



# First Quarter 2016 Earnings Release

## April 29, 2016

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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 contain forward-looking statements concerning, among other matters, performance of our worldwide end markets, second quarter 2016 net income and operating earnings per share, full year 2016 net income and operating earnings per share, segment margins, capital expenditures, cash flow, tax rate, corporate expenses, projected revenue growth, foreign currency exchange impact, capital allocation plans and the costs and benefits associated with planned restructuring actions. 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 \$0.88, above midpoint of guidance by \$0.03
- Sales of \$4.8B, down (8)%
  - Organic revenue down (6)%
  - Forex impact of (2)%
- Segment operating margins of 13.9%
  - Excluding restructuring costs, segment operating margins were 15.1%
- Record Q1 operating cash flow of \$371M
- Share repurchases of \$100M
- Announced 4% dividend increase in February

# Comparison to Q1 Guidance

## Operating EPS Reconciliation vs. Guidance

Midpoint of guidance	\$	0.85
Higher revenue		0.02
Lower restructuring costs		0.01
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Q1 2016 Operating EPS	\$	0.88

# Financial Summary

(M)	<u>1Q '16</u>	<u>1Q '15</u>	<u>V '15</u>
Sales	\$4,813	\$5,223	↓ 8%
Segment Operating Profit as Reported	669	753	↓ 11%
Acquisition Integration Charges	(1)	(10)	
Segment Operating Profit	670	763	↓ 12%
Segment Operating Margin	13.9%	14.6%	↓ 70bps
Restructuring Costs	(59)	(10)	
Segment Operating Margin, excluding restructuring costs	15.1%	14.8%	↑ 30bps
Net Income	404	466	↓ 13%

Sales Growth: Organic	(6)%
Forex	(2)%
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Total	(8)%

Net income per share assuming dilution	\$0.88
Operating earnings per share	\$0.88

# Electrical Products Segment

(M)	<u>1Q '16</u>	<u>1Q '15</u>	<u>V '15</u>
Sales	\$1,680	\$1,691	↓ 1%
Operating Profit as Reported	271	260	↑ 4%
Acquisition Integration Charges	--	(6)	
Segment Operating Profit	271	266	↑ 2%
Operating Margin	16.1%	15.7%	↑ 40bps
Restructuring Costs	(17)	--	
Operating Margin, excluding restructuring costs	17.1%	15.7%	↑ 140bps

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

- Bookings up 2% in Q1 with growth in Americas and EMEA, and small decline in Asia Pacific

# Electrical Systems & Services Segment

(M)	<u>1Q '16</u>	<u>1Q '15</u>	<u>V '15</u>
Sales	\$1,342	\$1,448	↓ 7%
Operating Profit as Reported	159	186	↓ 15%
Acquisition Integration Charges	(1)	(3)	
Segment Operating Profit	160	189	↓ 15%
Operating Margin	11.9%	13.1%	↓ 120bps
Restructuring Costs	(10)	--	
Operating Margin, excluding restructuring costs	12.7%	13.1%	↓ 40 bps

Sales Growth:	Organic	(5)%
	Forex	(2)%
	Total	(7)%

- Q1 bookings down 2% driven by double-digit decline in Asia Pacific region

# Hydraulics Segment

(M)	<u>1Q '16</u>	<u>1Q '15</u>	<u>V '15</u>
Sales	\$551	\$665	↓ 17%
Operating Profit as Reported	41	66	↓ 38%
Acquisition Integration Charges	--	(1)	
Segment Operating Profit	41	67	↓ 39%
Operating Margin	7.4%	10.1%	↓ 270bps
Restructuring Costs	(16)	(8)	
Operating Margin, excluding restructuring costs	10.3%	11.3%	↓ 100 bps

Sales Growth:	Organic	(14)%
	Forex	(3)%
	Total	(17)%

- Bookings declined 10% from Q1 2015
- Global agricultural equipment, global oil and gas industry and the Chinese construction equipment markets remain weak



# Aerospace Segment

(M)	<u>1Q '16</u>	<u>1Q '15</u>	<u>V '15</u>
Sales	\$445	\$464	↓ 4%
Segment Operating Profit	80	77	↑ 4%
Operating Margin	18.0%	16.6%	↑ 140bps
Restructuring Costs	(4)	--	
Operating Margin, excluding restructuring costs	18.9%	16.6%	↑ 230 bps

