesses, the Company often provides indemnities to the buyer with respect to certain matters including, for example, environmental or unidentified tax liabilities related to periods prior to the disposition. Because of the uncertain nature of the indemnities, the maximum liability cannot be quantified. As such, contingent liabilities are recorded when they are both probable and reasonably estimable. Historically, payments under indemnity arrangements have been inconsequential.

At September 30, 2020, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that management believes will be material in relation to the Company's financial statements, nor were there any material commitments outside the normal course of business.

## (14) Income Taxes

Pretax earnings consist of the following:

	2018	2019	2020
United States	\$1,652	1,771	1,360
Non-U.S.	1,015	1,088	975
Total pretax earnings	\$2,667	2,859	2,335

The principal components of income tax expense follow:

	2018	2019	2020
Current:			
U.S. federal	\$341	247	123
State and local	52	24	15
Non-U.S.	300	308	288
Deferred:			
U.S. federal	(224)	(2)	(44)
State and local	(11)	12	1
Non-U.S.	(15)	(58)	(38)
Income tax expense	\$443	531	345

Reconciliations of the U.S. federal statutory income tax rate to the Company's effective tax rate follow. For fiscal 2018, the U.S. federal statutory rate was 35 percent for one quarter and 21 percent for three quarters.

	2018	2019	2020
U.S. federal statutory rate	24.5%	21.0%	21.0%
State and local taxes, net of U.S. federal tax benefit	1.2	1.0	0.6
Non-U.S. rate differential	0.8	1.8	1.7
Non-U.S. tax holidays	(0.8)	(1.1)	(1.1)
Research and development credits	(0.2)	(0.3)	(1.8)
U.S. manufacturing deduction	(1.1)	—	—
Foreign derived intangible income	—	(1.1)	(1.2)
Gain on divestiture	1.0	—	—
Subsidiary restructuring	(2.0)	(2.6)	(4.4)
Transition impact of Tax Act	(7.1)	—	—
Other	0.3	(0.1)	—
Effective income tax rate	16.6%	18.6%	14.8%



The tax rates for 2020, 2019 and 2018 include benefits from restructuring subsidiaries of \$103 (\$0.17 per share), \$74 (\$0.12 per share) and \$53 (\$0.08 per share), respectively. The increase in research and development credits in the current year was due to the impact of a research and development tax credit study.

On December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "Tax Act"), which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. The Tax Act includes a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent in calendar year 2018 along with the elimination of certain deductions and credits, and a one-time "deemed repatriation" of accumulated non-U.S. earnings. During 2018, the Company recognized a net tax benefit of \$189 (\$0.30 per share) due to impacts of the Tax Act, consisting of a \$94 benefit on revaluation of net deferred income tax liabilities to the lower tax rate, \$35 of expense for the tax on deemed repatriation of accumulated non-U.S. earnings and withholding taxes, and the reversal of \$130 accrued in previous periods for the planned repatriation of non-U.S. cash. The Company completed its accounting for the Tax Act in the first quarter of fiscal 2019.

Effective in fiscal 2019, the Tax Act also subjects the Company to U.S. tax on global intangible low-taxed income earned by certain of its non-U.S. subsidiaries. The Company has elected to recognize this tax as a period expense when it is incurred.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic, and among other things, provides tax relief to businesses. Tax provisions of the CARES Act include the deferral of certain payroll taxes, relief for retaining employees, and other provisions. The Company expects to defer \$75 of certain payroll taxes through the end of calendar year 2020, of which \$48 was deferred through September 30, 2020.

Non-U.S. tax holidays reduce tax rates in certain jurisdictions and are expected to expire over the next two years.

Following are changes in unrecognized tax benefits before considering recoverability of any cross-jurisdictional tax credits (U.S. federal, state and non-U.S.) and temporary differences. The amount of unrecognized tax benefits is not expected to change significantly within the next 12 months.

	2019	2020
Unrecognized tax benefits, beginning	\$158	159
Additions for current year tax positions	15	25
Additions for prior year tax positions	18	29
Reductions for prior year tax positions	(22)	(8)
Acquisitions and divestitures	4	—
Reductions for settlements with tax authorities	(5)	—
Reductions for expiration of statutes of limitations	(9)	(10)
Unrecognized tax benefits, ending	\$159	195

If none of the unrecognized tax benefits shown is ultimately paid, the tax provision and the calculation of the effective tax rate would be favorably impacted by \$163, which is net of cross-jurisdictional tax credits and temporary differences. The Company accrues interest and penalties related to income taxes in income tax expense. Total interest and penalties recognized were \$1, \$4 and \$2 in 2020, 2019 and 2018, respectively. As of September 30, 2020 and 2019, total accrued interest and penalties were \$29 and \$27, respectively.

The U.S. is the major jurisdiction for which the Company files income tax returns. U.S. federal tax returns are closed for years through 2013. The status of state and non-U.S. tax examinations varies due to the numerous legal entities and jurisdictions in which the Company operates.



The principal items that gave rise to deferred income tax assets and liabilities follow:

	2019	2020
Deferred tax assets:		
Net operating losses, capital losses and tax credits	\$ 407	487
Accrued liabilities	228	219
Postretirement and postemployment benefits	36	33
Employee compensation and benefits	110	119
Pensions	95	69
Other	121	137
<b>Total</b>	<b>\$ 997</b>	<b>1,064</b>
Valuation allowances	\$(307)	(293)
Deferred tax liabilities:		
Intangibles	\$(637)	(652)
Property, plant and equipment	(195)	(212)
Undistributed non-U.S. earnings	(49)	(36)
Other	(39)	(33)
<b>Total</b>	<b>\$(920)</b>	<b>(933)</b>
<b>Net deferred income tax liability</b>	<b>\$(230)</b>	<b>(162)</b>

Total income taxes paid were approximately \$400, \$650 and \$680 in 2020, 2019 and 2018, respectively. Net operating losses, capital losses and tax credits include \$126 of capital losses expected to be recovered in the next 12 months. More than half of the remaining \$361 of net operating losses and tax credits expire over the next 9 years, while most of the remainder can be carried forward indefinitely.

## (15) Stock-Based Compensation

The Company's stock-based compensation plans include performance shares, restricted stock, restricted stock units, and stock options. Although the Company has discretion, shares distributed under these plans are issued from treasury stock.

Total compensation expense and income tax benefits for stock options and incentive shares follows. The Company's performance shares awards are marked-to-market each period based on changes in the stock price.

	2018	2019	2020
Performance shares	\$192	96	98
Restricted stock and restricted stock units	17	21	11
Stock options	7	3	1
<b>Total stock compensation expense</b>	<b>\$216</b>	<b>120</b>	<b>110</b>
Income tax benefits recognized	\$ 42	20	18

As of September 30, 2020, total unrecognized compensation expense related to unvested shares awarded under these plans was \$127, which is expected to be recognized over a weighted-average period of 1.7 years.

### PERFORMANCE SHARES, RESTRICTED STOCK AND RESTRICTED STOCK UNITS

The Company's incentive shares plans include performance shares awards which distribute the value of common stock to key management employees at the conclusion of a three-year period subject to certain operating performance conditions and other restrictions. The form of distribution is primarily shares of common stock, with a portion in cash in the first quarter following the end of the applicable three-year performance period. Dividend equivalents are only paid on earned awards after the performance period has concluded. Compensation expense for performance shares is recognized over the service period based on the number of shares ultimately expected to be earned. Performance shares awards are accounted for as liabilities in accordance with ASC 718, *Compensation - Stock Compensation*, with compensation expense adjusted at the end of each reporting period to reflect the change in fair value of the awards.



Information related to performance share payouts for the years ended September 30, 2019 and 2020 follows (shares in thousands):

	2019	2020
Performance period	2016 - 2018	2017 - 2019
Percent payout	97%	107%
Total shares earned	1,819	2,008
Shares distributed in cash, primarily for tax withholding	795	883

As of September 30, 2020, approximately 1,538,000 shares awarded primarily in 2018 were outstanding, contingent on the Company achieving its performance objectives through 2020. The objectives for these shares were met at the 100 percent level and the shares will be distributed in early 2021.

Additionally, the rights to receive approximately 1,592,000 and 1,381,000 common shares were awarded in 2020 and 2019, respectively, under the new performance shares program, and are outstanding and contingent upon the Company achieving its performance objectives through 2022 and 2021, respectively.

Incentive shares plans also include restricted stock awards and restricted stock units. Restricted stock awards involve distribution of common stock to key management employees subject to cliff vesting at the end of service periods ranging from three to ten years while restricted stock units granted to employees cliff vest at the end of a three-year period. The fair value of restricted stock awards and restricted stock units is determined based on the average of the high and low market prices of the Company's common stock on the date of grant, with compensation expense recognized ratably over the applicable vesting period. In 2020, approximately 173,000 shares of restricted stock vested as a result of participants fulfilling the applicable service requirements. Consequently, approximately 100,000 shares were issued while 73,000 shares were withheld for income taxes in accordance with minimum withholding requirements. As of September 30, 2020, there were approximately 1,405,000 shares of unvested restricted stock and restricted stock units outstanding.

In addition to the employee stock option and incentive shares plans, in 2020 the Company awarded approximately 19,000 shares of restricted stock and 2,000 restricted stock units under the restricted stock plan for non-management directors. As of September 30, 2020, approximately 119,000 shares were available for issuance under this plan.

As of September 30, 2020, 7.0 million shares remained available for award under incentive shares plans.

Changes in shares outstanding but not yet earned under incentive shares plans during the year ended September 30, 2020 follow (shares in thousands; assumes 100 percent payout of unvested awards):

	SHARES	AVERAGE GRANT DATE FAIR VALUE PER SHARE
Beginning of year	6,325	\$60.63
Granted	1,949	\$72.42
Adjustment for performance results achieved	131	\$51.98
Earned/vested	(2,259)	\$52.42
Canceled	(230)	\$67.59
End of year	5,916	\$67.22

Information related to incentive shares plans follows:

	2018	2019	2020
Total fair value of shares earned/vested	\$20	145	164
Share awards distributed in cash, primarily for tax withholding	\$ 9	73	81

## STOCK OPTIONS

There were no stock option grants in 2020 and 2019, and options granted in 2018 were immaterial. The Company's stock option plans permit key officers and employees to purchase common stock at specified prices, which are equal to 100 percent of the closing market price of the Company's stock on the date of grant. Options generally vest one-third in each of the three years subsequent to grant and expire 10 years from the date of grant. Compensation expense is recognized ratably over the vesting period based on the number of options expected to vest. As of September 30, 2020, 11.6 million options were available for grant under the plans.



Changes in shares subject to options during the year ended September 30, 2020 follow (shares in thousands):

	WEIGHTED- AVERAGE EXERCISE PRICE PER SHARE	SHARES	TOTAL INTRINSIC VALUE OF SHARES	AVERAGE REMAINING LIFE (YEARS)
Beginning of year	\$57.23	6,915		
Options granted	—	—		
Options exercised	\$55.43	(2,743)		
Options canceled	\$58.21	(39)		
End of year	\$58.42	4,133	\$31	3.9
Exercisable at end of year	\$58.41	4,126	\$31	3.9

Information related to stock options follows:

	2018	2019	2020
Cash received for option exercises	\$143	40	126
Intrinsic value of options exercised	\$ 53	16	47
Tax benefits related to option exercises	\$ 7	8	8

## (16) Common and Preferred Stock

At September 30, 2020, 29.4 million shares of common stock were reserved for issuance under the Company's stock-based compensation plans. During 2020, 16.4 million common shares were purchased and 3.4 million treasury shares were reissued. In 2019, 19.9 million common shares were purchased and 1.8 million treasury shares were reissued.

At September 30, 2020 and 2019, the Company had 5.4 million shares of \$2.50 par value preferred stock authorized, with none issued.

## (17) Accumulated Other Comprehensive Income (Loss)

Activity in Accumulated other comprehensive income (loss) is shown below:

	2018	2019	2020
Foreign currency translation			
Beginning balance	\$ (369)	(600)	(794)
Other comprehensive income (loss), net of taxes of \$0, \$(16) and \$29, respectively	(214)	(194)	83
Reclassified to gain/loss on sale of business	(17)	—	—
Ending balance	(600)	(794)	(711)
Pension and postretirement			
Beginning balance	(662)	(420)	(928)
Actuarial gains (losses) deferred during the period, net of taxes of \$(76), \$165 and \$15, respectively	250	(560)	(49)
Amortization of deferred actuarial losses into earnings, net of taxes of \$(29), \$(15) and \$(34), respectively	94	52	113
Adoption of accounting standard update	(102)	—	—
Ending balance	(420)	(928)	(864)
Cash flow hedges			
Beginning balance	12	5	—
Gains (Losses) deferred during the period, net of taxes of \$0, \$1 and \$2, respectively	2	(3)	(9)
Reclassifications of realized (gains) losses to sales and cost of sales, net of taxes of \$4, \$0 and \$(2), respectively	(11)	(2)	(7)
Adoption of accounting standard update	2	—	—
Ending balance	5	—	(2)
Accumulated other comprehensive income (loss)	\$(1,015)	(1,722)	(1,577)



## (18) Business Segments Information

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 Company reports three segments: **Automation Solutions**; and **Climate Technologies** and **Tools & Home Products**, which together comprise the Commercial & Residential Solutions business.

The **Automation Solutions** segment enables process, hybrid and discrete manufacturers to maximize production, protect personnel and the environment, reduce project costs, and optimize their energy efficiency and operating costs through a broad offering of integrated solutions, software, services and products, including measurement and analytical instrumentation, industrial valves and equipment, and process control software and systems. Markets served include oil and gas, refining, chemicals, power generation, life sciences, 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 control and pneumatic 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 mechanical, electrical, utility and do-it-yourself 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, electrical and utility tools, residential and commercial food waste disposers, and wet-dry vacuums.

The principal distribution method for each segment is direct sales forces, although the Company also uses independent sales representatives and distributors. Due to its global presence, certain of the Company's international operations are subject to risks including the stability of governments and business conditions in foreign countries which could result in adverse changes in exchange rates, changes in regulations or disruption of operations.

The primary income measure used for assessing segment performance and making operating decisions is earnings before interest and income taxes. Certain expenses are reported at Corporate, including stock compensation expense and a portion of pension and postretirement benefit costs. Corporate and other includes unallocated corporate expenses, acquisition/divestiture costs, first year acquisition accounting charges (which include fair value adjustments related to inventory, backlog and deferred revenue) and other items. Corporate assets are primarily comprised of cash and equivalents, investments and certain fixed assets. Summarized below is information about the Company's operations by business segment and by geography.



## BUSINESS SEGMENTS

	SALES			EARNINGS			TOTAL ASSETS		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
<b>Automation Solutions</b>	\$11,441	12,202	11,155	\$1,886	1,947	1,523	\$13,720	13,996	14,250
Climate Technologies	4,454	4,313	3,980	972	883	801	2,936	2,885	3,065
Tools & Home Products	1,528	1,856	1,663	380	388	317	1,560	1,462	1,491
<b>Commercial &amp; Residential Solutions</b>	5,982	6,169	5,643	1,352	1,271	1,118	4,496	4,347	4,556
<b>Corporate items:</b>									
Stock compensation				(216)	(120)	(110)			
Unallocated pension and postretirement costs				79	108	53			
Corporate and other				(275)	(173)	(93)	2,174	2,154	4,076
Eliminations/Interest	(15)	1	(13)	(159)	(174)	(156)			
<b>Total</b>	<b>\$17,408</b>	<b>18,372</b>	<b>16,785</b>	<b>\$2,667</b>	<b>2,859</b>	<b>2,335</b>	<b>\$20,390</b>	<b>20,497</b>	<b>22,882</b>

Automation Solutions sales by major product offering are summarized below:

	2018	2019	2020
Measurement & Analytical Instrumentation	\$ 3,604	3,807	3,237
Valves, Actuators & Regulators	3,749	3,794	3,589
Industrial Solutions	1,967	2,232	2,012
Process Control Systems & Solutions	2,121	2,369	2,317
<b>Total</b>	<b>\$11,441</b>	<b>12,202</b>	<b>11,155</b>

	DEPRECIATION AND AMORTIZATION			CAPITAL EXPENDITURES		
	2018	2019	2020	2018	2019	2020
<b>Automation Solutions</b>	\$488	535	557	\$295	297	308
Climate Technologies	171	176	184	209	222	158
Tools & Home Products	44	71	77	64	59	58
<b>Commercial &amp; Residential Solutions</b>	215	247	261	273	281	216
Corporate and other	55	40	36	49	16	14
<b>Total</b>	<b>\$758</b>	<b>822</b>	<b>854</b>	<b>\$617</b>	<b>594</b>	<b>538</b>

Depreciation and amortization includes intellectual property, customer relationships and capitalized software.

## GEOGRAPHIC INFORMATION

	AUTOMATION SOLUTIONS			COMMERCIAL & RESIDENTIAL SOLUTIONS			TOTAL		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Americas	\$ 5,517	5,850	5,051	\$3,967	4,253	3,896	\$ 9,484	10,103	8,947
Asia, Middle East & Africa	3,657	3,891	3,801	1,384	1,192	1,053	5,041	5,083	4,854
Europe	2,267	2,461	2,303	631	724	694	2,898	3,185	2,997
<b>Total</b>	<b>\$11,441</b>	<b>12,202</b>	<b>11,155</b>	<b>\$5,982</b>	<b>6,169</b>	<b>5,643</b>	<b>\$17,423</b>	<b>18,371</b>	<b>16,798</b>

Sales in the U.S. were \$7,420, \$8,390 and \$7,939 for 2020, 2019 and 2018, respectively, while Asia, Middle East & Africa includes sales in China of \$1,845, \$1,962 and \$1,955 in those years.



	PROPERTY, PLANT AND EQUIPMENT		
	2018	2019	2020
Americas	\$2,234	2,339	2,345
Asia, Middle East & Africa	652	671	679
Europe	676	632	664
Total	\$3,562	3,642	3,688

Assets located in the U.S. were \$2,124 in 2020, \$2,128 in 2019 and \$2,027 in 2018.

### (19) Other Financial Data

Items reported in earnings during the years ended September 30 included the following:

	2018	2019	2020
Research and development expense	\$436	454	439
Depreciation expense	\$444	463	485
Rent expense	\$279	285	239

Items reported in other noncurrent assets included the following:

	2019	2020
Operating lease right-of-use assets	\$ —	508
Pension assets	\$164	265
Asbestos-related insurance receivables	\$115	100
Deferred income taxes	\$ 97	99

Items reported in accrued expenses included the following:

	2019	2020
Customer advances (contract liabilities)	\$519	583
Employee compensation	\$606	577
Operating lease liabilities (current)	\$ —	148
Product warranty	\$140	148

Other liabilities are summarized as follows:

	2019	2020
Pension and postretirement liabilities	\$ 775	769
Operating lease liabilities (noncurrent)	—	373
Deferred income taxes	327	261
Asbestos litigation	313	295
Other	556	626
Total	\$1,971	2,324



## (20) Quarterly Financial Information (Unaudited)

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		FULL YEAR	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Net sales	\$4,147	<b>4,151</b>	4,570	<b>4,162</b>	4,684	<b>3,914</b>	4,971	<b>4,558</b>	18,372	<b>16,785</b>
Gross profit	\$1,761	<b>1,759</b>	1,925	<b>1,750</b>	2,001	<b>1,618</b>	2,128	<b>1,882</b>	7,815	<b>7,009</b>
Net earnings common stockholders	\$ 465	<b>326</b>	520	<b>517</b>	604	<b>399</b>	717	<b>723</b>	2,306	<b>1,965</b>
Net earnings per common share:										
Basic	\$ 0.74	<b>0.53</b>	0.85	<b>0.85</b>	0.98	<b>0.67</b>	1.17	<b>1.21</b>	3.74	<b>3.26</b>
Diluted	\$ 0.74	<b>0.53</b>	0.84	<b>0.84</b>	0.97	<b>0.67</b>	1.16	<b>1.20</b>	3.71	<b>3.24</b>
Dividends per common share	\$ 0.49	<b>0.50</b>	0.49	<b>0.50</b>	0.49	<b>0.50</b>	0.49	<b>0.50</b>	1.96	<b>2.00</b>

Earnings per share are computed independently each period; as a result, the quarterly amounts may not sum to the calculated annual figure.

Emerson Electric Co. common stock (symbol EMR) is listed on the New York Stock Exchange and NYSE Chicago.



## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Emerson Electric Co.:

### **Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Emerson Electric Co. and subsidiaries (the Company) as of September 30, 2020 and 2019, the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the years in the three-year period ended September 30, 2020, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2020, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### **Change in Accounting Principle**

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of October 1, 2019, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*.

### **Basis for Opinions**

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are



being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### **Sufficiency of Audit Evidence over Net Sales**

As discussed in Notes 1, 2 and 18 to the Company's consolidated financial statements, and disclosed in the consolidated statement of earnings, the Company recorded \$16.8 billion of net sales in 2020.

We identified the evaluation of the sufficiency of audit evidence over net sales as a critical audit matter. Net sales are recognized primarily from the sale of tangible products from hundreds of Company locations around the world. Evaluating the sufficiency of audit evidence obtained required especially subjective auditor judgment because of the geographical dispersion of the Company's net sales generating activities. This included determining the Company locations at which procedures were performed and the supervision and review of procedures performed at those locations.

The following are the primary procedures we performed to address this critical audit matter. We applied auditor judgment to determine the nature and extent of procedures to be performed over net sales, including the determination of the Company locations at which those procedures were to be performed. At each Company location where procedures were performed, we:

- Evaluated the design and tested the operating effectiveness of certain internal controls over the Company's net sales processes, including the Company's controls over the accurate recording of amounts.
- Assessed the recorded net sales by selecting a sample of transactions and compared the amounts recognized for consistency with underlying documentation, including contracts with customers and shipping documentation.

We evaluated the sufficiency of audit evidence obtained by assessing the results of procedures performed.

**KPMG LLP**

We or our predecessor firms have served as the Company's auditor since 1938.

St. Louis, Missouri  
November 16, 2020



## Five-Year Summary

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts or where noted

Results presented in accordance with U.S. GAAP

	2016	2017	2018	2019	2020
<b>Summary of Operations</b>					
Net sales	\$ 14,522	15,264	17,408	18,372	16,785
Gross profit	\$ 6,262	6,431	7,432	7,815	7,009
Interest expense, net	\$ 188	165	159	174	156
Earnings from continuing operations common stockholders	\$ 1,590	1,643	2,203	2,306	1,965
Percent of net sales	11.0%	10.8%	12.7%	12.6%	11.7%
Operating cash flow from continuing operations	\$ 2,499	2,690	2,892	3,006	3,083
Return on common stockholders' equity	20.9%	18.6%	24.9%	26.8%	23.6%
<b>Per Share of Common Stock</b>					
Diluted EPS – Earnings from continuing operations	\$ 2.45	2.54	3.46	3.71	3.24
Cash dividends	\$ 1.90	1.92	1.94	1.96	2.00
Book value	\$ 11.77	13.59	14.22	13.47	14.06
<b>Year-End Financial Position</b>					
Operating working capital	\$ 1,354	1,007	985	1,113	866
Percent of net sales	6.7%	6.6%	5.7%	6.1%	5.2%
Property, plant and equipment, net	\$ 3,542	3,321	3,562	3,642	3,688
Total assets	\$ 21,732	19,589	20,390	20,497	22,882
Long-term debt	\$ 4,051	3,794	3,137	4,277	6,326
Common stockholders' equity	\$ 7,568	8,718	8,947	8,233	8,405
Total debt-to-total capital	46.7%	34.8%	34.7%	41.0%	47.1%
Net debt-to-net capital	31.3%	15.4%	29.1%	33.9%	33.2%
<b>Other Data</b>					
Capital expenditures	\$ 447	476	617	594	538
Depreciation	\$ 391	414	444	463	485
Total taxes, including income taxes	\$ 1,086	1,748	901	1,001	803
Salaries and wages	\$ 3,281	3,478	3,907	4,239	4,132
Number of employees	74,500	76,500	87,500	88,000	83,500
Approximate number of common stockholders					
of record at year end	19,724	19,066	18,343	17,776	17,200
Average common shares – diluted (in thousands)	646,837	643,351	635,323	620,595	606,575

The information presented above reflects the Company's results from continuing operations for all years presented. See Note 4 for information regarding the Company's acquisition and divestiture activities for the last three years, Note 6 for information regarding restructuring activities, and Note 14 for information regarding income taxes, including the effect of U.S. tax reform in 2018.



## Board of Directors

### CHAIRMAN OF THE BOARD

**David N. Farr**  
St. Louis, Missouri  
Chairman and Chief Executive Officer, Emerson

### INDEPENDENT DIRECTORS

**Mark A. Blinn**  
Dallas, Texas

Retired President and Chief Executive Officer, Flowsolve Corporation

**Clemens A. H. Boersig**  
Lead Independent Director  
Frankfurt, Germany  
Retired Chairman, The Supervisory Board, Deutsche Bank AG

**Joshua B. Bolten**  
Washington, District of Columbia  
President and Chief Executive Officer, Business Roundtable

**Martin S. Craighead**  
Houston, Texas  
Retired Chairman, President and Chief Executive Officer, Baker Hughes Incorporated

**William H. Easter III**  
Houston, Texas  
Retired Chairman, President and Chief Executive Officer, DCP Midstream LLC

**Gloria A. Flach**  
Marriottsville, Maryland  
Retired Corporate Vice President and Chief Operating Officer, Northrop Grumman Corporation

**Arthur F. Golden**  
New York, New York  
Senior Counsel, Davis Polk & Wardwell LLP

**Candace Kendle**  
Boca Grande, Florida  
Retired Chairman and Chief Executive Officer, Kendle International Inc.

**Lori M. Lee**  
Dallas, Texas  
Chief Executive Officer AT&T Latin America, Global Marketing Officer, AT&T Inc.

**Matthew S. Levatich**  
Milwaukee, Wisconsin  
Former President and Chief Executive Officer, Harley-Davidson Inc.

**James S. Turley**  
St. Louis, Missouri  
Retired Chairman of the Board and Chief Executive Officer, Ernst & Young LLP

### COMMITTEES

**Executive Committee**  
David N. Farr, Chair  
Clemens A. H. Boersig  
Joshua B. Bolten  
Arthur F. Golden  
James S. Turley

**Audit Committee**  
James S. Turley, Chair  
Mark A. Blinn  
Candace Kendle  
Lori M. Lee  
Matthew S. Levatich

**Compensation Committee**  
Clemens A. H. Boersig, Chair  
Mark A. Blinn  
Martin S. Craighead  
William H. Easter III  
Gloria A. Flach

**Finance Committee**  
Arthur F. Golden, Chair  
Clemens A. H. Boersig  
William H. Easter III  
Gloria A. Flach  
Lori M. Lee  
Matthew S. Levatich

**Corporate Governance and Nominating Committee**  
Joshua B. Bolten, Chair  
Martin S. Craighead  
Candace Kendle  
James S. Turley

### ADVISORY DIRECTORS

**Frank J. Dellaquila**  
Senior Executive Vice President, Chief Financial Officer

**Michael H. Train**  
President

**Steven J. Pelch**  
Executive Vice President, Chief Operating Officer

**James (Jamie) Froedge**  
Executive President, Commercial & Residential Solutions

**S. Lal Karsanbhai**  
Executive President, Automation Solutions

## Management

### EXECUTIVE OFFICERS

**David N. Farr**  
Chairman and Chief Executive Officer

**Frank J. Dellaquila**  
Senior Executive Vice President, Chief Financial Officer

**Michael H. Train**  
President

**Steven J. Pelch**  
Executive Vice President, Chief Operating Officer

**James (Jamie) Froedge**  
Executive President, Commercial & Residential Solutions

**S. Lal Karsanbhai**  
Executive President, Automation Solutions

**Sara Yang Bosco**  
Senior Vice President, Secretary and General Counsel

**Mark J. Bulanda**  
Senior Vice President, Planning and Development

**Katherine Button Bell**  
Senior Vice President, Chief Marketing Officer

**Michael J. Baughman**  
Vice President, Controller and Chief Accounting Officer



## Reconciliation of Non-GAAP Measures

### RECONCILIATION OF NON-GAAP MEASURES

Dollars in millions, except per share amounts

	2017*	2019	2020	CAGR '17 - '20	CHANGE '19 - '20
Pretax earnings (GAAP)	\$2,335	\$2,859	<b>\$2,335</b>	- %	(18)%
Interest expense, net	165	174	<b>156</b>	- %	- %
EBIT (non-GAAP)	\$2,500	\$3,033	<b>\$2,491</b>	- %	(18)%
Restructuring costs and special advisory fees	78	95	<b>317</b>	3 %	8 %
First year acquisition accounting charges	93	-	-	(1)%	- %
Adjusted EBIT (non-GAAP)	\$2,671	\$3,128	<b>\$2,808</b>	2 %	(10)%
Amortization / depreciation	636	822	<b>854</b>	1 %	3 %
Adjusted EBITDA (non-GAAP)	\$3,307	\$3,950	<b>\$3,662</b>	3 %	(7)%

	2017*	2019	2020	CAGR '17 - '20	CHANGE '19 - '20
Net earnings (GAAP)	\$1,643	\$2,306	<b>\$1,965</b>	6 %	(15)%
Restructuring costs and special advisory fees	53	72	<b>257</b>	3 %	8 %
Discrete tax benefits	(47)	(87)	<b>(119)</b>	(1)%	(1)%
First year acquisition accounting charges	65	-	-	(1)%	- %
Adjusted net earnings (GAAP)	\$1,714	\$2,291	<b>\$2,103</b>	7 %	(8)%

	2017*	2019	2020	CAGR '17 - '20	CHANGE '19 - '20
Earnings per share (GAAP)	\$ 2.54	\$ 3.71	<b>\$ 3.24</b>	8 %	(13)%
Restructuring costs and special advisory fees	0.08	0.12	<b>0.42</b>	3 %	9 %
Discrete tax benefits	(0.07)	(0.14)	<b>(0.20)</b>	(1)%	(2)%
First year acquisition accounting charges	0.10	-	-	(1)%	- %
Adjusted earnings per share (non-GAAP)	\$ 2.65	\$ 3.69	<b>\$ 3.46</b>	9 %	(6)%

	2017*	2019	2020	CAGR '17 - '20	CHANGE '19 - '20
Operating cash flow (GAAP)	\$2,690	\$3,006	<b>\$3,083</b>	5 %	3 %
Capital expenditures	(476)	(594)	<b>(538)</b>	- %	3 %
Free cash flow (non-GAAP)	\$2,214	\$2,412	<b>\$2,545</b>	5 %	6 %

	2017*	2019	2020
Dividends as a percent of operating cash flow (GAAP)	46%	40%	<b>39%</b>
Capital expenditures	10%	10%	<b>9%</b>
Dividends as a percent of free cash flow (non-GAAP)	56%	50%	<b>48%</b>

\*2017 results presented on a continuing operations basis.



