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Emerson Electrical Co. F2Q09 (Qtr End 03/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from John Inch - Merrill Lynch.

John Inch - Merrill Lynch

Hey a let me start with process. The underlying sales up 3% but the margins eroded little bit more than perhaps I was thinking, you guys called that a mix, could you flush that out a little bit? What exactly do you mean by mix? Is it project specific? Is it systems? What exactly does that mean and what's the outlook there?

David N. Farr

We had a couple of things going on. First of all we did also go after the inventories in their facilities. So we have a situation there where some of their facilities will deleverage as they take the inventory down. You also will see that, I think we mentioned in the April call, that the chemical industry in particular has taken a very dramatic downturn in purchases and, therefore, some of our instrumentation businesses have been hit early on as this cutback in capital spending in some these chemical industries.

They will also come back as those industries start stabilizing and start seeing their improvement from a sales and a profitability standpoint they'll start spending money again. So we saw a mix relative to certain industries in particular, the chemical industry which really dropped off, we saw an area where we cutback our own inventory and production. And we also saw some completion on some very large projects around the world, which are lower margin relative to the systems and solutions side.

But you're going to see this fairly rough patch here as we go forward here so we mix around these businesses and a mix within the instrumentation and systems business, but still we'll have very good profitability for the whole year as I look forward.

John Inch - Merrill Lynch

Dave, does the fact that margins are coming down with revenue still going up though imply, because of mix, that proportionately more of the kind of profit degradation, if you will, happens upfront and then as you roll into sort of down revenues, you don't get as much of a degradation just because the higher ends already been skimmed off the top so to speak.

David N. Farr

It's hard to say that's the case, John. I think that after running the process business you see some of the earlier cycle guide within the process of the cycle guide that work or heavy instrumentation via safe in particular the flow, the measurement side, the flow side that they go after first. They will come back, but I don't think you're going to see, that you can make that statement and say okay, we're going to have more profit degradation now and then it will stabilize later.

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