Sales Growth:	Organic	(3)%
	Forex	(1)%
	Total	(4)%

- Bookings increased 6% in Q1, with aftermarket bookings declining (3)%

# Vehicle Segment

(M)	<u>1Q '16</u>	<u>1Q '15</u>	<u>V '15</u>
Sales	\$795	\$955	↓ 17%
Segment Operating Profit	118	164	↓ 28%
Operating Margin	14.8%	17.2%	↓ 240bps
Restructuring Costs	(12)	(2)	
Operating Margin, excluding restructuring costs	16.4%	17.4%	↓ 100 bps

Sales Growth:	Organic	(13)%
	Forex	(4)%
	Total	(17)%

- NAFTA Class 8 truck production down 19% in Q1
- 2016 NAFTA Class 8 truck build forecast now 230K

# For 2016, We Expect Organic Revenues Will Decline (2) - (4)%

<u>Segment</u>	<u>2016 Organic Revenue Growth</u>	<u>Change From Prior Guidance</u>
Electrical Products	1% - 3%	+1%
Electrical S & S	(2)% - (4)%	--
Hydraulics	(9)% - (11)%	--
Aerospace	1% - 3%	--
Vehicle	(10)% - (12)%	(3)%
Total	(2)% - (4)%	--

# Update on Restructuring Actions

	2016				
\$M	Q1 Actual	Q1 Plan	Q2 Plan	2 <sup>nd</sup> Half	Total
Restructuring Costs	\$(63)	\$(70)	\$(35)	\$(42)	\$(140)

For FY 2016, total restructuring costs of \$140M and incremental annual benefits of \$185M remain unchanged

# Segment Operating Margin Expectations

	2016 Guidance*
Electrical Products	17.4% - 18.0%
Electrical Systems and Services	13.1% - 13.7%
Hydraulics	10.0% - 10.6%
Aerospace	17.8% - 18.4%
Vehicle	16.2% - 16.8%
Eaton Consolidated	15.3% - 15.9%

\* includes net impact of restructuring actions in 2016

# EPS Guidance

## 2nd Quarter

### **\$1.00 - \$1.10 Operating EPS / Net Income Per Share**

- Organic revenue sequentially up 5% from Q1 2016
- Segment operating margins between 15% and 16%, including restructuring costs
- Tax rate of between 10-12%

## Full Year

### **\$4.15 - \$4.45 Operating EPS / Net Income Per Share**

- Guidance includes net restructuring impact of \$174M and \$45M benefits from Cooper integration versus 2015
- Operating EPS flat year-to-year with revenues down \$800M
- Segment operating margins up 40bps
- Stock repurchases will offset impact of tax rate increase over 2015 rate

# 2016 Outlook Summary

Organic Revenue Growth		(2)% - (4)%
Acquisition Revenue Growth		\$35M
Forex		(1)%
Segment Operating Margins		15.3% - 15.9%
Corporate expenses		\$80M below 2015 levels
Tax Rate		9% - 11%
Operating EPS / Net Income Per Share	Full Year	\$4.15 - \$4.45
	Q2	\$1.00 - \$1.10
Operating Cash Flow		\$2.6B - \$2.8B
Free Cash Flow		\$2.1B - \$2.3B
CAPEX		\$525M

# Summary

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- Solid Q1 performance
  - Q1 operating EPS and revenue exceeded expectations
  - Record Q1 operating cash flow
  - Returned significant cash to shareholders through increased dividend and \$100M of repurchases
- In total, 2016 unfolding as expected
  - Modestly weaker NAFTA HD Truck forecast
  - Offset by lower than expected Forex impact
- Restructuring program remains on track
  - Q1 costs lower than expected, full year costs remain unchanged
  - Full year incremental benefits remain unchanged at \$185M
- Capital allocation plan unchanged with ~\$700M of share repurchases expected in 2016



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# APPENDIX

# Restructuring Program Summary\*

2015 Actuals		2016 Estimate		2017 Estimate		Total	
Cost	Annual Benefits	Cost	Incremental Annual Benefits	Cost	Incremental Annual Benefits	Estimated Cost	Estimated Cumulative Benefits
\$(129)	\$78	\$(140)	\$185	\$(130)	\$105	\$(399)	\$418**

- Total program will spend approximately \$400M over three years, yielding \$418M of cumulative benefits
- In 2016 restructuring actions will deliver \$174M incremental profit versus 2015
- In 2017 the program will yield \$115M incremental profit versus 2016

\* Unchanged from prior estimates

\*\* Full year effect of 2017 actions yield additional \$50M of benefit in 2018