## Shareholders' Information

### SAFE HARBOR STATEMENT

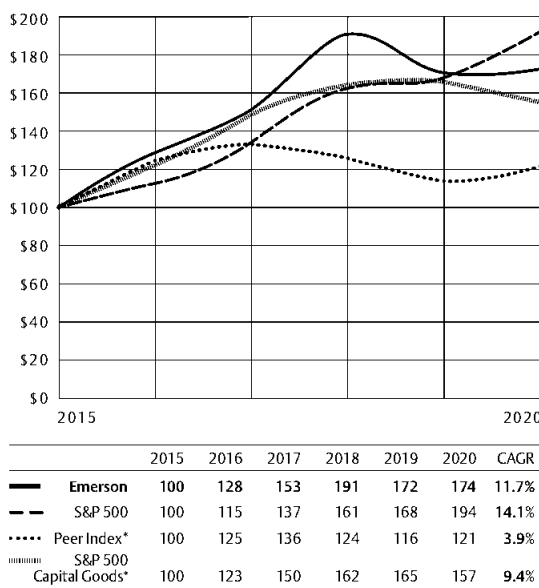
This Annual Report contains various forward-looking statements and includes assumptions concerning Emerson's operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Emerson undertakes no obligation to update any such statements to reflect later developments. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Emerson provides the following cautionary statements identifying important economic, political and technological factors, among others, changes in which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include, but are not limited to, the following: (1) the current and future business environment, including capital and consumer spending, potential volatility of the end markets served, interest rates, and currency exchange rates; (2) competitive factors and competitor responses to Emerson initiatives; (3) development and market introduction of anticipated new products; (4) the ability to defend and protect our intellectual property rights; (5) favorable environments for and execution of acquisitions and divestitures, domestic and foreign, including regulatory requirements and market values of candidates; (6) integration of acquisitions and separation of disposed businesses; (7) the availability of raw materials and purchased components; (8) stability of governments and business conditions in countries where we operate which could result in adverse changes in exchange rates, changes in regulation, tariffs or trade barriers, nationalization of facilities or disruption of operations; (9) unrestricted access to capital markets; (10) our ability to attract, develop and retain key personnel; (11) ability to prevent security breaches or disruptions of our information technology systems; (12) impact of potential product failures or similar events caused by product defects, cybersecurity incidents or other intentional acts; (13) the scope, duration and ultimate impact of the COVID-19 pandemic (as well as oil and gas price declines and volatility) on the global economy and our customers; (14) changes in tax rates, laws or regulations and the resolution of tax disputes in U.S. and non-U.S. jurisdictions; (15) the impact of improper conduct by our employees, agents or business partners; and (16) the outcome of pending and future litigation, including environmental compliance.

Statements in this Annual Report regarding our aspirational purpose, causes, values, and related commitments, goals or targets, including those regarding sustainability, greenhouse gas emissions, inclusion or other initiatives, contain forward-looking statements and are also intended to qualify for the protections of the "safe harbor" protections of the Private Securities Litigation Reform Act of 1995. Such statements

are intended to help Emerson adapt and rise to the call of our various stakeholders. Because success in these areas depends on the collective efforts of others and other factors such as competing economic and regulatory factors, technical advances, policy changes, and supplier and customer engagement, there may be times where actual outcomes vary from those expected. While we strive to live our purpose and make a positive impact on society while continuing to advance towards our commitments, sometimes challenges may delay or block progress and we cannot assure you that the results reflected or implied by any such statements will be realized or achieved.

### COMPARISON OF FIVE-YEAR CUMULATIVE SHAREHOLDER RETURN



\$100 invested on 9/30/15 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.

\*The company has included the S&P 500 Capital Goods Index as a more complete and relevant comparison than the peer index which has been used in prior years. The historic peer index includes ABB Ltd, General Electric, Honeywell, Rockwell Automation, Schneider Electric, Siemens, Raytheon Technologies, and 3M and has been included in this graph for one last year for comparison purposes. Returns for each company in the peer comparator group have been weighted according to that company's respective stock market capitalization according to the beginning of each period for which a return is indicated.

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## REGISTRAR AND TRANSFER AGENT

By Mail:  
Computershare, Inc.  
Attention: Emerson Electric Co.  
P.O. Box 505000  
Louisville, KY 40233

By Phone:  
Toll-Free: (888) 213-0970  
TDD for Hearing Impaired: (800) 231-5469  
Foreign Shareholders: (201) 680-6578  
TDD Foreign Shareholders: (201) 680-6610

By Internet:  
[www.computershare.com/investor](http://www.computershare.com/investor)

All other inquiries should be addressed to:  
Emerson Investor Relations Department  
8000 W. Florissant Ave.  
St. Louis, MO 63136-8506  
Telephone: (314) 553-2197

## SHAREHOLDER SERVICES

Inquiries regarding dividend payments, loss or nonreceipt of a stock certificate or dividend check, stock transfers (including name changes), tax information and address changes should be directed to Computershare.

## DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Plan is administered by Computershare, for individual investors who want a convenient way to purchase or sell Emerson Electric Co. stock (NYSE:EMR). Only registered holders of Emerson common stock can participate, however, an initial purchase can be made directly through the Plan. The Plan provides the opportunity to reinvest dividends and is an alternative to traditional methods of buying and selling Emerson common stock. The Plan is not sponsored or administered by Emerson. For further information and an authorization form, contact Computershare.

## DIRECT DEPOSIT OF DIVIDENDS

Stockholders may elect to have dividends electronically deposited into a checking or savings account. For details, contact Computershare.

## DUPLICATE MAILINGS

When stockholders own shares in more than one account or when several stockholders live at the same address, they may receive multiple copies of the annual report. To eliminate duplicate copies, contact Computershare.

## INTERNET ACCESS

Corporate news releases, Forms 10-K, 10-Q and 8-K, the Annual Report, and other information about the Company are available at [www.emerson.com](http://www.emerson.com)

## ANNUAL MEETING

The annual meeting of shareholders is scheduled to be held at 10 a.m. CST, Tuesday, February 2, 2021 in Emerson's World Headquarters Building, 8000 W. Florissant Ave., St. Louis, Missouri 63136. Notice of the meeting, proxy statement and proxy were sent or made available to stockholders with this annual report.

## 10-K REPORT

The Company's 2020 Annual Report on Form 10-K for the fiscal year ended September 30, 2020 filed with the U.S. Securities and Exchange Commission (the "Form 10-K") is available to shareholders without charge by contacting the Emerson Investor Relations Department or by accessing the investor section of our company's website at [www.emerson.com](http://www.emerson.com), Investors, or by going to the SEC's website at [www.sec.gov](http://www.sec.gov). The Company's Chief Executive Officer and Chief Financial Officer have furnished the required Form 10-K certifications.

## ENVIRONMENTAL PROGRAMS

Information on Emerson's environmental programs may be obtained by contacting:  
Emerson Environmental Affairs Department  
8000 W. Florissant Ave.  
P.O. Box 4100  
St. Louis, MO 63136-8506

## ANNUAL REPORT

Included in this 2020 Annual Report are financial and operating highlights and summary financial information. Please refer to the Company's Form 10-K for important financial and business information, including Risk Factors, market risk, description of industry segments, and risks of foreign operations. You should read the Form 10-K in connection with this 2020 Annual Report.



**Emerson**

World Headquarters  
8000 W. Florissant Ave.  
P.O. Box 4100  
St. Louis, MO 63136  
Emerson.com



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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2020  
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  
(State or other jurisdiction of  
incorporation or organization)  
  
8000 W. Florissant Ave.  
P.O. Box 4100  
St. Louis, Missouri  
(Address of principal executive offices)



43-0259330  
(I.R.S. Employer Identification No.)

63136  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock of \$0.50 par value per share	EMR	New York Stock Exchange NYSE Chicago
0.375% Notes due 2024	EMR 24	New York Stock Exchange
1.250% Notes due 2025	EMR 25A	New York Stock Exchange
2.000% Notes due 2029	EMR 29	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 every Interactive Data File required to be submitted 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 such files). Yes  No



Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer

Non-accelerated filer

Accelerated filer

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issues its audit report.

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

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of close of business on March 31, 2020: \$28.3 billion.

Common stock outstanding at October 31, 2020: 598,039,467 shares.

#### Documents Incorporated by Reference

1. Portions of Emerson Electric Co. Notice of 2021 Annual Meeting of Shareholders and Proxy Statement incorporated by reference into Part III hereof.



## PART I

### Item 1 – Business

Emerson (“the Company”) is a global leader that 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. Our purpose is to drive innovation that makes the world healthier, safer, smarter and more sustainable. Sales by geographic destination in 2020 were: the Americas, 53 percent; Europe, 18 percent; and Asia, Middle East & Africa, 29 percent (China, 11 percent).

The Company reports three segments: **Automation Solutions**; and **Climate Technologies** and **Tools & Home Products**, which together comprise the **Commercial & Residential Solutions** business. A summary of the Company’s businesses is described below.

- **Automation Solutions** – 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 products and integrated solutions, including measurement and analytical instrumentation, industrial valves and equipment, and process control software and systems.
- **Commercial & Residential Solutions** – 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 Company sells products and solutions that support customers in a variety of different end markets. Overall, sales by end market were as follows: oil and gas, 19 percent (upstream, 12 percent; midstream, 7 percent); residential, 15 percent; chemical, 11 percent; power, 10 percent; commercial, 9 percent; discrete and industrial, 9 percent; cold chain/ refrigeration, 8 percent; refining, 6 percent; life sciences and medical, 3 percent; other, 10 percent.

Emerson was incorporated in Missouri in 1890 and has evolved through internal growth and strategic acquisitions. Management has a well-established set of operating mechanisms to manage its business performance and set strategy. The Company also has processes undertaken by management with oversight from the Board of Directors to specifically focus on risks in areas such as cybersecurity, compliance, environmental, financial and reputational, among others. The Company periodically updates, assesses, and monitors its risk exposures, provides timely updates to the Board, and takes actions to mitigate these risks.

Acquisitions are an integral component of Emerson’s growth and value creation strategy. In 2018, the Company expanded its product offerings within its two businesses. This included the acquisitions of Paradigm, a provider of software solutions for the oil and gas industry, and Aventics, a global provider of smart pneumatics technologies, which are reported in Automation Solutions. The Company also made strategic acquisitions to strengthen its Commercial & Residential Solutions business, which included Textron’s tools and test equipment business, a manufacturer of electrical and utility tools, diagnostics, and test and measurement instruments. In the first quarter of 2018 the Company also completed the sale of its residential storage business. In 2019, the Company acquired several smaller businesses to expand its Automation Solutions product portfolio, which included the acquisition of Machine Automation Solutions (General Electric’s former Intelligent Platforms business). In 2020, the Company agreed to acquire Open Systems International, Inc. (closed in early fiscal 2021), a leading operations technology software provider, which will broaden and complement Automation Solutions’ software portfolio and ability to help customers in the global power industry, and other end markets, transform and digitize operations to more seamlessly incorporate renewable energy sources and improve energy efficiency and reliability. Information with respect to acquisition and divestiture activity is set forth in Note 4. These references and all other Note references in this document refer to Notes to Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K, which notes are hereby incorporated by reference. See also Item 1A - “Risk Factors” and Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### AUTOMATION SOLUTIONS

The Automation Solutions segment offers a broad array of products, integrated solutions, software and services which enable process, hybrid and discrete manufacturers to maximize production, protect personnel and the environment, reduce project costs, and optimize their energy efficiency and operating costs. Markets served include oil and gas, refining, chemicals, power generation, life sciences, food and beverage, automotive, pulp and paper, metals and mining, and municipal water supplies. The segment’s major product offerings are Measurement & Analytical Instrumentation, Valves, Actuators & Regulators, Industrial Solutions and Process Control Systems & Solutions, which are further described below.

Across these product offerings, Automation Solutions offers the Plantweb™ Digital Ecosystem, a comprehensive Industrial Internet of Things (IIoT) architecture that provides remote monitoring by combining intelligent field sensors, communication gateways and controllers, software, and complementary partner technologies. This IIoT architecture



2 2020 Emerson Form 10-K

delivers measurable business performance improvements to customers by providing insights into production performance, energy consumption, reliability of specific equipment or process units, and safety. Together with the broad offering of products and integrated solutions, Automation Solutions also provides a portfolio of services and lifecycle service centers which offer consulting, engineering, systems development, project management, training, maintenance, and troubleshooting expertise to aid in process optimization. Sales by geographic destination in 2020 for Automation Solutions were: the Americas, 45 percent; Europe, 21 percent; and Asia, Middle East & Africa, 34 percent (China, 12 percent).

#### **Measurement & Analytical Instrumentation**

Measurement instrumentation measures the physical properties of liquids or gases in a process stream, such as pressure, temperature, level, rate and amount of flow, and communicates this information to a process control system or other software applications. Measurement technologies provided by the Company include Coriolis direct mass flow, magnetic flow, vortex flow, ultrasonic flow, differential pressure, ultra-low flow fluid measurement, corrosion measurement, acoustic measurement, temperature sensors, radar-based tank gauging and magnetic level gauging. The Company's measurement products are often used in custody transfer applications, such as the transfer of gasoline from a storage tank to a tanker truck, where precise metering of the amount of fluid transferred helps ensure accurate asset management. Complementary products include onshore and subsea multi-phase meters, wet gas meters, downhole gauges and corrosion/erosion measuring instruments.

Analytical instrumentation analyzes the chemical composition of process fluids and emissions to enhance quality and efficiency, as well as environmental compliance. The Company's analytical technologies include process gas chromatographs, in-situ oxygen analyzers, infrared gas and process fluid analyzers, combustion analyzers and systems, and analyzers that measure pH, conductivity and water quality. The Company provides sensors to detect combustible and toxic gases, and flames. These devices support the safety of both people and process plant assets.

Measurement and analytical instrumentation technologies are also available with highly secure and reliable wireless communication capability, allowing customers to monitor processes or equipment that were previously not measurable (remote, moving/rotating) or not economical to measure due to the high cost and difficulty of running wires in industrial process plants.

On December 1, 2017, the Company acquired Paradigm, enhancing its software solutions offerings in the oil and gas industry. This technology helped create a more comprehensive digital portfolio from exploration to production, enabling Emerson to help oil and gas operators increase efficiency and reduce costs. See Note 4.

#### **Valves, Actuators & Regulators**

The primary role of an industrial valve is to control, isolate, or regulate the flow of liquids or gases to achieve safe operation along with reliability and optimized performance.

Control, isolation and pressure relief valves respond to commands from a control system to continuously and precisely modulate the flow of process fluids. Engineered on/off valves are typically used to achieve tight shutoff, even in high-pressure and high-temperature processes. The Company designs, engineers and manufactures ball, gate, globe, check, sliding stem, rotary, high performance butterfly, triple offset, and severe services valves for critical applications. The Company also designs and manufactures sophisticated smart actuation and control technologies that continuously monitor valve health and remotely control valve positions to foster proactive and predictive maintenance as well as decrease the risk of unplanned shutdowns.

The Company provides pressure management products, including pressure relief, vacuum relief, and gauge valves designed to control fugitive emissions. The Company also supplies a line of industrial and residential regulators, whose function is to reduce the pressure of fluids moving from high-pressure supply lines into lower pressure systems, and also manufactures tank and terminal safety equipment, including hatches, vent pressure and vacuum relief valves, and flame arrestors for storage tanks in the oil and gas, petrochemical, refining and other process industries.

#### **Industrial Solutions**

Industrial Solutions include fluid control and pneumatic mechanisms, electrical distribution equipment, materials joining solutions and precision cleaning products which are used in a variety of manufacturing operations to provide integrated solutions to customers. Pneumatic products transform air or gas into energy and power for use in manufacturing operations such as food processing and packaging, life sciences and petrochemical processing. Products include solenoid and pneumatic valves, valve position indicators, pneumatic cylinders and actuators, air preparation equipment, and pressure, vacuum, temperature switches and automobile assembly. Electrical distribution consists of a broad line of components for current- and noncurrent-



carrying electrical distribution devices, including conduit and cable fittings, plugs and other receptacles, industrial lighting, enclosures and controls. Electrical distribution products are used in hazardous, industrial and commercial environments, such as oil and gas drilling and production sites, petrochemical plants and commercial buildings. Plastic and metal joining technologies and equipment are supplied to a diversified manufacturing customer base, including automotive, medical devices, business and consumer electronics, and textile manufacturing. The Company also provides precision cleaning and liquid processing solutions to industrial and commercial manufacturers. Products include ultrasonic joining and cleaning equipment; linear and orbital vibration welding equipment; systems for hot plate, spin and laser welding; and aqueous, semi-aqueous and vapor cleaning systems.

On July 17, 2018, the Company completed the acquisition of Aventics, a global provider of smart pneumatics technologies that power machine and factory automation applications. This acquisition significantly expanded Emerson's fluid automation technologies for process and industrial applications. See Note 4.

#### **Process Control Systems & Solutions**

The Company provides process control systems and software that control plant processes by collecting and analyzing information from measurement devices in the plant, and then use that information to adjust valves, pumps, motors, drives and other control hardware for maximum product quality and process efficiency and safety. Software capabilities also include life sciences operations management, upstream oil and gas reservoir simulation and production optimization modeling, pipeline and terminal management, operations management simulation, and training systems. The Company's process control systems can be extended wirelessly to support a mobile workforce with handheld tools/communicators, provide site-wide location tracking of people and assets, and enable video monitoring and communication with wireless field devices, thereby increasing the information available to operators.

On January 31, 2019, the Company completed the acquisition of Machine Automation Solutions (General Electric's former Intelligent Platforms business). This business offers programmable logic controller technologies that expand the Company's capabilities in machine control and discrete applications, as well as for process and hybrid markets. The Company also completed several acquisitions of software providers, including Zedi, which offers a cloud-based supervisory control and data acquisition platform that helps oil and gas producers optimize and manage their operations. See Note 4.

#### **Distribution**

The principal worldwide distribution channel for Automation Solutions is a direct sales force, while a network of independent sales representatives, and to a lesser extent independent distributors purchasing products for resale, are also utilized. Approximately half of the sales in the United States are made through a direct sales force with the remainder primarily through independent sales representatives and distributors. In Europe and Asia, sales are primarily made through a direct sales force with the remainder split evenly between independent sales representatives and distributors.

#### **Brands**

Service/trademarks and trade names within (but not exclusive to) Automation Solutions include Emerson Automation Solutions, Appleton, ASCO, Aventics, Bettis, Branson, DeltaV, Fisher, Keystone, KTM, Micro Motion, Ovation, Plantweb, Rosemount and Vanessa.

#### **COMMERCIAL & RESIDENTIAL SOLUTIONS**

The Commercial & Residential Solutions business consists of the Climate Technologies and Tools & Home Products segments. The Climate Technologies segment 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. The Tools & Home Products segment offers a broad range of mechanical, electrical, utility and do-it-yourself tools for professionals and consumers, and appliance solutions. Sales by geographic destination in 2020 for Commercial & Residential Solutions were: the Americas, 69 percent; Europe, 12 percent; and Asia, Middle East & Africa, 19 percent (China, 9 percent).

#### **CLIMATE TECHNOLOGIES**

The Climate Technologies segment provides products and services for many areas of the climate control industry, including residential heating and cooling, commercial air conditioning, commercial and industrial refrigeration, and cold chain management. The Company's technologies enable homeowners and businesses to better manage their heating, air conditioning and refrigeration systems for improved control and comfort, and lower energy costs. Climate Technologies also provides services that digitally control and remotely monitor refrigeration units in grocery stores and other food distribution outlets to enhance food freshness and safety, as well as cargo and transportation monitoring solutions. Sales by geographic destination in 2020 for Climate Technologies were: the Americas, 65 percent; Europe, 11 percent; and Asia, Middle East & Africa, 24 percent (China, 11 percent).



4 2020 Emerson Form 10-K

## **Residential and Commercial Heating and Air Conditioning**

The Company provides a full range of heating and air conditioning products that help reduce operational and energy costs and create comfortable environments in all types of buildings. These products include reciprocating and scroll compressors, including ultra-efficient residential scroll compressors with two stages of cooling capacity, as well as variable speed scroll compressors; system protector and flow control devices; standard, programmable and Wi-Fi thermostats; monitoring equipment and electronic controls for gas and electric heating systems; gas valves for furnaces and water heaters; ignition systems for furnaces; sensors and thermistors for home appliances; and temperature sensors and controls.

## **Commercial and Industrial Refrigeration**

Commercial and industrial refrigeration technologies are incorporated into equipment to refrigerate food and beverages in supermarkets, convenience stores, food service operations, refrigerated trucks and refrigerated marine transport containers. Climate Technologies refrigeration products are also used in a wide variety of industrial applications, including medical applications, food processing and cold storage. Products include reciprocating, scroll and screw compressors; precision flow controls; system diagnostics and controls that provide precise temperature management; and environmental control systems. Transport and cargo monitoring solutions are also offered, which extend throughout the cold chain to ensure quality and safety as food travels from growers to processing and distribution facilities, and finally to retail points of sale.

## **Services and Solutions**

Services and solutions provides air conditioning, refrigeration and lighting control technologies that enable global customers to optimize the performance of facilities, including large-scale retailers, supermarkets, convenience stores and food service operations. The Company's expertise allows customers to reduce energy and maintenance costs, thereby improving overall facility efficiency and uptime. In addition to industry-leading controls, services include facility design and product management, site commissioning, facility monitoring and energy modeling.

In 2018, the Company completed an acquisition to expand its cold chain portfolio of products and services to include temperature management and monitoring products for foodservice markets.

## **Distribution**

Climate Technologies' sales, primarily to original equipment manufacturers and end users, are made predominantly through worldwide direct sales forces. Remaining sales are primarily through independent distributor networks throughout the world. Approximately one-third of this segment's sales are made to a small number of original equipment manufacturers.

## **Brands**

Service/trademarks and trade names within (but not exclusive to) the Climate Technologies segment include Emerson Commercial & Residential Solutions, Emerson Climate Technologies, Copeland, CoreSense, Dixell, Fusite, ProAct, Sensi, Therm-O-Disc, Vilter and White-Rodgers.

## **TOOLS & HOME PRODUCTS**

The Company's Tools & Home Products segment offers tools for professionals and homeowners and appliance solutions. Sales by geographic destination in 2020 for this segment were: the Americas, 79 percent; Europe, 15 percent; and Asia, Middle East & Africa, 6 percent.

## **Professional Tools**

Pipe-working tools are used by plumbing and mechanical professionals to install and repair piping systems. Products include pipe wrenches, pipe cutters, pipe threading and roll grooving equipment, mechanical crimping tube joining systems, drain cleaners, tubing tools, and diagnostic systems, including closed-circuit television pipe inspection and locating equipment. Electrical tools are used by industry professionals for numerous tasks related to the installation of wire and cable, including bending, termination and hole-making. Other professional tools include water jetters, wet-dry vacuums, commercial vacuums and bolt cutters. The Company also offers do-it-yourself tools, available at retail home improvement outlets, which include drain cleaning equipment, pipe and tube working tools, and wet-dry vacuums.

On July 2, 2018, the Company completed the acquisition of Textron's tools and test equipment business, which manufactures electrical and utility tools, diagnostics, and test and measurement instruments. These products expand Emerson's professional tools business, creating a broad offering for mechanical, electrical and plumbing contractors. See Note 4.



## Appliance Solutions

The Company provides a number of appliance solutions, including residential and commercial food waste disposers, instant hot water dispensers and compact electric water heaters.

## Distribution

The principal worldwide distribution channels for Tools & Home Products are distributors and direct sales forces. Professional tools are sold worldwide almost exclusively through distributors. Appliance solutions are sold through direct sales force networks, distributors and online retailers. Approximately one-fourth of this segment's sales are made to a small number of big-box retail outlets.

## Brands

Service/trademarks and trade names within (but not exclusive to) the Tools & Home Products segment include Emerson, Emerson Professional Tools, Badger, Greenlee, Grind2Energy, InSinkErator, Klauke, ProTeam and RIDGID.

On October 2, 2017, the Company sold its residential storage business. See Note 4.

## RAW MATERIALS

The Company's major requirements for basic raw materials include steel, copper, cast iron, electronics, rare earth metals, aluminum and brass; and to a lesser extent, plastics and petroleum-based chemicals. The Company seeks to have many sources of supply for each of its major requirements in order to avoid significant dependence on any one or a few suppliers. However, the supply of materials or other items could be disrupted by natural disasters or other events. Despite market price volatility for certain materials and pricing pressures at some of our businesses, the raw materials and various purchased components needed for the Company's products have generally been available in sufficient quantities.

## PATENTS, TRADEMARKS AND LICENSES

The Company maintains an intellectual property portfolio it has developed or acquired over a number of years, including patents, trademarks and licenses. The Company also continues to develop or acquire new intellectual property. New patent applications are continuously filed to protect the Company's ongoing research and development activities. The Company's trademark registrations may be renewed and their duration is dependent upon national laws and trademark use. While this proprietary intellectual property portfolio is important to the Company in the aggregate, management does not regard any of its segments as being dependent on any single patent, trademark registration or license.

## BACKLOG

The Company's estimated consolidated order backlog was \$5.3 billion and \$5.1 billion at September 30, 2020 and 2019, respectively. Approximately 85 percent of the Company's consolidated backlog is expected to be recognized as revenue over the next 12 months, with the remainder substantially over the subsequent two years thereafter. Backlog by business at September 30, 2020 and 2019 follows (dollars in millions):

	2019	2020
Automation Solutions	\$4,594	4,689
Commercial & Residential Solutions	467	624
Total Backlog	\$5,061	5,313

## COMPETITION

The Company's businesses operate in highly competitive markets. The Company competes based on product performance, quality, branding, service and/or price across the industries and markets served. A significant element of the Company's competitive strategy is to deliver solutions to our customers by manufacturing high-quality products at the best relevant global cost. Although no single company competes directly with Emerson in all of the Company's product lines, various companies compete in one or more product lines with the number of competitors varying by product line. Some competitors have substantially greater sales, assets and financial resources than Emerson and the Company also competes with many smaller companies. Management believes Emerson has a market leadership position in many of its product lines.

