Emerson Electric (EMR) Earnings Report: Q2 2016 Conference Call Transcript

The following Emerson Electric conference call took place on May 3, 2016, 02:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Craig Rossman; Emerson Electric Company; Investor Relations
- David Farr; Emerson Electric Company; Chairman & CEO
- Frank Dellaquila; Emerson Electric Company; CFO

Other Participants

- Scott Davis; Barclays Capital; Analyst
- Joseph Cohen; Cowen and Company; Analyst
- Stephen Daneker; Sanford C. Bernstein & Company; Analyst
- Andrew Kaplowitz; Citigroup; Analyst
- Julian Mitchell; Credit Suisse; Analyst
- Mike Wood; Macquarie Research; Analyst
- Joe Ritchie; Goldman Sachs; Analyst
- Robert McCarthy; Stifel Nicolaus; Analyst
- Christopher Glynn; Oppenheimer & Co; Analyst
- Shannon O'Callaghan; UBS; Analyst
- Josh Pokrzywinski; Buckingham Research Group; Analyst
- Jeffrey Sprague; Vertical Research Partners; Analyst
- Deane Dray; RBC Capital Markets; Analyst
- Rich Kwas; Wells Fargo Securities; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Emerson's investor conference call.

(Operator Instructions)

This conference is being recorded today, May 3, 2016.

Emerson's commentary and responses to your questions may contain forward-looking statements, including the company's outlook for the remainder of the year.

Information on factors that could cause actual results to vary materially from those discussed today is available at Emerson's most recent annual report on form 10-K as filed with the SEC.

I would now like to turn the conference over to our host, Craig Rossman, Director of Investor Relations at Emerson. Please go ahead, sir.

Craig Rossman (Investor Relations):

Thank you, Operator. I'm joined today by David Farr, Chairman and Chief Executive Officer of Emerson;

and Frank Dellaquila, Executive Vice President and Chief Financial Officer.

Today's call will summarize Emerson's second-quarter 2016 results. A conference call slide presentation will accompany my comments and is available on Emerson's website at Emerson.com. A replay of this conference call and slide presentation will be available on the website for the next 90 days.

I will start the presentation with the second quarter summary as shown on slide 2. Net sales in the quarter decreased 9% to $4.9 billion with underlying sales down 5%. As we anticipated, served markets were mixed as oil and gas and industrial markets remained under pressure, particularly in North America where conditions were tougher. On the positive side market conditions were more favorable in HVAC and US construction.

Data center and telecommunication spending improved during quarter as well. Reported earnings per share decreased 60% to $0.57. Adjusted earnings per share of $0.66, which excludes $56 million of total separation costs, were slightly above our expectations.

Profitability in the quarter benefited from the significant restructuring actions we completed in 2015 and solid operating performance across our businesses. Improved working capital performance generated strong operating cash flow of $719 million in the quarter. Overall the second quarter exceeded many of the Company's expectations and we remain on track for FY16.

Turning to slide 3. Gross profit margin was up 40 basis points due to cost reductions and containment actions and lower SG&A expense benefited from restructuring actions. The year-over-year change in EBIT reflects the impact of separation costs of $31 million and a $932 million divestiture gain from the power transmission solutions business in the prior year. Excluding the gain and the separation costs, EBIT margin increased 70 basis points.

Turning to slide 4. Underlying sales decreased in all regions except Europe. The results were similar to the first quarter which are noted on the slide for your reference, as the global economies are still not showing much strength.

Turning to slide 5. Business segment margin improved 140 basis points to 14.6% lead by year-over-year margin improvement in the network power, climate technology and commercial and residential solutions segments. Restructuring was a positive as savings from the 2015 restructuring actions and lower expense in the current year were a benefit across the segments.

Comparisons in corporate and other were driven by an increase of $46 million in stock compensation resulting from share price appreciation, pre-tax separation costs of $31 million and a 2015 divestiture gain of $932 million. Working capital performance drove an operating cash flow improvement of 101% in the quarter.

Turning to slide 6. Process management underlying sales decreased 9% in the quarter. Oil and gas customer spending remains a headwind across the regions but was more pronounced in certain markets like the Canadian oil sands and the US.

Efficiency and productivity projects continue to gain traction with customers in the energy sector as interest and engagement continue to increase. Project opportunities in power in the US, Asia, Europe and Middle East-Africa continue to support growth while chemical markets across various regions continue to be favorable as well.

Segment margin decreased 20 basis points primarily from volume deleverage and mix, but were partially offset by savings from restructuring actions which will continue to benefit profitability in the remainder of the fiscal year.

Turning to slide 7. Industrial automation's second-quarter sales declined 10%, reflecting continued weakness in industrial and upstream oil and gas spending. Power generating alternator sales are at a 10-year low. Alternative energy wind projects were a bright spot for the drives business.

Segment margin decreased 50 basis points primarily due to volume deleverage, unfavorable mix and price, partially offset by savings from restructuring actions and materials cost containment. Slightly better market conditions and easing comparisons are expected to improve both underlying growth and profitability in the second half of FY16.

Turning to slide 8. Network power underlying sales were down 1% in the quarter. The global demand for data center and telecommunications infrastructure improved during the quarter. Telecommunications power systems had particularly strong growth in North America. Segment margin improved 490 basis points to 8.1%, mainly benefiting from restructuring actions.

New product programs and the segment's global repositioning strategy are starting to flow through to both sales and profitability. Improving order trends for both data center and telecommunications investment will drive positive third-quarter sales growth and improved margins.

Turning to slide 9 Climate technologies underlying sales increased 2% driven by the US residential and commercial air conditioning business which was up 10%. Europe reflected strong growth across the region. The refrigeration business was up high single-digits.

Segment margin increased 170 basis points primarily due to significant savings from restructuring actions and material cost containment. Favorable air conditioning and refrigeration end markets should continue to support improvement in underlying growth through the remainder of the fiscal year.

Turning to slide 10. Underlying sales in the commercial and residential solutions segment increased 2%. Favorable conditions in US construction markets, particularly residential, were supported for growth. The divestiture of the commercial storage business reduced year-over-year sales by 16% but had a positive impact on segment margin which improved 380 basis points to 23.2%.

Favorable trends in US residential construction are expected to continue, supporting the outlook for modest levels of underlying growth and margin improvement in the remainder of the fiscal year.

Turning to slide 11. While the global economic environment for Emerson businesses will continue to be challenging, demand has begun to stabilize or improve in certain markets. Comparison in the second half of the year also become easier due to the significant decline in underlying sales during FY15.

As we have indicated, order trends remain in line with expectations and therefore continue to support our assumptions that 2016 underlying sales will be down 2% to 5%, excluding negative currency translation of 1% and a 2% deduction from completed divestitures. Underlying sales in the third quarter are expected to be approximately flat to the prior year.

