



# Third Quarter 2015 Earnings Release

## October 30, 2015

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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 impact of planned restructuring actions, the fourth 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, the impact in 2015 from foreign exchange on revenues and earnings and our capital allocation plans. 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 included in this presentation or provided in the investor relations section of our website at [www.eaton.com](http://www.eaton.com).

# Highlights of Q3 Results

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- Operating earnings per share of \$0.97
- Sales of \$5.2B, down (9)%
  - Organic revenue down (3)%
  - Forex down (6)%
- Segment operating margins of 14.5%
  - Includes net restructuring impact of (170 bps)
- Net restructuring costs of \$98M in quarter
- Operating cash flow of \$973M, a quarterly record
- Repurchased \$284M of shares in quarter, with YTD repurchases of \$454M

# Financial Summary

(M)	<u>3Q '15</u>	<u>3Q '14</u>	<u>V '14</u>
Sales	\$5,203	\$5,728	↓ 9%
Segment Operating Profit as Reported	745	900	↓ 17%
Acquisition Integration Charges	(8)	(14)	
Segment Operating Profit	753	914	↓ 18%
Segment Operating Margin	14.5%	16.0%	↓ 150 bps
Segment Operating Margin Excluding Net Restructuring Impact	16.2%	16.0%	↑ 20 bps
Operating Earnings	453	616	↓ 26%
Net Income	446	602	↓ 26%

Sales Growth:	Organic	(3)%
	Acquisitions	0%
	Forex	(6)%
	Total	(9)%

## Reconciliation of net income to operating earnings

Net income per share assuming dilution	\$ 0.96
Per share impact of acquisition integration charges	0.01
Operating earnings per share	\$ 0.97

# Electrical Products Segment

(M)	<u>3Q '15</u>	<u>3Q '14</u>	<u>V '14</u>
Sales	\$1,771	\$1,875	↓ 6%
Operating Profit as Reported	322	330	↓ 2%
Acquisition Integration Charges	(5)	(8)	
Segment Operating Profit	327	338	↓ 3%
Operating Margin	18.5%	18.0%	↑ 50 bps
Operating Margin Excluding Net Restructuring Impact	19.0%	18.0%	↑ 100bps

Sales Growth:	Organic	0%
	Acquisition	0%
	Forex	(6)%
	<b>Total</b>	<b>(6)%</b>

- Bookings flat in Q3
- Net restructuring \$(10)M, (50) bps margin impact
  - \$(11)M cost
  - \$1M savings

# Electrical Systems & Services Segment

(M)	<u>3Q '15</u>	<u>3Q '14</u>	<u>V '14</u>
Sales	\$1,487	\$1,655	↓ 10%
Operating Profit as Reported	164	238	↓ 31%
Acquisition Integration Charges	(3)	(4)	
Segment Operating Profit	167	242	↓ 31%
Operating Margin	11.2%	14.6%	↓ 340 bps
Operating Margin Excluding Net Restructuring Impact	12.8%	14.6%	↓ 180 bps

Sales Growth:	Organic	(5)%
	Acquisition	0%
	Forex	(5)%
	Total	(10)%

- Bookings down 3% in Q3
- Net restructuring \$(24)M, (160) bps margin impact
  - \$(26)M cost
  - \$2M savings

# Hydraulics Segment

(M)	<u>3Q '15</u>	<u>3Q '14</u>	<u>V '14</u>	
Sales	\$599	\$733	↓	18%
Operating Profit as Reported	44	84	↓	48%
Acquisition Integration Charges	0	(2)		
Segment Operating Profit	44	86	↓	49%
Operating Margin	7.3%	11.7%	↓	440 bps
Operating Margin Excluding Net Restructuring Impact	11.0%	11.7%	↓	70 bps

Sales Growth:	Organic	(10)%
	Acquisition	0%
	Forex	(8)%
	Total	<u>(18)%</u>

- Bookings declined 13% in Q3, with OEM orders down 14% and distributor orders down 13%
- Net restructuring \$(22)M, (370) bps margin impact
  - \$(25)M cost
  - \$3M savings

# Aerospace Segment

(M)	<u>3Q '15</u>	<u>3Q '14</u>	<u>V '14</u>
Sales	\$449	\$454	↓ 1%
Segment Operating Profit	79	72	↑ 10%
Operating Margin	17.6%	15.9%	↑ 170 bps
Operating Margin Excluding Net Restructuring Impact	18.7%	15.9%	↑ 280 bps

Sales Growth:	Organic	1%
	Acquisition	0%
	Forex	(2)%
	Total	(1)%

- Q3 bookings down 16%, driven by weaker OEM orders
- Net restructuring \$(5)M, (110) bps margin impact - \$(5)M costs