## REGULATIONS

The Company's operations, products and services are subject to various government regulations, including environmental regulations. Our manufacturing locations generate waste, of which treatment, storage, transportation and disposal are subject to U.S. federal, state, foreign and/or local laws and regulations relating to protection of the environment. The Company continually works to minimize the environmental impact of its operations through safe technologies, facility design and operating procedures. Compliance with government regulations, including environmental regulations, has not had, and based on current information and the applicable laws and regulations currently in effect, is not expected to have a material effect on the Company's capital expenditures (including expenditures for environmental control facilities), earnings or competitive position. However, laws and regulations may be changed, accelerated or adopted that impose significant operational restrictions and compliance requirements upon the Company and which could negatively impact our operating results. See Item 1A - "Risk Factors."



## HUMAN CAPITAL RESOURCES

Supporting our people is a foundational value for Emerson. We believe the Company's success depends on its ability to attract, develop and retain key personnel. The skills, experience and industry knowledge of key employees significantly benefit our operations and performance. The Company's Board of Directors and management oversee various employee initiatives.

The Company supports and develops its employees through global training and development programs that build and strengthen employees' leadership and professional skills. Leadership development programs include intensive learning programs for new leaders as well as more established leaders. The Company also partners with educational institutions and nonprofit organizations to help prepare current and future workers with the knowledge and skills they need to succeed. To assess and improve employee retention and engagement, the Company surveys employees with the assistance of third-party consultants, and takes actions to address areas of employee concern. Approximately 60,000 employees were surveyed during the three years ended September 30, 2020.

Employee health and safety in the workplace is one of the Company's core values. Safety efforts are led by the Corporate Safety Council and supported by health and safety committees that operate at the local site level. Hazards in the workplace are actively identified and management tracks incidents so remedial actions can be taken to improve workplace safety. The COVID-19 pandemic has underscored for us the importance of keeping our employees safe and healthy. In response to the pandemic, the Company has taken actions aligned with the World Health Organization and the Centers for Disease Control and Prevention to protect its workforce so they can more safely and effectively perform their work.

We have identified other human capital priorities, including, among other things, providing competitive wages and benefits and promoting an inclusive work environment. The Company is committed to efforts to increase diversity and foster an inclusive work environment that supports our large global workforce and helps us innovate for our customers. We also have taken actions to enhance diversity, including recruiting at venues representing women, minorities and U.S. military veterans. Our efforts are guided by our Chief Executive Officer and Diversity Council, which is comprised of 14 senior-level executives.

Employee levels are managed to align with the pace of business and management believes it has sufficient human capital to operate its business successfully. The Company and its subsidiaries had approximately 83,500 employees at September 30, 2020. Management believes that the Company's employee relations are favorable.

A small portion of the Company's U.S. employees are unionized, while outside the U.S., we have employees in certain countries, particularly in Europe, that are represented by an employee representative organization, such as a union, works council or employee association.

## INTERNET ACCESS

Emerson's reports on Forms 10-K, 10-Q, 8-K and all amendments to those reports, as well as proxy statements, are available without charge through the Company's website on the internet as soon as reasonably practicable after they are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC). They may be accessed as follows: [www.Emerson.com](http://www.Emerson.com), Investors, SEC Filings. Information on the Company's website does not constitute part of this Form 10-K.

The information set forth under Item 1A - "Risk Factors" is hereby incorporated by reference.

## Item 1A – Risk Factors

Investing in our securities involves risks. You should carefully consider, among other matters, the factors set forth below and the other information in this report. The Company's risk factors set forth below are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company's business, financial condition or operating results. We may amend or supplement the risk factors set forth below from time to time by other reports we file with the SEC.

### Business and Operational Risks

*We Operate in Businesses That Are Subject to Competitive Pressures That Could Affect Prices or Demand for Our Products*

Our businesses operate in markets that are highly competitive and potentially volatile, and we compete on the basis of product performance, quality, service and/or price across the industries and markets served. Our businesses are largely dependent on the current and future business environment, including capital and consumer spending. A significant element of our competitive strategy is to deliver solutions to our customers by manufacturing high-quality products at the best relevant global cost. Various companies compete with us in one or more product lines and the number of competitors varies by product line. Some of our competitors have substantially greater sales, assets and financial resources than our Company and we also compete with many smaller companies. Competitive pressures could adversely affect prices or customer demand for our products, impacting our sales or profit margins, and/or resulting in a loss of market share.



*Our Operating Results Depend in Part on Continued Successful Research, Development and Marketing of New and/or Improved Products and Services, and There Can Be No Assurance That We Will Continue to Successfully Introduce New Products and Services*

The success of new and improved products and services depends on their initial and continued acceptance by our customers. Our businesses are affected by varying degrees of technological change and corresponding shifts in customer demand, which result in unpredictable product transitions, shortened life cycles and increased importance of being first to market with new products and services. We may experience difficulties or delays in the research, development, production and/or marketing of new products and services which may negatively impact our operating results and prevent us from recouping or realizing a return on the investments required to continue to bring new products and services to market.

*If We Are Unable to Defend or Protect Our Intellectual Property Rights, the Company's Competitive Position Could Be Adversely Affected*

The Company's intellectual property rights are important to its business and include numerous patents, trademarks, copyrights, trade secrets and other confidential information. This intellectual property may be subject to challenge, infringement, invalidation or circumvention by third parties. Despite extensive security measures, our intellectual property may be subject to misappropriation through unauthorized access of our information technology systems, employee theft, or other acts of industrial espionage. Should the Company be unable to adequately defend or protect its intellectual property, it may suffer competitive harm.

*We Engage in Acquisitions and Divestitures, Which Are Subject to Domestic and Foreign Regulatory Requirements, and May Encounter Difficulties in Integrating and Separating These Businesses and Therefore We May Not Realize the Anticipated Benefits*

We regularly seek growth through strategic acquisitions as well as evaluate our portfolio for potential divestitures. These activities require favorable environments to execute these transactions, and we may encounter difficulties in obtaining the necessary regulatory approvals in both domestic and foreign jurisdictions. In 2020 and in past years, we have made various acquisitions and entered into joint venture arrangements intended to complement or expand our business, and may continue to do so in the future. The success of these transactions will depend on our ability to integrate assets and personnel acquired in these transactions and to cooperate with our strategic partners. We may encounter difficulties in integrating acquisitions with our operations as well as separating divested businesses, and in managing strategic

investments. Furthermore, we may not realize the degree, or timing, of benefits we anticipate when we first enter into a transaction. Any of the foregoing could adversely affect our business and results of operations.

*We Use a Variety of Raw Materials and Components in Our Businesses, and Significant Shortages or Price Increases Could Increase Our Operating Costs and Adversely Impact the Competitive Positions of Our Products*

Our major requirements for raw materials include steel, copper, cast iron, electronics, rare earth metals, aluminum, brass and, to a lesser extent, plastics and petroleum-based chemicals. The Company seeks multiple sources of supply for each of its major requirements in order to avoid significant dependence on any one or a few suppliers. However, the supply of materials or other items could be disrupted by natural disasters, a health epidemic or pandemic, or other events. Significant shortages or price increases could impact the prices our affected businesses charge, their operating costs and the competitive position of their products and services, which could adversely affect our results of operations. While we monitor market prices of the commodities we require and attempt to mitigate price exposure through hedging activities, this risk could adversely affect our operating results.

*Our Operations Depend on Production Facilities Throughout the World, a Majority of Which Are Located Outside the United States and Subject to Increased Risks of Disrupted Production, Causing Delays in Shipments and Loss of Customers and Revenue*

We manage businesses with manufacturing facilities worldwide, a majority of which are located outside the United States, and also source certain materials internationally. Emerging market sales represent over one-third of total sales and serving a global customer base requires that we place more materials sourcing and production in emerging markets to capitalize on market opportunities and maintain our best-cost position. Our and our suppliers' international production facilities and operations could be disrupted by a natural disaster, labor strife, war, political unrest, terrorist activity or public health concerns such as an epidemic or pandemic, particularly in emerging countries that are not well-equipped to handle such occurrences.

Our manufacturing facilities abroad are dependent on the stability of governments and business conditions and may be more susceptible to changes in laws, policies and regulations in host countries, as well as economic and political upheaval, than our domestic facilities. These facilities face increased risks of nationalization as well as operational disruptions which could cause delays in shipments of products and the loss of sales and customers, and insurance proceeds may not adequately compensate us.



8 2020 Emerson Form 10-K

*Access to Funding Through the Capital Markets is Essential to the Execution of Our Business Plan, and if We Are Unable to Maintain Such Access We Could Experience a Material Adverse Effect on Our Business and Financial Results*

Our ability to invest in our businesses, make strategic acquisitions and refinance maturing debt obligations requires access to the capital markets and sufficient bank credit lines to support short-term borrowings. Volatility in the capital markets may increase costs associated with issuing commercial paper or other debt instruments, or affect the Company's ability to access those markets. If we are unable to continue to access the capital markets, we could experience a material adverse effect on our business and financial results. Additionally, if our customers, suppliers or financial institutions are unable to access the capital markets to meet their commitments to the Company, our business could be adversely impacted.

*Our Business Success Depends on the Ability to Attract, Develop and Retain Key Personnel*

Our success depends in part on the efforts and abilities of our management and key employees. Their skills, experience and industry knowledge significantly benefit our operations and performance. The failure to attract, develop and retain highly qualified personnel could adversely affect our business and operating results.

*Security and/or Data Privacy Breaches, or Disruptions of Our Information Technology Systems Could Adversely Affect Our Business*

The Company relies on information technology networks and systems, including the internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. These technology networks and systems may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components; power outages; telecommunications or system failures; terrorist attacks; natural disasters; employee error or malfeasance; server or cloud provider breaches; and computer viruses or cyberattacks. Cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology networks and systems to more sophisticated and targeted measures, known as advanced persistent threats, directed at the Company, its products, its customers and/or its third-party service providers. Despite the implementation of cybersecurity measures (including access controls, data encryption, vulnerability assessments, continuous monitoring, and maintenance of backup and protective systems), the Company's information technology

systems may still be vulnerable to cybersecurity threats and other electronic security breaches. It is possible for such vulnerabilities to remain undetected for an extended period. In addition, it is possible a security breach could result in theft of trade secrets or other intellectual property or disclosure of confidential customer, supplier or employee information. Should the Company be unable to prevent security breaches or other damage to our information technology systems, disruptions could have an adverse effect on our operations, as well as expose the Company to litigation, liability or penalties under privacy laws, increased cybersecurity protection costs, reputational damage and product failure. In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S. and elsewhere. Compliance with privacy and localization laws and regulations increases operational complexity. Failure to comply with these regulatory standards could subject us to fines and penalties, as well as legal and reputational risks, including proceedings against the Company by governmental entities or others.

*Our Products and Services are Highly Sophisticated and Specialized, and a Major Product Failure or Similar Event Caused by Defects, Cybersecurity Incidents or Other Failures, Could Adversely Affect Our Business, Reputation, Financial Position and Results of Operations*

We produce highly sophisticated products and provide specialized services that incorporate or use complex or leading-edge technology, including both hardware and software. Many of our products and services, including measurement and analytical instrumentation, industrial valves and equipment, and process control systems, are integrated and used in complex process, hybrid and discrete manufacturing environments. As a result, the impact of a catastrophic product failure or similar event could be significant. While we have built operational processes to ensure that our product design, manufacture, performance and servicing meet rigorous quality standards, there can be no assurance that we or our customers or other third parties will not experience operational process or product failures and other problems, including through manufacturing or design defects, process or other failures of contractors or third-party suppliers, cybersecurity incidents or other intentional acts, that could result in potential product, safety, regulatory or environmental risks. Cybersecurity incidents aimed at the software embedded in our products could lead to third-party claims resulting from damages caused by our product failures, and this risk is enhanced by the increasingly connected nature of our products. The potential consequences of a material cybersecurity incident include financial loss, reputational damage, litigation with third parties, diminution in the value of our investment in research,



development and engineering, and increased cybersecurity protection and remediation costs due to the increasing sophistication and proliferation of threats, which in turn could adversely affect our competitiveness and results of operations.

#### **Industry and General Economic Risks**

*The Coronavirus (COVID-19) Outbreak Has Adversely Impacted our Business and Could in the Future Have a Material Adverse Impact on our Business, Results of Operation, Financial Condition and Liquidity, the Nature and Extent of Which is Highly Uncertain*

The global outbreak of the coronavirus (COVID-19) has significantly increased economic, demand and operational uncertainty. We have global operations, customers and suppliers, including in countries most impacted by COVID-19. Authorities around the world have taken a variety of measures to slow the spread of COVID-19, including travel bans or restrictions, increased border controls or closures, quarantines, shelter-in-place orders and business shutdowns and such authorities may impose additional restrictions. We have also taken actions to protect our employees and to mitigate the spread of COVID-19, including embracing guidelines set by the World Health Organization and the Centers for Disease Control and Prevention on social distancing, good hygiene, restrictions on employee travel and in-person meetings, and changes to employee work arrangements including remote work arrangements where appropriate. The actions taken around the world to slow the spread of COVID-19 have also impacted our customers and suppliers, and future developments could cause further disruptions to Emerson due to the interconnected nature of our business relationships.

The impact of COVID-19 on the global economy and our customers, as well as volatility in commodity markets (including oil prices), has negatively impacted demand for our products and could continue to do so in the future. Its effects could also result in further disruptions to our manufacturing operations, including higher rates of employee absenteeism, and supply chain, which could continue to negatively impact our ability to meet customer demand. Additionally, the potential deterioration and volatility of credit and financial markets could limit our ability to obtain external financing. The extent to which COVID-19 will impact our business, results of operations, financial condition or liquidity is highly uncertain and will depend on future developments, including the spread and duration of the virus, potential actions taken by governmental authorities, and how quickly economic conditions stabilize and recover.

*Our Substantial Sales Both in the U.S. and Abroad Subject Us to Economic Risk as Our Results of Operations May Be Adversely Affected by Changes in Government Regulations and Policies and Currency Fluctuations*

We sell, manufacture, engineer and purchase products globally, with significant sales in both mature and emerging markets. We expect sales in non-U.S. markets to continue to represent a significant portion of our total sales. Our U.S. and international operations subject the Company to changes in government regulations and policies in a large number of jurisdictions around the world, including those related to trade, investments, taxation, exchange controls and repatriation of earnings. Changes in laws or policies governing the terms of foreign trade, trade restrictions or barriers, tariffs or taxes, trade protection measures, and retaliatory countermeasures, including on imports from countries where we manufacture products, could adversely impact our business and financial results. In addition, changes in the relative values of currencies occur from time to time and have affected our operating results and could do so in the future. While we monitor our exchange rate exposures and attempt to mitigate this exposure through hedging activities, this risk could adversely affect our operating results.

*Recessions, Adverse Market Conditions or Downturns in End Markets We Serve May Negatively Affect Our Operations*

In the past, our operations have been exposed to significant volatility due to changes in general economic conditions or consumer preferences, recessions or adverse conditions in the end markets we serve. In the future, similar changes could adversely impact overall sales, operating results (including potential impairment charges for goodwill or other long-lived assets) and cash flows. Moreover, during economic downturns we may undertake more extensive restructuring actions, including workforce reductions, global facility consolidations, centralization of certain business support activities, and other cost reduction initiatives, and incur higher costs. As these plans and actions can be complex, the anticipated operational improvements, efficiencies and other benefits might be delayed or not realized.

#### **Legal and Regulatory Risks**

*Changes in Tax Rates, Laws or Regulations and the Resolution of Tax Disputes Could Adversely Impact Our Financial Results*

As a global company, we are subject to taxation in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required to determine our consolidated income tax provision



10 2020 Emerson Form 10-K

and related liabilities. The Company's effective tax rate, cash flows and operating results could be affected by changes in the mix of earnings in countries with different statutory tax rates, as well as by changes in the local tax laws and regulations, or the interpretations thereof. For example, on December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "Tax Act"), which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. The changes made by the Tax Act are broad and complex. In addition, the Company's tax returns are subject to regular review and audit by U.S. and non-U.S. tax authorities. While we believe our tax provisions are appropriate, the final outcome of tax audits or disputes could result in adjustments to the Company's tax liabilities, which could adversely affect our financial results.

*Our Reputation, Ability To Do Business and Results of Operations Could Be Impaired By Improper Conduct By Any of Our Employees, Agents or Business Partners*

We are subject to regulation under a wide variety of U.S. federal and state and non-U.S. laws, regulations and policies, including laws related to anti-corruption, anti-bribery, export and import compliance, anti-trust and money laundering, due to our global operations. In particular, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business, and we operate in many parts of the world that have experienced government corruption to some degree. We cannot provide assurance our internal controls will always protect us from the improper conduct of our employees, agents and business partners. Any such violation of law or improper actions could subject us to civil or criminal investigations in the U.S. and other jurisdictions, could lead to substantial civil or criminal, monetary and non-monetary penalties and related shareholder lawsuits, could lead to increased costs of compliance and could damage our reputation, our business and results of operations.

*We Are Subject to Litigation and Environmental Regulations That Could Adversely Impact Our Operating Results*

We are, and may in the future be, a party to a number of legal proceedings and claims, including those involving intellectual property, product liability (including asbestos) and environmental matters, several of which claim, or may in the future claim, significant damages. Given the inherent uncertainty of litigation, we can offer no assurance that existing litigation or a future adverse development will not have a material adverse impact. We also are subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment, and we could incur substantial costs as a result of the noncompliance

with or liability for cleanup or other costs or damages under environmental laws. In addition, increased public awareness and concern regarding global climate change may result in more international, federal, and/or state or other stakeholder requirements or expectations that could result in more restrictive or expansive standards, such as stricter limits on greenhouse gas emissions or more prescriptive reporting of environmental, social, and governance metrics. There continues to be a lack of consistent climate change legislation and standards, which creates economic and regulatory uncertainty. While the Company has adopted certain voluntary targets, environmental laws, regulations or standards may be changed, accelerated or adopted and impose significant operational restrictions and compliance requirements upon the Company, its products or customers, which could negatively impact the Company's business, capital expenditures, results of operations, financial condition and competitive position.

## Item 1B – Unresolved Staff Comments

None.

## Item 2 – Properties

At September 30, 2020, the Company had approximately 200 manufacturing locations worldwide, of which approximately 70 were located in the United States and 130 were located outside the United States, primarily in Europe and Asia, and to a lesser extent in Canada and Latin America. Manufacturing locations by business are: Automation Solutions, 140; and Commercial & Residential Solutions, 60, including 40 in the Climate Technologies segment and 20 in the Tools & Home Products segment. The majority of the locations are owned, with the remainder occupied under lease. The Company considers its facilities suitable and adequate for the purposes for which they are used. The Company also maintains a smaller number of administrative, sales, research and development, and distribution facilities.

## Item 3 – Legal Proceedings

The Company and its subsidiaries are party to various legal proceedings, some of which claim substantial amounts of damages. It is not possible to predict the outcome of these matters, but historically the Company has been largely successful in both prosecuting and defending claims and lawsuits.

The Company believes a material adverse impact of any pending litigation is unlikely. Nevertheless, given the uncertainties of litigation, a remote possibility exists that litigation could have a material adverse impact on the Company.

Information regarding legal proceedings is set forth in Note 13.



**Item 4 – Mine Safety Disclosures**

Not applicable.

**Information About Our Executive Officers**

The following sets forth certain information as of November 16, 2020 with respect to the Company’s executive officers. The Fiscal Year column indicates the first year the executive served as an officer of the Company. These officers have been elected or appointed to terms which expire February 2, 2021:

NAME	POSITION	AGE	FISCAL YEAR
D. N. Farr	Chairman of the Board and Chief Executive Officer*	65	1985
F. J. Dellaquila	Senior Executive Vice President and Chief Financial Officer	63	1991
S. J. Pelch	Chief Operating Officer and Executive Vice President – Organization Planning and Development	56	2005
M. H. Train	President	58	1994
L. Karsanbhai	Executive President – Automation Solutions	51	2002
J. P. Froedje	Executive President – Commercial & Residential Solutions	45	2013
S. Y. Bosco	Senior Vice President, Secretary and General Counsel	62	2005
M. J. Bulanda	Senior Vice President - Planning and Development	54	2002
K. Button Bell	Senior Vice President and Chief Marketing Officer	62	1999
M. J. Baughman	Vice President, Contoller and Chief Accounting Officer	55	2018

\* Also chairman of the Executive Committee of the Board of Directors.

There are no family relationships among any of the executive officers and directors.

David N. Farr has been Chief Executive Officer since October 2000, was appointed Chairman of the Board in September 2004, and also served as President from November 2005 to October 2010.

Frank J. Dellaquila was appointed Senior Executive Vice President in November 2016, Executive Vice President in November 2012 and Senior Vice President and Chief Financial Officer in February 2010.

Steven J. Pelch was appointed Chief Operating Officer in January 2018, Executive Vice President in November 2016, Senior Vice President in November 2015 and Vice President - Organization Planning and Development in November 2014.

Michael H. Train was appointed President in October 2018. Prior to that, Mr. Train was Executive President - Automation Solutions from October 2016 through October 2018, Executive Vice President - Automation Solutions from May 2016 through October 2016 and President of Global Sales for Emerson Process Management from 2010 through May 2016.

Lal Karsanbhai was appointed Executive President - Automation Solutions in October 2018. Prior to his current position, Mr. Karsanbhai was Group President - Measurement & Analytical from 2016 through September 2018, and President Emerson Network Power Europe, Middle East and Africa from 2014 through 2016.

James P. Froedje was appointed Executive President - Commercial & Residential Solutions in August 2020. Prior to his current position, Mr. Froedje was President - Automation Solutions Asia Pacific from 2018 through August 2020, President - Process Systems and Solutions from 2016 through 2018, Vice President - Acquisition Planning and Development from 2013 through 2016 and in Acquisition Planning from 2012 through 2013.

Sara Y. Bosco was appointed to the position of Senior Vice President, Secretary and General Counsel in May 2016. Prior to her current position, Ms. Bosco was President, Emerson Asia-Pacific from 2008 through May 2016.

Mark J. Bulanda was appointed Senior Vice President in November 2016 and Vice President - Acquisition Planning and Development in May 2016. Prior to his current position, Mr. Bulanda was Executive Vice President - Emerson Industrial Automation from 2012 through May 2016.

Katherine Button Bell was appointed Senior Vice President in November 2016 and Vice President and Chief Marketing Officer in 1999.

Michael J. Baughman was appointed Chief Accounting Officer in February 2018, and Vice President and Controller in October 2017. Prior to that Mr. Baughman was Vice President, Finance, Global Operations, Quality, and Research and Development of Baxter International Inc., a global healthcare products company, from 2015 through September 2017, and Vice President, Finance, Medical Products of Baxter from 2013 to 2015.



12 2020 Emerson Form 10-K

## PART II

### Item 5 – Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information regarding the market for the Company’s common stock and dividend payments is set forth in Note 20.

There were approximately 17,200 stockholders of record at September 30, 2020.

PERIOD	TOTAL NUMBER OF SHARES PURCHASED (000s)	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (000s)	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (000s)
July 2020	—	—	—	65,528
August 2020	—	—	—	65,528
September 2020	—	—	—	65,528
Total	—	—	—	65,528

In November 2015, the Board of Directors authorized the purchase of up to 70 million shares. In March 2020, the Board of Directors authorized the purchase of an additional 60 million shares and a total of approximately 65.5 million shares remain available.

### Item 6 – Selected Financial Data

Years ended September 30 | (dollars in millions, except per share amounts)

	2016	2017	2018 <sup>(a)</sup>	2019 <sup>(b)</sup>	2020 <sup>(c)</sup>
Net sales	\$14,522	15,264	17,408	18,372	16,785
Earnings from continuing operations – common stockholders	\$ 1,590	1,643	2,203	2,306	1,965
Basic earnings per common share from continuing operations	\$ 2.46	2.54	3.48	3.74	3.26
Diluted earnings per common share from continuing operations	\$ 2.45	2.54	3.46	3.71	3.24
Cash dividends per common share	\$ 1.90	1.92	1.94	1.96	2.00
Long-term debt	\$ 4,051	3,794	3,137	4,277	6,326
Total assets	\$21,732	19,589	20,390	20,497	22,882

(a) Includes income tax benefit of \$189 (\$0.30 per share) from the impacts of U.S. tax reform.

(b) Includes restructuring costs of \$0.12 per share and discrete tax benefits of \$0.14 per share.

(c) Restructuring costs and special advisory fees reduced earnings by \$0.42 per share, while discrete tax items provided a \$0.20 per share benefit.

See Note 4 for information regarding the Company’s acquisition and divestiture activities for the last three years, Note 6 for information regarding restructuring activities, and Note 14 for information regarding income taxes.



## Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

### SAFE HARBOR STATEMENT

This Annual Report on Form 10-K contains various forward-looking statements and includes assumptions concerning Emerson’s operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Emerson undertakes no obligation to update any such statements to reflect later developments. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, Emerson provides the cautionary statements set forth under Item 1A - “Risk Factors,” which are hereby incorporated by reference and identify important economic, political and technological factors, among others, changes in which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

### NON-GAAP FINANCIAL MEASURES

To supplement the Company’s financial information presented in accordance with U.S. generally accepted accounting principles (U.S. GAAP), management periodically uses certain “non-GAAP financial measures,” as such term is defined in Regulation G under SEC rules, to clarify and enhance understanding of past performance and prospects for the future. Generally, a non-GAAP financial measure is a numerical measure of a company’s operating performance, financial position or cash flows that excludes or includes amounts that are included in or excluded from the most directly comparable measure calculated and presented in accordance with U.S. GAAP. For example, non-GAAP measures may exclude the impact of certain items such as our strategic repositioning actions, acquisitions or divestitures, U.S. tax reform, changes in reporting segments, gains, losses and impairments, or items outside of management’s control, such as foreign currency exchange rate fluctuations. Management believes that the following non-GAAP financial measures provide investors and analysts useful insight into the Company’s financial position and operating performance. Any non-GAAP measure provided should be viewed in addition to, and not as an alternative to, the most directly comparable measure determined in accordance with U.S. GAAP, as identified in italics below. Further, the calculation of these non-GAAP financial measures may differ from the calculation of similarly titled financial measures presented by other companies and therefore may not be comparable among companies.

Underlying sales, which exclude the impact of acquisitions, divestitures and fluctuations in foreign currency exchange rates during the periods presented, are provided to facilitate relevant period-to-period comparisons of sales growth by excluding

those items that impact overall comparability (U.S. GAAP measure: net sales).

Operating profit (defined as net sales less cost of sales and selling, general and administrative expenses) and operating profit margin (defined as operating profit divided by net sales) are indicative of short-term operational performance and ongoing profitability. Management closely monitors operating profit and operating profit margin of each business to evaluate past performance and actions required to improve profitability. EBIT (defined as earnings before deductions for interest expense, net and income taxes) and total segment EBIT, and EBIT margin (defined as EBIT divided by net sales) and total segment EBIT margin, are financial measures that exclude the impact of financing on the capital structure and income taxes. EBITDA (defined as EBIT excluding depreciation and amortization) and EBITDA margin (defined as EBITDA divided by net sales) are used as measures of the Company’s current operating performance, as they exclude the impact of capital and acquisition-related investments. All of these are commonly used financial measures utilized by management to evaluate performance (U.S. GAAP measures: *pretax earnings or pretax profit margin*).

Earnings, earnings per share, return on common stockholders’ equity and return on total capital excluding certain gains and losses, impairments, restructuring costs, impacts of the strategic portfolio repositioning actions and other acquisitions or divestitures, impacts of U.S. tax reform or other discrete taxes, or other items provide additional insight into the underlying, ongoing operating performance of the Company and facilitate period-to-period comparisons by excluding the earnings impact of these items. Management believes that presenting earnings, earnings per share, return on common stockholders’ equity and return on total capital excluding these items is more representative of the Company’s operational performance and may be more useful for investors (U.S. GAAP measures: *earnings, earnings per share, return on common stockholders’ equity, return on total capital*).

