



Third Quarter 2018 Earnings Release

October 30, 2018

Craig Arnold



Forward-looking Statements and Non-GAAP Financial Information

This presentation or the comments we make on our call today contain forward-looking statements concerning, among other matters, performance of our worldwide end markets, the expected impact of tariffs, fourth quarter and full year 2018 earnings per share, expected organic revenue, tax rate and segment operating profit; segment margins, capital expenditures, cash flow, tax rate, corporate expenses, projected revenue growth, foreign currency exchange impact, and three year earnings per share growth. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside the company's control. The following factors could cause actual results to differ materially from those in the forward-looking statements: unanticipated changes in the markets for the company's business segments; unanticipated downturns in business relationships with customers or their purchases from us; competitive pressures on sales and pricing; unanticipated changes in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; strikes or other labor unrest; the performance of recent acquisitions; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; stock market and currency fluctuations; war, civil or political unrest or terrorism; and unanticipated deterioration of economic and financial conditions in the United States and around the world. We do not assume any obligation to update these forward-looking statements.

This presentation includes certain non-GAAP measures as defined by SEC rules. A reconciliation of those measures to the most directly comparable GAAP equivalent is provided in the investor relations section of our website at www.eaton.com.

Financial Highlights of Q3

- Earnings per share of \$0.95
- Earnings per share of \$1.43, excluding the impact of arbitration decision related to legacy Cooper business
 - Up 14% over Q3 2017, excluding the impact of the arbitration decision and the 2017 gain on Eaton Cummins Joint Venture
- Sales of \$5.4B
 - Organic revenues up 6%
 - Currency (1)% and divestitures (1)%
- All time record segment margins of 17.6%, 120 basis points above Q3 2017
 - All time record margins in Electrical Products, Electrical Systems and Services, and Aerospace segments
- Operating cash flow of \$1.0B in the quarter

Financial Summary

(M)	<u>3Q '18</u>	<u>3Q '17</u>	<u>V '17</u>
Sales	\$5,412	\$5,211	↑ 4%
Segment Operating Profit	\$952	\$856	↑ 11%
Segment Operating Margin	17.6%	16.4%	↑ 120 bps
Net Income	\$416	\$1,401	↓ 70%
Net Income (excluding arbitration impact and gain from formation of Cummins JV)	\$622	\$558	↑ 11%

Sales Growth:	Organic	6 %
	Forex	(1)%
	Divestitures	(1)%
	Total	4 %

Earnings per share	\$0.95
Earnings per share, excluding impact of arbitration decision	\$1.43

Electrical Products Segment

(M)	<u>3Q '18</u>	<u>3Q '17</u>	<u>V '17</u>
Sales	\$1,789	\$1,785	---
Segment Operating Profit	\$343	\$330	↑ 4%
Operating Margin	19.2%	18.5%	↑ 70 bps

Sales Growth:	Organic	1%
	Forex	(1)%
	Total	0%

- Organic revenues, excluding lighting, up 3%
- Orders up 3%
 - Solid growth in industrial and residential markets in the Americas and modest growth in lighting
- Backlog up 16%

Electrical Systems & Services Segment

(M)	<u>3Q '18</u>	<u>3Q '17</u>	<u>V '17</u>
Sales	\$1,519	\$1,421	↑ 7%
Segment Operating Profit	\$234	\$196	↑ 19%
Operating Margin	15.4%	13.8%	↑ 160 bps

Sales Growth:	Organic	9%
	Forex	(1)%
	Divestiture	(1)%
	Total	7%

- Orders up 4%
 - Strong growth in EMEA and Asia Pacific
 - Continued strength in data center markets
- Backlog up 12%

Hydraulics Segment

(M)	<u>3Q '18</u>	<u>3Q '17</u>	<u>V '17</u>
Sales	\$670	\$634	↑ 6%
Segment Operating Profit	\$94	\$80	↑ 18%
Operating Margin	14.0%	12.6%	↑ 140 bps

Sales Growth:	Organic	7%
	Forex	(1)%
	Total	6%

- Orders up 4% with strength in APAC and Americas offset by weakness in EMEA
 - Americas up 12%
 - APAC up 9%
 - EMEA down (16)%
- Lower EMEA orders resulted from shorter lead times reducing the need for long dated orders
- Backlog up 24%

Aerospace Segment

(M)	<u>3Q '18</u>	<u>3Q '17</u>	<u>V '17</u>
Sales	\$478	\$438	↑ 9%
Segment Operating Profit	\$105	\$84	↑ 25%
Operating Margin	22.0%	19.2%	↑ 280 bps

Sales Growth:	Organic	9%
	Forex	0%
	Total	9%

- Orders up 12%, with particular strength in commercial transport, commercial aftermarket, and military rotorcraft
- Backlog up 15%

