



Second Quarter 2014 Earnings Release

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Powering Business Worldwide

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Forward-looking statements and non-GAAP financial information

This presentation or the comments we make on our call today may contain forward-looking statements concerning the third quarter 2014 operating earnings per share, full-year 2014 operating earnings per share and net income per share, sales, bookings, segment margins, cash flow, tax rate, acquisition synergies, divestitures, interest and pension expense and the performance of our worldwide markets. 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; strikes or other labor unrest; the performance of recent acquisitions; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest or tax rate changes; stock market and currency 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 and on page 4 of this presentation.

Highlights of Q2 Results

- Adjusted operating EPS above guidance at \$1.11, excluding \$0.70 from Aerospace gain and legal settlements
- Sales of \$5.8B
 - 3% organic revenue growth, following 4% in Q1
- Revenues and overall margins as expected
 - Segment margins of 14.6%
 - Industrial Sector restructuring expense of \$39M in Q2 reduced overall segment margins by 70 bps
 - Strong Industrial Sector and Electrical Products margins offset weakness in Electrical System and Services margins
- Strong bookings in Electrical and Aerospace segments
- Integration of Cooper acquisition remains on track

Impact of Unusual Items in Q2

GAAP earnings per share as reported	\$.36
Acquisition integration charges	<u>.05</u>
Operating earnings per share as reported	\$.41
Impact of unusual items	
Meritor litigation, Triumph litigation, associated legal costs and Aerospace business divestitures	<u>.70</u>
Operating EPS excluding unusual items	\$ 1.11

<u>Tax rate as reported</u>	<u>Tax rate excluding all unusual items</u>
(203%)	8%

Comparison to Q2 Guidance

Operating EPS Reconciliation vs. Guidance

Midpoint of original guidance	\$ 1.10
Lower corporate expense	.03
Higher tax rate	<u>(.02)</u>
Q2 2014 Operating EPS (excluding unusual items)	\$ 1.11

Financial Summary

(M)	<u>2Q '14</u>	<u>2Q '13</u>	<u>V '13</u>
Sales	\$5,767	\$5,602	↑ 3%
Segment Operating Profit	842	873	↓ 4%
Segment Operating Margin	14.6%	15.6%	↓ 100 bps
Acquisition Integration Charges	(30)	(31)	
Segment Operating Profit as Reported	812	842	↓ 4%
Operating Earnings (adjusted)	529	519	↑ 2%
Net Income	171	494	↓ 65%

Sales Growth:	Core	3%
	Acquisition	0%
	Forex	0%
	Total	3%

Reconciliation of net income to operating earnings

Net income per share assuming dilution	\$	0.36
Per share impact of acquisition integration charges		0.05
Operating earnings per share	\$	0.41

Electrical Products Segment

(M)	<u>2Q '14</u>	<u>2Q '13</u>	<u>V '13</u>
Sales	\$1,832	\$1,758	↑ 4%
Operating Profit	312	284	↑ 10%
Margin	17.0%	16.2%	↑ 80 bps
Acquisition Integration Charges	(12)	(12)	
Operating Profit as Reported	300	272	↑ 10%

Sales Growth:	Core	4%
	Acquisition	0%
	Forex	0%
	Total	4%

- Q2 bookings up 6%
- Regional strength in the U.S. and APAC
- Lighting strength – LED represented 41% of lighting sales in Q2

Electrical Systems & Services Segment

(M)	<u>2Q '14</u>	<u>2Q '13</u>	<u>V '13</u>
Sales	\$1,628	\$1,624	--
Operating Profit	207	238	↓ 13%
Margin	12.7%	14.7%	↓ 200 bps
Acquisition Integration Charges	(13)	(11)	
Operating Profit as Reported	194	227	↓ 15%

Sales Growth:	Core	1%
	Acquisition	0%
	Forex	(1)%
	Total	0%

- Q2 bookings up 7%
- Margins impacted by higher logistics costs, unfavorable mix, and pricing pressures

Hydraulics Segment

(M)	<u>2Q '14</u>	<u>2Q '13</u>	<u>V '13</u>
Sales	\$787	\$772	↑ 2%
Operating Profit	99	112	↓ 12%
Margin	12.6%	14.5%	↓ 190 bps
Acquisition Integration Charges	(5)	(8)	
Operating Profit as Reported	94	104	↓ 10%

Sales Growth:	Core	2%
	Acquisition	0%
	Forex	0%
	Total	2%

- Restructuring costs reduced margins by 160 bps
- Q2 bookings down 2% on weakness in global agriculture equipment and China construction equipment markets
- Reducing 2014 market growth forecast from 3% to 1%

