



# Fourth Quarter 2011 Earnings Release

## January 26, 2012

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# Forward-looking statements and non-GAAP financial information

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This presentation contains forward-looking statements concerning the first quarter 2012 and full year 2012 net income per share and operating earnings per share, full year 2012 revenues, our worldwide markets, our growth in relation to end markets, our growth from acquisitions, and estimated savings from acquisition integration. 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; increases 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; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; changes in currency exchange rates; stock market fluctuations; 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](http://www.eaton.com).

# Highlights of Q4 Results

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- Operating earnings per share of \$1.08
- Net income per share of \$1.07
- Sales for Q4 were \$4,033M, up 10%
- Emerging markets were 26% of sales
- Record full year 2011 sales, earnings per share and segment operating margins

# Comparison to Q4 Guidance

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## Operating EPS Reconciliation versus Guidance

Midpoint of guidance	\$	1.11
Lower end market growth		(0.17)
Higher corporate expenses		(0.05)
Lack of commodity hedge recovery		(0.02)
Lower tax rate		0.14
Improved performance		0.07
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Total	\$	1.08

# Financial Summary

(M)	<u>4Q '11</u>	<u>4Q '10</u>	<u>V '10</u>
Sales	\$4,033	\$3,663	↑ 10%
Segment Operating Profit	607	503	↑ 21%
Segment Operating Margin	15.1%	13.7%	↑ 140 bps
Acquisition Integration Charges	(5)	(15)	
Segment Operating Profit as Reported	602	488	↑ 23%
Net Income	362	280	↑ 29%

Sales Mix:	Market Growth	8%
	Outgrowth	1%
	Acquisition	1%
	Forex	0%
	<b>Total</b>	<b>10%</b>

## Reconciliation of net income to operating earnings

Net income per share assuming dilution	\$1.07
Per share impact of acquisition integration charges	<u>\$0.01</u>
Operating earnings per share	\$1.08

# Electrical Americas Segment

(M)	<u>4Q '11</u>	<u>4Q '10</u>	<u>V '10</u>
Sales	\$1,121	\$1,012	↑ 11%
Operating Profit	174	163	↑ 7%
Margin	15.5%	16.1%	↓ 60 bps
Acquisition Integration Charges	(1)	0	
Operating Profit as Reported	173	163	↑ 6%

Sales Mix:	Market Growth	10%
	Outgrowth	1%
	Acquisition	0%
	Forex	0%
	<b>Total</b>	<b>11%</b>

- Sales down from expectations due to push out of December deliveries by customers
- Bookings up 11%
- Backlog of \$1.25B at the end of Q4, up 20% y-o-y
- U.S. non-residential construction spending up 6%
- U.S. residential construction spending improves as housing starts are up by 21%
- Completed acquisition of switchgear manufacturer E.A. Pedersen

# Electrical Rest of World Segment

(M)	<u>4Q '11</u>	<u>4Q '10</u>	<u>V '10</u>
Sales	\$699	\$768	↓ 9%
Operating Profit	70	94	↓ 26%
Margin	10.0%	12.2%	↓ 220 bps
Acquisition Integration Charges	(1)	(13)	
Operating Profit as Reported	69	81	↓ 15%

Sales Mix:	Market Growth	(6)%
	Outgrowth	(6)%
	Acquisition	2%
	Forex	1%
	Total	<u>(9)%</u>

- Revenue down from expectations due to European market softness and tightening of credit in China
- Bookings down 10% on above issues, plus continued softness of residential solar markets

# Hydraulics Segment

(M)	<u>4Q '11</u>	<u>4Q '10</u>	<u>V '10</u>
Sales	\$705	\$571	↑ 23%
Operating Profit	106	73	↑ 45%
Margin	15.0%	12.8%	↑ 220 bps
Acquisition Integration Charges	(3)	(1)	
Operating Profit as Reported	103	72	↑ 43%

Sales Mix:	Market Growth	9%
	Outgrowth	7%
	Acquisition	7%
	Forex	0%
	Total	23%

- Bookings up 5%, driven by strength in Americas
- China mobile hydraulics market remains weak
  - Expected to begin recovery in 2<sup>nd</sup> half of 2012

# Aerospace Segment

(M)	<u>4Q '11</u>	<u>4Q '10</u>	<u>V '10</u>
Sales	\$430	\$400	↑ 8%
Operating Profit	78	64	↑ 22%
Margin	18.1%	16.0%	↑ 210 bps
Acquisition Integration Charges	0	(1)	
Operating Profit as Reported	78	63	↑ 24%