Vehicle Segment

(M)	<u>3Q '18</u>	<u>3Q '17</u>	<u>V '17</u>
Sales	\$876	\$858	↑ 2%
Segment Operating Profit	\$166	\$150	↑ 11%
Operating Margin	18.9%	17.5%	↑ 140 bps

Sales Growth:	Organic	7%
	Forex	(3)%
	Divestiture	(2)%
	Total	2%

- 2018 NAFTA Class 8 production forecast now at 320K units
- Light vehicle markets down slightly in Q3

eMobility Segment

(M)	<u>3Q '18</u>	<u>3Q '17</u>	<u>V '17</u>
Sales	\$80	\$75	↑ 7%
Segment Operating Profit	\$10	\$16	↓ 38%
Operating Margin	12.5%	21.3%	↓ 880 bps

Sales Growth:	Organic	7%
	Forex	0%
	Total	7%

- Secured an additional contract win in the quarter on a new platform
- Currently in discussions on a large number of additional programs

2018 Organic Revenue Growth and Operating Margin Expectations

Segment	Organic Revenue Growth			Segment Operating Margins	
	Prior 2018 Guidance	New 2018 Guidance	Change	Prior 2018 Guidance	New 2018 Guidance
Electrical Products	~3%	~2.5%	↓ (0.5)%	18.7% - 19.3%	↓ 18.3% - 18.7%
Electrical S & S	~6%	---	---	14.0% - 14.6%	↑ 14.5% - 14.9%
Hydraulics	~13%	~12%	↓ (1)%	13.7% - 14.3%	↓ 13.2% - 13.6%
Aerospace	~6%	~8%	↑ 2%	19.3% - 19.9%	↑ 20.2% - 20.6%
Vehicle	~6%	7%	↑ 1%	17.0% - 17.6%	---
eMobility	~12%	---	---	12.0% - 13.0%	---
Total	~6%	~6%	---	16.4% - 17.0%	16.4% - 17.0%

Raw material cost/tariff update

- Tariff impact for 2018 is modest and has been fully offset
 - Responded quickly by aggressively offsetting material / logistics cost inflation and tariffs with pricing actions and cost out
 - Results can be seen in our strong margin performance
 - No negative EPS impact in 2018 from additional inflation or tariffs
 - Our strategy to “manufacture in zone of sale” reduces impact of tariffs on Eaton
- We are confident in our ability to offset tariff impacts in 2019, as well
 - We now expect \$110M of additional tariff costs in 2019
 - Actions to mitigate cost increases have been implemented, or are underway
 - We have strong management processes in place to ensure timely execution

2018 Guidance

4th Quarter Outlook	
\$1.38 - \$1.48 Earnings Per Share	
Organic Revenue Growth	~6%
Segment Operating Margins	17.0% - 17.4%
Tax Rate	12.5% - 13.5%
2018 Full Year Outlook	
\$4.82 - \$4.92 Earnings Per Share as reported	
\$5.30 - \$5.40 Earnings Per Share, excluding impact of arbitration decision	
Organic Revenue Growth	~6%
Forex	~\$50M
Divestitures	\$(150)M
Segment Operating Margins	16.4% - 17.0%
Corporate Expenses (interest, pension, other corporate)	Increased \$20M above 2017 levels
Tax Rate (including impact of arbitration decision)	11.0% - 12.0%
Adjusted Operating Cash Flow*	\$2.9B - \$3.1B*
Adjusted Free Cash Flow*	\$2.3B - \$2.5B*
Capex	\$575M
Share Repurchases	\$800M - \$1B
Restructuring Costs	\$90M

*Excludes \$(300)M impact from arbitration decision

As we look to 2019, our view of markets remains unchanged with a majority of our businesses still in the early to mid portions of an economic cycle

Early to Mid Growth Stage

- U.S. Industrial Construction
- Global Defense Aerospace
- Global Agricultural Equipment
- Global Mining Equipment
- Global IT Infrastructure
- Global Industrial/Factory Machinery
- Global Oil and Gas Capital Spending

Mid Growth Stage

- U.S. Utility Capital Spending
- U.S. Commercial Construction
- Construction Equipment
- Commercial Aerospace
- U.S. Residential Construction
- European Construction

Late Growth Stage

- NAFTA Class 8 Truck
- Global LM Vehicle
- China Non-Residential Building Construction

We expect to see solid market growth in 2019

Initial thoughts on 2019

- Expect overall market growth of ~3-4%
- Incremental contribution margin of 25% - 30% on organic growth
- Corporate items (pension, interest, other corporate) flat with 2018 levels
- Tax Rate estimated at 14% - 16%, consistent with long term rate
- Restructuring spending for 2019 similar to that of 2018
- Expect to repurchase 1-2% of outstanding shares

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