We also reaffirm our guidance that adjusted earnings per share will be $3.05 to $3.25, excluding $250 million to $300 million of separation costs related to the Company's portfolio repositioning. Adjusted earnings per share for the third quarter are anticipated to be flat to the prior year or approximately $0.85, excluding $145 million of separation costs.

Now I'll turn it over to Mr. David Farr.

David Farr (Chairman & CEO):

Thank you very much, Craig. Thank you very much, for joining us today. I appreciate your time.

As you can see, fundamentally this was a very solid quarter. I want to thank the entire global organization relative to execution around the significant restructuring starting last year and continuing to run through this year. The results are starting to flow through as they did for the last three quarters.

Core profitability has now begun to improve and we're exhibiting strong cash flow and very good performance. Again, I want to thank the global Emerson organization out there for doing some very difficult heavy lifting in a very challenging marketplace.

As we talked about it since November, I've been talking about fixed rate orders. We're going to reach our goal by April. I'm not quite sure yet, but as we've looked at the order pace for the last several months step by step by step, with October being the bottom, we've seen continuing improvement. Last month's three-month roll, we basically saw around negative 4%. We do not know what the April ending numbers will be, which we are talking about reporting around the May electrical products group meeting.

But right now my gut tells me we've seen some weaker North America oil and gas spending in the short cycle. And clearly we're seeing very weak spending around the back-up power generating marketplace, which as we see it, it's running at an 11-year low. But we might be close and we'll know when we get it all in. It might be May but we haven't given up on April yet.

I know I can tell you this much. We're going to be close enough that my 14-month old Zorro might be able to jump that rope and get there. I do know there's been some weakening in the North America oil and gas spending route and the alternate route for sure.

The overall performance this quarter relative to the operations was very good in a very challenging marketplace. You think about the balance sheet, the cash flow, the earnings, setting up for us what we believe is a very important milestone, again, in the third quarter with hopefully underlying sales getting close to zero and our earnings per share being flat with improved margins. Again, very important milestones as we quickly work through the process. The operations have done a lot of heavy lifting here and the restructuring is really starting to pay off.

From my perspective right now, as I look at the global marketplace, I just came back from Europe, our Western European business had continued to improve. I finally see some good momentum there. No, the economy is not going to be robust there, but they clearly are making investments, they're making strategic investments, they have some exports. So underlying, we see our European business being a benefit, a positive versus what it was a couple months ago.

I see the US economy, in particular on the industrial segment, has continued to be challenging in certain segments, I would say even weaker within the US marketplace. The rest of the world basically is trending along the lines that we've been talking about the last two or three or four quarters, including what we talked about at our analyst meeting in February. Not a whole lot of change as I see it. The plus is coming from Europe, the minus is coming from the US.

Network power business orders continue to be improving and positive and we expect network power to have positive growth in the third quarter of the top line and positive growth in earnings. We expect the commercial residential solutions, that business continues to be positive. We also expect our climate technology business to do reasonably well. But one market they're struggling with right now is China residential. The rest of the world they are progressing, doing extremely well. Obviously you could see some of the profitability coming through in some of these businesses as they've got the restructuring done in the second half of last year and early part of this year.

From a restructuring standpoint we're going to be around this -- Frank, I think we were talking about $60 million to $80 million, $70 million to $80 million. We are looking at areas right now where we've seen weaknesses where we will ramp up a little bit more restructuring, but we have this pretty well in focus as we look at this year.

We're also starting to look at opportunities as we've now formed the two strategic businesses underneath two leaders of Mike Train and Bob Sharp. And we're looking at programs that will institute coming forward in 2017 and 2018 to, I would say, create a more best-cost structural global organization and manufacturing process. And opportunities that we can then look at taking more costs out both for profitability but also to increase investments for growth in some of the technologies and innovations area. So overall, I'm pleased with the opportunities there and look forward to continuing to figure out how we could generate higher levels of profitability in the two core businesses that will remain as we finish the repositioning.

Relative to the repositioning as we review with the Board last night and again this morning, we're making progress. The network power program both is on the table at this point in time, we're looking at either a sale or a spin. Both are viable at this point in time. The Board, along with inputs from the management team, are getting closer and closer to making that final decision and we will be making that final decision.

We have filed initial spin documents which you have to do, and we'll continue to refine those documents based on inputs from the SEC. From our standpoint right now both options of what we're going to do the business to create value for our shareholders and value for us is a Company going forward, are still on the table and are still actively being worked and it is not a problem. I know people like to speculate and people like to aggravate, but this is a process that's well underway and well in focus and well in line with what we expected.

Relative to Leroy-Somer CT, control techniques, again we have a lot of viable global potential buyers of these assets. That process is longer away. Even despite the tougher marketplace we see in that market we're selling, we still have a good opportunity there to sell these businesses for, what I would say, a respectable price and exit that and take that money and reinvest it back into Emerson in the two core businesses that we're going to maintain.

We also reviewed today significant acquisition opportunities with the Board. One thing good about the world today and the struggle relative to a lot of companies, there are unique acquisition opportunities out there, both from a technology standpoint, both from the commercial residential standpoint and also from the automation solutions standpoint.

We are looking for opportunities to reinvest the proceeds and the objective is to take that money and reinvest it back into the core businesses and eventually get back into $20 billion-plus corporation but a much more focused and selective and profitable business.

As we talked about in February, when we come out of this transition, we will be a more profitable business, we'll be a more focused business and we will be more very much focused on doing significant acquisitions around these two businesses. Once again, regaining the size, which I think is appropriate relative to what we need to do on a global basis. So I like where we sit today.

We're pivoting from significant restructuring to getting closer to growth on the orders, significant growth in improved profitability and pivoting towards the completion of the repositioning of the two core businesses we're trying to get out and positioning ourself towards making additional acquisitions. Great progress along those lines. No more specific details than I just gave you, so you can ask and I will say no comment. But that's the flavor we are right now. Good discussion with the Board for a lengthy term last night and again today relative to that.

But again, as we wrap up here and open up for questions, again, very, very good execution by the operating folks from Frank and his team and Ed Purvis, and Ed Monser and then all of the business leaders out there. I truly appreciate it. They are really working us hard in trying to create a higher level of profitability and higher level of cash flow for us to have the opportunity to reinvest and grow this Company again.

With that, I'll open the mic for questions.

QUESTIONS & ANSWERS

Operator:

Scott Davis, Barclays.

Scott Davis (Analyst - Barclays Capital):

Hi, good afternoon, guys.

David Farr (Chairman & CEO):

Good afternoon, Scott.

Scott Davis (Analyst - Barclays Capital):

I got to admit, those network power orders pops back a little faster than probably some of us would have thought. Give us a sense -- like was there some timing issues, maybe some big projects that get thrown into February or March? Or is it against such bombed-out comps that we're likely to continue to see some pretty good levels from here?

