



# First Quarter 2015 Earnings Release

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*Powering Business Worldwide*

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# Forward-looking Statements and Non-GAAP Financial Information

This presentation and the comments we make on our call today contain forward-looking statements concerning, among other matters, the second quarter 2015 operating earnings per share, full year 2015 operating earnings per share, segment margins, capital expenditures, certain corporate expenses, cash flow and tax rate, organic revenue growth, foreign currency exchange rates and the impact in 2015 from foreign exchange on revenues and earnings. 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](http://www.eaton.com).

# Highlights of Q1 Results

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- Operating earnings per share of \$1.01
  - \$0.01 above midpoint of guidance
  - \$(.02) lower volume/additional FX impact, offset by \$.01 lower corporate expense and \$.02 lower tax rate
- Sales of \$5.2B
- Organic revenue growth of 1%, offset by (6%) Forex
- Segment margins of 14.6%
- Repurchased \$170M of shares

# Financial Summary

(M)	<u>1Q '15</u>	<u>1Q '14</u>	<u>V '14</u>
Sales	\$5,223	\$5,492	↓ 5%
Segment Operating Profit	763	799	↓ 5%
Segment Operating Margin	14.6%	14.5%	↑ 10 bps
Acquisition Integration Charges	(10)	(59)	
Segment Operating Profit as Reported	753	740	↑ 2%
Operating Earnings	473	483	↓ 2%
Net Income	466	439	↑ 6%

Sales Growth:	Organic	1%
	Acquisitions	0%
	Forex	(6)%
	<b>Total</b>	<b>(5)%</b>

## Reconciliation of net income to operating earnings

Net income per share assuming dilution	\$	0.99
Per share impact of acquisition integration charges		0.02
Operating earnings per share	\$	1.01

# Electrical Products Segment

(M)	<u>1Q '15</u>	<u>1Q '14</u>	<u>V '14</u>
Sales	\$1,691	\$1,726	↓ 2%
Operating Profit	266	279	↓ 5%
Margin	15.7%	16.2%	↓ 50 bps
Acquisition Integration Charges	(6)	(29)	
Operating Profit as Reported	260	250	↑ 4%

Sales Growth:	Organic	4%
	Acquisition	0%
	Forex	(6)%
	Total	(2)%

- Bookings up 5% in Q1; up 12% in March
- Regional strength in Americas, with improvements in EMEA
- Continued strength in lighting, residential and non-residential construction markets

# Electrical Systems & Services Segment

(M)	<u>1Q '15</u>	<u>1Q '14</u>	<u>V '14</u>
Sales	\$1,448	\$1,524	↓ 5%
Operating Profit	189	195	↓ 3%
Margin	13.1%	12.8%	↑ 30 bps
Acquisition Integration Charges	(3)	(26)	
Operating Profit as Reported	186	169	↑ 10%

Sales Growth:	Organic	(1)%
	Acquisition	0%
	Forex	(4)%
	Total	(5)%

- Q1 bookings flat; up 13% in March
- Regional strength in APAC
- Strength in power distribution assemblies and 3 phase power quality in Asia

# Hydraulics Segment

(M)	<u>1Q '15</u>	<u>1Q '14</u>	<u>V '14</u>
Sales	\$665	\$782	↓ 15%
Operating Profit	67	112	↓ 40%
Margin	10.1%	14.3%	↓ 420 bps
Acquisition Integration Charges	(1)	(4)	
Operating Profit as Reported	66	108	↓ 39%

Sales Growth:	Organic	(9)%
	Acquisition	0%
	Forex	(6)%
	Total	<u>(15)%</u>

- Bookings declined (18)% in Q1 – OEM down (28)% and distributor down (7)%
- Continued weakness in agriculture and China construction equipment

# Aerospace Segment

(M)	<u>1Q '15</u>	<u>1Q '14</u>	<u>V '14</u>
Sales	\$464	\$464	---
Operating Profit	77	62	↑ 24%
Margin	16.6%	13.4%	↑ 320 bps

Sales Growth:	Organic	8%
	Divestitures	(5)%
	Forex	(3)%
	Total	0%

- Q1 organic revenue up 8%
- Q1 bookings up 1%; aftermarket strong



# Vehicle Segment

(M)	<u>1Q '15</u>	<u>1Q '14</u>	<u>V '14</u>
Sales	\$955	\$996	↓ 4%
Operating Profit	164	151	↑ 9%
Margin	17.2%	15.2%	↑ 200 bps

Sales Growth:	Organic	4%
	Acquisition	0%
	Forex	(8)%
	Total	(4)%

- 2015 NAFTA Class 8 truck build forecast remains at 330K
- Further weakness in South America vehicle and agricultural equipment markets

# Highlights of Q1 2015 Results

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- As expected, 2015 began with softer market conditions
  - Hydraulics weakness in global agriculture & China construction equipment markets
  - Electrical Systems & Services driven by weaker 2H 2014 bookings
- Strong margin performance in both Aerospace and Vehicle
- 3% bookings improvement in total Electrical Business, weakness continues in Hydraulics
- 10 bps improvement in margins on 1% organic growth
- Repurchased \$170M of shares in Q1

# For 2015, We Expect Organic Revenue Growth of 2 - 3%

Segment	2015 Organic Revenue Growth
Electrical	2% - 4%
Hydraulics	(2)% - (4)%
Aerospace	2% - 4%
Vehicle	3% - 5%
Total	2% - 3%

# Segment Margin Expectations

	Original Guidance	Revised Guidance
Electrical Products	17.7% - 18.3%	No Change
Electrical Systems and Services	14.5% - 15.1%	No Change
Hydraulics	12.1% - 12.7%	Down 1 point
Aerospace	15.1% - 15.7%	Up 1 point
Vehicle	17.0% - 17.6%	No Change
Eaton Consolidated	15.9% - 16.5%	No Change

# Operating EPS Guidance

## 2<sup>nd</sup> Quarter

**\$1.10 - \$1.20 EPS**

- 5% seasonal revenue increase vs. Q1
- 1 point improvement in margins vs. Q1
- Tax rate increasing to 10% - 11%

## Full Year

**\$4.65 - \$4.95 EPS**

- 2% reduction primarily due to higher negative FX impact

# 2015 Outlook Summary

		<u>February</u>	<u>April</u>
Organic Revenue Growth		3% - 4%	2% - 3%
Forex		(4)%	(5)%
Segment Margins		15.9% - 16.5%	15.9% - 16.5%
Corporate pension, interest, and general corporate expenses		\$30M - \$40M above 2014 levels	\$10M - \$20M above 2014 levels
Tax Rate		9% - 11%	9% - 11%
Operating EPS	Full Year	\$4.75 - \$5.05	\$4.65 - \$4.95
	Q2		\$1.10 - \$1.20
Operating Cash Flow		\$2.7B - \$3.1B	\$2.7B - \$3.1B
Free Cash Flow		\$2.0B - \$2.4B	\$2.0B - \$2.4B
CAPEX		\$675M	\$675M

# Summary

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- Solid first quarter
- Business accelerated in March
- Full year FX impact \$(300)M higher than originally anticipated – now (5)%
- Aerospace margins stronger, hydraulics weaker
- Full year 2015 operating EPS guidance reduced 2% at midpoint from \$4.90 to \$4.80, primarily on weaker currency outlook
  - 3% growth over 2014
  - 12% before \$(.26) from Forex and \$(.17) from tax rate

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