Free cash flow (operating cash flow less capital expenditures) and free cash flow as a percent of net sales are indicators of the Company’s cash generating capabilities, and dividends as a percent of free cash flow is an indicator of the Company’s ability to support its dividend, after considering investments in capital assets which are necessary to maintain and enhance existing operations. The determination of operating cash flow adds back noncash depreciation expense to earnings and thereby does not reflect a charge for necessary capital expenditures. Management believes that free cash flow, free cash flow as a percent of net sales and dividends as a percent of free cash flow are useful to both management and investors as measures of the Company’s ability to generate cash and support its dividend (U.S. GAAP measures: *operating cash flow, operating cash flow as a percent of net sales, dividends as a percent of operating cash flow*).



## Financial Review

### Report of Management

The Company's management is responsible for the integrity and accuracy of the financial statements. Management believes that the financial statements for each of the years in the three-year period ended September 30, 2020 have been prepared in conformity with U.S. generally accepted accounting principles appropriate in the circumstances. In preparing the financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed. The Company's disclosure controls and procedures ensure that material information required to be disclosed is recorded, processed, summarized and communicated to management and reported within the required time periods.

In meeting its responsibility for the reliability of the financial statements, management relies on a system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The design of this system recognizes that errors or irregularities may occur and that estimates and judgments are required to assess the relative cost and expected benefits of the controls. Management believes that the Company's internal accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, is responsible for overseeing the Company's financial reporting process. The Audit Committee meets with management and the Company's internal auditors periodically to review the work of each and to monitor the discharge by each of its responsibilities. The Audit Committee also meets periodically with the independent auditors, who have free access to the Audit Committee and the Board of Directors, to discuss the quality and acceptability of the Company's financial reporting and internal controls, as well as nonaudit-related services.

The independent auditors are engaged to express an opinion on the Company's consolidated financial statements and on the Company's internal control over financial reporting. Their opinions are based on procedures that they believe to be sufficient to provide reasonable assurance that the financial statements contain no material errors and that the Company's internal controls are effective.

### Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework and the criteria established in *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of September 30, 2020.

The Company's auditor, KPMG LLP, an independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting.

David N. Farr  
*Chairman of the Board  
and Chief Executive Officer*

Frank J. Dellaquila  
*Senior Executive Vice President  
and Chief Financial Officer*



## Results of Operations

Years ended September 30 | (Dollars in Item 7 are in millions, except per share amounts or where noted)

	2018	2019	2020	19 vs. 18	20 vs. 19
Net sales	\$17,408	18,372	<b>16,785</b>	6%	<b>(9)%</b>
Gross profit	\$ 7,432	7,815	<b>7,009</b>	5%	<b>(10)%</b>
<i>Percent of sales</i>	42.7%	42.5%	<b>41.8%</b>		
SG&A	\$ 4,269	4,457	<b>3,986</b>		
<i>Percent of sales</i>	24.5%	24.2%	<b>23.8%</b>		
Other deductions, net	\$ 337	325	<b>532</b>		
<i>Amortization of intangibles</i>	\$ 211	238	<b>239</b>		
<i>Restructuring costs</i>	\$ 65	95	<b>284</b>		
Interest expense, net	\$ 159	174	<b>156</b>		
Earnings before income taxes	\$ 2,667	2,859	<b>2,335</b>	7%	<b>(18)%</b>
<i>Percent of sales</i>	15.3%	15.6%	<b>13.9%</b>		
Net earnings common stockholders	\$ 2,203	2,306	<b>1,965</b>	5%	<b>(15)%</b>
<i>Percent of sales</i>	12.7%	12.6%	<b>11.7%</b>		
Diluted EPS	\$ 3.46	3.71	<b>3.24</b>	7%	<b>(13)%</b>
Return on common stockholders' equity	24.9%	26.8%	<b>23.6%</b>		
Return on total capital	20.6%	19.5%	<b>16.8%</b>		

### COVID-19 UPDATE

Emerson's business, operations and end markets were negatively impacted in 2020 by the global outbreak and rapid spread of the coronavirus (COVID-19). As the situation rapidly evolved, the Company's leadership and global operations remained focused on safely serving our customers and protecting the health and safety of our employees. In response to the pandemic, the Company took actions aligned with the World Health Organization and the Centers for Disease Control and Prevention to protect its workforce so they could more safely and effectively perform their work. The Company embraced guidelines set by these organizations, including social distancing, good hygiene, restrictions on employee travel and in-person meetings, and changes to employee work arrangements including remote work arrangements where appropriate.

The outbreak began in the Company's second fiscal quarter and resulted in a rapid decline in demand which impacted most of the Company's end markets and geographies in the second half of the year, particularly in North America. Overall, sales declined 9 percent compared with the prior year, consistent with management's guidance provided in April 2020. Demand has begun to return in the Commercial & Residential Solutions business and stabilize in the Automation Solutions business.

In response to COVID-19, the Company increased its restructuring and cost reset actions that began in the third quarter of fiscal 2019. These incremental efforts and prior actions resulted in fiscal 2020 savings of approximately \$220 and supported the Company's profitability despite the headwind from lower sales. The Company also benefited in

the second half of the year from a salary and hiring freeze, furloughs, compensation reductions for the Board of Directors and key executives across Emerson, and curtailed travel, meetings and discretionary spending. Overall, selling, general and administrative expenses as a percent of sales decreased 0.9 percentage points in the second half of the year despite the negative impact from deleverage on lower sales, and the restructuring initiatives are expected to yield improved operating margins as sales volumes recover.

The Company also increased its cash holdings to support liquidity in response to the potential effects of COVID-19. In April 2020, the Company issued \$1.5 billion of long-term debt at a weighted-average rate of approximately 2.15% to further manage its liquidity and balance sheet, and in September 2020, issued an additional \$750 of long-term debt at 0.875%, a portion of which was used to fund the acquisition of Open Systems International, Inc., which closed on October 1, 2020. The Company also took actions to conservatively manage its cash through reductions in planned capital expenditures for fiscal 2020 and by suspending its share repurchases in the third quarter. The Company's long-term debt ratings, which are A2 by Moody's Investors Service and A by Standard and Poor's, remain unchanged. Management's actions to adjust to the lower demand caused by COVID-19 supported the Company's commitment to its dividend plan and on November 3, 2020, it approved an increase to its dividend for the 65th consecutive year.

See "Outlook" and Item 1A – "Risk Factors" for additional discussion of the impacts of COVID-19 and the Company's response.



## OVERVIEW

Overall, sales for 2020 were \$16.8 billion, down 9 percent compared with the prior year, and were adversely impacted by foreign currency translation which deducted 1 percent. During the year, the Company took restructuring and other actions to protect its operating results from the deleverage caused by lower sales.

Net earnings common stockholders were \$1,965 in 2020, down 15 percent compared with prior year earnings of \$2,306, and diluted earnings per share were \$3.24, down 13 percent versus \$3.71 per share in 2019, largely due to higher restructuring charges related to the Company's initiatives to improve operating margins.

The Company generated operating cash flow of \$3.1 billion in 2020, an increase of \$77, or 3 percent, due in part to lower working capital needs associated with lower demand. The Company also took actions to ensure adequate liquidity and successfully raised over \$2.2 billion in the debt markets.

## NET SALES

Net sales for 2020 were \$16.8 billion, a decrease of \$1.6 billion, or 9 percent compared with 2019. Sales decreased \$1,047 in Automation Solutions and \$526 in Commercial & Residential Solutions. Underlying sales, which exclude foreign currency translation, acquisitions and divestitures, decreased 8 percent (\$1.4 billion) on lower volume. Divestitures net of acquisitions subtracted \$11 and foreign currency translation subtracted 1 percent (\$161). Underlying sales decreased 11 percent in the U.S. and 5 percent internationally.

Net sales for 2019 were \$18.4 billion, an increase of \$1.0 billion, or 6 percent compared with 2018. Sales increased \$761 in Automation Solutions and \$187 in Commercial & Residential Solutions. Underlying sales increased 3 percent (\$526) on higher volume and slightly higher price. Acquisitions added 5 percent (\$759) while foreign currency translation subtracted 2 percent (\$321). Underlying sales increased 2 percent in the U.S. and 4 percent internationally.

## INTERNATIONAL SALES

Emerson is a global business with international sales representing 56 percent of total sales in 2020, including U.S. exports. The Company generally expects faster economic growth in emerging markets in Asia, Latin America, Eastern Europe and Middle East/Africa.

International destination sales, including U.S. exports, decreased 6 percent, to \$9.4 billion in 2020, reflecting decreases in both the Automation Solutions and Commercial & Residential Solutions businesses. U.S. exports of \$1.0 billion were down 10 percent compared with 2019. Underlying international destination sales were down 5 percent, as foreign currency translation had a 1 percent unfavorable impact on the comparison. Underlying sales decreased 4 percent in Europe, 4 percent in Asia, Middle East & Africa (China down 5 percent),

7 percent in Latin America and 11 percent in Canada. Origin sales by international subsidiaries, including shipments to the U.S., totaled \$8.5 billion in 2020, down 5 percent compared with 2019.

International destination sales, including U.S. exports, increased 5 percent, to \$10.0 billion in 2019, reflecting increases in both the Automation Solutions and Commercial & Residential Solutions businesses. U.S. exports of \$1.1 billion were up 2 percent compared with 2018. Underlying international destination sales were up 4 percent, as acquisitions had a 5 percent favorable impact, while foreign currency translation had a 4 percent unfavorable impact on the comparison. Underlying sales increased 3 percent in Europe, 2 percent in Asia, Middle East & Africa (China up 3 percent), 17 percent in Latin America and 4 percent in Canada. Origin sales by international subsidiaries, including shipments to the U.S., totaled \$9.0 billion in 2019, up 5 percent compared with 2018.

## ACQUISITIONS AND DIVESTITURES

On October 1, 2020, the Company completed the acquisition of Open Systems International, Inc., a leading operations technology software provider in the global power industry, for approximately \$1.6 billion, net of cash acquired. This business, which has annual sales of approximately \$170, will be reported in the Automation Solutions segment.

In 2020, the Company acquired three businesses, two in the Automation Solutions segment and one in the Climate Technologies segment, for \$126, net of cash acquired.

The Company acquired eight businesses in 2019, all in the Automation Solutions segment, for \$469, net of cash acquired. These eight businesses had combined annual sales of approximately \$300.

On July 17, 2018, the Company completed the acquisition of Aventics, a global provider of smart pneumatics technologies that power machine and factory automation applications, for \$622, net of cash acquired. This business, which has annual sales of approximately \$425, is included in the Industrial Solutions product offering within the Automation Solutions segment.

On July 2, 2018, the Company completed the acquisition of Textron's tools and test equipment business for \$810, net of cash acquired. This business, with annual sales of approximately \$470, is a manufacturer of electrical and utility tools, diagnostics, and test and measurement instruments, and is reported in the Tools & Home products segment.

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.



In fiscal 2018, the Company also acquired four smaller businesses, two in the Automation Solutions segment and two in the Climate Technologies segment.

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 2018 due to income taxes resulting from nondeductible goodwill. The Company realized approximately \$150 in after-tax cash proceeds from the sale.

See Note 4 for further information on acquisitions and divestitures, including pro forma financial information.

## COST OF SALES

Cost of sales for 2020 were \$9,776, a decrease of \$781 compared with \$10,557 in 2019, primarily due to lower volume. Gross profit was \$7,009 in 2020 compared to \$7,815 in 2019, while gross margin decreased 0.7 percentage points to 41.8 percent, reflecting deleverage on lower sales volume and unfavorable mix within Automation Solutions, partially offset by favorable price-cost.

Cost of sales for 2019 were \$10,557, an increase of \$581 compared with \$9,976 in 2018. The increase is primarily due to acquisitions and higher volume, partially offset by the impact of foreign currency translation. Gross profit was \$7,815 in 2019 compared to \$7,432 in 2018. Gross margin decreased 0.2 percentage points to 42.5 percent, reflecting unfavorable mix and the impact of acquisitions, partially offset by savings from cost reduction actions. Gross margin was 42.7 percent in 2018.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses of \$3,986 in 2020 decreased \$471 compared with 2019 and SG&A as a percent of sales decreased 0.4 percentage points to 23.8 percent. Savings of approximately \$220 from the Company's restructuring and cost reset actions that began in the third quarter of fiscal 2019 offset deleverage on lower sales volume. The Company's restructuring initiatives are expected to yield improved operating margins as sales volumes recover. The Company also benefited in the second half of the year from a salary and hiring freeze, furloughs, compensation reductions for the Board of Directors and key executives across Emerson, and curtailed travel, meetings and discretionary spending.

SG&A expenses of \$4,457 in 2019 increased \$188 compared with 2018 due to acquisitions and higher volume. SG&A as a percent of sales of 24.2 percent decreased 0.3 percentage points due to leverage on higher volume and lower incentive stock compensation of \$96, reflecting a decreasing stock price in the current year compared to an increasing stock price in the prior year, partially offset by a negative impact from acquisitions of 0.4 percentage points and higher investment spending.

## OTHER DEDUCTIONS, NET

Other deductions, net were \$532 in 2020, an increase of \$207 compared with 2019. The increase reflects increased restructuring costs of \$189 and an unfavorable impact on comparisons from pensions of \$48, partially offset by lower acquisition/divestiture and litigation costs. See Note 5.

Other deductions, net were \$325 in 2019, a decrease of \$12 compared with 2018. The decrease primarily reflects lower acquisition/divestiture costs of \$29, pension expenses of \$42 and foreign currency transactions of \$13, partially offset by higher intangibles amortization and restructuring expense of \$27 and \$30, respectively.

## INTEREST EXPENSE, NET

Interest expense, net was \$156, \$174 and \$159 in 2020, 2019 and 2018, respectively. The decrease in 2020 reflects the maturity of long-term debt with relatively higher interest rates, partially offset by lower interest income. The increase in 2019 was due to lower interest income.

## EARNINGS BEFORE INCOME TAXES

Pretax earnings of \$2,335 decreased \$524 in 2020, down 18 percent compared with 2019. Earnings decreased \$424 in Automation Solutions and \$153 in Commercial & Residential Solutions. Costs reported at Corporate decreased \$35, as an increase in unallocated pension and postretirement costs of \$55 was more than offset by a decline in all other corporate costs of \$90. See the Business discussion that follows and Note 18.

Pretax earnings of \$2,859 increased \$192 in 2019, up 7 percent compared with 2018. Earnings increased \$61 in Automation Solutions and decreased \$81 in Commercial & Residential Solutions, while costs reported at Corporate decreased \$227.

## INCOME TAXES

On December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "Tax Act"), which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. The Tax Act includes a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent in calendar year 2018 along with the elimination of certain deductions and credits, and a one-time "deemed repatriation" of accumulated non-U.S. earnings. During 2018, the Company recognized a net tax benefit of \$189 (\$0.30 per share) due to impacts of the Tax Act, consisting of a \$94 benefit on revaluation of net deferred income tax liabilities to the lower tax rate, \$35 of expense for the tax on deemed repatriation of accumulated non-U.S. earnings and withholding taxes, and the reversal of \$130 accrued in previous periods for the planned repatriation of non-U.S. cash. The Company completed its accounting for the Tax Act in the first quarter of fiscal 2019.



Effective in fiscal 2019, the Tax Act also subjects the Company to U.S. tax on global intangible low-taxed income earned by certain of its non-U.S. subsidiaries. The Company has elected to recognize this tax as a period expense when it is incurred. In the second quarter of fiscal 2019, the Company recorded a \$13 (\$0.02 per share) tax benefit due to the issuance of final regulations related to the one-time tax on deemed repatriation.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic, and among other things, provides tax relief to businesses. Tax provisions of the CARES Act include the deferral of certain payroll taxes, relief for retaining employees, and other provisions. The Company expects to defer \$75 of certain payroll taxes through the end of calendar year 2020, of which \$48 was deferred through September 30, 2020.

Income taxes were \$345, \$531 and \$443 for 2020, 2019 and 2018, respectively, resulting in effective tax rates of 15 percent, 19 percent and 17 percent in 2020, 2019 and 2018, respectively. The rates in all years include benefits from restructuring subsidiaries of \$103 (\$0.17 per share), \$74 (\$0.12 per share) and \$53 (\$0.08 per share), respectively. The 2020 rate also included the impact of a research and development tax credit study, while 2019 and 2018 included discrete tax benefits due to the impacts of the Tax Act described above. See Note 14.

## NET EARNINGS AND EARNINGS PER SHARE; RETURNS ON EQUITY AND TOTAL CAPITAL

Net earnings attributable to common stockholders in 2020 were \$1,965, down 15 percent compared with 2019, and diluted earnings per share were \$3.24, down 13 percent compared with \$3.71 in 2019. The decline in sales volume, largely attributable to the negative effects of COVID-19, resulted in a decline in operating results of \$0.27 per share, while restructuring costs and special advisory fees reduced earnings by \$0.42 per share in the current year (\$0.12 per share in the prior year). Higher pension expense partially offset by lower stock compensation expense negatively affected comparisons by \$0.07 per share and unfavorable foreign currency deducted \$0.06 per share. Results were favorably impacted by discrete tax items recognized in the fourth quarter (\$0.20 per share), which included the subsidiary restructurings discussed above, while other discrete tax items provided a benefit of \$0.08 per share. The prior year included discrete tax benefits of \$0.12 per share. Share repurchases and lower interest expense provided a combined benefit of \$0.09 per share.

Net earnings attributable to common stockholders in 2019 were \$2,306, up 5 percent compared with 2018, and diluted earnings per share were \$3.71, up 7 percent, due to modest sales growth and lower corporate expenses. Earnings per share comparisons were also impacted by the prior year net tax benefit due to impacts of the Tax Act of \$0.30 per share discussed above, which was partially offset by 2018 first year acquisition accounting charges of \$0.09 per share and a \$0.04 per share loss on the residential storage business.

Return on common stockholders' equity (net earnings attributable to common stockholders divided by average common stockholders' equity) was 23.6 percent in 2020 compared with 26.8 percent in 2019 and 24.9 percent in 2018. Return on total capital was 16.8 percent in 2020 compared with 19.5 percent in 2019 and 20.6 percent in 2018 (computed as net earnings attributable to common stockholders excluding after-tax net interest expense, divided by average common stockholders' equity plus short- and long-term debt less cash and short-term investments). Lower net earnings negatively impacted returns in 2020. In 2019, higher net earnings benefited the returns, while an increase in long-term debt negatively impacted the return on total capital.

## Business Segments

Following is an analysis of segment results for 2020 compared with 2019, and 2019 compared with 2018. The Company defines segment earnings as earnings before interest and income taxes.

### AUTOMATION SOLUTIONS

	2018	2019	2020	19 vs. 18	20 vs. 19
Sales	\$11,441	12,202	11,155	7%	(9)%
Earnings	\$ 1,886	1,947	1,523	3%	(22)%
Margin	16.5%	16.0%	13.6%		
<b>Sales by Major Product Offering</b>					
Measurement & Analytical Instrumentation	\$ 3,604	3,807	3,237	6%	(15)%
Valves, Actuators & Regulators	3,749	3,794	3,589	1%	(5)%
Industrial Solutions	1,967	2,232	2,012	14%	(10)%
Process Control Systems & Solutions	2,121	2,369	2,317	12%	(2)%
Total	\$11,441	12,202	11,155	7%	(9)%

**2020 vs. 2019** – Automation Solutions sales were \$11.2 billion in 2020, a decrease of \$1,047, or 9 percent. Underlying sales decreased 8 percent (\$963) on lower volume. The Machine Automation Solutions acquisition added \$47 and foreign currency translation had a 1 percent (\$131) unfavorable impact. Sales for Measurement & Analytical Instrumentation decreased \$570, or 15 percent, due to weakness in process industries, primarily in North America. Valves, Actuators & Regulators decreased \$205, or 5 percent, reflecting slower demand in most end markets. Industrial Solutions sales decreased \$220, or 10 percent, on lower global demand in discrete end markets. Process Control Systems & Solutions decreased \$52, or 2 percent, due to weakness in power end markets in China and process end markets in the U.S., partially offset by the Machine Automation Solutions acquisition. Underlying sales decreased 14 percent in the Americas (U.S. down 14 percent), 5 percent in Europe, and 1 percent in Asia, Middle East & Africa (China down 2 percent). Earnings of \$1,523 decreased \$424 from the prior



year, primarily due to higher restructuring expenses of \$179 and lower volume. Margin decreased 2.4 percentage points to 13.6 percent, reflecting a negative impact from restructuring expenses of 1.7 percentage points and unfavorable mix. Savings from cost reduction actions offset deleverage on lower sales volume.

**2019 vs. 2018** – Automation Solutions sales were \$12.2 billion in 2019, an increase of \$761, or 7 percent. Underlying sales increased 5 percent (\$582) on higher volume and slightly higher price. Acquisitions added 4 percent (\$426) and foreign currency translation had a 2 percent (\$247) unfavorable impact. Sales for Measurement & Analytical Instrumentation increased \$203, or 6 percent, reflecting broad-based strength across process and hybrid end markets. Valves, Actuators & Regulators increased \$45, or 1 percent, on favorable global oil and gas demand. Industrial Solutions sales increased \$265, or 14 percent, due to the Aventics acquisition (\$292), while discrete manufacturing end markets were slow in the U.S. and Europe. Process Control Systems & Solutions increased \$248, or 12 percent, driven by greenfield investment and modernization activity, while acquisitions added \$134. Underlying sales increased 4 percent in the Americas (U.S. up 2 percent), 4 percent in Europe, and 8 percent in Asia, Middle East & Africa (China up 13 percent), supported by infrastructure investment across the region. Earnings of \$1,947 increased \$61 from the prior year driven by higher volume and price. Margin decreased 0.5 percentage points to 16.0 percent, reflecting a dilutive impact from acquisitions of 0.7 percentage points and increased restructuring expense of \$24. Excluding these items, margin increased due to leverage on the higher volume.

## COMMERCIAL & RESIDENTIAL SOLUTIONS

	2018	2019	2020	19 vs. 18	20 vs. 19
<b>Sales:</b>					
Climate Technologies	\$4,454	4,313	<b>3,980</b>	(3)%	<b>(8)%</b>
Tools & Home Products	1,528	1,856	<b>1,663</b>	22 %	<b>(10)%</b>
Total	\$5,982	6,169	<b>5,643</b>	3 %	<b>(9)%</b>
<b>Earnings:</b>					
Climate Technologies	\$ 972	883	<b>801</b>	(9)%	<b>(9)%</b>
Tools & Home Products	380	388	<b>317</b>	2 %	<b>(18)%</b>
Total	\$1,352	1,271	<b>1,118</b>	(6)%	<b>(12)%</b>
Margin	22.6%	20.6%	<b>19.8%</b>		

**2020 vs. 2019** – Commercial & Residential Solutions sales were \$5.6 billion in 2020, a decrease of \$526, or 9 percent. Underlying sales decreased 7 percent (\$454) on lower volume. The divestiture of two small non-core businesses subtracted 1 percent (\$42) and foreign currency translation deducted 1 percent (\$30). Climate Technologies sales were \$4.0 billion in 2020, a decrease of \$333, or 8 percent. Air conditioning and heating sales declined, reflecting a sharp decline in Asia and moderate decline in the U.S. due to the effects of COVID-19. Global cold chain sales were also down, reflecting double-digit declines in Asia and Europe, while North America was down moderately. Tools & Home Products sales were \$1.7 billion in

2020, down \$193 or 10 percent compared to the prior year, reflecting sharp declines in global professional tools markets. Sales for wet/dry vacuums were down moderately and food waste disposers were down slightly. Overall, underlying sales decreased 7 percent in the Americas (U.S. down 8 percent) and 3 percent in Europe, while Asia, Middle East & Africa decreased 11 percent (China down 11 percent). Earnings were \$1,118, a decrease of \$153, and margin was down 0.8 percentage points, due to deleverage on lower sales volume and higher restructuring expenses which negatively impacted margins by 0.5 percentage points, partially offset by savings from cost reduction actions and favorable price-cost.

**2019 vs. 2018** – Commercial & Residential Solutions sales were \$6.2 billion in 2019, an increase of \$187, or 3 percent. Underlying sales decreased 1 percent (\$59) on lower volume partially offset by higher price. Acquisitions added 5 percent (\$320) while foreign currency translation subtracted 1 percent (\$74). Climate Technologies sales were \$4.3 billion in 2019, a decrease of \$141, or 3 percent. HVAC sales were down sharply in Asia, Middle East & Africa, particularly in China air conditioning and heating markets, while growth in the U.S. was modest. Global cold chain sales were down slightly, as modest growth in the U.S. was more than offset by slower demand in Asia and Europe. Tools & Home Products sales were \$1.9 billion in 2019, up \$328 or 22 percent compared to the prior year, reflecting the tools and test acquisition and modest growth for professional tools. Sales for wet/dry vacuums were up moderately due to higher price, while food waste disposers were flat. Overall, underlying sales increased 3 percent in the Americas (U.S. up 2 percent) and 1 percent in Europe, while Asia, Middle East & Africa decreased 12 percent (China down 15 percent). Earnings were \$1,271, a decrease of \$81, and margin was down 2.0 percentage points, primarily due to a dilutive impact from the tools and test acquisition of 0.8 percentage points, deleverage on lower volume in the Climate Technologies segment and unfavorable mix.

## Financial Position, Capital Resources and Liquidity

Emerson maintains a conservative financial structure to provide the strength and flexibility necessary to achieve our strategic objectives and has been successful in efficiently deploying cash where needed worldwide to fund operations, complete acquisitions and sustain long-term growth. During fiscal 2020, the Company increased its cash holdings to support liquidity in response to the potential effects of COVID-19. In April 2020, the Company issued \$1.5 billion of long-term debt at a weighted-average rate of approximately 2.15% to further manage its liquidity and balance sheet, and in September 2020, issued an additional \$750 of long-term debt at 0.875%, a portion of which was used to fund the acquisition of Open Systems International, Inc. (OSI), which closed on October 1, 2020.

The Company also took actions to conservatively manage its cash through reductions in planned capital expenditures for fiscal 2020 and by suspending its share repurchases in the third quarter. The Company's long-term debt ratings, which



20 2020 Emerson Form 10-K

are A2 by Moody's Investors Service and A by Standard and Poor's, remain unchanged. The Company currently believes that sufficient funds will be available to meet its needs for the foreseeable future through operating cash flow, existing resources, short- and long-term debt capacity, or its \$3.5 billion revolving backup credit facility under which it has not incurred any borrowings. The Company remains committed to its dividend plan and on November 3, 2020, approved an increase to its dividend for the 65th consecutive year.

Emerson is in a strong financial position, with total assets of \$23 billion and stockholders' equity of \$8 billion, and has the resources available for reinvestment in existing businesses, strategic acquisitions and managing its capital structure on a short- and long-term basis. The Company continues to generate substantial operating cash flow, including over \$3.0 billion in each of the last two years.

## CASH FLOW

	2018	2019	2020
Operating Cash Flow	\$2,892	3,006	<b>3,083</b>
Percent of sales	16.6%	16.4%	<b>18.4%</b>
Capital Expenditures	\$ 617	594	<b>538</b>
Percent of sales	3.5%	3.2%	<b>3.2%</b>
Free Cash Flow (Operating Cash Flow less Capital Expenditures)	\$2,275	2,412	<b>2,545</b>
Percent of sales	13.1%	13.1%	<b>15.2%</b>
Operating Working Capital	\$985	1,113	<b>866</b>
Percent of sales	5.7%	6.1%	<b>5.2%</b>

Operating cash flow for 2020 was \$3.1 billion, a \$77, or 3 percent increase compared with 2019, as lower working capital needs associated with lower demand more than offset a decrease in earnings. Operating cash flow of \$3.0 billion in 2019 increased 4 percent compared to \$2.9 billion in 2018, due to higher earnings, partially offset by higher operating working capital. At September 30, 2020, operating working capital as a percent of sales was 5.2 percent compared with 6.1 percent in 2019 and 5.7 percent in 2018. Contributions to pension plans were \$66 in 2020, \$60 in 2019 and \$61 in 2018.