# Vehicle Segment

(M)	<u>3Q '15</u>	<u>3Q '14</u>	<u>V '14</u>
Sales	\$897	\$1,011	↓ 11%
Segment Operating Profit	136	176	↓ 23%
Operating Margin	15.2%	17.4%	↓ 220 bps
Operating Margin Excluding Net Restructuring Impact	18.2%	17.4%	↑ 80 bps

Sales Growth:	Organic	(3)%
	Acquisition	0%
	Forex	(8)%
	Total	(11)%

- 2015 NAFTA Class 8 truck build forecast at 325K with further weakness in South America and China
- Net restructuring \$(27)M, (300) bps margin impact
  - \$(29)M costs
  - \$2M savings

# For 2015, We Expect Organic Revenue Growth of (1)%

Segment	2015 Organic Revenue Growth
Electrical Products	2%
Electrical Systems & Services	(4)%
Hydraulics	(8)%
Aerospace	3%
Vehicle	(1)%
Total	(1)%

# 2015 Segment Operating Margin Expectations

	October Guidance Including Net Restructuring Impact
Electrical Products	16.6% - 17.0%
Electrical Systems and Services	13.2% - 13.6%
Hydraulics	9.8% - 10.2%
Aerospace	16.4% - 16.8%
Vehicle	17.4% - 17.8%
Eaton Consolidated	15.0% - 15.4%

# 2015 Restructuring Program Update


\$M	2015				2016	
	Q3 Plan	Q3 Actual	Q4 Plan	Q4 Updated	Original Incremental Y-Y	Updated Incremental Y-Y
Restructuring Cost	\$(110)	\$(113)	\$(10)	\$(10)	\$(25)	\$(30)
Savings	\$20	\$15	\$25	\$35	\$80	\$100
Net	\$(90)	\$(98)	\$15	\$25	\$55	\$70

Total restructuring program cost of \$153M (up \$8M)  
with savings of \$150M (up \$25M) in 2016

# With Continuation of Weaker Markets, We Are Expanding Our Restructuring Efforts in 2016

We will expand our restructuring program in 2016 to add \$90M - \$100M of additional cost, yielding \$90M - \$100M of incremental benefits

\$M	FY 15	FY 16	FY 17
Summary of Restructuring Programs			
2015 Program			
Annual Costs	\$(123)	\$(30)	
Cumulative Benefits	\$50	\$150	\$160
2016 Program			
Annual Costs		\$(95)	
Cumulative Benefits		\$40	\$95
<b>Total</b>	<b>\$(73)</b>	<b>\$65</b>	<b>\$255</b>

  
 2015 to 2016      2016 to 2017

Year to year benefit:                      \$138M      \$190M \*

# Operating EPS Guidance

## 4th Quarter

### **\$1.05 - \$1.15 Operating EPS**

- Organic revenue down 3% from Q3
- Tax rate between 5% - 6%
- Guidance incorporates net restructuring benefit of \$123M or \$0.25 versus Q3

## Full Year

### **\$4.20 - \$4.30 Operating EPS**

- Guidance incorporates net restructuring charge of \$(73)M, net impact of \$(0.14)

# 2015 Outlook Summary

		<u>October Guidance</u>
Organic Revenue Growth		(1)%
Forex		(5)%
Segment Margins		15.0% - 15.4%*
Corporate pension, interest, and general corporate expenses		\$(30)M below 2014 levels
Tax Rate		7% - 9%
Operating EPS	Full Year	\$4.20 - \$4.30
	Q4	\$1.05 - \$1.15
Operating Cash Flow		\$2.4B - \$2.8B
Free Cash Flow		\$1.9B - \$2.3B
CAPEX		\$475M

# 2015 Summary

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- Organic growth at (1)%, reflects the slowing of end markets over the course of 2015
- Our 2015 Restructuring program now totals \$123M in cost and \$50M of benefits in 2015
- Operating margins expected to be 15.0% - 15.4% for 2015, including (30) bps of net restructuring impact
- Have repurchased 7.2M shares through Q3 YTD
- Will pay down \$600M in debt in November 2015

# Thoughts on 2016

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- Markets expected to be slightly negative in 2016
- Restructuring YTY benefits
  - 2015: \$138M
  - 2016: \$190M
- Cooper integration savings of \$45M
- Free cash flow up 10%-15%
  - No U.S. qualified pension contribution required
- \$240M debt repayment in January 2016
- Have capacity to deploy over \$1B of capital in 2016 for stock repurchases or acquisitions, with a strong bias towards repurchases

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