David Farr (Chairman & CEO):

Well, that's a pretty negative approach to think about that, Scott.

Scott Davis (Analyst - Barclays Capital):

Well, I just had to ask.

David Farr (Chairman & CEO):

You must be watching TV too much, Scott, that's all I can think about. It's a fair ask. There's a couple things going on. As you know, we went through the period of significant restructuring and trying to change the organization, we went through a period of having to develop, I would say, a more selective type of product portfolio for the market changes and opportunities. It did give us a chance to really have a better package to go out and sell and a more focused approach with the organization. Also, clearly the comps got a little bit easier.

But the most important thing here is the work that Scott Barbour and his team did over the last couple of years in getting their team focused around the different channels, the different products, the different solutions. And now I think that focus and that cost structure will be put in place, really allowing these guys to compete and win. And it's a global thing and so that is very good to see. We have a long way to go with that business but it's nice to have it helping and carrying a load right now. That's what's really going on.

Scott Davis (Analyst - Barclays Capital):

Good. Dave, is there a sense -- can you give us a little bit of sense in timing? I know you said you weren't going to give any details but are we talking about having network Power wrapped up in three months or is it more like six months?

David Farr (Chairman & CEO):

From our perspective, if you go the route of a sale, most likely it would be a little longer from the standpoint of a review and approval process. There's a lot of regulation. It's a very, as you know a global, global business so a lot of people will be reviewing that.

A spin is one that you could have -- assuming we don't know what the SEC will do from an input standpoint. Our focus right now if we go the route of the spin, it will be towards the end of the fiscal year. If not, just right after the fiscal year. If we have to sell it and have to go through a review process, it could be a couple months longer.

But right now we still look at some time in the September, October, end of September, October, November time period for that either way we go. But that's the time frame we're looking at there, Scott.

On Leroy-Somer and control techniques, again, it really depends. There is a sale process. If we have to go with an international person, relative of a potential strategic buyer there, it will take, I think, from a review standpoint, both from the various governments around the world, longer. Both the US government and the European government, there is a substantial position for Leroy-Somer CT in France.

So I think that's going to definitely be most likely -- by the time it's completed, in the fourth calendar quarter. You'll hear from us sometime most likely this quarter or end of this quarter, early next fourth quarter, you'll hear which way we're going. You'll hear from us, sale or spin.

Scott Davis (Analyst - Barclays Capital):

Am I to assume that's not a gating factor in doing deals? That you'd be comfortable doing a deal even before those things were announced? Or do you feel like you need to wait?

David Farr (Chairman & CEO):

Correct. Our financial position right now is we can go out and do deals right now. And we are doing deals but we could do several billions of dollars of deals right now if we need to. We have the financial capability, spin, sale doesn't make much difference. We have the capability of doing that right now.

Scott Davis (Analyst - Barclays Capital):

Good luck, Dave, thank you.

David Farr (Chairman & CEO):

Thank you. And, Scott, to follow up on that, one of the reasons why we did stop the share repurchase in the second quarter and most likely tail it back again in third quarter, is to make sure that we do have the financial flexibility to do the type of transaction. The market is starting to open up and we want to make sure we have the capability. We can always come back and do the share repurchase which we are now looking at probably around $1 billion this year versus what we said earlier. So that's another thing we've done.

Scott Davis (Analyst - Barclays Capital):

Okay, thank you, Dave.

Operator:

Joseph Cohen.

Joseph Cohen (Analyst - Cowen and Company):

Good morning, thanks. Good afternoon, I should say, sorry. I was wondering if you could expand on your comments about some of the oil and gas orders weakening, or what have you, the pace of activity weakening. If you could expand on what you saw, if it related to any specific type of projects. If you could comment more broadly on any repricing of the backlog or customers pushing back on existing orders and trying to reprice them lower. Thanks.

David Farr (Chairman & CEO):

Relative to the second question, the answer is nothing. We're not seeing that type of pressure from us from that standpoint, on a repricing of a commitment from one of our customers. That's not an issue relative to the space at this point in time.

Relative to North America and particularly US, it's primarily just the day-to-day type of spending that you see on the oil projects. Not really big project-specific, it's all around the day-to-day type of what we call the MRO type of -- the normal type of spend. Capital budgets definitely are being curtailed by most oil and gas guys.

There are companies within the North America, both in Canada and the United States. And so they're continuing to tighten those belts up and we're seeing that business, not day-to-day business, given our strength in this marketplace, which has been hurting us more on the, what I would call, the shorter cycle-type of products.

The project business is not -- we haven't seen anything there. It's just been more of the day-to-day type of situation. And that's been weakening here for the last couple of months and we anticipate that's going to continue for the rest of this year now. Most of the oil and gas companies that have reported here in the last couple of weeks have talked about, again, slowing down some capital and we're feeling that on the day-to-day type of spend. That's where we are seeing it.

Joseph Cohen (Analyst - Cowen and Company):

Okay, and on the flip side, given oil has moved a bit back up, do you think it will actually will be down for the full year? Or do you think there's the potential to actually see it lift before the fiscal year end?

David Farr (Chairman & CEO):

I don't see a lift before the fiscal year. I think that price of oil is -- I've talked about my opinion on price of oil over the months here. I still think there's a chance that we could slip back in the $30s and then start trailing back up towards $50. You've got to see stability in the $50-plus range towards $60 and then a continued growth of demand, which we see today around the demand for oil and gas.

But clearly at the current pricing and the stress that companies are going through right now to make sure they right-size, they're not going to turnaround in a month or two and say go ahead and spend. That's not going to happen. I think you're going to see -- the way we're looking at this marketplace right now is the first part of 2017 will continue to be challenging for our customer base. And they'll continue to be tight in places like North America and they are going to be very, very tight relative to spending. I just don't see that bounce back until later in 2017 or early 2018.

Joseph Cohen (Analyst - Cowen and Company):

Thanks a lot, David.

Operator:

Stephen Daneker with Bernstein.

Stephen Daneker (Analyst - Sanford C. Bernstein & Company):

Good afternoon, guys.

David Farr (Chairman & CEO):

Good afternoon, Steve.

Stephen Daneker (Analyst - Sanford C. Bernstein & Company):

Dave, you've talked a lot about the challenges in making the call for growth investments versus cuts and how to draw that line across the businesses, particularly when we were visiting you guys. Where are you now in that thinking, given how the market's been evolving and the more aggressive, sounds like, achievement on the cost side that you guys have been getting? When should we not be surprised about this pivot to growth investment?

David Farr (Chairman & CEO):

I think that we're starting to pivot to growth on the commercial residential solution side already. We're looking at unique technology investments there both internally and through acquisitions. On the automation side -- so on the commercial and residential side, I think you're going to start seeing as we start talking about as we get into the quarters, that business continues to grow. I think that we are looking at unique investments to help grow that business more in 2017 and 2018.