Capital expenditures were \$538, \$594 and \$617 in 2020, 2019 and 2018, respectively. Free cash flow (operating cash flow less capital expenditures) was \$2.5 billion in 2020, up 6 percent. Free cash flow was \$2.4 billion in 2019, compared with \$2.3 billion in 2018. The Company is targeting capital spending of approximately \$600 in 2021. Net cash paid in connection with acquisitions was \$126, \$469 and \$2.2 billion in 2020, 2019 and 2018, respectively. This does not reflect the OSI acquisition, which closed on October 1, 2020 for approximately \$1.6 billion. Proceeds from divestitures were \$14 and \$201 in 2019 and 2018, respectively.

Dividends were \$1,209 (\$2.00 per share) in 2020, compared with \$1,209 (\$1.96 per share) in 2019 and \$1,229 (\$1.94 per share) in 2018. In November 2020, the Board of Directors voted to increase the quarterly cash dividend 1 percent, to an annualized rate of \$2.02 per share.

Purchases of Emerson common stock totaled \$942, \$1,250 and \$1,000 in 2020, 2019 and 2018, respectively, at average per share prices of \$57.41, \$62.83 and \$66.25.

The Board of Directors authorized the purchase of up to 70 million common shares in November 2015. In March 2020, the Board of Directors authorized the purchase of an additional 60 million shares and a total of 66 million shares remain available for purchase under the authorizations. The Company purchased 16.4 million shares in 2020, 19.9 million shares in 2019 and 15.1 million shares in 2018 under the authorizations.

## LEVERAGE/CAPITALIZATION

	2018	2019	2020
Total Assets	\$20,390	20,497	<b>22,882</b>
Long-term Debt	\$ 3,137	4,277	<b>6,326</b>
Common Stockholders' Equity	\$ 8,947	8,233	<b>8,405</b>
Total Debt-to-Total Capital Ratio	34.7%	41.0%	<b>47.1%</b>
Net Debt-to-Net Capital Ratio	29.1%	33.9%	<b>33.2%</b>
Operating Cash Flow-to-Debt Ratio	60.7%	52.5%	<b>41.2%</b>
Interest Coverage Ratio	14.2X	15.2X	<b>14.4X</b>

Total debt, which includes long-term debt, current maturities of long-term debt, commercial paper and other short-term borrowings, was \$7,486, \$5,721 and \$4,760 as of September 30, 2020, 2019 and 2018, respectively. During the year, the Company repaid \$500 of 4.875% notes that matured in October 2019. In April 2020, the Company issued \$500 of 1.8% notes due October 2027, \$500 of 1.95% notes due October 2030 and \$500 of 2.75% notes due October 2050. In September 2020, the Company issued \$750 of 0.875% notes due October 2026. The net proceeds from the sale of the notes were used to reduce commercial paper borrowings and for general corporate purposes. A portion of the proceeds from the notes issued in September were also used to fund the acquisition of OSI, which closed on October 1, 2020. In 2019, the Company repaid \$400 of 5.25% notes that matured in October 2018 and \$250 of 5.0% notes that matured in April 2019, while \$250 of 5.375% notes that matured in October 2017 were paid in fiscal 2018. In January 2019, the Company issued €500 of 1.25% notes due October 2025 and €500 of 2.0% notes due October 2029. In May 2019, the Company issued €500 of 0.375% notes due May 2024.

The total debt-to-capital ratio increased in 2020 due to the long-term debt issuances described above. The net debt-to-net capital ratio (less cash and short-term investments) decreased slightly, reflecting the timing of the acquisition of OSI, which closed shortly after year-end. In 2019 the total debt-to-capital ratio and the net debt-to-net capital ratio increased due to increased borrowings. The operating cash flow-to-debt ratio decreased in 2020 due to the increased borrowings. The decrease in 2019 was due to the increased borrowings, partially offset by a modest increase in operating cash flows. The interest coverage ratio is computed as earnings before income taxes plus interest expense, divided by interest expense. The decrease in 2020 reflects lower earnings, partially offset by lower interest



expense. The increase in 2019 was due to higher earnings as compared to 2018.

In May 2018, the Company entered into a \$3.5 billion five-year revolving backup credit facility with various banks, which replaced the April 2014 \$3.5 billion facility. The credit facility is maintained to support general corporate purposes, including commercial paper borrowings. The Company has not incurred any borrowings under this or previous facilities. The credit facility contains no financial covenants and is not subject to termination based on a change of credit rating or material adverse changes. The facility is unsecured and may be accessed under various interest rate and currency denomination alternatives at the Company's option. Fees to maintain the facility are immaterial. The Company also maintains a universal shelf registration statement on file with the SEC under which it can issue debt securities, preferred stock, common stock, warrants, share purchase contracts or share purchase units without a predetermined limit. Securities can be sold in one or more separate offerings with the size, price and terms to be determined at the time of sale.

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. At September 30, 2020, \$1.7 billion of the Company's cash was held in the U.S., primarily to fund the OSI acquisition. The remaining \$1.6 billion of cash was held outside the U.S. (primarily in Europe and Asia). The Company routinely repatriates a portion of its non-U.S. cash from earnings each year, or otherwise when it can be accomplished tax efficiently, and provides for withholding taxes and any applicable U.S. income taxes as appropriate. The Company has been able to readily meet all its funding requirements and currently 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.

#### CONTRACTUAL OBLIGATIONS

At September 30, 2020, the Company's contractual obligations, including estimated payments, are as follows:

	TOTAL	AMOUNTS DUE BY PERIOD			
		LESS THAN 1 YEAR	1 - 3 YEARS	3 - 5 YEARS	MORE THAN 5 YEARS
Long-term Debt (including Interest)	\$8,462	464	1,324	1,327	5,347
Operating Leases	565	159	216	105	85
Purchase Obligations	889	726	121	36	6
Total	\$9,916	1,349	1,661	1,468	5,438

Purchase obligations consist primarily of inventory purchases made in the normal course of business to meet operational requirements. The table above does not include the majority of other noncurrent liabilities (except for lease-related

obligations), which total \$2,324 and consist primarily of pension and postretirement plan liabilities, asbestos litigation, deferred income taxes and unrecognized tax benefits, because it is not certain when these amounts will become due. See Note 12 for estimated future benefit payments and Note 14 for additional information on deferred income taxes.

#### FINANCIAL INSTRUMENTS

The Company is exposed to market risk related to changes in interest rates, foreign currency exchange rates and commodity prices, and selectively uses derivative financial instruments, including forwards, swaps and purchased options to manage these risks. The Company does not hold derivatives for trading or speculative purposes. The value of derivatives and other financial instruments is subject to change as a result of market movements in rates and prices. Sensitivity analysis is one technique used to forecast the impact of these movements. Based on a hypothetical 10 percent increase in interest rates, a 10 percent decrease in commodity prices or a 10 percent weakening in the U.S. dollar across all currencies, the potential losses in future earnings, fair value or cash flows are not material. Sensitivity analysis has limitations; for example, a weaker U.S. dollar would benefit future earnings through favorable translation of non-U.S. operating results, and lower commodity prices would benefit future earnings through lower cost of sales. See Notes 1, and 9 through 11.

#### Critical Accounting Policies

Preparation of the Company's financial statements requires management to make judgments, assumptions and estimates regarding uncertainties that could affect reported revenue, expenses, assets, liabilities and equity. Note 1 describes the significant accounting policies used in preparation of the consolidated financial statements. The most significant areas where management judgments and estimates impact the primary financial statements are described below. Actual results in these areas could differ materially from management's estimates under different assumptions or conditions.

#### REVENUE RECOGNITION

The Company evaluates its contracts with customers to identify the promised goods or services and recognizes revenue for the identified performance obligations at the amount the Company expects to be entitled to in exchange for those goods or services. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. Revenue is recognized when, or as, performance obligations are satisfied and control has transferred to the customer, typically when products are shipped or delivered, title and risk of loss pass to the customer, and the Company has a present right to payment. The vast majority of the Company's revenues relate to a broad offering of manufactured products which are recognized at the point in time when control transfers, generally in accordance with shipping terms. A portion of the Company's revenues relate to the sale of software and post-contract customer support, parts and labor for repairs, and engineering services.



In limited circumstances, contracts include multiple performance obligations, where revenue is recognized separately for each good or service, as well as contracts where revenue is recognized over time as control transfers to the customer. Tangible products represent a large majority of the delivered items in contracts with multiple performance obligations or where revenue is recognized over time, while a smaller portion is attributable to installation, service and maintenance. In sales arrangements that involve multiple performance obligations, revenue is allocated based on the relative standalone selling price for each performance obligation. Observable selling prices from actual transactions are used whenever possible. In other instances, the Company determines the standalone selling price based on third-party pricing or management's best estimate. For revenues recognized over time, the Company typically uses an input method to determine progress and recognize revenue, based on costs incurred. The Company believes costs incurred closely correspond with its performance under the contract and the transfer of control to the customer.

#### LONG-LIVED ASSETS

Long-lived assets, which include property, plant and equipment, goodwill and identifiable intangible assets, are reviewed for impairment whenever events or changes in business circumstances indicate impairment may exist. If the Company determines that the carrying value of a long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its estimated fair value. Reporting units are also reviewed for possible goodwill impairment at least annually, in the fourth quarter. If an initial assessment indicates it is more likely than not an impairment may exist, it is evaluated by comparing the unit's estimated fair value to its carrying value. Fair value is generally estimated using an income approach that discounts estimated future cash flows using discount rates judged by management to be commensurate with the applicable risk. Estimates of future sales, operating results, cash flows and discount rates are subject to changes in the economic environment, including such factors as the general level of market interest rates, expected equity market returns and the volatility of markets served, particularly when recessionary economic circumstances continue for an extended period of time. Management believes the estimates of future cash flows and fair values are reasonable; however, changes in estimates due to variance from assumptions could materially affect the evaluations.

#### RETIREMENT PLANS

The Company maintains a prudent long-term investment strategy consistent with the duration of pension obligations. The determination of defined benefit plan expense and liabilities is dependent on various assumptions, including the expected annual rate of return on plan assets, the discount rate and the rate of annual compensation increases. Management believes the assumptions used are appropriate; however,

actual experience may differ. In accordance with U.S. generally accepted accounting principles, actual results that differ from the Company's assumptions are accumulated as deferred actuarial gains or losses and amortized to expense in future periods. The Company's principal U.S. defined benefit plan is closed to employees hired after January 1, 2016 while shorter-tenured employees ceased accruing benefits effective October 1, 2016.

As of September 30, 2020, the U.S. pension plans were underfunded by \$142 in total, including unfunded plans totaling \$223. The non-U.S. plans were underfunded by \$266, including unfunded plans totaling \$319. The Company contributed a total of \$66 to defined benefit plans in 2020 and expects to contribute approximately \$50 in 2021. At year-end 2020, the discount rate for U.S. plans was 2.81 percent, and was 3.22 percent in 2019. The assumed investment return on plan assets was 6.75 percent in 2020, 7.00 percent in 2019 and 7.00 percent in 2018, and will be 6.50 percent for 2021. Deferred actuarial losses to be amortized to expense in future years were \$1,253 (\$950 after-tax) as of September 30, 2020. See Notes 12 and 13.

#### CONTINGENT LIABILITIES

The Company is a party to a number of pending legal proceedings and claims, including those involving general and product liability (including asbestos) and other matters, several of which claim substantial amounts of damages. The Company accrues for such liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. Accruals are based on developments to date; management's estimates of the outcomes of these matters; and the Company's experience in contesting, litigating and settling similar matters. The Company engages an outside expert to develop an actuarial estimate of its expected costs to resolve all pending and future asbestos claims, including defense costs, as well as its related insurance receivables. The reserve for asbestos litigation, which is recorded on an undiscounted basis, is based on projected claims through 2065.

Although it is not possible to predict the ultimate outcome of these matters, the Company historically has been largely successful in defending itself against claims and suits that have been brought against it, and will continue to defend itself vigorously in all such matters. While the Company believes a material adverse impact is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future development could have a material adverse impact on the Company. See Note 13.

#### INCOME TAXES

Income tax expense and tax assets and liabilities reflect management's assessment of taxes paid or expected to be paid (received) on items included in the financial statements. Deferred tax assets and liabilities arise from temporary



differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and consideration of operating loss and tax credit carryforwards. Deferred income taxes are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. The impact on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are provided to reduce deferred tax assets to the amount that will more likely than not be realized. This requires management to make judgments and estimates regarding the amount and timing of the reversal of taxable temporary differences, expected future taxable income, and the impact of tax planning strategies.

Uncertainty exists regarding tax positions taken in previously filed tax returns which remain subject to examination, along with positions expected to be taken in future returns. The Company provides for unrecognized tax benefits, based on the technical merits, when it is more likely than not that an uncertain tax position will not be sustained upon examination. Adjustments are made to the uncertain tax positions when facts and circumstances change, such as the closing of a tax audit; changes in applicable tax laws, including tax case rulings and legislative guidance; or expiration of the applicable statute of limitations.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. As a result, cash repatriated to the U.S. is generally no longer subject to U.S. federal income taxes. No provision is made for withholding taxes and any applicable U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries where these earnings are considered indefinitely invested or otherwise retained for continuing international operations. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable. See Notes 1 and 14.

## Other Items

### LEGAL MATTERS

At September 30, 2020, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that management believes will be material in relation to the Company's financial statements, nor were there any material commitments outside the normal course of business.

### NEW ACCOUNTING PRONOUNCEMENTS

On October 1, 2019, the Company adopted ASC 842, *Leases*, which requires rights and obligations related to lease arrangements to be recognized on the balance sheet, using the optional transition method under which prior periods were not adjusted. The Company elected the package of practical

expedients for leases that commenced prior to the adoption date, which included carrying forward the historical lease classification as operating or finance. The adoption of ASC 842 resulted in the recognition of operating lease right-of-use assets and related lease liabilities of approximately \$500 as of October 1, 2019, but did not materially impact the Company's earnings or cash flows for the year ended September 30, 2020.

On October 1, 2019, the Company adopted updates to ASC 815, *Derivatives and Hedging*, which permit hedging certain contractually specified risk components. Additionally, the updates eliminate the requirement to separately measure and report hedge ineffectiveness and simplify hedge documentation and effectiveness assessment requirements. These updates were adopted using a modified retrospective approach and were immaterial to the Company's financial statements for the year ended September 30, 2020.

On October 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers*, which updated and consolidated revenue recognition guidance from multiple sources into a single, comprehensive standard to be applied for all contracts with customers. The fundamental principle of the revised standard is to recognize revenue based on the transfer of goods and services to customers at the amount the Company expects to be entitled to in exchange for those goods and services. The Company adopted the new standard using the modified retrospective approach and applied the guidance to open contracts which were not completed at the date of adoption. The cumulative effect of adoption resulted in a \$30 increase to beginning retained earnings as of October 1, 2018. This increase primarily related to contracts where a portion of revenue for delivered goods or services was previously deferred due to contingent payment terms. The adoption of ASC 606 did not materially impact the Company's consolidated financial statements as of and for the year ended September 30, 2019.

In January 2017, the FASB issued updates to ASC 350, *Intangibles - Goodwill and Other*, eliminating the requirement to measure impairment based on the implied fair value of goodwill compared to the carrying amount of a reporting unit's goodwill. Instead, goodwill impairment will be measured as the excess of a reporting unit's carrying amount over its estimated fair value. These updates are effective prospectively beginning in fiscal 2021 and are not expected to impact the Company's financial statements unless a potential goodwill impairment is identified.

In August 2018, the FASB issued updates to ASC 350, *Intangibles - Goodwill and Other*, which align the requirements for capitalizing implementation costs incurred in a software hosting arrangement with the requirements for costs incurred to develop or obtain internal-use software. The Company plans to adopt these updates prospectively in the first quarter of fiscal 2021 and they are not expected to materially impact the Company's results of operations.

In June 2016, the FASB issued ASC 326, *Financial Instruments - Credit Losses*, which amends the impairment model by



requiring entities to use a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The new standard is effective in the first quarter of fiscal 2021 and is expected to have an immaterial impact on the Company's financial statements.

In August 2018, the FASB issued updates to ASC 715, *Compensation - Retirement Benefits*, which modify the disclosure requirements for employers that sponsor defined benefit plans or other postretirement plans. These updates are effective in fiscal 2021 and must be adopted on a retrospective basis. The updates change disclosures only and will not impact the Company's results of operations.

## Fiscal 2021 Outlook

Despite the uncertainties and challenges from COVID-19, Emerson ended the year with strong profitability, earnings and cash flow, driven by its ongoing cost containment and restructuring actions. As the broader macroeconomic outlook begins to stabilize, the Company is well-positioned with a more agile and lean cost structure to sustain and build upon its strong profitability, particularly as late cycle end markets begin their recovery. Although much of the attention this year was focused on reacting to the pandemic, Emerson also continued to invest and build on its innovation and technology footprint, including the strategic acquisition of Open Systems International, Inc. (OSI).

Emerson's outlook for fiscal 2021 assumes a conservative forecast for the macroeconomic environment given the current uncertainty, with slow-but-steady improvement in demand over the course of the year as economies, companies and communities continue to gradually reopen and learn to safely operate with the virus. Overall, revenue is expected to return to growth in the third quarter of 2021, with Commercial & Residential Solutions returning to growth in the first quarter and Automation Solutions returning to growth later in the year.

For the full year, consolidated net sales are expected to be up 1 to 4 percent, with underlying sales down 1 to up 2 percent excluding a 1 percent favorable impact from foreign currency translation and a 1 percent favorable impact from the OSI acquisition. Automation Solutions net sales are expected to be down 1 to up 2 percent, with underlying sales down 1 to 4 percent excluding a 1 percent favorable impact from foreign currency translation and a 2 percent favorable impact from the OSI acquisition. Commercial & Residential Solutions net sales are expected to be up 5 to 8 percent, with underlying sales up 4 to 7 percent excluding a 1 percent impact from favorable

foreign currency translation. Earnings per share are expected to be \$3.06 to \$3.16, while adjusted earnings per share, which exclude a \$0.28 per share impact from restructuring actions and a \$0.06 per share impact from OSI first year acquisition accounting charges, are expected to be \$3.40 to \$3.50. Operating cash flow is expected to be approximately \$3.1 billion and free cash flow, which excludes targeted capital spending of \$600 million, is expected to be approximately \$2.5 billion. The Company intends to resume share repurchases in fiscal 2021 in the amount of \$500 million to \$1 billion, while concurrently maintaining optionality for further acquisitions should the opportunity arise. The guidance discussed herein assumes no major operational or supply chain disruptions and oil prices in the \$35 to \$50 range during this period. However, future developments related to COVID-19, including further actions taken by governmental authorities, potential shutdowns of our operations, or delays in the stabilization and recovery of economic conditions could further adversely affect our operations and financial results, as well as those of our customers and suppliers. See Item 1A – "Risk Factors."

## BREXIT UPDATE

The United Kingdom's (UK) withdrawal from the European Union (EU), commonly known as "Brexit", was completed on January 31, 2020. The UK is now in a transition period and has begun negotiating the terms of a trade agreement and other laws and regulations with the EU. The Company's net sales in the UK are principally in the Automation Solutions segment and represent less than two percent of consolidated sales. Sales of products manufactured in the UK and sold within the EU are immaterial. The Company is evaluating several potential outcomes of the UK's negotiations with the EU and believes the direct cost of incremental tariffs, logistics and other items would be immaterial.

## ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information from this Annual Report on Form 10-K set forth in Item 7 under "Financial Instruments" is hereby incorporated by reference.

## ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Company's consolidated financial statements and accompanying notes and the report thereon of KPMG LLP that follow.



## Consolidated Statements of Earnings

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts

	2018	2019	2020
<b>Net sales</b>	\$17,408	18,372	<b>16,785</b>
Costs and expenses:			
Cost of sales	9,976	10,557	<b>9,776</b>
Selling, general and administrative expenses	4,269	4,457	<b>3,986</b>
Other deductions, net	337	325	<b>532</b>
Interest expense, net of interest income of: 2018, \$43; 2019, \$27; 2020, \$19	159	174	<b>156</b>
<b>Earnings before income taxes</b>	2,667	2,859	<b>2,335</b>
Income taxes	443	531	<b>345</b>
<b>Net earnings</b>	2,224	2,328	<b>1,990</b>
Less: Noncontrolling interests in earnings of subsidiaries	21	22	<b>25</b>
<b>Net earnings common stockholders</b>	\$ 2,203	2,306	<b>1,965</b>
<b>Basic earnings per common share</b>	\$ 3.48	3.74	<b>3.26</b>
<b>Diluted earnings per common share</b>	\$ 3.46	3.71	<b>3.24</b>

See accompanying Notes to Consolidated Financial Statements.



26 2020 Emerson Form 10-K

## Consolidated Statements of Comprehensive Income

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions

	2018	2019	2020
<b>Net earnings</b>	\$2,224	2,328	<b>1,990</b>
Other comprehensive income (loss), net of tax:			
Foreign currency translation	(231)	(194)	<b>85</b>
Pension and postretirement	242	(508)	<b>64</b>
Cash flow hedges	(7)	(5)	<b>(2)</b>
Total other comprehensive income (loss)	4	(707)	<b>147</b>
<b>Comprehensive income</b>	2,228	1,621	<b>2,137</b>
Less: Noncontrolling interests in comprehensive income of subsidiaries	21	22	<b>27</b>
<b>Comprehensive income common stockholders</b>	\$2,207	1,599	<b>2,110</b>

See accompanying Notes to Consolidated Financial Statements.



## Consolidated Balance Sheets

### EMERSON ELECTRIC CO. & SUBSIDIARIES

September 30 | Dollars and shares in millions, except per share amounts

	2019	2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 1,494	3,315
Receivables, less allowances of \$112 in 2019 and \$138 in 2020	2,985	2,802
Inventories	1,880	1,928
Other current assets	780	761
Total current assets	7,139	8,806
<b>Property, plant and equipment, net</b>	3,642	3,688
<b>Other assets</b>		
Goodwill	6,536	6,734
Other intangible assets	2,615	2,468
Other	565	1,186
Total other assets	9,716	10,388
<b>Total assets</b>	<b>\$20,497</b>	<b>22,882</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings and current maturities of long-term debt	\$ 1,444	1,160
Accounts payable	1,874	1,715
Accrued expenses	2,658	2,910
Total current liabilities	5,976	5,785
<b>Long-term debt</b>	4,277	6,326
<b>Other liabilities</b>	1,971	2,324
<b>Equity</b>		
Common stock, \$0.50 par value; authorized, 1,200.0 shares; issued, 953.4 shares; outstanding, 611.0 shares in 2019; 598.0 shares in 2020	477	477
Additional paid-in-capital	393	470
Retained earnings	24,199	24,955
Accumulated other comprehensive income (loss)	(1,722)	(1,577)
	23,347	24,325
Less: Cost of common stock in treasury, 342.4 shares in 2019; 355.4 shares in 2020	15,114	15,920
<b>Common stockholders' equity</b>	8,233	8,405
Noncontrolling interests in subsidiaries	40	42
<b>Total equity</b>	8,273	8,447
<b>Total liabilities and equity</b>	<b>\$20,497</b>	<b>22,882</b>

See accompanying Notes to Consolidated Financial Statements.



28 2020 Emerson Form 10-K

## Consolidated Statements of Equity

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts

	2018	2019	2020
<b>Common stock</b>	\$ 477	477	477
<b>Additional paid-in-capital</b>			
Beginning balance	297	348	393
Stock plans	51	45	77
Ending balance	348	393	470
<b>Retained earnings</b>			
Beginning balance	21,995	23,072	24,199
Net earnings common stockholders	2,203	2,306	1,965
Dividends paid (per share: 2018, \$1.94; 2019, \$1.96; 2020, \$2.00)	(1,229)	(1,209)	(1,209)
Adoption of accounting standard updates	103	30	—
Ending balance	23,072	24,199	24,955
<b>Accumulated other comprehensive income (loss)</b>			
Beginning balance	(1,019)	(1,015)	(1,722)
Foreign currency translation	(231)	(194)	83
Pension and postretirement	242	(508)	64
Cash flow hedges	(7)	(5)	(2)
Ending balance	(1,015)	(1,722)	(1,577)
<b>Treasury stock</b>			
Beginning balance	(13,032)	(13,935)	(15,114)
Purchases	(1,000)	(1,250)	(942)
Issued under stock plans	97	71	136
Ending balance	(13,935)	(15,114)	(15,920)
<b>Common stockholders' equity</b>	8,947	8,233	8,405
<b>Noncontrolling interests in subsidiaries</b>			
Beginning balance	52	43	40
Net earnings	21	22	25
Other comprehensive income	—	—	2
Dividends paid	(30)	(25)	(25)
Ending balance	43	40	42
<b>Total equity</b>	\$ 8,990	8,273	8,447

See accompanying Notes to Consolidated Financial Statements.



## Consolidated Statements of Cash Flows

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions

	2018	2019	2020
<b>Operating activities</b>			
Net earnings	\$ 2,224	2,328	1,990
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	758	822	854
Stock compensation expense	216	120	110
Pension expense	49	2	67
Pension funding	(61)	(60)	(66)
Transition impact of Tax Act	(189)	—	—
Changes in operating working capital	(83)	(150)	148
Other, net	(22)	(56)	(20)
Cash provided by operating activities	2,892	3,006	3,083
<b>Investing activities</b>			
Capital expenditures	(617)	(594)	(538)
Purchases of businesses, net of cash and equivalents acquired	(2,203)	(469)	(126)
Divestitures of businesses	201	14	—
Other, net	(101)	(125)	(76)
Cash used in investing activities	(2,720)	(1,174)	(740)
<b>Financing activities</b>			
Net increase (decrease) in short-term borrowings	343	(6)	(90)
Proceeds from short-term borrowings greater than three months	—	—	1,043
Payments of short-term borrowings greater than three months	—	—	(1,043)
Proceeds from long-term debt	—	1,691	2,233
Payments of long-term debt	(241)	(656)	(503)
Dividends paid	(1,229)	(1,209)	(1,209)
Purchases of common stock	(1,000)	(1,250)	(942)
Other, net	35	39	2
Cash used in financing activities	(2,092)	(1,391)	(509)
Effect of exchange rate changes on cash and equivalents	(49)	(40)	(13)
<b>Increase (Decrease) in cash and equivalents</b>	(1,969)	401	1,821
Beginning cash and equivalents	3,062	1,093	1,494
<b>Ending cash and equivalents</b>	\$ 1,093	1,494	3,315
<b>Changes in operating working capital</b>			
Receivables	\$ (175)	51	207
Inventories	17	(87)	(6)
Other current assets	(42)	(87)	33
Accounts payable	115	(37)	(196)
Accrued expenses	2	10	110
Total changes in operating working capital	\$ (83)	(150)	148

See accompanying Notes to Consolidated Financial Statements.



30 2020 Emerson Form 10-K

## Notes to Consolidated Financial Statements

### EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts or where noted

## (1) Summary of Significant Accounting Policies

### FINANCIAL STATEMENT PRESENTATION

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates. Certain prior year amounts have been reclassified to conform with current year presentation.

On October 1, 2019, the Company adopted ASC 842, *Leases*, which requires rights and obligations related to lease arrangements to be recognized on the balance sheet, using the optional transition method under which prior periods were not adjusted. The Company elected the package of practical expedients for leases that commenced prior to the adoption date, which included carrying forward the historical lease classification as operating or finance. The adoption of ASC 842 resulted in the recognition of operating lease right-of-use assets and related lease liabilities of approximately \$500 as of October 1, 2019, but did not materially impact the Company's earnings or cash flows for the year ended September 30, 2020. The Company's financial statements for 2018 and 2019 continue to be reported in accordance with the Company's historical accounting under ASC 840, *Leases*.

On October 1, 2019, the Company adopted updates to ASC 815, *Derivatives and Hedging*, which permit hedging certain contractually specified risk components. Additionally, the updates eliminate the requirement to separately measure and report hedge ineffectiveness and simplify hedge documentation and effectiveness assessment requirements. These updates were adopted using a modified retrospective approach and were immaterial to the Company's financial statements for the year ended September 30, 2020.