Sales Mix:	Market Growth	4%
	Outgrowth	3%
	Acquisition	0%
	Forex	1%
	<b>Total</b>	<b>8%</b>

- Bookings up 1% with commercial markets strong, but softness in defense markets
- Aftermarket bookings up 3%

# Truck Segment

(M)	<u>4Q '11</u>	<u>4Q '10</u>	<u>V '10</u>
Sales	\$680	\$518	↑ 31%
Operating Profit	137	66	↑ 108%
Margin	20.1%	12.7%	↑ 740 bps

Sales Mix:	Market Growth	27%
	Outgrowth	6%
	Acquisition	0%
	Forex	(2)%
	<b>Total</b>	<b>31%</b>

- Sales down from expectations due to softer Brazilian truck pre-buy
- 27% end market growth driven by 52% growth in U.S.
- 2011 NAFTA HD production at 255K units, with Q4 production of 75K units

# Automotive Segment

(M)	<u>4Q '11</u>	<u>4Q '10</u>	<u>V '10</u>
Sales	\$398	\$394	↑ 1%
Operating Profit	42	43	↓ 2%
Margin	10.6%	10.9%	↓ 30 bps

Sales Mix:	Market Growth	8%
	Outgrowth	0%
	Acquisition	(5)%
	Forex	(2)%
	Total	1%

- Sales down from expectations due to reduction in production and shutdowns at several U.S. and European assembly plants
- Global markets up 8% with U.S. markets up 20%
- Operating profits down 2% y-o-y due to start-up costs for capacity expansion supporting new program wins in China

# 2012 End Market Growth Forecast

(Y-O-Y % Growth)

	<b>U.S. Growth</b>	<b>Non U.S. Growth</b>	<b>Total</b>
Electrical Americas Index	5%	4%	5%
Electrical Rest of World Index	N/A	1%	1%
Hydraulics Index	6%	2%	4%
Aerospace Index	3%	9%	5%
Truck Index	16%	4%	9%
Automotive Index	7%	4%	5%
Consolidated Market Index	6%	4%	5%
Eaton Weightings	45%	55%	100%

# Margin Expectations

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	2011 Actual	2012 Guidance
Electrical Americas	14.6%	15.5%
Electrical ROW	9.4%	10.5%
Hydraulics	15.6%	16.0%
Aerospace	14.8%	15.0%
Truck	18.4%	19.0%
Automotive	12.0%	12.0%
Eaton Consolidated	14.2%	14.5% - 15.0%

# 2012 EPS Guidance

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	<u>Operating Earnings</u>	<u>Net Income</u>
Full Year	\$4.15 - \$4.55	\$4.10 - \$4.50
Midpoint	\$4.35	\$4.30
Q1	\$0.80 - \$0.90	\$0.79 - \$0.89
Midpoint	\$0.85	\$0.84

# 2012 EPS Guidance Bridge

<b>2011 Operating EPS</b>	<b>\$</b>	<b>3.96</b>
<b><u>Several Pluses:</u></b>		
• Market improvement of 5% at 28% margin	\$	0.57
• Market outgrowth of \$320M at 28% margin		0.23
• Decrease in number of shares outstanding		0.06
• Net acquisitions/divestiture of \$90M		0.02
• Other corporate		0.02
		<u>0.90</u>
	\$	0.90
<b><u>Several Negatives:</u></b>		
• Higher tax rate	\$	(0.26)
• Forex		(0.14)
• Increase in pension expense		(0.11)
		<u>(0.51)</u>
	\$	(0.51)
<b>2012 Operating EPS</b>	<b>\$</b>	<b>4.35</b>

## Q1 2011 to Q1 2012 Reconciliation

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Q1 2011 Operating EPS	\$	0.84
Incremental volume		0.15
Lower number of shares		0.02
Higher tax rate		(0.04)
Higher corporate expenses		(0.04)
Higher pension expense		(0.04)
Forex		(0.04)
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Q1 2012 Operating EPS	\$	0.85

## Summary of 2012 Guidance

	2012 Guidance
Market Growth of 5%	\$800M
Market Outgrowth of 2%	\$320M
Net Acquisition Revenue	\$90M
Sales Decrease from Forex	\$(550)M
Incremental Margin	28%
Tax Rate	17% - 19%
Operating EPS	\$4.15 - \$4.55
Fully Diluted EPS	\$4.10 - \$4.50
Operating Cash Flow	\$1.7B to \$1.8B
Free Cash Flow	\$1.1B to \$1.2B

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