On the automation side of the business right now, we're still going to go through, I would say, continue to down-size and rationalize for some time here. One of the things as we formed the two businesses, we were looking at ways that we can take out costs that'll create new investment dollars, some to go to market and some to go internally. But that's going to be more in a 2017, 2018 time period.

I think you're looking at us already pivoting on part of the portfolio. And the automation part of the portfolio, we are still rationalizing, restructuring, protecting profitability and making sure that we do the right thing to protect the core value of the businesses. We're not walking away from the strategic investments there but we're more in the -- let's make sure we have this opportunity to get the costs in line and we have any weak pieces of the tree and the wood and whatever it is, let's get it trimmed. And that's where we are right now.

Stephen Daneker (Analyst - Sanford C. Bernstein & Company):

And then it looks like, so you've got obviously flat growth guided for 3Q and therefore implied flattish growth for 4Q underlying. What does that mean for your assumptions around the MRO side, small- to mid-sized projects. Because you did call it out again, I'm just a little unclear on therefore what do we have to see happen for that to be achieved for the rest of the year?

David Farr (Chairman & CEO):

It depends which segment you look at, Steve. I think that businesses are -- just look at the business reporting and the economic reporting. They are continuing to really curtail spending. I think until you see businesses start feeling comfortable that they can start stabilizing their capital spend versus cutting their capital spend, I think it's going to be a quarter-by-quarter fight in the US North America region here. But we're already seeing some increase in Europe. We're already seeing Southeast Asia. But the key markets here in North America they are still being pretty tight. So I think until we start hearing CEOs talk about expanding core capital investments for productivity, for -- not capacity but just for productivity and for some new products, it's going to be a slog. No doubt about it.

Stephen Daneker (Analyst - Sanford C. Bernstein & Company):

Okay, great, thanks.

David Farr (Chairman & CEO):

Thank you, Steve.

Operator:

Andrew Kaplowitz.

Andrew Kaplowitz (Analyst - Citigroup):

Good afternoon, guys. Hi, Dave.

David Farr (Chairman & CEO):

Good afternoon, Andrew.

Andrew Kaplowitz (Analyst - Citigroup):

you said that China was -- Good afternoon. So your guidance for the year for China was down mid single-digits. Obviously there's been some signs of stability, but 2Q was still down 12. Maybe you can talk about what you're seeing there and what you're seeing for the rest of the year.

David Farr (Chairman & CEO):

Our forecast is still to be in that mid single-digits 5%, 6%, 7%, 8% down. From a comparison standpoint, this sucker really turned down hard -- I shouldn't call it a sucker, but I did. This market really turned down hard in the second half last year. I mean, we had down, if you'll think about the second half of 2015, our China destination sales were down probably around 16%. Not probably, they were. In first hall of this year they are down around 12%, 13%.

So what we're seeing is we're starting to see some pick back up in certain sectors and comparisons will be a little bit easier. So if we go flat it's still not really exciting, given the fact how hard it was down last year. So that's what we see at this point in time. We see the second half being about the same pace, a little bit better but coming off a lot easier comps because the second half of 2015 was down 16%, 17%. So that's where we are right now.

And we see that across some of the businesses where some of the day-to-day spending and process is starting to happen. We are starting to see refrigeration in some of the transportation market spending for climate technology. We're seeing the data centers and telecom spending. So we're starting to see some level of improvement there. I still think that we will see, on average, the year being down 6%, 7%, 8% at this point in time, unless there's been another shock, which we haven't seen yet. That's where we are right now.

Andrew Kaplowitz (Analyst - Citigroup):

Great, that's helpful, Dave. Process management margin was down a little bit in the quarter. You're obviously expecting a pretty weak first half of the year. But you did need a fairly steep increase to get to your high teens guidance for the year. So how realistic is that? And could you get there with your current plans? Is mix having a more unfavorable impact that you expected?

David Farr (Chairman & CEO):

Yes, I think that Steve and Mike and his whole team have done a phenomenal job of going after the costs. They are working very hard so that cost coming out very quickly. They started last year and they've been aggressively after it, so we're going to start seeing more and more savings. They had a very good second quarter profitability as I saw it and I think that we're starting to see that flow through.

Now we are concerned about the North America, I would say, weakness because that is a very profitable business for us. But they still have other actions they can take to protect that profitability. We are set pretty comfortable relative to the whole year, that range that we gave you, I think back in February. So still pretty good about that. I think we're reasonably on track.

Andrew Kaplowitz (Analyst - Citigroup):

Okay thanks, Dave, appreciate it.

David Farr (Chairman & CEO):

You're welcome, take care.

Operator:

Julian Mitchell.

David Farr (Chairman & CEO):

Hello, good afternoon to you, Julian.

Julian Mitchell (Analyst - Credit Suisse):

Good afternoon. Just wanted to start with industrial automation. You talked about pricing pressure in the slides. I think that may be new, so any color around that. And also, are you seeing particularly heavy destocking or something because the order trend's not really improving, it had looked like, February to March. So give some color on different verticals within that.

David Farr (Chairman & CEO):

The big issue there is we have some mix going on from the standpoint of pricing pressure, profitability pressures. The other big issue is our [often-air] business in North America and parts of Europe, its been extremely weakened and taken a nose dive down. That's been a big issue for us as that continued to weaken. They are basically at this point in time seeing very weak end-market demand, our customers, and so our guys are continuing to ratchet back down.

We're getting to a point right now where the pace is getting low enough but it's ugly from the standpoint there's not much volume going on. That's where we are at this point in time and death to the cycle. It took another notch down the last couple months and I think we're getting really close and we should start seeing some improvement momentum back up through that. That's where we are at this time. And again, they continue to take costs out. It's a tough cycle for these guys.

Julian Mitchell (Analyst - Credit Suisse):

Understood. And then overall, Company-wide I think in February you'd talked about a $335 million savings number for this year. If there's any detail you could give on how much of that was recognized in the first half. And maybe any sense -- when you look at the restructuring plans for the next six months, any color you could give on how much you might be carrying into next year?

David Farr (Chairman & CEO):

Okay, now, the number we gave you is $350 million for the year, you said?

Julian Mitchell (Analyst - Credit Suisse):

$335 million.

David Farr (Chairman & CEO):

And right now it's at -- we're probably just a tad better than that right now, given the second half of the year from the restructuring and benefits we received from that. So as we look at the pieces -- these are the actual numbers these aren't the deltas, correct? I'm looking at a sheet here.

These are the deltas, so in the first quarter, you're delta year around $80 million improved from restructuring. Second quarter we're looking at around $100 million. The third quarter it looks to us like it's going to be probably back around $70 million. Because now we've started to get some comparisons from last year. And then in the fourth quarter, what happens here is we see it bounce back up again, probably to over $100 million because the expense is going to be down, so the delta there is going to help us a little bit.