On October 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers*, which updated and consolidated revenue recognition guidance from multiple sources into a single, comprehensive standard to be applied for all contracts with customers. The fundamental principle of the revised standard is to recognize revenue based on the transfer of goods and services to customers at the amount the Company expects to be entitled to in exchange for those goods and services. The Company adopted the new standard using the modified retrospective approach and applied the guidance to open contracts which were not completed at the date of adoption. The cumulative effect of adoption resulted in a \$30 increase to beginning retained earnings as of October 1, 2018. This increase primarily related to contracts where a portion of revenue for delivered goods or services was previously deferred due to contingent payment terms. The adoption of ASC 606 did not materially impact the Company's consolidated financial statements as of and for the year ended September 30, 2019. Amounts reported for the year ended September 30, 2018 continue to be reported in accordance with the Company's historical accounting under ASC 605, *Revenue Recognition*.

In the first quarter of fiscal 2019, the Company adopted updates to ASC 715, *Compensation - Retirement Benefits*, which permit only the service cost component of net periodic pension and postretirement expense to be reported with compensation costs, while all other components are required to be reported separately in other deductions. These updates were adopted retrospectively and resulted in the reclassification of \$40 of income in 2018 from cost of sales and SG&A to other deductions, net. Segment earnings were not impacted by the updates to ASC 715.

In the fourth quarter of 2018, the Company adopted updates to ASC 220, *Comprehensive Income*, which permit reclassification of stranded tax effects resulting from U.S. tax reform from accumulated other comprehensive income to retained earnings. The Company reclassified \$100 of stranded tax effects from accumulated other comprehensive income to retained earnings upon adoption of these updates. See Note 17.

In the first quarter of 2018, the Company adopted updates to ASC 740, *Income Taxes*, which require recognition of the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs, on a modified retrospective basis. The adoption of these updates resulted in an increase of \$3 to retained earnings.

In the first quarter of 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 were adopted prospectively and did not materially impact the Company's financial statements.



## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its controlled affiliates. Intercompany transactions, profits and balances are eliminated in consolidation. Investments of 20 percent to 50 percent of the voting shares of other entities are accounted for by the equity method. Investments in publicly traded companies of less than 20 percent are carried at fair value, with changes in fair value reflected in accumulated other comprehensive income. Investments in nonpublicly traded companies of less than 20 percent are carried at cost, minus impairment, and adjusted for observable price changes in orderly transactions.

## FOREIGN CURRENCY TRANSLATION

The functional currency for most of the Company's non-U.S. subsidiaries is the local currency. Adjustments resulting from translating local currency financial statements into U.S. dollars are reflected in accumulated other comprehensive income.

## CASH EQUIVALENTS

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

## INVENTORIES

Inventories are stated at the lower of cost and net realizable value. The majority of inventory is valued based on standard costs, which approximate average costs, while the remainder is principally valued on a first-in, first-out basis. Cost standards are revised at the beginning of each year. The annual effect of resetting standards plus any operating variances incurred during each period are allocated to inventories and recognized in cost of sales as product is sold. Following are the components of inventory as of September 30:

	2019	2020
Finished products	\$ 578	584
Raw materials and work in process	1,302	1,344
Total inventories	\$1,880	1,928

## FAIR VALUE MEASUREMENT

ASC 820, *Fair Value Measurement*, establishes a formal hierarchy and framework for measuring certain financial statement items at fair value, and requires disclosures about fair value measurements and the reliability of valuation inputs. Under ASC 820, measurement assumes the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for an identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or other approaches using market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market, such as company-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Company's financial instruments fall within Level 2. The fair value of the Company's long-term debt is Level 2, estimated using current interest rates and pricing from financial institutions and other market sources for debt with similar maturities and characteristics.

## PROPERTY, PLANT AND EQUIPMENT

The Company records investments in land, buildings, and machinery and equipment at cost. Depreciation is computed principally using the straight-line method over estimated service lives, which for principal assets are 30 to 40 years for buildings and 8 to 12 years for machinery and equipment. Long-lived tangible assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized based on estimated fair values if the sum of estimated future undiscounted cash flows of the related assets is less than the carrying values. The components of property, plant and equipment as of September 30 follow:

	2019	2020
Land	\$ 336	350
Buildings	2,219	2,335
Machinery and equipment	5,645	5,907
Construction in progress	471	463
Property, plant and equipment, at cost	8,671	9,055
Less: Accumulated depreciation	5,029	5,367
Property, plant and equipment, net	\$3,642	3,688



32 2020 Emerson Form 10-K

## GOODWILL AND OTHER INTANGIBLE ASSETS

Assets and liabilities acquired in business combinations are accounted for using the acquisition method and recorded at their respective fair values. Substantially all goodwill is assigned to the reporting unit that acquires a business. A reporting unit is an operating segment as defined in ASC 280, *Segment Reporting*, or a business one level below an operating segment if discrete financial information for that business unit is prepared and regularly reviewed by the segment manager. The Company conducts annual impairment tests of goodwill in the fourth quarter. If an initial assessment indicates it is more likely than not goodwill might be impaired, it is evaluated by comparing the reporting unit's estimated fair value to its carrying value. Goodwill is also tested for impairment between annual tests if events or circumstances indicate the fair value of a unit may be less than its carrying value. If the carrying amount exceeds the estimated fair value, impairment is recognized to the extent that recorded goodwill exceeds the implied fair value of that goodwill. Estimated fair values of reporting units are Level 3 measures and are developed generally under an income approach that discounts estimated future cash flows using risk-adjusted interest rates, as well as earnings multiples or other techniques as warranted. Fair values are subject to changes in underlying economic conditions.

All of the Company's identifiable intangible assets are subject to amortization on a straight-line basis over their estimated useful lives. Identifiable intangibles consist of intellectual property such as patents and trademarks, customer relationships and capitalized software. Identifiable intangibles are also subject to evaluation for potential impairment if events or circumstances indicate the carrying amount may not be recoverable. See Note 8.

## LEASES

The Company leases offices; manufacturing facilities and equipment; and transportation, information technology and office equipment under operating lease arrangements. Finance lease arrangements are immaterial. The Company determines whether an arrangement is, or contains, a lease at contract inception. An arrangement contains a lease if the Company has the right to direct the use of and obtain substantially all of the economic benefits of an identified asset. Right-of-use assets and lease liabilities are recognized at lease commencement based on the present value of lease payments over the lease term. Leases with an initial term of 12 months or less are not recognized on the balance sheet and are recorded as short-term lease expense. The discount rate used to calculate present value is the Company's incremental borrowing rate based on the lease term and the economic environment of the applicable country or region.

Certain leases contain renewal options or options to terminate prior to lease expiration, which are included in the measurement of right-of-use assets and lease liabilities when it is reasonably certain they will be exercised. The Company has elected to account for lease and non-lease components as a single lease component for its offices and manufacturing facilities. Some lease arrangements include payments that are adjusted periodically based on actual charges incurred for common area maintenance, utilities, taxes and insurance, or changes in an index or rate referenced in the lease. The fixed portion of these payments is included in the measurement of right-of-use assets and lease liabilities at lease commencement, while the variable portion is recorded as variable lease expense. The Company's leases typically do not contain material residual value guarantees or restrictive covenants.

## PRODUCT WARRANTY

Warranties vary by product line and are competitive for the markets in which the Company operates. Warranties are largely offered to provide assurance that the product will function as intended and generally extend for a period of one to two years from the date of sale or installation. Provisions for warranty expense are estimated at the time of sale based on historical experience and adjusted quarterly for any known issues that may arise. Product warranty expense is less than one percent of sales.

## REVENUE RECOGNITION

Emerson is a global manufacturer that designs and manufactures products and delivers services that bring technology and engineering together to provide innovative solutions for its customers, largely in the form of tangible products. The Company evaluates its contracts with customers to identify the promised goods or services and recognizes revenue for the identified performance obligations at the amount the Company expects to be entitled to in exchange for those goods or services. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. Revenue is recognized when, or as, performance obligations are satisfied and control has transferred to the customer, typically when products are shipped or delivered, title and risk of loss pass to the customer, and the Company has a present right to payment. The vast majority of the Company's revenues relate to a broad offering of manufactured products which are recognized at the point in time when control transfers, generally in accordance with shipping terms. A portion of the Company's revenues relate to the sale of software and post-contract customer support, parts and labor for repairs, and engineering services. In limited circumstances, contracts include multiple performance obligations, where revenue is recognized separately for each good or service, as well as contracts where revenue is recognized over time as control transfers to the customer.

Revenue is recognized over time for approximately 5 percent of the Company's revenues. These contracts largely relate to projects in the Process Control Systems & Solutions product offering within the Automation Solutions segment where revenue is recognized



using the percentage-of-completion method to reflect the transfer of control over time, while a small amount is attributable to long-term maintenance and service contracts where revenue is typically recognized on a straight-line basis as the services are provided. Approximately 5 percent of revenues relate to sales arrangements with multiple performance obligations, principally in the Automation Solutions segment. Tangible products represent a large majority of the delivered items in contracts with multiple performance obligations or where revenue is recognized over time, while a smaller portion is attributable to installation, service and maintenance.

For revenues recognized over time, the Company typically uses an input method to determine progress and recognize revenue, based on costs incurred. The Company believes costs incurred closely correspond with its performance under the contract and the transfer of control to the customer.

In sales arrangements that involve multiple performance obligations, revenue is allocated based on the relative standalone selling price for each performance obligation. Observable selling prices from actual transactions are used whenever possible. In other instances, the Company determines the standalone selling price based on third-party pricing or management's best estimate. Generally, contract duration is short-term, and cancellation, termination or refund provisions apply only in the event of contract breach and are rarely invoked.

Payment terms vary but are generally short-term in nature. The Company's long-term contracts, where revenue is generally recognized over time, are typically billed as work progresses in accordance with the contract terms and conditions, either at periodic intervals or upon achievement of certain milestones. The timing of revenue recognition and billings under these contracts results in either unbilled receivables (contract assets) when revenue recognized exceeds billings, or customer advances (contract liabilities) when billings exceed revenue recognized. Unbilled receivables are reclassified to accounts receivable when an unconditional right to consideration exists, typically when a milestone in the contract is achieved. The Company does not evaluate whether the transaction price includes a significant financing component for contracts where the time between cash collection and performance is less than one year.

Certain arrangements with customers include variable consideration, typically in the form of rebates, cash discounts or penalties. In limited circumstances, the Company sells products with a general right of return. In most instances, returns are limited to product quality issues. The Company records a reduction to revenue at the time of sale to reflect the ultimate amount of consideration it expects to receive. The Company's estimates are updated quarterly based on historical experience, trend analysis, and expected market conditions. Variable consideration is typically not constrained at the time revenue is recognized. See Notes 2 and 18 for additional information about the Company's revenues.

## DERIVATIVES AND HEDGING

In the normal course of business, the Company is exposed to changes in interest rates, foreign currency exchange rates and commodity prices due to its worldwide presence and diverse business profile. The Company's foreign currency exposures relate to transactions denominated in currencies that differ from the functional currencies of its business units, primarily in euros and Mexican pesos. Primary commodity exposures are price fluctuations on forecasted purchases of copper and aluminum and related products. As part of the Company's risk management strategy, derivative instruments are selectively used in an effort to minimize the impact of these exposures. Foreign exchange forwards and options are utilized to hedge foreign currency exposures impacting sales or cost of sales transactions, firm commitments and the fair value of assets and liabilities, while swap and option contracts may be used to minimize the effect of commodity price fluctuations on the cost of sales. Non-U.S. dollar obligations are utilized to reduce foreign currency risk associated with the Company's net investments in foreign operations. All derivatives are associated with specific underlying exposures and the Company does not hold derivatives for trading or speculative purposes. The duration of hedge positions is generally two years or less, except for the Company's net investment hedges.

All derivatives are accounted for under ASC 815, *Derivatives and Hedging*, and recognized at fair value. For derivatives hedging variability in future cash flows, any gain or loss is deferred in stockholders' equity and recognized when the underlying hedged transaction impacts earnings. The majority of the Company's derivatives that are designated as hedges and qualify for hedge accounting are cash flow hedges. For derivatives hedging the fair value of existing assets or liabilities, both the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in earnings each period. Currency fluctuations on non-U.S. dollar obligations that have been designated as hedges of net investments in foreign operations are recognized in accumulated other comprehensive income (loss) and reclassified to income in the same period when a foreign operation is sold or substantially liquidated and the gain or loss related to the sale is included in income. To the extent that any hedge is not fully effective at offsetting changes in the underlying hedged item, there could be a net earnings impact. The Company also uses derivatives to hedge economic exposures that do not receive hedge accounting under ASC 815. The underlying exposures for these hedges relate primarily to purchases of commodity-based components used in the Company's manufacturing processes, and the revaluation of certain foreign-currency-denominated assets and liabilities. Gains or losses on derivative instruments not designated as hedges are recognized in the income statement immediately.



Counterparties to derivative arrangements are companies with high credit ratings, and the Company has bilateral collateral arrangements with them for which credit rating-based posting thresholds vary depending on the arrangement. If credit ratings on the Company's debt fall below preestablished levels, counterparties can require immediate full collateralization on all instruments in net liability positions. No collateral was posted with counterparties and none was held by the Company at year end. If contractual thresholds had been exceeded, the maximum collateral the Company could have been required to post was immaterial. The Company can also demand full collateralization of instruments in net asset positions should any of the Company's counterparties' credit ratings fall below certain thresholds. Risk from credit loss when derivatives are in asset positions is not considered material. The Company has master netting arrangements in place with its counterparties that allow the offsetting of certain derivative-related amounts receivable and payable when settlement occurs in the same period. Accordingly, counterparty balances are netted in the consolidated balance sheet and are reported in other current assets or accrued expenses as appropriate, depending on positions with counterparties as of the balance sheet date. See Note 9.

## INCOME TAXES

The provision for income taxes is based on pretax income reported in the consolidated statements of earnings and tax rates currently enacted in each jurisdiction. Certain income and expense items are recognized in different time periods for financial reporting and income tax filing purposes, and deferred income taxes are provided for the effect of temporary differences. The Company also provides for withholding taxes and any applicable U.S. income taxes on earnings intended to be repatriated from non-U.S. locations. No provision has been made for these taxes on approximately \$4.6 billion of undistributed earnings of non-U.S. subsidiaries as of September 30, 2020, as these earnings are considered indefinitely invested or otherwise retained for continuing international operations. Recognition of withholding taxes and any applicable U.S. income taxes on undistributed non-U.S. earnings would be triggered by a management decision to repatriate those earnings. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable. See Note 14.

## (2) Revenue Recognition

The following table summarizes the balances of the Company's unbilled receivables (contract assets), which are reported in Other current assets, and its customer advances (contract liabilities), which are reported in Accrued expenses.

	2019	2020
Unbilled receivables (contract assets)	\$ 456	458
Customer advances (contract liabilities)	(519)	(583)
Net contract liabilities	\$ (63)	(125)

The majority of the Company's contract balances relate to arrangements where revenue is recognized over time and payments from customers are made according to a contractual billing schedule. The increase in net contract liabilities was due to customer billings which exceeded revenue recognized for performance completed during the period. Revenue recognized for 2020 included approximately \$420 that was included in the beginning contract liability balance. Other factors that impacted the change in net contract liabilities were immaterial.

Revenue recognized for 2020 for performance obligations that were fully satisfied in previous periods, including cumulative catchup adjustments on the Company's long-term contracts, was not material. Capitalized amounts related to incremental costs to obtain customer contracts and costs to fulfill contracts are immaterial.

As of September 30, 2020, the Company's backlog relating to unsatisfied (or partially unsatisfied) performance obligations in contracts with its customers was approximately \$5.3 billion. The Company expects to recognize approximately 85 percent of its remaining performance obligations as revenue over the next 12 months, with the remainder substantially over the subsequent two years thereafter.

See Note 18 for additional information about the Company's revenues.

## (3) Weighted-Average Common Shares

Basic earnings per common share consider only the weighted-average of common shares outstanding while diluted earnings per common share also consider the dilutive effects of stock options and incentive shares. An inconsequential number of shares of common stock were excluded from the computation of diluted earnings per share in 2020, 2019 and 2018 as the effect would have been antidilutive. Earnings allocated to participating securities were inconsequential for all years presented.



Reconciliations of weighted-average shares for basic and diluted earnings per common share follow (shares in millions):

	2018	2019	2020
Basic shares outstanding	632.0	616.2	602.9
Dilutive shares	3.3	4.4	3.7
Diluted shares outstanding	635.3	620.6	606.6

#### (4) Acquisitions and Divestitures

On October 1, 2020, the Company completed the acquisition of Open Systems International, Inc., a leading operations technology software provider in the global power industry, for approximately \$1.6 billion, net of cash acquired. This business, which has annual sales of approximately \$170 will be reported in the Automation Solutions segment. Based upon preliminary estimates, the Company expects to recognize goodwill of approximately \$1,000 (none of which is expected to be tax deductible), identifiable intangible assets of approximately \$800, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 11 years, and deferred tax liabilities of approximately \$180.

In 2020, the Company acquired three businesses, two in the Automation Solutions segment and one in the Climate Technologies segment, for \$126, net of cash acquired. Valuations of certain acquired assets and liabilities are in-process and subject to refinement.

The Company acquired eight businesses in 2019, all in the Automation Solutions segment, for \$469, net of cash acquired. These eight businesses had combined annual sales of approximately \$300. The Company recognized goodwill of \$209 (\$155 of which is expected to be tax deductible) and other identifiable intangible assets of \$158, primarily customer relationships and intellectual property with a weighted-average useful life of approximately nine years.

On July 17, 2018, the Company completed the acquisition of Aventics, a global provider of smart pneumatics technologies that power machine and factory automation applications, for \$622, net of cash acquired. This business, which has annual sales of approximately \$425, is reported in the Industrial Solutions product offering in the Automation Solutions segment. The Company recognized goodwill of \$372 (\$20 of which is expected to be tax deductible), and identifiable intangible assets of \$278, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 12 years.

On July 2, 2018, the Company completed the acquisition of Textron's tools and test equipment business for \$810, net of cash acquired. This business, with annual sales of approximately \$470, is a manufacturer of electrical and utility tools, diagnostics, and test and measurement instruments, and is reported in the Tools & Home products segment. The Company recognized goodwill of \$366 (\$11 of which is expected to be tax deductible), and identifiable intangible assets of \$358, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 14 years.

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 \$309 (\$170 of which is expected to be tax deductible), and identifiable intangible assets of \$238, primarily intellectual property and customer relationships with a weighted-average useful life of approximately 11 years.

During 2018, the Company also acquired four smaller businesses, two in the Automation Solutions segment and two in the Climate Technologies segment.

Total cash paid for all businesses for the fiscal year ended 2018 was \$2.2 billion, net of cash acquired. The purchase price of the 2018 acquisitions was allocated to assets and liabilities as follows.

Accounts receivable	\$ 153
Inventory	187
Property, plant and equipment	140
Goodwill	1,176
Intangibles	1,013
Other assets	77
Total assets	2,746
Accounts payable	73
Other current liabilities	134
Deferred taxes and other liabilities	325
Cash paid, net of cash acquired	\$2,214



Results of operations for the 2018 acquisitions included sales of \$365 and a net loss of \$3, including intangibles amortization of \$40 and restructuring expense of \$3. These results also included first year pretax acquisition accounting charges related to inventory and deferred revenue of \$39 and \$11, respectively, which are reported in Corporate and other. See Note 18.

The results of operations of the acquired businesses discussed above have been included in the Company's consolidated results of operations since the respective dates of acquisition.

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 2018 due to income taxes resulting from nondeductible goodwill. The Company realized \$150 in after-tax cash proceeds from the sale.

In 2017, the Company sold its network power systems business and retained a subordinated interest in distributions which is contingent upon the equity holders first receiving a threshold return on their initial investment. The Company has not received any distributions through the year ended September 30, 2020.

## PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

Pro forma net sales, net earnings common stockholders and diluted earnings per share for 2018 were approximately \$18.2 billion, \$2.3 billion and \$3.56 per share, respectively. These results are presented as if the 2018 acquisitions occurred on October 1, 2016 and the 2017 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 acquisitions occurred as of that time.

The 2018 pro forma results exclude acquisition costs and first year acquisition accounting charges related to inventory, backlog and deferred revenue of \$102. Of these charges, \$73 related to businesses acquired in 2018 and \$29 related to the valves & controls acquisition.

## (5) Other Deductions, Net

Other deductions, net are summarized as follows:

	2018	2019	2020
Amortization of intangibles (intellectual property and customer relationships)	\$211	238	239
Restructuring costs	65	95	284
Special advisory fees	—	—	13
Other	61	(8)	(4)
Total	\$337	325	532

The increase in amortization for 2019 is due to higher intangibles amortization of \$46 which largely relates to acquisitions completed in 2018, partially offset by backlog amortization of \$19 incurred in 2018 related to the valves & controls acquisition. Other is composed of several items, including acquisition/divestiture costs, foreign currency transaction gains and losses, litigation, pension expense and other items. The change in 2020 was primarily due to an unfavorable impact from pensions of \$48 offset by lower acquisition/divestiture and litigation costs. The decrease in 2019 is primarily due to lower acquisition/divestiture costs of \$29, pension expenses of \$42 and foreign currency transactions of \$13.

## (6) Restructuring Costs

Each year the Company incurs costs to size its businesses to levels appropriate for current economic conditions and to continually improve its cost structure and operational efficiency, deploy assets globally, and remain competitive on a worldwide basis. Costs result from numerous individual actions implemented across the Company's various operating units on an ongoing basis and can include costs for moving facilities to best-cost locations, restarting plants after relocation or geographic expansion to better serve local markets, reducing forcecount or the number of facilities, exiting certain product lines, and other costs resulting from asset deployment decisions (such as contract termination costs, asset write-downs and vacant facility costs).

Restructuring expenses were \$284, \$95 and \$65 for 2020, 2019 and 2018, respectively, and included \$7 and \$19 related to acquisitions in 2019 and 2018. The Company expects fiscal year 2021 restructuring expense to exceed \$200.



Restructuring costs by business segment follows:

	2018	2019	2020
<b>Automation Solutions</b>	\$41	65	<b>232</b>
Climate Technologies	20	20	<b>23</b>
Tools & Home Products	3	7	<b>21</b>
<b>Commercial &amp; Residential Solutions</b>	23	27	<b>44</b>
Corporate	1	3	<b>8</b>
<b>Total</b>	<b>\$65</b>	<b>95</b>	<b>284</b>

Costs incurred in 2020 relate to the Company's initiatives to improve operating margins that began in the third quarter of fiscal 2019 and were expanded in the third quarter of fiscal 2020 in response to the effects of COVID-19 on demand for the Company's products. Actions taken in 2020 included workforce reductions of approximately 5,400 positions and the exit of six production facilities worldwide. Costs incurred in 2019 and 2018 primarily relate to the deployment of resources to better serve local markets and higher growth areas, and the integration of acquisitions. Expenses incurred in 2019 and 2018 included actions to exit two and six facilities, and eliminate approximately 1,100 and 1,200 positions, respectively.

The change in the liability for restructuring costs during the years ended September 30 follows:

	2019	EXPENSE	UTILIZED/PAID	2020
Severance and benefits	\$62	<b>239</b>	<b>125</b>	<b>176</b>
Other	7	<b>45</b>	<b>47</b>	<b>5</b>
<b>Total</b>	<b>\$69</b>	<b>284</b>	<b>172</b>	<b>181</b>

	2018	EXPENSE	UTILIZED/PAID	2019
Severance and benefits	\$46	72	56	62
Other	6	23	22	7
<b>Total</b>	<b>\$52</b>	<b>95</b>	<b>78</b>	<b>69</b>

The tables above do not include \$20 of costs related to restructuring actions incurred for the year ended September 30, 2020 that are required to be reported in cost of sales.

## (7) Leases

The components of lease expense for the year ended September 30, 2020 were as follows:

	2020
Operating lease expense	<b>\$207</b>
Variable lease expense	<b>\$ 19</b>

Short-term lease expense and sublease income were immaterial for the year ended September 30, 2020. Cash paid for operating leases is classified within operating cash flows and was \$201 for the year ended September 30, 2020. Operating lease right-of-use asset additions were \$210 for the year ended September 30, 2020.

The following table summarizes the balances of the Company's operating lease right-of-use assets and operating lease liabilities as of September 30, 2020, the vast majority of which relates to offices and manufacturing facilities:

	2020
Right-of-use assets (Other assets)	<b>\$508</b>
Current lease liabilities (Accrued expenses)	<b>\$148</b>
Noncurrent lease liabilities (Other liabilities)	<b>\$373</b>

The weighted-average remaining lease term for operating leases was 4.6 years and the weighted-average discount rate was 2.8 percent as of September 30, 2020.



38 2020 Emerson Form 10-K

Future maturities of operating lease liabilities as of September 30, 2020 are summarized below:

	2020
2021	\$159
2022	122
2023	94
2024	66
2025	39
Thereafter	85
Total lease payments	565
Less: Interest	44
Total lease liabilities	\$521

Lease commitments that have not yet commenced were immaterial as of September 30, 2020.

The future minimum annual rentals under noncancelable long-term leases as of September 30, 2019 were as follows: \$159 in 2020, \$112 in 2021, \$82 in 2022, \$57 in 2023, \$38 in 2024 and \$63 thereafter.

## (8) Goodwill and Other Intangibles

The change in the carrying value of goodwill by business segment follows:

	AUTOMATION SOLUTIONS	CLIMATE TECHNOLOGIES	TOOLS & HOME PRODUCTS	COMMERCIAL & RESIDENTIAL SOLUTIONS	TOTAL
Balance, September 30, 2018	\$5,355	670	430	1,100	6,455
Acquisitions	210	—	—	—	210
Foreign currency translation and other	(98)	(2)	(29)	(31)	(129)
Balance, September 30, 2019	5,467	668	401	1,069	6,536
Acquisitions	23	59	—	59	82
Foreign currency translation and other	93	3	20	23	116
<b>Balance, September 30, 2020</b>	<b>\$5,583</b>	<b>730</b>	<b>421</b>	<b>1,151</b>	<b>6,734</b>

The gross carrying amount and accumulated amortization of identifiable intangible assets by major class follow:

	CUSTOMER RELATIONSHIPS		INTELLECTUAL PROPERTY		CAPITALIZED SOFTWARE		TOTAL	
	2019	2020	2019	2020	2019	2020	2019	2020
Gross carrying amount	\$1,973	2,059	1,565	1,628	1,334	1,419	4,872	5,106
Less: Accumulated amortization	582	731	650	773	1,025	1,134	2,257	2,638
Net carrying amount	\$1,391	1,328	915	855	309	285	2,615	2,468

Intangible asset amortization expense for the major classes included above for 2020, 2019 and 2018 was \$369, \$359 and \$314, respectively. Based on intangible asset balances as of September 30, 2020, amortization expense is expected to approximate \$352 in 2021, \$316 in 2022, \$291 in 2023, \$256 in 2024 and \$236 in 2025. These amounts do not include the impact of the acquisition of Open Systems International, Inc., which closed on October 1, 2020.

## (9) Financial Instruments

### HEDGING ACTIVITIES

As of September 30, 2020, the notional amount of foreign currency hedge positions was approximately \$2.2 billion, while commodity hedge contracts totaled approximately \$80 (primarily 34 million pounds of copper and aluminum). All derivatives receiving hedge accounting are cash flow hedges. The majority of hedging gains and losses deferred as of September 30, 2020 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 hedge accounting.



## NET INVESTMENT HEDGE

In fiscal 2019, the Company issued euro-denominated debt of €1.5 billion. The euro notes reduce foreign currency risk associated with the Company's international subsidiaries that use the euro as their functional currency and have been designated as a hedge of a portion of the investment in these operations. Foreign currency gains or losses associated with the euro-denominated debt are deferred in accumulated other comprehensive income (loss) and will remain until the hedged investment is sold or substantially liquidated.

Amounts included in earnings and other comprehensive income follow:

	Location	GAIN (LOSS) TO EARNINGS			GAIN (LOSS) TO OCI		
		2018	2019	2020	2018	2019	2020
Commodity	Cost of sales	\$ 13	(11)	(8)	(7)	(10)	10
Foreign currency	Sales	(2)	(7)	(5)	(11)	(8)	4
Foreign currency	Cost of sales	4	20	4	20	14	(25)
Foreign currency	Other deductions, net	(15)	66	(40)			
<b>Net Investment Hedge</b>							
Euro denominated debt					—	70	(123)
Total		\$ —	68	(49)	2	66	(134)

Regardless of whether derivatives and non-derivative financial instruments receive hedge 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 hedge accounting are highly effective and no amounts were excluded from the assessment of hedge effectiveness.

