Creating a more efficient business

Rick Fearon, Chief Financial and Planning Officer
February 24, 2017
Key takeaways for today

• We continue to take aggressive actions to manage through soft markets

• Our $440M multi-year restructuring program is delivering results, driving permanent cost out through both manufacturing optimization and support cost reduction
  • We have driven $288M of total annual benefits through 2016, with another $230M expected through the remainder of the program
  • Our margins and cash flow have remained strong over the past several years

• We continue to drive productivity improvements across our business by leveraging the Eaton Business System

• We are fine-tuning the portfolio by improving performance of lower margin businesses and growing sales of higher margin businesses

• Our self-help actions are driving near-term earnings growth and positioning us for strong performance once markets recover
Industrial production growth forecasts have consistently been downgraded

Global industrial production forecast revisions over time
2012 – 2016, per IHS Markit

Key drivers of lower than expected growth

- Excess capacity driven by 2012 commodity super-cycle peak
- Contractionary fiscal policy in both the US and Europe
- Increased regulatory requirements across the globe, but especially in developed economies
- Low levels of productivity growth
Despite sluggish industrial production growth, our margins and cash flow have remained strong.

Segment margins¹

Free cash flow ($B)

1Excludes acquisition integration charges and 2015-2017 restructuring program costs

2Adjusted for legal settlements
Our restructuring program is delivering results

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost</th>
<th>Incremental annual benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$(129)</td>
<td>$78</td>
</tr>
<tr>
<td>2016</td>
<td>$(211)</td>
<td>$210</td>
</tr>
<tr>
<td>2017E</td>
<td>$(100)</td>
<td>$155</td>
</tr>
<tr>
<td>2018E</td>
<td>--</td>
<td>$75</td>
</tr>
<tr>
<td>Total</td>
<td>$(440)</td>
<td>$518</td>
</tr>
</tbody>
</table>
We have significantly reduced our headcount and labor costs.

Total Eaton headcount and labor costs

- 7% reduction to employee headcount and 11% reduction to labor costs since 2014
Restructuring has been focused on the businesses most impacted by market weakness

### 2014-2016 organic growth by business

<table>
<thead>
<tr>
<th>Year</th>
<th>Electrical Products</th>
<th>Electrical Systems &amp; Services</th>
<th>Hydraulics</th>
<th>Aerospace</th>
<th>Vehicle</th>
<th>Corporate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2016 organic CAGR</td>
<td>1%</td>
<td>(4)%</td>
<td>(10)%</td>
<td>0%</td>
<td>(7)%</td>
<td>--</td>
<td>(3)%</td>
</tr>
</tbody>
</table>

### Restructuring costs by business ($M)

#### Program to date

<table>
<thead>
<tr>
<th>Year</th>
<th>Electrical Products</th>
<th>Electrical Systems &amp; Services</th>
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<th>Vehicle</th>
<th>Corporate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 and 2016</td>
<td>$(56)</td>
<td>$(78)</td>
<td>$(98)</td>
<td>$(9)</td>
<td>$(69)</td>
<td>$(30)</td>
<td>$(340)</td>
</tr>
</tbody>
</table>
Creating a more efficient business

Restructuring
- Manufacturing optimization
- Support cost rationalization

Productivity

Managing the product / business portfolio
Actions target manufacturing optimization and support cost rationalization

Manufacturing optimization

Moving closer to the optimal manufacturing footprint

Support cost rationalization

Reducing the cost of managing and administering the business
Each component of our manufacturing optimization strategy has created structural improvement.

**Footprint consolidation**
- Consolidated 11 plants in 2015 and 4 plants in 2016, reducing duplicative plant overhead expenses and increasing capacity utilization.

**Expansion in best cost locations**
- Invested capital to expand operations in U.S., Brazil, China, Hungary, India, Mexico, Morocco, Poland, and Romania.

Moving closer to the optimal manufacturing footprint.
We have consolidated our manufacturing footprint across the globe...

North American HD Truck
Moved gears, shafts, and assemblies operations from Shenandoah, IA to King’s Mountain, NC, achieving operating leverage

China valve train
Invested to move capacity to our new plant in Jining from older, less efficient Shanghai plant

Brazil Hydraulics
Closed underutilized plant in Guarulhos and shifted capacity to existing Hydraulics plant in Guaratingueta and Vehicle plant in Valinhos

These projects are generating over $20M of annual cost savings
...and expanded production in best cost locations

**Power Systems in Milwaukee**

Invested $60M to expand 3-phase transformer capacity in Milwaukee by 20%; given transportation and logistics costs and customer location, expanding capacity in Milwaukee is the low cost solution

**Metal fabrication in Romania**

Expanded metal fabrication capacity in Romania, shifting capacity out of Western Europe and creating a metal fabrication Center of Excellence in Romania, driving $10M in annual cost savings
We have also removed support costs from our business

**Support cost rationalization**

Reducing the cost of managing and administering the business

**Increased span of control**
- Reducing inefficient management layers

**Reorganizing support functions**
- Consolidating support function expertise across our sector and corporate offices

**Expansion in best cost locations**
- Expanding back office activities to create a global network of Shared Service Centers in best cost locations
We have gone through a process of transforming and optimizing our IT function...