So that's how the numbers look right now and we just had a very good quarter here. I'd expect us to have another decent quarter in the third quarter and then we'll get a big pop because there will be less spending from versus last year which we had a big pick up. So the savings are starting to flow through along those lines.

Next year, now, I would say based on the core businesses left, let's say that we were executing the sale or the spin or whatever, of the businesses, you look at the process business and look at the commercial residential business left and just the day-to-day restructuring. Those numbers are going to drop significantly because of what's going on. And so when I say significantly, we're going to be under $50 million. I haven't seen the number yet but I got to believe it's going to be under $50 million.

And then what's going to happen though is Bob Sharp and Jim Lindemann are looking at opportunities across the commercial residential solutions business that we are going to start executing on as we get into 2017. There all of a sudden we don't have a number yet but we're going to start taking that number up where that $50 million might go up $25 million, $30 million, $40 million as we look at a two-year program to right-size and restructure and reposition the commercial and residential on a global basis to make it really best-cost location, best-cost structure, and allow us to take some of that profitability to the P&L and also to help us invest for growth.

There's some unique opportunities now that we've put these businesses together. That will happen as we get into 2017. But next year restructuring my gut tells me the core bases will be down significantly.

Julian Mitchell (Analyst - Credit Suisse):

Great, thank you.

David Farr (Chairman & CEO):

A long-winded answer for probably what you didn't want to hear.

Julian Mitchell (Analyst - Credit Suisse):

No that's great, thank you.

Operator:

Mike Wood, Macquarie Capital.

Mike Wood (Analyst - Macquarie Research):

Hi, good afternoon.

David Farr (Chairman & CEO):

Hey, Mike.

Mike Wood (Analyst - Macquarie Research):

I think of Emerson as particularly dominant in larger projects and process industrial automation. You're calling out in some of your remarks hope for the smaller medium-sized projects in MRO and process for example. Curious if you can give us some color in terms of how that may shift market shares or what you're doing to work on the share in the smaller-sized, medium-sized projects.

David Farr (Chairman & CEO):

From our perspective, we've been repushing resources because there's not as many large projects out there right now so we need to redirect our resources back into the smaller medium-sized projects to pick up that business. Because you're right, if you look at our share, we go very high to large, we're very strong in day-to-day and in the middle we're probably the weakest, as you've said. So we've been shifting some of the resources down from the large, down to the medium to go after the smaller projects.

From a growth in market share I still feel that we'll come out of this cycle ahead. As we did the last cycle, I think, Emerson will come out ahead and we'll be a stronger player in the process management industrial marketplace around this space here when the cycle comes out from overall participation.

On the day-to-day stuff that's being more driven by the corporate world of CEOs being very cautious, worried about cash flow, being the same thing I'm doing if you look at Emerson. If you look at our capital spending in the first half of the year we're down significantly from last year. I don't think I'm any different from any other CEO out there and I think CEOs right now are being very, very cautious relative to spending, and particularly given they keep seeing weakness emerging in the industrial space.

I think that market, that part is going to be pretty challenging here for the next six months until CEOs feel okay, I could let go a little bit of more money and reinvest back into the Company. That's how I see it at this point in time.

Mike Wood (Analyst - Macquarie Research):

Got it. And also you called out the efficiency productivity investments in process. Where are we in that investment cycle? Is it just beginning? I'm curious why we don't see that in industrial automation in some of those efficiency investments.

David Farr (Chairman & CEO):

Boy, if I could read everyone's mind it would be okay there. I think that we are seeing that both on the automation side and the process side in Europe, where Western Europe did not invest for some time and now they are doing it, they're going after it. We're starting to see a little bit of that in Asia-Pacific. In North America, people are just being very, very tight with capital right now. Even though money is cheap, free, almost, people are very, very cautious at this point in time relative to spending a lot of capital.

We are very focused on our capital spend right now, on productivity, quality improvement and trying to get the costs down. But a lot of people are still trying to evaluate where they want to take their businesses. I think there's been an under-investment and hopefully we'll see it come back up in the old productivity and improving your efficiency and operations in North America.

I'm a little bit disappointed to watch corporate America cutting too far in that area, but that's where they are right now and I can't push and shove anymore to make them do it. I know what we're doing and we've redirected heavily in the capital we're spending. We're spending less capital but it's all tied basically to efficiency and productivity and how do we get lower costs for the future.

Mike Wood (Analyst - Macquarie Research):

Thank you.

David Farr (Chairman & CEO):

You're welcome.

Operator:

Joe Ritchie.

Joe Ritchie (Analyst - Goldman Sachs):

Thanks, good afternoon, everyone.

David Farr (Chairman & CEO):

Good afternoon. Dave, I want to square your comments on orders bottoming and process and the fact that things are getting weaker in oil and gas. One of the things that you mentioned in your slides was that the power markets have been getting better and we heard that from a few different people as well. Is that the reason why you feel better about the orders bottoming on the process business?

And what specifically are you guys seeing in the power markets? Look around the world, the one place that we've seen increased weakness is this US day-to-day type of spending. That's the one area I see the weakness. The rest of the world has continued to start increasing their investments in what I would call the day-to-day productivity-type investments. We're seeing that spending going on. If I look at the order pace in Europe, I look at the order pace in Asia, that trend is turning the right way. So that's why we felt pretty good.

The one surprise we had is in the last couple months we've seen the US spending rate come back down again which bothers us. And that's what's created probably this delay by one month relative to April, the April target, which we have -- I don't know yet for sure but intuition tells me where we were at negative 4%, that should have been closer to negative 2%.

What's going on right now, this is climbing up a little bit slower and we are having people be a little more cautious in spending. But on the power side, people are having to spend money for the new regulations coming into play. They've under-invested for awhile they have some plants they have to take off line. And so we're seeing people spend money on trying to more towards gas. The spending is there for power and we are actually seeing that -- we are doing extremely well in Europe, we're doing well in North America and we're doing well in Asia.

We are a Company that's actually continued to invest and grow and put new technology. A lot of our competitors are walking away from, what I call, primary power. So be it, I love it. We'll gladly make those investments for people. We've been investing from a technology, innovation and acquisition. A lot of companies in our space that we compete against are actually de-emphasizing it and walking away from it.

Joe Ritchie (Analyst - Goldman Sachs):

Got it. The follow-up there on the oil and gas piece is have you started to see any weakness in midstream. I know that's one area you guys have called out as being pretty strong for you. Is that attributing some of the weaker oil and gas spending?

David Farr (Chairman & CEO):

No, midstream is fine. It's just I think there might be an element going on. We could be seeing some cannibalization going on. As you know, there was a lot of investments that were done sitting out there, used equipment maybe equipment that wasn't ever put in place. There could be an element of that, people going back and digesting and cannibalizing that right now.