## FAIR VALUE MEASUREMENT

The estimated fair value of long-term debt was \$7.3 billion and \$5.3 billion, respectively, as of September 30, 2020 and 2019, which exceeded the carrying value by \$629 and \$469, respectively. The fair values of commodity and foreign currency contracts were reported in Other current assets and Accrued expenses as summarized below:

	2019		2020	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Commodity	\$ —	8	11	—
Foreign currency	\$ 29	12	26	25

## (10) Short-Term Borrowings and Lines of Credit

Short-term borrowings and current maturities of long-term debt are as follows:

	2019	2020
Current maturities of long-term debt	\$ 515	322
Commercial paper	929	838
Total	\$1,444	1,160
Interest rate for weighted-average short-term borrowings at year end	2.1%	0.1%

In May 2018, the Company entered into a \$3.5 billion five-year revolving backup credit facility with various banks, which replaced the April 2014 \$3.5 billion facility. The credit facility is maintained to support general corporate purposes, including commercial paper borrowings. The Company has not incurred any borrowings under this or previous facilities. The credit facility contains no financial covenants and is not subject to termination based on a change of credit rating or material adverse changes. The facility is unsecured and may be accessed under various interest rate and currency denomination alternatives at the Company's option. Fees to maintain the facility are immaterial.



40 2020 Emerson Form 10-K

## (11) Long-Term Debt

The details of long-term debt follow:

	2019	2020
4.875% notes due October 2019	\$ 500	—
4.25% notes due November 2020	300	300
2.625% notes due December 2021	500	500
2.625% notes due February 2023	500	500
0.375% notes due May 2024	545	586
3.15% notes due June 2025	500	500
1.25% notes due October 2025	545	586
0.875% notes due October 2026	—	750
1.8% notes due October 2027	—	500
2.0% notes due October 2029	545	586
1.95% notes due October 2030	—	500
6.0% notes due August 2032	250	250
6.125% notes due April 2039	250	250
5.25% notes due November 2039	300	300
2.75% notes due October 2050	—	500
Other	57	40
Long-term debt	4,792	6,648
Less: Current maturities	515	322
Total, net	\$4,277	6,326

Long-term debt maturing during each of the four years after 2021 is \$525, \$511, \$582 and \$497, respectively. Total interest paid on long-term debt was approximately \$163, \$195 and \$193 in 2020, 2019 and 2018, respectively. During the year, the Company repaid \$500 of 4.875% notes that matured in October 2019. In April 2020, the Company issued \$500 of 1.8% notes due October 2027, \$500 of 1.95% notes due October 2030 and \$500 of 2.75% notes due October 2050. In September 2020, the Company issued \$750 of 0.875% notes due October 2026.

In 2019, the Company repaid \$400 of 5.25% notes that matured in October 2018 and \$250 of 5.0% notes that matured in April 2019. In January 2019, the Company issued €500 of 1.25% notes due October 2025 and €500 of 2.0% notes due October 2029. In May 2019, the Company issued €500 of 0.375% notes due May 2024.

The Company maintains a universal shelf registration statement on file with the SEC under which it can issue debt securities, preferred stock, common stock, warrants, share purchase contracts or share purchase units without a predetermined limit. Securities can be sold in one or more separate offerings with the size, price and terms to be determined at the time of sale.

## (12) Pension and Postretirement Plans

Retirement plans expense includes the following components:

	U.S. PLANS			NON-U.S. PLANS		
	2018	2018	2020	2018	2019	2020
Defined benefit plans:						
Service cost (benefits earned during the period)	\$ 52	47	57	24	24	30
Interest cost	141	155	125	39	38	30
Expected return on plan assets	(283)	(281)	(268)	(67)	(68)	(72)
Net amortization and other	129	81	148	14	6	17
Net periodic pension expense	39	2	62	10	—	5
Defined contribution plans	132	125	112	52	56	56
Total retirement plans expense	\$ 171	127	174	62	56	61

Net periodic pension expense increased in 2020 primarily due to higher amortization expense. For defined contribution plans, the Company makes cash contributions based on plan requirements, which are expensed as incurred.



The Company's principal U.S. defined benefit plan is closed to employees hired after January 1, 2016 while shorter-tenured employees ceased accruing benefits effective October 1, 2016.

Details of the changes in the actuarial present value of the projected benefit obligation and the fair value of plan assets for defined benefit pension plans follow:

	U.S. PLANS		NON-U.S. PLANS	
	2019	2020	2019	2020
Projected benefit obligation, beginning	\$ 3,957	4,410	1,442	1,584
Service cost	47	57	24	30
Interest cost	155	125	38	30
Actuarial loss	608	260	216	3
Benefits paid	(206)	(202)	(36)	(37)
Settlements	(152)	(111)	(41)	(46)
Foreign currency translation and other	1	(14)	(59)	69
Projected benefit obligation, ending	\$ 4,410	4,525	1,584	1,633
Fair value of plan assets, beginning	\$ 4,233	4,208	1,243	1,284
Actual return on plan assets	316	466	135	58
Employer contributions	16	20	44	46
Benefits paid	(206)	(202)	(36)	(37)
Settlements	(152)	(111)	(41)	(46)
Foreign currency translation and other	1	2	(61)	62
Fair value of plan assets, ending	\$ 4,208	4,383	1,284	1,367
Net amount recognized in the balance sheet	\$ (202)	(142)	(300)	(266)
Location of net amount recognized in the balance sheet:				
Noncurrent asset	\$ 67	140	97	125
Current liability	(11)	(11)	(14)	(15)
Noncurrent liability	(258)	(271)	(383)	(376)
Net amount recognized in the balance sheet	\$ (202)	(142)	(300)	(266)
Pretax accumulated other comprehensive loss	\$(1,040)	(937)	(307)	(316)

Approximately \$159 of the \$1,253 of pretax losses deferred in accumulated other comprehensive income (loss) at September 30, 2020 will be amortized to expense in 2021. As of September 30, 2020, U.S. pension plans were underfunded by \$142 in total, including unfunded plans totaling \$223. The non-U.S. plans were underfunded by \$266, including unfunded plans totaling \$319.

As of the September 30, 2020 and 2019 measurement dates, the plans' total accumulated benefit obligation was \$5,859 and \$5,682, respectively. The total projected benefit obligation, accumulated benefit obligation and fair value of plan assets for individual plans with accumulated benefit obligations in excess of plan assets were \$1,153, \$1,034 and \$492, respectively, for 2020, and \$1,113, \$991 and \$456, respectively, for 2019.

Future benefit payments by U.S. plans are estimated to be \$212 in 2021, \$219 in 2022, \$225 in 2023, \$231 in 2024, \$235 in 2025 and \$1,219 in total over the five years 2026 through 2030. Based on foreign currency exchange rates as of September 30, 2020, future benefit payments by non-U.S. plans are estimated to be \$72 in 2021, \$72 in 2022, \$72 in 2023, \$78 in 2024, \$79 in 2025 and \$441 in total over the five years 2026 through 2030. The Company expects to contribute approximately \$50 to its retirement plans in 2021.



42 2020 Emerson Form 10-K

The weighted-average assumptions used in the valuation of pension benefits follow:

	U.S. PLANS			NON-U.S. PLANS		
	2018	2019	2020	2018	2019	2020
Net pension expense:						
Discount rate used to determine service cost	3.95%	4.33%	<b>3.40%</b>	2.6%	2.7%	<b>1.9%</b>
Discount rate used to determine interest cost	3.25%	3.98%	<b>2.87%</b>	2.6%	2.7%	<b>1.9%</b>
Expected return on plan assets	7.00%	7.00%	<b>6.75%</b>	5.7%	6.1%	<b>5.8%</b>
Rate of compensation increase	3.25%	3.25%	<b>3.25%</b>	3.4%	3.5%	<b>3.7%</b>
Benefit obligations:						
Discount rate	4.26%	3.22%	<b>2.81%</b>	2.7%	1.9%	<b>1.9%</b>
Rate of compensation increase	3.25%	3.25%	<b>3.25%</b>	3.5%	3.7%	<b>3.6%</b>

The discount rate for the U.S. retirement plans was 2.81 percent as of September 30, 2020. An actuarially developed, company-specific yield curve is used to determine the discount rate. To determine the service and interest cost components of pension expense for its U.S. retirement plans, the Company applies the specific spot rates along the yield curve, rather than the single weighted-average rate, to the projected cash flows to provide more precise measurement of these costs. The expected return on plan assets assumption is determined by reviewing the investment returns of the plans for the past 10 years plus longer-term historical returns of an asset mix approximating the Company's asset allocation targets, and periodically comparing these returns to expectations of investment advisors and actuaries to determine whether long-term future returns are expected to differ significantly from the past.

The Company's asset allocations at September 30, 2020 and 2019, and weighted-average target allocations follow:

	U.S. PLANS			NON-U.S. PLANS		
	2019	2020	TARGET	2019	2020	TARGET
Equity securities	53%	<b>49%</b>	45-55%	42%	<b>41%</b>	40-50%
Debt securities	46	<b>45</b>	40-50	47	<b>48</b>	45-55
Other	1	<b>6</b>	0-10	11	<b>11</b>	5-15
Total	100%	<b>100%</b>	100%	100%	<b>100%</b>	100%

The primary objective for the investment of pension assets is to secure participant retirement benefits by earning a reasonable rate of return. Plan assets are invested consistent with the provisions of the prudence and diversification rules of ERISA and with a long-term investment horizon. The Company continuously monitors the value of assets by class and routinely rebalances to remain within target allocations. The equity strategy is to minimize concentrations of risk by investing primarily in a mix of companies that are diversified across geographies, market capitalization, style, sectors and industries worldwide. The approach for bonds emphasizes investment-grade corporate and government debt with maturities matching a portion of the longer duration pension liabilities. The bonds strategy also includes a high-yield element which is generally shorter in duration. For diversification, a small portion of U.S. plan assets is allocated to private equity partnerships and real asset fund investments, providing opportunities for above market returns. Leveraging techniques are not used and the use of derivatives in any fund is limited and inconsequential.

The fair values of defined benefit pension assets as of September 30, organized by asset class and by the fair value hierarchy of ASC 820, *Fair Value Measurement*, follow. Investments valued based on the net asset value (NAV) of fund units held, as derived from the fair value of the underlying assets, are excluded from the fair value hierarchy.

	LEVEL 1	LEVEL 2	LEVEL 3	MEASURED AT NAV	TOTAL	PERCENTAGE
<b>2020</b>						
U.S. equities	\$ 785	10		536	1,331	23%
International equities	513	16		635	1,164	20%
Emerging market equities				237	237	4%
Corporate bonds		1,202		446	1,648	29%
Government bonds		450		531	981	17%
Other	4	8	133	244	389	7%
<b>Total</b>	<b>\$1,302</b>	<b>1,686</b>	<b>133</b>	<b>2,629</b>	<b>5,750</b>	<b>100%</b>



	LEVEL 1	LEVEL 2	LEVEL 3	MEASURED AT NAV	TOTAL	PERCENTAGE
2019						
U.S. equities	\$ 789	5	386	284	1,464	27%
International equities	459	15		615	1,089	20%
Emerging market equities				213	213	4%
Corporate bonds		1,008		464	1,472	27%
Government bonds		512		540	1,052	19%
Other	1	8	129	64	202	3%
Total	\$1,249	1,548	515	2,180	5,492	100%

### Asset Classes

U.S. equities reflect companies domiciled in the U.S., including multinational companies. International equities are comprised of companies domiciled in developed nations outside the U.S. Emerging market equities are comprised of companies domiciled in portions of Asia, Eastern Europe and Latin America. Corporate bonds represent investment-grade debt of issuers primarily from the U.S. Government bonds include investment-grade instruments issued by federal, state and local governments, primarily in the U.S. Other includes cash, interests in mixed asset funds investing in commodities, natural resources, agriculture, real estate and infrastructure funds, life insurance contracts (U.S.), and shares in certain general investment funds of financial institutions or insurance arrangements (non-U.S.) that typically ensure no market losses or provide for a small minimum return guarantee.

### Fair Value Hierarchy Categories

Valuations of Level 1 assets for all classes are based on quoted closing market prices from the principal exchanges where the individual securities are traded. Cash is valued at cost, which approximates fair value. Debt securities categorized as Level 2 assets are generally valued based on independent broker/dealer bids or by comparison to other debt securities having similar durations, yields and credit ratings. Valuation techniques and inputs for these assets include discounted cash flow analysis, earnings multiple approaches, recent transactions, transfer restrictions, prevailing discount rates, volatilities, credit ratings and other factors. In the Other class, interests in mixed asset funds are Level 2, and U.S. life insurance contracts and non-U.S. general fund investments and insurance arrangements are Level 3. Investments measured at NAV are primarily nonexchange-traded commingled or collective funds where the underlying securities have observable prices available from active markets and typically provide liquidity daily or within a few days. The NAV category also includes fund investments in private equities, real estate and infrastructure where the fair value of the underlying assets is determined by the investment manager. Total unfunded commitments for the private equity funds were approximately \$240 at September 30, 2020. These investments cannot be redeemed, but instead the funds will make distributions through liquidation of the underlying assets, which is expected to occur over approximately the next 10 years. The real estate and infrastructure funds typically offer quarterly redemption.

### Postretirement Plans

The Company also sponsors unfunded postretirement benefit plans (primarily health care) for certain U.S. retirees and their dependents. The Company's principal U.S. postretirement plan has been frozen to new employees since 1993. The postretirement benefit liability for all plans was \$135 and \$147 as of September 30, 2020 and 2019, respectively, and included deferred actuarial gains in accumulated other comprehensive income of \$106 and \$118, respectively. Service and interest costs are negligible and more than offset by the amortization of deferred actuarial gains, which resulted in net postretirement income of \$12 for each of the last three years. Benefits paid were \$12 and \$13 for 2020 and 2019, respectively, and the Company estimates that future health care benefit payments will be approximately \$12 per year for 2021 through 2025, and \$42 in total over the five years 2026 through 2030.

## (13) Contingent Liabilities and Commitments

The Company is a party to a number of pending legal proceedings and claims, including those involving general and product liability (including asbestos) and other matters, several of which claim substantial amounts of damages. The Company accrues for such liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. Accruals are based on developments to date; management's estimates of the outcomes of these matters; and the Company's experience in contesting, litigating and settling similar matters. The Company engages an outside expert to develop an actuarial estimate of its expected costs to resolve all pending and future asbestos claims, including defense costs, as well as its related insurance receivables. The reserve for asbestos litigation, which is recorded on an undiscounted basis, is based on projected claims through 2065.



44 2020 Emerson Form 10-K

Although it is not possible to predict the ultimate outcome of these matters, the Company historically has been largely successful in defending itself against claims and suits that have been brought against it, and will continue to defend itself vigorously in all such matters. While the Company believes a material adverse impact is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future development could have a material adverse impact on the Company. The Company enters into certain indemnification agreements in the ordinary course of business in which the indemnified party is held harmless and is reimbursed for losses incurred from claims by third parties, usually up to a prespecified limit. In connection with divestitures of certain assets or businesses, the Company often provides indemnities to the buyer with respect to certain matters including, for example, environmental or unidentified tax liabilities related to periods prior to the disposition. Because of the uncertain nature of the indemnities, the maximum liability cannot be quantified. As such, contingent liabilities are recorded when they are both probable and reasonably estimable. Historically, payments under indemnity arrangements have been inconsequential.

At September 30, 2020, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that management believes will be material in relation to the Company's financial statements, nor were there any material commitments outside the normal course of business.

## (14) Income Taxes

Pretax earnings consist of the following:

	2018	2019	2020
United States	\$1,652	1,771	1,360
Non-U.S.	1,015	1,088	975
Total pretax earnings	\$2,667	2,859	2,335

The principal components of income tax expense follow:

	2018	2019	2020
Current:			
U.S. federal	\$341	247	123
State and local	52	24	15
Non-U.S.	300	308	288
Deferred:			
U.S. federal	(224)	(2)	(44)
State and local	(11)	12	1
Non-U.S.	(15)	(58)	(38)
Income tax expense	\$443	531	345

Reconciliations of the U.S. federal statutory income tax rate to the Company's effective tax rate follow. For fiscal 2018, the U.S. federal statutory rate was 35 percent for one quarter and 21 percent for three quarters.

	2018	2019	2020
U.S. federal statutory rate	24.5%	21.0%	21.0%
State and local taxes, net of U.S. federal tax benefit	1.2	1.0	0.6
Non-U.S. rate differential	0.8	1.8	1.7
Non-U.S. tax holidays	(0.8)	(1.1)	(1.1)
Research and development credits	(0.2)	(0.3)	(1.8)
U.S. manufacturing deduction	(1.1)	—	—
Foreign derived intangible income	—	(1.1)	(1.2)
Gain on divestiture	1.0	—	—
Subsidiary restructuring	(2.0)	(2.6)	(4.4)
Transition impact of Tax Act	(7.1)	—	—
Other	0.3	(0.1)	—
Effective income tax rate	16.6%	18.6%	14.8%



The tax rates for 2020, 2019 and 2018 include benefits from restructuring subsidiaries of \$103 (\$0.17 per share), \$74 (\$0.12 per share) and \$53 (\$0.08 per share), respectively. The increase in research and development credits in the current year was due to the impact of a research and development tax credit study.

On December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "Tax Act"), which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. The Tax Act includes a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent in calendar year 2018 along with the elimination of certain deductions and credits, and a one-time "deemed repatriation" of accumulated non-U.S. earnings. During 2018, the Company recognized a net tax benefit of \$189 (\$0.30 per share) due to impacts of the Tax Act, consisting of a \$94 benefit on revaluation of net deferred income tax liabilities to the lower tax rate, \$35 of expense for the tax on deemed repatriation of accumulated non-U.S. earnings and withholding taxes, and the reversal of \$130 accrued in previous periods for the planned repatriation of non-U.S. cash. The Company completed its accounting for the Tax Act in the first quarter of fiscal 2019.

Effective in fiscal 2019, the Tax Act also subjects the Company to U.S. tax on global intangible low-taxed income earned by certain of its non-U.S. subsidiaries. The Company has elected to recognize this tax as a period expense when it is incurred.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic, and among other things, provides tax relief to businesses. Tax provisions of the CARES Act include the deferral of certain payroll taxes, relief for retaining employees, and other provisions. The Company expects to defer \$75 of certain payroll taxes through the end of calendar year 2020, of which \$48 was deferred through September 30, 2020.

Non-U.S. tax holidays reduce tax rates in certain jurisdictions and are expected to expire over the next two years.

Following are changes in unrecognized tax benefits before considering recoverability of any cross-jurisdictional tax credits (U.S. federal, state and non-U.S.) and temporary differences. The amount of unrecognized tax benefits is not expected to change significantly within the next 12 months.

	2019	2020
Unrecognized tax benefits, beginning	\$158	159
Additions for current year tax positions	15	25
Additions for prior year tax positions	18	29
Reductions for prior year tax positions	(22)	(8)
Acquisitions and divestitures	4	—
Reductions for settlements with tax authorities	(5)	—
Reductions for expiration of statutes of limitations	(9)	(10)
Unrecognized tax benefits, ending	\$159	195

If none of the unrecognized tax benefits shown is ultimately paid, the tax provision and the calculation of the effective tax rate would be favorably impacted by \$163, which is net of cross-jurisdictional tax credits and temporary differences. The Company accrues interest and penalties related to income taxes in income tax expense. Total interest and penalties recognized were \$1, \$4 and \$2 in 2020, 2019 and 2018, respectively. As of September 30, 2020 and 2019, total accrued interest and penalties were \$29 and \$27, respectively.

The U.S. is the major jurisdiction for which the Company files income tax returns. U.S. federal tax returns are closed for years through 2013. The status of state and non-U.S. tax examinations varies due to the numerous legal entities and jurisdictions in which the Company operates.



46 2020 Emerson Form 10-K

The principal items that gave rise to deferred income tax assets and liabilities follow:

	2019	2020
Deferred tax assets:		
Net operating losses, capital losses and tax credits	\$ 407	487
Accrued liabilities	228	219
Postretirement and postemployment benefits	36	33
Employee compensation and benefits	110	119
Pensions	95	69
Other	121	137
<b>Total</b>	<b>\$ 997</b>	<b>1,064</b>
Valuation allowances	\$(307)	(293)
Deferred tax liabilities:		
Intangibles	\$(637)	(652)
Property, plant and equipment	(195)	(212)
Undistributed non-U.S. earnings	(49)	(36)
Other	(39)	(33)
<b>Total</b>	<b>\$(920)</b>	<b>(933)</b>
<b>Net deferred income tax liability</b>	<b>\$(230)</b>	<b>(162)</b>

Total income taxes paid were approximately \$400, \$650 and \$680 in 2020, 2019 and 2018, respectively. Net operating losses, capital losses and tax credits include \$126 of capital losses expected to be recovered in the next 12 months. More than half of the remaining \$361 of net operating losses and tax credits expire over the next 9 years, while most of the remainder can be carried forward indefinitely.

## (15) Stock-Based Compensation

The Company's stock-based compensation plans include performance shares, restricted stock, restricted stock units, and stock options. Although the Company has discretion, shares distributed under these plans are issued from treasury stock.

Total compensation expense and income tax benefits for stock options and incentive shares follows. The Company's performance shares awards are marked-to-market each period based on changes in the stock price.

	2018	2019	2020
Performance shares	\$192	96	98
Restricted stock and restricted stock units	17	21	11
Stock options	7	3	1
<b>Total stock compensation expense</b>	<b>\$216</b>	<b>120</b>	<b>110</b>
Income tax benefits recognized	\$ 42	20	18

As of September 30, 2020, total unrecognized compensation expense related to unvested shares awarded under these plans was \$127, which is expected to be recognized over a weighted-average period of 1.7 years.

### PERFORMANCE SHARES, RESTRICTED STOCK AND RESTRICTED STOCK UNITS

The Company's incentive shares plans include performance shares awards which distribute the value of common stock to key management employees at the conclusion of a three-year period subject to certain operating performance conditions and other restrictions. The form of distribution is primarily shares of common stock, with a portion in cash in the first quarter following the end of the applicable three-year performance period. Dividend equivalents are only paid on earned awards after the performance period has concluded. Compensation expense for performance shares is recognized over the service period based on the number of shares ultimately expected to be earned. Performance shares awards are accounted for as liabilities in accordance with ASC 718, *Compensation - Stock Compensation*, with compensation expense adjusted at the end of each reporting period to reflect the change in fair value of the awards.



Information related to performance share payouts for the years ended September 30, 2019 and 2020 follows (shares in thousands):

	2019	2020
Performance period	2016 - 2018	2017 - 2019
Percent payout	97%	107%
Total shares earned	1,819	2,008
Shares distributed in cash, primarily for tax withholding	795	883

As of September 30, 2020, approximately 1,538,000 shares awarded primarily in 2018 were outstanding, contingent on the Company achieving its performance objectives through 2020. The objectives for these shares were met at the 100 percent level and the shares will be distributed in early 2021.

Additionally, the rights to receive approximately 1,592,000 and 1,381,000 common shares were awarded in 2020 and 2019, respectively, under the new performance shares program, and are outstanding and contingent upon the Company achieving its performance objectives through 2022 and 2021, respectively.

Incentive shares plans also include restricted stock awards and restricted stock units. Restricted stock awards involve distribution of common stock to key management employees subject to cliff vesting at the end of service periods ranging from three to ten years while restricted stock units granted to employees cliff vest at the end of a three-year period. The fair value of restricted stock awards and restricted stock units is determined based on the average of the high and low market prices of the Company's common stock on the date of grant, with compensation expense recognized ratably over the applicable vesting period. In 2020, approximately 173,000 shares of restricted stock vested as a result of participants fulfilling the applicable service requirements. Consequently, approximately 100,000 shares were issued while 73,000 shares were withheld for income taxes in accordance with minimum withholding requirements. As of September 30, 2020, there were approximately 1,405,000 shares of unvested restricted stock and restricted stock units outstanding.

In addition to the employee stock option and incentive shares plans, in 2020 the Company awarded approximately 19,000 shares of restricted stock and 2,000 restricted stock units under the restricted stock plan for non-management directors. As of September 30, 2020, approximately 119,000 shares were available for issuance under this plan.

As of September 30, 2020, 7.0 million shares remained available for award under incentive shares plans.

Changes in shares outstanding but not yet earned under incentive shares plans during the year ended September 30, 2020 follow (shares in thousands; assumes 100 percent payout of unvested awards):

	SHARES	AVERAGE GRANT DATE FAIR VALUE PER SHARE
Beginning of year	6,325	\$60.63
Granted	1,949	\$72.42
Adjustment for performance results achieved	131	\$51.98
Earned/vested	(2,259)	\$52.42
Canceled	(230)	\$67.59
End of year	5,916	\$67.22

Information related to incentive shares plans follows:

	2018	2019	2020
Total fair value of shares earned/vested	\$20	145	164
Share awards distributed in cash, primarily for tax withholding	\$ 9	73	81

## STOCK OPTIONS

There were no stock option grants in 2020 and 2019, and options granted in 2018 were immaterial. The Company's stock option plans permit key officers and employees to purchase common stock at specified prices, which are equal to 100 percent of the closing market price of the Company's stock on the date of grant. Options generally vest one-third in each of the three years subsequent to grant and expire 10 years from the date of grant. Compensation expense is recognized ratably over the vesting period based on the number of options expected to vest. As of September 30, 2020, 11.6 million options were available for grant under the plans.



48 2020 Emerson Form 10-K

Changes in shares subject to options during the year ended September 30, 2020 follow (shares in thousands):

	WEIGHTED- AVERAGE EXERCISE PRICE PER SHARE	SHARES	TOTAL INTRINSIC VALUE OF SHARES	AVERAGE REMAINING LIFE (YEARS)
Beginning of year	\$57.23	6,915		
Options granted	—	—		
Options exercised	\$55.43	(2,743)		
Options canceled	\$58.21	(39)		
End of year	\$58.42	4,133	\$31	3.9
Exercisable at end of year	\$58.41	4,126	\$31	3.9

Information related to stock options follows:

	2018	2019	2020
Cash received for option exercises	\$143	40	126
Intrinsic value of options exercised	\$ 53	16	47
Tax benefits related to option exercises	\$ 7	8	8

## (16) Common and Preferred Stock

At September 30, 2020, 29.4 million shares of common stock were reserved for issuance under the Company's stock-based compensation plans. During 2020, 16.4 million common shares were purchased and 3.4 million treasury shares were reissued. In 2019, 19.9 million common shares were purchased and 1.8 million treasury shares were reissued.

At September 30, 2020 and 2019, the Company had 5.4 million shares of \$2.50 par value preferred stock authorized, with none issued.

## (17) Accumulated Other Comprehensive Income (Loss)

Activity in Accumulated other comprehensive income (loss) is shown below:

	2018	2019	2020
Foreign currency translation			
Beginning balance	\$ (369)	(600)	(794)
Other comprehensive income (loss), net of taxes of \$0, \$(16) and \$29, respectively	(214)	(194)	83
Reclassified to gain/loss on sale of business	(17)	—	—
Ending balance	(600)	(794)	(711)
Pension and postretirement			
Beginning balance	(662)	(420)	(928)
Actuarial gains (losses) deferred during the period, net of taxes of \$(76), \$165 and \$15, respectively	250	(560)	(49)
Amortization of deferred actuarial losses into earnings, net of taxes of \$(29), \$(15) and \$(34), respectively	94	52	113
Adoption of accounting standard update	(102)	—	—
Ending balance	(420)	(928)	(864)
Cash flow hedges			
Beginning balance	12	5	—
Gains (Losses) deferred during the period, net of taxes of \$0, \$1 and \$2, respectively	2	(3)	(9)
Reclassifications of realized (gains) losses to sales and cost of sales, net of taxes of \$4, \$0 and \$(2), respectively	(11)	(2)	(7)
Adoption of accounting standard update	2	—	—
Ending balance	5	—	(2)
Accumulated other comprehensive income (loss)	\$(1,015)	(1,722)	(1,577)



## (18) Business Segments Information

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 Company reports three segments: **Automation Solutions**; and **Climate Technologies** and **Tools & Home Products**, which together comprise the Commercial & Residential Solutions business.