Aerospace Segment

(M)	<u>2Q '14</u>	<u>2Q '13</u>	<u>V '13</u>
Sales	\$486	\$446	↑ 9%
Operating Profit	69	67	↑ 3%
Margin	14.2%	15.0%	↓ 80 bps

Sales Growth:	Core	10%
	Divestiture	(3)%
	Forex	2%
	Total	9%

- Restructuring costs reduced margins by 40 bps
- Q2 bookings up 9%, including 20% increase in aftermarket orders
- Divestiture of Aerospace businesses closed during Q2

Vehicle Segment

(M)	<u>2Q '14</u>	<u>2Q '13</u>	<u>V '13</u>
Sales	\$1,034	\$1,002	↑ 3%
Operating Profit	155	172	↓ 10%
Margin	15.0%	17.2%	↓ 220 bps

Sales Growth:	Core	3%
	Acquisition	0%
	Forex	0%
	Total	3%

- Restructuring costs reduced margins by 230 bps
- 2014 NAFTA Class 8 truck build forecast of 290k units
- South American markets notably weaker than expected

2014 End Market Growth Forecast

(Y-O-Y % Growth)

Electrical	3%
Hydraulics	1% ↓
Aerospace	3%
Vehicle	5%
Consolidated Markets	3%

2014 Margin Expectations

	2013 Actual	2014 Guidance
Electrical Products	16.1%	17.75%
Electrical Systems and Services	14.4%	13.5% ↓
Hydraulics	13.1%	13.0% ↓
Aerospace	14.2%	14.0%
Vehicle	15.4%	15.5% ↓
Eaton Consolidated	14.9%	15.2% ↓

2014 EPS Guidance

	<u>Operating Earnings</u>	<u>Net Income</u>
Full Year	\$4.50 - \$4.70	\$4.28 - \$4.48
Midpoint	\$4.60	\$4.38
Q3	\$1.20 - \$1.30	\$1.15 - \$1.25
Midpoint	\$1.25	\$1.20

Excludes impact of Aerospace divestitures and items related to Meritor and Triumph litigation

2014 EPS Guidance Bridge Update

2013 Actual Operating EPS **\$ 4.13**

Several Pluses:

• Organic growth at 26% margin	\$.50
• Incremental acquisition synergies		.20
• Lower interest and pension expense		.16
• Lower purchase price adjustment		.07
• Lower corporate expense		.06
		.99
	\$.99

Several Negatives:

• Higher tax rate	\$	(.26)
• Logistics, mix and pricing in Electrical S&S		(.14)
• Restructuring charges – Industrial		(.08)
• Aerospace divestiture		(.02)
• Higher number of shares		(.02)
		(.52)
	\$	(.52)

2014 Operating EPS **\$ 4.60**

We remain on track to deliver our Cooper synergy projections

(\$Millions)	Annual Pre-tax Synergies			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sales synergies	15	35	80	150
Cost-out synergies	100	175	280	325
Total Operational Synergies	115	210	360	475
<hr style="border-top: 1px dashed black;"/>				
Acquisition integration costs, pre-tax	112	140	35	-

Comparison of Q2 2014 to Q3 2014

Q2 2014 Operating EPS, excluding unusual items	\$	1.11
Absence of Industrial Sector restructuring expenses		.08
Higher volume		.08
Additional Cooper synergies		.02
Higher corporate expense		<u>(.04)</u>
Q3 2014 Operating EPS	\$	1.25

Comparison of 1H 2014 to 2H 2014

Operating EPS, excluding unusual items, for 1 st half of 2014	\$	2.12
Higher volume of \$500M		.26
Absence of Industrial restructuring expenses		.08
Additional Cooper synergies		.05
Lower pension expense		.05
Lower taxes		.04
Higher corporate expenses		<u>(.12)</u>
Operating EPS for 2 nd half of 2014	\$	2.48

2014 Outlook

Market Growth		3%
Outgrowth		\$330M
Revenues from Divestiture		\$(80)M
Forex		0
Incremental Margin		26%
Tax Rate*		6%
Operating EPS*	Full Year	\$4.50 – \$4.70
	Q3	\$1.20 – \$1.30
Operating Cash Flow*		\$2.5B – \$2.7B
Free Cash Flow*		\$1.8B – \$2.0B
CAPEX		\$700M

*Excludes impact of Aerospace divestitures and items related to Meritor and Triumph litigation

Summary

- Second quarter results in line with guidance on revenue and margins
- Excluding unusual items and restructuring costs in Industrial Sector, operating EPS up 9% versus Q2 2013
- Cooper acquisition remains on track to deliver \$95M in incremental benefits in 2014 and \$150M in 2015
- Industrial Sector restructuring to yield \$35M in benefits in 2015
- Pension costs in 2015 expected to be \$35M less than 2014

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