But clearly something's happened to create people to back off. Maybe they found a warehouse of stuff that they had purchased for some investments. But clearly they are backed off so they are using some older equipment or some equipment they found and that's all that's going on at this point in time.

Joe Ritchie (Analyst - Goldman Sachs):

Okay thanks I'll get back in queue.

David Farr (Chairman & CEO):

Thank you.

Operator:

Robert McCarthy.

Robert McCarthy (Analyst - Stifel Nicolaus):

Good afternoon, Dave.

David Farr (Chairman & CEO):

I thought we'd cut you out of the queue.

Robert McCarthy (Analyst - Stifel Nicolaus):

OUr usual bet, Mortimer? Just kidding. So in any event, in terms of the April versus May given the fact that you've maintained your guidance, it really doesn't matter. Obviously the restructuring benefits have definitely kicked in but do you feel good it's just a matter of --

David Farr (Chairman & CEO):

Dinner for two is it, Bob? Normal getting dinner for two weeks if we don't get April so he's out there working his (expletive) off right now.

Robert McCarthy (Analyst - Stifel Nicolaus):

(laughter) So but do you think it's a question of you'll start to see that nice pull through in May, June time frame? And how are you thinking about how -- do you feel like the year from this perspective, given the restructuring benefits you've got and the solid margin conversion is well intact here?

David Farr (Chairman & CEO):

I think we feel good about the profitability right now, because I think the operations -- and I know the operations really -- we got on this last year starting real early and worked it and we kept the pace. As you know, we haven't slipped off the spending or the savings and it's really starting to flow through. So we feel good about that.

I feel a little bit more worried about sales because of the US marketplace in particular. I feel better about Europe, as you could tell. I feel nervous about Latin America because I still think these guys are still struggling. But the US, I would say, slow to start turning that nose up really bothers me.

But I would say that within the forecast we've given out there for sales we're still comfortable. But it's probably a little lower than it was below. But I feel good about the profitability because that's happening. We got some markets going that way, some markets are not going that way and they're not all turning at the same time. That's where we are at this point in time.

Robert McCarthy (Analyst - Stifel Nicolaus):

Well, admittedly a very strong quarter on margins and free cash flow generation. I don't think anybody can debate that. The final question I have is following up, I think, on Scott's earlier question around the timing of M&A. There's probably limits to what you can talk about this but obviously there's certain decile deals that you have to use equity for. Will that delay the timing? Do you have to get this exit out of the way before you would consider using equity? Is there a gating factor there?

David Farr (Chairman & CEO):

No, we don't see an issue there. The deals we're working on right now are probably going to be cash deals. We could do billions of dollars in cash right now. It's not an issue. We've got ample balance sheet, operations have got the liquidity back in, they've got the working capital back in line. Our profitability is coming up.

I think from the type of deals we're seeing at this point in time we're looking at, and not some big strategic -- I don't see us moving that way until we exit these other two businesses. But we see opportunities of multiple billion dollars-type opportunities that we could do internally right now with just pure cash. We've got the position to do that.

Robert McCarthy (Analyst - Stifel Nicolaus):

So for a large deal really that's the gating factor, is exiting network power?

David Farr (Chairman & CEO):

Right.

Robert McCarthy (Analyst - Stifel Nicolaus):

Okay, thank you very much.

David Farr (Chairman & CEO):

Take care, Robert.

Operator:

Christopher Glynn, Oppenheimer.

Christopher Glynn (Analyst - Oppenheimer & Co):

Hey, Dave, Craig. So you undercut our nosier questions about the portfolio process. But could you sum up the run rates of Leroy Control and, I think it's maybe, ClosetMaid combined? How they are contributing this year?

David Farr (Chairman & CEO):

I would say that Leroy Control Technique are struggling this year. I mean, what's the total sales here?

Craig Rossman (Investor Relations):

It was $1.7 billion in the prior year but I'd say it's probably down $1.5 billion.

David Farr (Chairman & CEO):

Around $1.5 billion. Profit margin is down a little bit. ClosetMaid I would say is probably somewhat flat and margins are somewhat flat this year. We're not really taking any action on ClosetMaid at this point in time. But I would say Leroy-Somer's Control Techniques have not seen the recovery that we thought originally. That business, the back-up power area and industrial spending has been much weaker. Though we're starting to see the improvements in Europe in that area. Hopefully we are getting to the bottom from a cycle standpoint but its been a tough run for these guys for the last couple of years.

Christopher Glynn (Analyst - Oppenheimer & Co):

Okay, and with the industrial automation segment in your orders and business run rates, are you seeing any issue on customer commitments ahead of the question of who's going to own these properties?

David Farr (Chairman & CEO):

No. They trust that we're going to do the right thing.

Christopher Glynn (Analyst - Oppenheimer & Co):

Okay. And then last one on network power. Called out the importance of new channels and solutions allowing better winning out there in the marketplace. Already seeing big improvements this year, but you also commented on a long way to go. I'm wondering if you've now established the guide path for another big step-up in profitability here for the segment?

David Farr (Chairman & CEO):

We expect the profitability, the business used to run 10%-plus type of profitability. The goal is to get that back above that. As this business continues -- the restructuring is getting closer and closer, I think they've got the majority of the restructuring, they probably have a little bit left the second half of this year. From an underlying profit where the growth comes, these guys are going to leverage quite nicely. I expect to see pretty good growth in the second half of the year and improvement in profitability in the second half of the year, both from growth and then also from improvement in the cost structure.

Christopher Glynn (Analyst - Oppenheimer & Co):

Thanks.

David Farr (Chairman & CEO):

You're welcome.

Operator:

Shannon O'Callaghan.

Shannon O'Callaghan (Analyst - UBS):

Good afternoon.

David Farr (Chairman & CEO):

Good afternoon.

Shannon O'Callaghan (Analyst - UBS):

Dave, on the restructuring, sounds like it's tracking according to plan and everything. But the first half was only $28 million of expense. Conceptually I'm trying to figure out why that would be a back-half loaded restructuring plan. Seems like you know what you need to do and you'd be getting after it earlier in the year. Can you explain what's going on there?

David Farr (Chairman & CEO):

We're doing some significant restructurings and challenge restructuring in Europe and you have to do it at a very measured pace. That's one of the issues right there.

It's a plan that you try to get it done within 12 months, sometimes it takes 14 months. A European process for restructuring is one that you want to do very carefully to get it done without major disruption and major problems with your workforce. So a lot of it is around that European situation.

North America is a little bit easier and that's pretty straightforward. But we have restructuring underway in Europe that we have well planned out and we might miss a month or two here as we push around. So that's what's going on at this point in time.

The other thing we're doing at this point in time also is they are getting the restructuring done and they're actually getting it done at a little lower cost. They are getting the process, they're getting it done which is nice to see if you do it with a measured pace, you actually get it done at a better cost structure and get the work done that costs us less.