**IT transformation roadmap**

- **Simplify**: Consolidated 16 data centers into 2 global centers powered by Eaton
- **Standardize**: Introduced best-in-class HR, Finance, Commercial, & ERP systems
- **Virtualize**: Increased server and storage virtualization by 120%
- **Automate**: Enabled 15% fewer employees to manage a 300% increase in technology footprint
- **Functionalize**: Centralized the function, increasing manager span of control to 8.2 from 6.5

Since 2013, we have reduced annual IT costs by $60M

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• Opened in 2006 and expanded significantly from 2014 - 2016

• Includes 1,300+ engineers, 400+ IT employees, 300+ supply chain employees, 300+ finance employees, and 200+ sales and marketing personnel

• Opened in 2014 and expect to have over 400 employees by end of 2017

• Includes tax, HR, IT, audit, and legal professionals, as well as sector sales, marketing, and engineering personnel
We are positioned for success when markets rebound.

Restructuring program impact on segment margins

- 2016 segment margin: 15.0%
- 2016 segment margin excluding restructuring costs: 16.0%
- Pro-forma 2016 margin excluding restructuring cost, including mature-year benefits: ~17%

We believe our restructuring program will generate another ~100 bps of margin expansion at current volumes.
Creating a more efficient business

Restructuring
- Manufacturing optimization
- Support cost rationalization

Productivity

Managing the product / business portfolio
We are leveraging EBS to drive continuous productivity improvements

EBS Productivity Toolkit

- Eaton Lean Six Sigma
- Design for Six Sigma
- Eaton Quality System
- PROLaunch:
  - Standard Transition Process
  - New Product Introduction
- Management for the Environment, Safety, and Health (MESH)

Example: Valve forging

- Engine valve forging is an expensive and capital-intensive manufacturing process
  - In 2016, we began rolling out a new global standard forging solution that increases capacity by over 50% on existing equipment while driving down maintenance, utilities, and labor costs

Cost-out¹

¹Savings in materials, wages, and overhead divided by prior years’ costs, excluding restructuring costs and savings
Creating a more efficient business

1. **Restructuring**
   - Manufacturing optimization
   - Support cost rationalization

2. **Productivity**

3. **Managing the product / business portfolio**
We are improving performance of lower margin businesses and growing sales of higher margin businesses.

Profitability distribution

Focus area

Fix the tail, grow the head
# Examples of recent actions

<table>
<thead>
<tr>
<th>Grow</th>
<th>Fix</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electrical</strong></td>
<td><strong>Hydraulics</strong></td>
</tr>
<tr>
<td>EMEA services</td>
<td>Expanding addressable market</td>
</tr>
<tr>
<td>Established a new organizational structure and added resources in our EMEA services business, growing service revenues by 5% in 2016</td>
<td>Leveraging our hose manufacturing facility in Turkey to enter into new Rubber Hydraulic Hose &amp; Fitting markets, expanding our addressable market by ~$1B</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>APAC Bussmann Electronics</th>
<th>Product rationalization</th>
<th>Ducting in-sourcing</th>
<th>Air Conditioning Tube &amp; Hose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructured and shifted the mix of the business to serve a broader set of industrial markets, delivering stronger growth and returns</td>
<td>Eliminating over 40% of SKUs in our Steering Control and Pumps &amp; Motors product lines in order to reduce manufacturing complexity and simplify our supply chain</td>
<td>Insourcing tube bending and metal fabrication in our ducting product line to help drive 280 bps expansion in margins</td>
<td>Developing a lower cost alternative for air conditioning hose, allowing margins to improve by ~10 percentage points</td>
</tr>
</tbody>
</table>
Summary

• Our $440M restructuring program is already delivering $288M of annual savings, with another $230M expected as *we permanently drive cost out of our business* through a focus on both manufacturing optimization and support cost rationalization.

• We continue to drive *productivity improvements* in our business by leveraging the Eaton Business System.

• We are in the early stages of *grow the head and fix the tail*, improving the performance of low margin businesses and growing our high margin businesses.

• We are *aggressively managing* through current soft markets, and we are *positioned for success* when our markets recover.