The **Automation Solutions** segment enables process, hybrid and discrete manufacturers to maximize production, protect personnel and the environment, reduce project costs, and optimize their energy efficiency and operating costs through a broad offering of integrated solutions, software, services and products, including measurement and analytical instrumentation, industrial valves and equipment, and process control software and systems. Markets served include oil and gas, refining, chemicals, power generation, life sciences, 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 control and pneumatic 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 mechanical, electrical, utility and do-it-yourself 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, electrical and utility tools, residential and commercial food waste disposers, and wet-dry vacuums.

The principal distribution method for each segment is direct sales forces, although the Company also uses independent sales representatives and distributors. Due to its global presence, certain of the Company's international operations are subject to risks including the stability of governments and business conditions in foreign countries which could result in adverse changes in exchange rates, changes in regulations or disruption of operations.

The primary income measure used for assessing segment performance and making operating decisions is earnings before interest and income taxes. Certain expenses are reported at Corporate, including stock compensation expense and a portion of pension and postretirement benefit costs. Corporate and other includes unallocated corporate expenses, acquisition/divestiture costs, first year acquisition accounting charges (which include fair value adjustments related to inventory, backlog and deferred revenue) and other items. Corporate assets are primarily comprised of cash and equivalents, investments and certain fixed assets. Summarized below is information about the Company's operations by business segment and by geography.



50 2020 Emerson Form 10-K

## BUSINESS SEGMENTS

	SALES			EARNINGS			TOTAL ASSETS		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
<b>Automation Solutions</b>	\$11,441	12,202	11,155	\$1,886	1,947	1,523	\$13,720	13,996	14,250
Climate Technologies	4,454	4,313	3,980	972	883	801	2,936	2,885	3,065
Tools & Home Products	1,528	1,856	1,663	380	388	317	1,560	1,462	1,491
<b>Commercial &amp; Residential Solutions</b>	5,982	6,169	5,643	1,352	1,271	1,118	4,496	4,347	4,556
<b>Corporate items:</b>									
Stock compensation				(216)	(120)	(110)			
Unallocated pension and postretirement costs				79	108	53			
Corporate and other				(275)	(173)	(93)	2,174	2,154	4,076
Eliminations/Interest	(15)	1	(13)	(159)	(174)	(156)			
<b>Total</b>	<b>\$17,408</b>	<b>18,372</b>	<b>16,785</b>	<b>\$2,667</b>	<b>2,859</b>	<b>2,335</b>	<b>\$20,390</b>	<b>20,497</b>	<b>22,882</b>

Automation Solutions sales by major product offering are summarized below:

	2018	2019	2020
Measurement & Analytical Instrumentation	\$ 3,604	3,807	3,237
Valves, Actuators & Regulators	3,749	3,794	3,589
Industrial Solutions	1,967	2,232	2,012
Process Control Systems & Solutions	2,121	2,369	2,317
<b>Total</b>	<b>\$11,441</b>	<b>12,202</b>	<b>11,155</b>

	DEPRECIATION AND AMORTIZATION			CAPITAL EXPENDITURES		
	2018	2019	2020	2018	2019	2020
<b>Automation Solutions</b>	\$488	535	557	\$295	297	308
Climate Technologies	171	176	184	209	222	158
Tools & Home Products	44	71	77	64	59	58
<b>Commercial &amp; Residential Solutions</b>	215	247	261	273	281	216
Corporate and other	55	40	36	49	16	14
<b>Total</b>	<b>\$758</b>	<b>822</b>	<b>854</b>	<b>\$617</b>	<b>594</b>	<b>538</b>

Depreciation and amortization includes intellectual property, customer relationships and capitalized software.

## GEOGRAPHIC INFORMATION

	AUTOMATION SOLUTIONS			COMMERCIAL & RESIDENTIAL SOLUTIONS			TOTAL		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Americas	\$ 5,517	5,850	5,051	\$3,967	4,253	3,896	\$ 9,484	10,103	8,947
Asia, Middle East & Africa	3,657	3,891	3,801	1,384	1,192	1,053	5,041	5,083	4,854
Europe	2,267	2,461	2,303	631	724	694	2,898	3,185	2,997
<b>Total</b>	<b>\$11,441</b>	<b>12,202</b>	<b>11,155</b>	<b>\$5,982</b>	<b>6,169</b>	<b>5,643</b>	<b>\$17,423</b>	<b>18,371</b>	<b>16,798</b>

Sales in the U.S. were \$7,420, \$8,390 and \$7,939 for 2020, 2019 and 2018, respectively, while Asia, Middle East & Africa includes sales in China of \$1,845, \$1,962 and \$1,955 in those years.



	PROPERTY, PLANT AND EQUIPMENT		
	2018	2019	2020
Americas	\$2,234	2,339	2,345
Asia, Middle East & Africa	652	671	679
Europe	676	632	664
Total	\$3,562	3,642	3,688

Assets located in the U.S. were \$2,124 in 2020, \$2,128 in 2019 and \$2,027 in 2018.

### (19) Other Financial Data

Items reported in earnings during the years ended September 30 included the following:

	2018	2019	2020
Research and development expense	\$436	454	439
Depreciation expense	\$444	463	485
Rent expense	\$279	285	239

Items reported in other noncurrent assets included the following:

	2019	2020
Operating lease right-of-use assets	\$ —	508
Pension assets	\$164	265
Asbestos-related insurance receivables	\$115	100
Deferred income taxes	\$ 97	99

Items reported in accrued expenses included the following:

	2019	2020
Customer advances (contract liabilities)	\$519	583
Employee compensation	\$606	577
Operating lease liabilities (current)	\$ —	148
Product warranty	\$140	148

Other liabilities are summarized as follows:

	2019	2020
Pension and postretirement liabilities	\$ 775	769
Operating lease liabilities (noncurrent)	—	373
Deferred income taxes	327	261
Asbestos litigation	313	295
Other	556	626
Total	\$1,971	2,324



52 2020 Emerson Form 10-K

## (20) Quarterly Financial Information (Unaudited)

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		FULL YEAR	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Net sales	\$4,147	<b>4,151</b>	4,570	<b>4,162</b>	4,684	<b>3,914</b>	4,971	<b>4,558</b>	18,372	<b>16,785</b>
Gross profit	\$1,761	<b>1,759</b>	1,925	<b>1,750</b>	2,001	<b>1,618</b>	2,128	<b>1,882</b>	7,815	<b>7,009</b>
Net earnings common stockholders	\$ 465	<b>326</b>	520	<b>517</b>	604	<b>399</b>	717	<b>723</b>	2,306	<b>1,965</b>
Net earnings per common share:										
Basic	\$ 0.74	<b>0.53</b>	0.85	<b>0.85</b>	0.98	<b>0.67</b>	1.17	<b>1.21</b>	3.74	<b>3.26</b>
Diluted	\$ 0.74	<b>0.53</b>	0.84	<b>0.84</b>	0.97	<b>0.67</b>	1.16	<b>1.20</b>	3.71	<b>3.24</b>
Dividends per common share	\$ 0.49	<b>0.50</b>	0.49	<b>0.50</b>	0.49	<b>0.50</b>	0.49	<b>0.50</b>	1.96	<b>2.00</b>

Earnings per share are computed independently each period; as a result, the quarterly amounts may not sum to the calculated annual figure.

Emerson Electric Co. common stock (symbol EMR) is listed on the New York Stock Exchange and NYSE Chicago.



## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Emerson Electric Co.:

### **Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Emerson Electric Co. and subsidiaries (the Company) as of September 30, 2020 and 2019, the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the years in the three-year period ended September 30, 2020, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2020, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### **Change in Accounting Principle**

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of October 1, 2019, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*.

### **Basis for Opinions**

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are



being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Sufficiency of Audit Evidence over Net Sales**

As discussed in Notes 1, 2 and 18 to the Company's consolidated financial statements, and disclosed in the consolidated statement of earnings, the Company recorded \$16.8 billion of net sales in 2020.

We identified the evaluation of the sufficiency of audit evidence over net sales as a critical audit matter. Net sales are recognized primarily from the sale of tangible products from hundreds of Company locations around the world. Evaluating the sufficiency of audit evidence obtained required especially subjective auditor judgment because of the geographical dispersion of the Company's net sales generating activities. This included determining the Company locations at which procedures were performed and the supervision and review of procedures performed at those locations.

The following are the primary procedures we performed to address this critical audit matter. We applied auditor judgment to determine the nature and extent of procedures to be performed over net sales, including the determination of the Company locations at which those procedures were to be performed. At each Company location where procedures were performed, we:

- Evaluated the design and tested the operating effectiveness of certain internal controls over the Company's net sales processes, including the Company's controls over the accurate recording of amounts.
- Assessed the recorded net sales by selecting a sample of transactions and compared the amounts recognized for consistency with underlying documentation, including contracts with customers and shipping documentation.

We evaluated the sufficiency of audit evidence obtained by assessing the results of procedures performed.

**KPMG LLP**

We or our predecessor firms have served as the Company's auditor since 1938.

St. Louis, Missouri  
November 16, 2020



## Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A – Controls and Procedures

The Company maintains a system of disclosure controls and procedures which is designed to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation performed, the Company's certifying officers have concluded that the disclosure controls and procedures were effective as of September 30, 2020 to provide reasonable assurance of achieving these objectives.

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 quarter ended September 30, 2020, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's report on internal control over financial reporting, and the related report of the Company's auditor, KPMG LLP, an independent registered public accounting firm, set forth in Item 7 and Item 8, respectively, of this Annual Report on Form 10-K, are hereby incorporated by reference.

### Item 9B – Other Information

None.

## PART III

### Item 10 – Directors, Executive Officers and Corporate Governance

Information regarding nominees and directors appearing under "Proxy Item No. 1: Election of Directors" in the Emerson Electric Co. Notice of Annual Meeting of Shareholders and Proxy Statement for the February 2021 annual shareholders' meeting (the "2021 Proxy Statement") is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this report. Information regarding the Audit Committee and Audit Committee Financial Expert appearing under "Board and Committee Operations - Board and Corporate Governance - Committees of Our Board of Directors," "Board and Committee Operations - Corporate Governance and Nominating Committee - Nomination Process" and "- Proxy Access" in the 2021 Proxy Statement is hereby incorporated by reference.

The Company has adopted a Code of Ethics that applies to the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer; has posted such Code of Ethics on its website; and intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K by posting such information on its website. The Company has adopted Charters for its Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee and a Code of Business Ethics for directors, officers and employees, which are available on its website and in print to any stockholder who requests them. The Company has also adopted Corporate Governance Principles and Practices, which are available on its website and in print to any stockholder who requests them. The Corporate Governance section of the Company's website may be accessed as follows: [www.Emerson.com](http://www.Emerson.com), Investors, Corporate Governance.



## Item 11 – Executive Compensation

Information appearing under “Executive Compensation” (including the information set forth under “Compensation Discussion and Analysis”), “Compensation Tables,” “Board and Committee Operations—Corporate Governance and Nominating Committee—Director Compensation,” “Board and Committee Operations—Compensation Committee” (including, but not limited to, the information set forth under “Role of Executive Officers and the Compensation Consultant,” “Compensation Committee Report” and “Compensation Committee Interlocks and Insider Participation”) in the 2021 Proxy Statement is hereby incorporated by reference.

The information contained in the “Compensation Committee Report” shall not be deemed to be filed with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), except to the extent that the Company specifically incorporates such information into future filings under the Securities Act of 1933 or the Exchange Act.

## Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information regarding beneficial ownership of shares by nominees and continuing directors, named executive officers, five percent beneficial owners, and by all directors and executive officers as a group appearing under “Ownership of Emerson Equity Securities” in the 2021 Proxy Statement is hereby incorporated by reference.

The following table sets forth aggregate information regarding the Company’s equity compensation plans as of September 30, 2020:

Plan Category	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders <sup>(1)</sup>	10,651,000	\$58.42	18,745,000
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>10,651,000</b>	<b>\$58.42</b>	<b>18,745,000</b>

(1) Includes the Stock Option and Incentive Shares Plans previously approved by the Company’s security holders. Shares included in column (a) assume the maximum payouts, where applicable, and are as follows: (i) 4,133,000 shares reserved for outstanding stock option awards, (ii) 1,990,000 shares reserved for performance share awards granted in 2020, (iii) 1,726,000 shares reserved for performance share awards granted in 2019, (iv) 1,922,000 shares reserved for performance share awards granted in 2018 and (v) 880,000 shares reserved for outstanding restricted stock unit awards. As provided by the Company’s Incentive Shares Plans, performance shares awards represent a commitment to issue such shares without cash payment by the employee, contingent upon achievement of the performance objectives and continued service by the employee.

The price in column (b) represents the weighted-average exercise price for outstanding options. Included in column (c) are shares remaining available for award under previously approved plans as follows: (i) 11,628,000 under the 2011 Stock Option Plan, (ii) 6,135,000 under the 2015 Incentive Shares Plan, (iii) 863,000 under the 2006 Incentive Shares Plan, and (iv) 119,000 under the Restricted Stock Plan for Non-Management Directors.

Information regarding stock option plans and incentive shares plans is set forth in Note 15.



## Item 13 – Certain Relationships and Related Transactions, and Director Independence

Information appearing under “Board and Committee Operations—Board and Corporate Governance—Review, Approval or Ratification of Transactions with Related Persons,” “—Certain Business Relationships and Related Party Transactions” and “—Director Independence” in the 2021 Proxy Statement is hereby incorporated by reference.

## Item 14 – Principal Accountant Fees and Services

Information appearing under “Board and Committee Operations—Audit Committee—Fees Paid to KPMG LLP” in the 2021 Proxy Statement is hereby incorporated by reference.

## PART IV

## Item 15 – Exhibits and Financial Statement Schedules

A) Documents filed as a part of this report:

1. The consolidated financial statements and accompanying notes of the Company and subsidiaries and the report thereon of KPMG LLP set forth in Item 8 of this Annual Report on Form 10-K.
2. Financial Statement Schedules - All schedules are omitted because they are not required, not applicable or the required information is provided in the financial statements or notes thereto contained in this Annual Report on Form 10-K.
3. Exhibits (Listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K).
  - 3(a) Restated Articles of Incorporation of Emerson Electric Co., incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 2001, File No. 1-278, Exhibit 3(a); Termination of Designated Shares of Stock and Certificate of Designation, Preferences and Rights of Series B Junior Participating Preferred Stock, incorporated by reference to Emerson Electric Co. 1998 Form 10-K, File No. 1-278, Exhibit 3(a).
  - 3(b) Bylaws of Emerson Electric Co., as amended through November 3, 2020, incorporated by reference to the Company's Form 8-K dated November 6, 2020, filed on November 6, 2020, File No. 1-278, Exhibit 3.1.
  - 4(a) Indenture dated as of December 10, 1998, between Emerson Electric Co. and Wells Fargo Bank, National Association, as successor trustee to The Bank of New York Mellon Trust Company, N.A. (successor to The Bank of New York Mellon (formerly known as the Bank of New York)), as trustee, incorporated by reference to Emerson Electric Co. 1998 Form 10-K, File No. 1-278, Exhibit 4(b).
  - 4(b) Agreement of Resignation, Appointment and Acceptance dated as of April 26, 2019 by and among Emerson Electric Co., Wells Fargo Bank, National Association, as successor trustee, and The Bank of New York Mellon Trust Company, N.A., as resigning trustee, incorporated by reference to the Company's Form 8-K dated May 15, 2019, filed on May 17, 2019, File No. 1-278, Exhibit 4.4.
  - 4(c) Description of Capital Stock.
  - 4(d) Description of 0.375% Notes due 2024, 1.250% Notes due 2025 and 2.000% Notes due 2029, incorporated by reference to Emerson Electric Co., 2019 Form 10-K, File No. 1-278, Exhibit 4(d).

No other long-term debt instruments are filed since the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of Emerson Electric Co. and its subsidiaries on a consolidated basis. Emerson Electric Co. agrees to furnish a copy of such instruments to the SEC upon request.
- 10(a)\* Third Amendment to the Emerson Electric Co. 1993 Incentive Shares Plan, as restated, incorporated by reference to Emerson Electric Co. 1996 Form 10-K, File No. 1-278, Exhibit 10(g), and Fourth Amendment thereto, incorporated by reference to Emerson Electric Co. 2001 Form 10-K, File No. 1-278, Exhibit 10(d).



58 2020 Emerson Form 10-K

- 10(b)\* Amended and Restated Emerson Electric Co. Continuing Compensation Plan for Non-Management Directors, incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(c).
- 10(c)\* Amended and Restated Deferred Compensation Plan for Non-Employee Directors and Forms of Payment Election Form, Initial Notice of Election and Notice of Election Change, incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(d).
- 10(d)\* First Amendment to the Emerson Electric Co. Supplemental Executive Retirement Plan, incorporated by reference to Emerson Electric Co. 1999 Form 10-K, File No. 1-278, Exhibit 10(h), and Form of Change of Control Election, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.9 (applicable only with respect to benefits vested as of December 31, 2004).
- 10(e)\* Amended and Restated Emerson Electric Co. Pension Restoration Plan dated October 6, 2015, incorporated by reference to Emerson Electric Co. 2015 Form 10-K, File No. 1-278, Exhibit 10(e); Forms of Participation Award Letter, Acceptance of Award and Benefit Election Forms (applicable only with respect to benefits after January 1, 2005), incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(f); and Lump Sum Distribution Election Forms.
- 10(f)\* Fifth Amendment to the Supplemental Executive Savings Investment Plan, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 1999, File No. 1-278, Exhibit 10(j), and Form of Participation Agreement and Form of Annual Election, incorporated by reference to Emerson Electric Co. Form 8-K filed October 1, 2004, Exhibit 10.8 (applicable only with respect to benefits vested as of December 31, 2004).
- 10(g)\* Amended and Restated Emerson Electric Co. Savings Investment Restoration Plan and Forms of Participation Agreement, Annual Election Form and Payment Election Form (applicable only with respect to benefits after January 1, 2005), incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(h), First Amendment to Emerson Electric Co. Savings Investment Restoration Plan, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 2008, File No. 1-278, Exhibit 10.1 and Second Amendment to the Emerson Electric Co. Savings Investment Restoration Plan, incorporated by reference to Emerson Electric Co., Form 10-Q for the quarter ended March 31, 2020, File No. 1-278, Exhibit 10.2.
- 10(h)\* Amended and Restated Emerson Electric Co. Annual Incentive Plan and Form of Acceptance of Award, incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(i).
- 10(i)\* 1997 Incentive Shares Plan, incorporated by reference to Emerson Electric Co. 1997 Proxy Statement dated December 6, 1996, File No. 1-278, Exhibit A, and First Amendment thereto, incorporated by reference to Emerson Electric Co. 2001 Form 10-K, File No. 1-278, Exhibit 10(j), Amendment for 409A Compliance, incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(j), Form of Performance Share Award Certificate, Forms of Acceptance of Award and Change of Control Election, incorporated by reference to Emerson Electric Co. Form 8-K filed October 1, 2004, Exhibit 10.5, and Form of Restricted Shares Award Agreement, incorporated by reference to Emerson Electric Co. Form 8-K filed October 1, 2004, Exhibit 10.6.
- 10(j)\* 1998 Stock Option Plan, incorporated by reference to Emerson Electric Co. 1998 Proxy Statement dated December 12, 1997, File No. 1-278, Appendix A, and Amendment No. 1 thereto, incorporated by reference to Emerson Electric Co. 2000 Form 10-K, File No. 1-278, Exhibit 10(l), Form of Notice of Grant of Stock Options and Option Agreement and Form of Incentive Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K filed October 1, 2004, Exhibit 10.1, and Form of Notice of Grant of Stock Options and Option Agreement and Form of Nonqualified Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K filed October 1, 2004, Exhibit 10.2.



- 10(k)\* 2001 Stock Option Plan, incorporated by reference to Emerson Electric Co. 2002 Proxy Statement dated December 12, 2001, File No. 1-278, Appendix A, Form of Notice of Grant of Stock Options and Option Agreement and Form of Incentive Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K filed October 1, 2004, Exhibit 10.3 (used on or prior to September 30, 2011), Forms of Notice of Grant of Stock Options, Option Agreement and Incentive Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2011, File No. 1-278, Exhibit 10.1 (used after September 30, 2011), Form of Notice of Grant of Stock Options and Option Agreement and Form of Nonqualified Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K filed October 1, 2004, Exhibit 10.4 (used on or prior to September 30, 2011), Forms of Notice of Grant of Stock Options, Option Agreement and Nonqualified Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2011, File No. 1-278, Exhibit 10.2 (used after September 30, 2011).
- 10(l)\* Emerson Electric Co. Description of Split Dollar Life Insurance Program Transition, incorporated by reference to Emerson Electric Co. Form 8-K filed September 2, 2005, Exhibit 10.1.
- 10(m)\* Amended and Restated Restricted Stock Plan for Non-Management Directors, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2009, File No. 1-278, Exhibit 10.1, Form of Restricted Stock Award Letter under the Emerson Electric Co. Restricted Stock Plan for Non-Management Directors, incorporated by reference to Emerson Electric Co. Form 8-K filed February 1, 2005, Exhibit 10.2, and Form of Restricted Stock Unit Award Letter under the Emerson Electric Co. Restricted Stock Plan for Non-Management Directors, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2009, File No. 1-278, Exhibit 10.1.
- 10(n)\* Description of Non-Management Director Compensation, incorporated by reference to Emerson Electric Co. Form 10-K filed November 20, 2017, Exhibit 10(n).
- 10(o)\* Description of Named Executive Officer Compensation, incorporated by reference to Emerson Electric Co. Form 10-K filed November 20, 2017, Exhibit 10(o).
- 10(p)\* Emerson Electric Co. 2006 Incentive Shares Plan, incorporated by reference to Emerson Electric Co. 2006 Proxy Statement dated December 16, 2005, Appendix C, Amendment for 409A Compliance, incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(q), Forms of Performance Shares Award Certificate and Acceptance of Award (used on or prior to September 30, 2009) and Restricted Shares Award Agreement (used on or prior to September 30, 2011), incorporated by reference to Emerson Electric Co. 2007 Form 10-K, File No. 1-278, Exhibit 10(q), Amendment to Emerson Electric Co. 2006 Incentive Shares Plan, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended June 30, 2008, File No. 1-278, Exhibit 10.1, Forms of Performance Shares Award Certificate, Acceptance of Award and 2010 Performance Shares Program Award Summary, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2009 (used after September 30, 2009 and on or prior to September 30, 2011), File No. 1-278, Exhibit 10.2, Forms of Performance Shares Award Certificate and Acceptance of Award, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2011, File No. 1-278, Exhibit 10.3 (used after September 30, 2011), and Form of Restricted Shares Award Agreement, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2011, File No. 1-278, Exhibit 10.4 (used after September 30, 2011).
- 10(q) Credit Agreement dated as of May 23, 2018, incorporated by reference to Emerson Electric Co. Form 8-K dated May 23, 2018 and filed May 29, 2018, File No. 1-278, Exhibit 10.1.
- 10(r)\* 2011 Stock Option Plan, incorporated by reference to Emerson Electric Co. 2011 Proxy Statement dated December 10, 2010, File No. 1-278, Appendix B, 2011 Stock Option Plan as Amended and Restated effective October 1, 2012, incorporated by reference to Emerson Electric Co. 2012 Form 10-K, File No. 1-278, Exhibit 10(r), Forms of Notice of Grant of Stock Options, Option Agreement and Incentive Stock Option Agreement under the 2011 Stock Option Plan, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 2012, File No. 1-278, Exhibit 10.1 and Forms of Notice of Grant of Stock Options, Option Agreement and Nonqualified Stock Option Agreement under the 2011 Stock Option Plan, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 2012, File No. 1-278, Exhibit 10.2.



60 2020 Emerson Form 10-K

- 10(s)\* Emerson Electric Co. 2015 Incentive Shares Plan, incorporated by reference to Emerson Electric Co. 2015 Proxy Statement dated December 12, 2014, Appendix B, Forms of Performance Shares Award Certificate and Acceptance of Award (used on or prior to November 5, 2018), Performance Shares Program Award Summary (used on or prior to November 5, 2018) and Form of Restricted Shares Award Agreement (used on or prior to November 5, 2018), incorporated by reference to Emerson Electric Co. 2015 Form 10-K, File No. 1-278, Exhibit 10(u), Form of Restricted Shares Award Agreement (used after November 5, 2018), incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2018, Exhibit 10.1, Form of Restricted Stock Units Program Acceptance of Award (used after November 5, 2018), incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2018, Exhibit 10.2 and Form of Performance Share Program Acceptance of Award (used after November 5, 2018), incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2018, Exhibit 10.3.
- 10(t) Transaction Agreement dated as of July 29, 2016 among Emerson Electric Co., Cortes NP Holdings, LLC, Cortes NP Acquisition Corporation, ASCO Power Grp, LLC and Cortes NP JV Holdings, LLC, incorporated by reference to Emerson Electric Co. 2016 Form 10-K, File No. 1-278, Exhibit 10(w).
- 10(u)\* Emerson Electric Co. Savings Investment Restoration Plan II, incorporated by reference to the Emerson Electric Co. Form 10-Q for the quarter ended June 30, 2018, File No. 1-278, Exhibit 10.1 and Second Amendment to the Emerson Electric Co. Savings Investment Restoration Plan, incorporated by reference to Emerson Electric Co., Form 10-Q for the quarter ended March 31, 2020, File No. 1-278, Exhibit 10.2 and First Amendment to the Emerson Electric Co. Savings Investment Restoration Plan II, incorporated by reference to Emerson Electric Co., Form 10-Q for the quarter ended March 31, 2020, File No. 1-278, Exhibit 10.1.
- 10(v)\* Letter Agreement effective as of October 2, 2018, by and between Emerson Electric Co. and Edward L. Monser, incorporated by reference to the Emerson Electric Co. Form 8-K filed October 5, 2018, File No. 1-278, Exhibit 10.1.
- 10(w)\* Letter Agreement dated as of August 12, 2020, by and between Emerson Electric Co. and Robert T. Sharp, incorporated by reference to the Emerson Electric Co. Form 8-K filed September 4, 2020, File No. 1-278, Exhibit 10.1.
- 21 Subsidiaries of Emerson Electric Co.
- 23 Consent of Independent Registered Public Accounting Firm
- 24 Power of Attorney
- 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 iXBRL (Inline Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the years ended September 30, 2018, 2019 and 2020, (ii) Consolidated Statements of Comprehensive Income for the years ended September 30, 2018, 2019, and 2020 (iii) Consolidated Balance Sheets at September 30, 2019 and 2020, (iv) Consolidated Statements of Equity for the years ended September 30, 2018, 2019 and 2020, (v) Consolidated Statements of Cash Flows for the years ended September 30, 2018, 2019 and 2020, and (vi) Notes to Consolidated Financial Statements for the year ended September 30, 2020.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Management contract or compensatory plan.



## Signatures

Pursuant to the requirements of Section 13 or 15(d) 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/ F. J. Dellaquila  
F. J. Dellaquila  
Senior Executive Vice President and Chief Financial Officer  
November 16, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on November 16, 2020, by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title
<u>/s/ D. N. Farr</u> D. N. Farr	Chairman of the Board and Chief Executive Officer
<u>/s/ F. J. Dellaquila</u> F. J. Dellaquila	Senior Executive Vice President and Chief Financial Officer
<u>/s/ M. J. Baughman</u> M. J. Baughman	Vice President, Controller and Chief Accounting Officer
<u>*</u> M. A. Blinn	Director
<u>*</u> C. A. H. Boersig	Director
<u>*</u> J. B. Bolten	Director
<u>*</u> M. S. Craighead	Director
<u>*</u> W. H. Easter III	Director
<u>*</u> G. A. Flach	Director
<u>*</u> A. F. Golden	Director
<u>*</u> C. Kendle	Director
<u>*</u> L. Lee	Director
<u>*</u> M. S. Levatich	Director
<u>*</u> J. S. Turley	Director

\* By /s/ F. J. Dellaquila  
F. J. Dellaquila  
Attorney-in-Fact



**Emerson**

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