But still think we're going to be doing it around this $60 million, $70 million, $80 million this year. And again, as I said, we're looking at some of the process in the industrial area right now there's some more incremental things we need to do to be profitably positioned as we go into, I would say, a challenging first half of 2017 at this point in time.

Shannon O'Callaghan (Analyst - UBS):

Okay, thanks. And one more follow-up on the M&A angle. Clearly, as you mentioned, you have the financial strength to do what you want to do. Organizationally, there's been obviously you're undergoing some big changes and also some management's moved around within the businesses. Organizationally are you in a position where you'd want to do something sizeable?

David Farr (Chairman & CEO):

Yes, we're ready to go. We're ready to go. From the restructuring, by the time you start the process, the restructuring, a lot of it will be well behind you as you get -- our acquisitions don't happen one day or two days. So if you do the process I think that we're well positioned as we go into the second half of this calendar year, to take on some additional -- and if we could pick up a couple billion dollars worth of things then we would be very excited about that.

Shannon O'Callaghan (Analyst - UBS):

All right, thanks a lot.

David Farr (Chairman & CEO):

You're welcome.

Operator:

Josh Pokrzywinski, Buckingham Research.

Josh Pokrzywinski (Analyst - Buckingham Research Group):

Hi, good afternoon, guys.

David Farr (Chairman & CEO):

Good afternoon Josh. How do you pronounce your last name?

Josh Pokrzywinski (Analyst - Buckingham Research Group):

Not like that. We'll try Poko-Winsky next time.

David Farr (Chairman & CEO):

Okay, I just want to make sure. I thought I knew who you were. I thought maybe you got a name change or something.

Josh Pokrzywinski (Analyst - Buckingham Research Group):

Well, I'm trying to revert to old country, where we're nationalizing here ahead of any Trump.

David Farr (Chairman & CEO):

We just nationalized you? I didn't know that. Thank you, Josh. All fun intended there.

Josh Pokrzywinski (Analyst - Buckingham Research Group):

On network power you called off this project strength in Europe but you sound more sanguine on business in general. If I pulled out some of this project activity in Europe which sounds chunky and maybe detail on when that ends as well. But how do you feel about the other regions going forward or what you're seeing today?

David Farr (Chairman & CEO):

Network power total is doing reasonable across the world. That industry does go and got a couple months run and then you have a pause. Generally we're pretty pleased in the last couple months and it's reasonably broad-based. So we'll see how April comes in.

Our anticipation of April is that we have high single-digit order pace. It would be interesting to see which regions come into play again. If we get high single-digit order pace in that space that means that's more than one or two dots, let's put it that way. We'll see.

Josh Pokrzywinski (Analyst - Buckingham Research Group):

How far does the European project activity take you out?

David Farr (Chairman & CEO):

Our European project right now is working on the second half, we work out second half calendar year. So we're booking right now to really going to start helping us in the second half of this year.

Josh Pokrzywinski (Analyst - Buckingham Research Group):

Got you. And to revisit the April, May order dynamic here and maybe one month doesn't make a difference, but it does sound like you're talking about a bit more caution in the business. I guess versus three months ago, clearly, your comps get you a lot of the way and stability would get you to positive order intake by that April, May time frame. Did you actually see orders come in below where you would have thought, comp aside, just a daily order rate?

David Farr (Chairman & CEO):

Yes, what we saw is -- I was talking earlier on the phone call in my initial comments -- would be the US North America wholly-owned gas day-to-day business was weaker than we anticipated. On the positive side, network power is a little bit stronger.

I would say also I would say that our order pace in China and some of the other businesses I thought would maybe a little bit better but it didn't quite trend that way yet. I would say the primary reasons I look at the order pace is the North America capital type of spend market day-to-day marketplace was weaker the last three or four months. That's probably what's created the slowdown.

If you look at the line, it's still continuing to drift up. It should have drifted a little bit faster the last two months but it's on a curve now. It's one month behind where I thought it would be.

Josh Pokrzywinski (Analyst - Buckingham Research Group):

So maybe a bit more of a bathtub shape recovery here versus anything else?

David Farr (Chairman & CEO):

Yes, exactly.

Josh Pokrzywinski (Analyst - Buckingham Research Group):

Great, thanks, Dave. See you at EPG.

David Farr (Chairman & CEO):

You're welcome, see you.

Operator:

Jeffrey Sprague.

Jeffrey Sprague (Analyst - Vertical Research Partners):

Good afternoon, Dave, and everyone.

David Farr (Chairman & CEO):

Good afternoon, Jeff.

Jeffrey Sprague (Analyst - Vertical Research Partners):

A couple questions. Maybe we could drill into China a little bit more and resi HVAC in particular. We've seen some mixed data there, Dave. Do you think you have any particular market share issue going on there? Is there anything to point out beyond challenging macro?

David Farr (Chairman & CEO):

I don't think so from a residential standpoint. We're not as much of a resi -- depends on how I mean -- the high-end residential would be a player there. But I would say our core markets, our core customer right now just went into a situation with too much inventory and they are having to deal with that.

If you look at the rest of China its been pretty good for our commercial residential business and the climate business. Not much going on there. That market goes in pockets. These guys will go two or three quarters, they buy heavily and then they over stock and then we cut back. Nothing unusual there at this point in time.

Jeffrey Sprague (Analyst - Vertical Research Partners):

And back to the portfolio one more time. I appreciate you've crossed the line in terms of planning and strategic thinking of Florida, where you want to be. But if you really do have the capability to do things on the buy side so to speak, without getting these deals done, do you really want to be selling these IA businesses in an environment where you're saying they are nose-diving into an 11-year bottom? Does that make sense?

David Farr (Chairman & CEO):

Well, I said one piece of it was at an 11-year bottom and I don't think I used the word nose-diving. I would say that at this point in time, if we feel we can get the right type of cash out of this asset, then we will monetize it and move on. How long it takes for some of these assets to come back in certain cycles, we have things we want to do relative to repositioning so we want to get on with it and do it rather than sit there and manage it.

Jeffrey Sprague (Analyst - Vertical Research Partners):

Okay. Then on the network power side then, too, I guess you are alluding to some strategic interests then if you look at finding a buyer or taking longer for an approval process. Are you seeing some actual strategic interest as opposed to just private equity type of interest for that business?

David Farr (Chairman & CEO):

I think there's been press releases on there's been strategic interests out there. The answer is yes, there is strategic interest out there.

Jeffrey Sprague (Analyst - Vertical Research Partners):

Great, thanks. See you in a couple weeks.

David Farr (Chairman & CEO):

See you in a couple weeks.

Operator:

Deane Dray.

Deane Dray (Analyst - RBC Capital Markets):

Thanks, good afternoon, everyone.

David Farr (Chairman & CEO):

Good afternoon.

Deane Dray (Analyst - RBC Capital Markets):

Just to stay on network power on that last point, sale or spin, maybe there's some nuance here that I don't appreciate. My understanding is to qualify for a tax-free spin, you can not have had substantive conversations with outside parties about a sale. So I'm not sure how you could have both these conversations and still have a tax-free spin, so what am I missing?

Frank Dellaquila (CFO):

Deane, I think those rules -- this is Frank, hi. I think that's specific to a specific party. So that if you were to have conversations with a specific party and then spin it and then subsequently they buy it then you have an issue with the tax-free nature of the spin. It is not a general prohibition against having conversations with parties as you spin the Company.

Deane Dray (Analyst - RBC Capital Markets):

Okay, so that has not been breached then?

Frank Dellaquila (CFO):

No, we are very, very careful about how we're going about this.

David Farr (Chairman & CEO):

Yes, and people know that if they have conversation with us and then they do go to certain levels and then they back off and then they say Oh, and then they wait for a spin, they have a problem.

Deane Dray (Analyst - RBC Capital Markets):

Got it. I appreciate that clarification. As a follow-up, Dave, you surprised us last quarter when you went back into the guidance business, quarterly guidance business, and you're surprising here again with not a range but a point estimate. And if you do that --

David Farr (Chairman & CEO):

I said approximate point, approximately. Approximate could be a range.

Deane Dray (Analyst - RBC Capital Markets):

Yes, but that squiggle, I'm seeing $0.85. But the idea there is it suggests pretty good precision and visibility into the outlook. We can't even say what are the assumptions on the high end and the low end. What's changed in terms of giving you this additional visibility?

David Farr (Chairman & CEO):

When I say approximate, I mean probably within $0.05. So I'm giving you my sense right there from that standpoint. I just think that I want to make sure the people understand on the projection we're on, from the standpoint of watching people have a tougher time figuring out where things are trying. I wanted to make sure people understood where we are, so I'm going to make it very clear.

Deane Dray (Analyst - RBC Capital Markets):

Is it a top line that would provide that range, the high and low?

David Farr (Chairman & CEO):

Yes.

Deane Dray (Analyst - RBC Capital Markets):

And would it be US change?

David Farr (Chairman & CEO):

What I said earlier, our cost reduction, our profitability is running at very good levels. If you look at the underlying conversion that we had in the last several quarters, its been getting better. And then you look at the slower climb-out on order pace will create -- clearly putting some pressure on us what we think the top line will be. If the top line was a little bit stronger, then clearly our profitability will go higher and our EPS will go higher. Right now we're more concerned about the top-line sales than we are the profitability, because we've got our cost structure in line right now. I feel good about that. We feel good about that.

Deane Dray (Analyst - RBC Capital Markets):

Understood, thank you.

David Farr (Chairman & CEO):

You're welcome.

Operator:

Rich Kwas, Wells Fargo Securities.

David Farr (Chairman & CEO):

Hello, Rich.

Rich Kwas (Analyst - Wells Fargo Securities):

Good afternoon.

David Farr (Chairman & CEO):

What are you doing? Are you busy today, you working something hard today?

Rich Kwas (Analyst - Wells Fargo Securities):

Trying to, pretending at least.

David Farr (Chairman & CEO):

You work pretty hard.

Rich Kwas (Analyst - Wells Fargo Securities):

A couple for me. In terms of, Dave, you alluded to your expectation around oil prices maybe pulling back a little bit. Should we think of the back half guidance being sub $40 in terms of your assumption from a sales standpoint as it relates to --

David Farr (Chairman & CEO):

No, I don't think right now. I think the day-to-day sales is pretty much set. It's not price of oil driven. I just happen to be one of these guys -- you know me, Rich -- I put stakes in the ground. I put a stake in the ground back in November about April. How many people do things like that? It's just my nature.

My fell right now, I've always told you that I always felt the price oil would run up and run down a couple times. I fundamentally believe there's a chance it could run back down again into the $30s. I personally believe by the time we get in fourth calendar quarter this year we'll be around that $50 mark. That's where I think things are going.

People are cutting back. The demand is still growing but it takes a long time. When you make an investment and you have oil and gas pumping and you got that capital spent, you just don't turn it off. Typically you let it run and try to make some cash out of it. Even though you're not making as much as you thought, you're still trying to get that pay-back.

I think that's what we are going through right now. We're still squeezing it out and I think there could be a bump in the road here but fundamentally I think the trend line is back up a little bit towards the $50 mark. And it doesn't make much difference in the next three or four months in sales.

Rich Kwas (Analyst - Wells Fargo Securities):

Fair enough.

David Farr (Chairman & CEO):

I try -- you make calls, I make calls. You know?

Rich Kwas (Analyst - Wells Fargo Securities):

Right, exactly.

David Farr (Chairman & CEO):

There you go.

Rich Kwas (Analyst - Wells Fargo Securities):

And then on US HVAC, so you had a good quarter and the sell-in date has been very good. The manufacture date has been a little bouncy. How do you feel about inventories right now? And you're expecting a good up Q3. Any risks around that, based on what you're seeing out there?

David Farr (Chairman & CEO):

Nothing right now. The channels move up and down. I think that it could have had a couple months where the construction wasn't as strong as people did and the inventories being built. Right now, it looks like things are pretty well balanced. The order pace is pretty good in North America. I would expect us to have a decent third quarter North America.

Depending on how hot it gets is how much liquidation goes out and how much you have to build later in the year, which will be a good thing for us. We'll see what happens. Right now it's setting up to be a decent year for us in North America. And a decent year for us in Europe and some other parts of the marketplace. It's good to see.

Rich Kwas (Analyst - Wells Fargo Securities):

It's the normal weather you feel pretty good about?

David Farr (Chairman & CEO):

I don't think about it. I'm not too worried about that segment right now. I'm not hearing anybody jumping up and down at this point. Frank, are you hearing anybody jumping up and down? No. Frank just shook his head.

Frank Dellaquila (CFO):

I think we're in pretty good shape there.

David Farr (Chairman & CEO):

When Frank doesn't jump up and down and shake his head, we're okay.

Rich Kwas (Analyst - Wells Fargo Securities):

All right, I'll see you in a couple weeks.

David Farr (Chairman & CEO):

Okay good, thanks. I want to thank everybody for their time today. Again, operations outstanding job in the execution and thank Frank and Ed and Ed and everybody out there working with the operation guys to get this done.

We clearly continue to pivot towards the repositioning. Our goal is to come out, as we talked about at the February investor meeting, come out a little bit smaller Company, more profitable Company. But quickly add on acquisitions to use the money we're going to generate here to invest in the growth again and get this Company back above $20 billion with a 19% to 20% EBIT margin. So a very good business. So thank you very much and you all have a great summer. Bye.

Operator:

Again, this does conclude today's conference call.