



# Second Quarter 2017 Earnings Release

## August 1, 2017

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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, third quarter 2017 net income and operating earnings per share, full year 2017 net income and operating earnings per share, segment margins, capital expenditures, cash flow, tax rate, corporate expenses, projected revenue growth, foreign currency exchange impact, proposed share repurchases 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 Q2 Results

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- Net income and operating earnings per share of \$1.15, up 7% over second quarter of 2016
- Sales of \$5.1B
  - Organic revenue up 2%
  - Forex impact of (1)%
- Segment operating margins of 15.6%
  - 16.2% excluding \$27M of restructuring costs
- Q2 operating cash flow of \$574M
- Repurchased \$210M in shares in Q2
  - For 1H, repurchased \$465M

# Comparison to Q2 Guidance

|                                |               |
|--------------------------------|---------------|
| Q2 2017 Operating EPS Guidance | \$ 1.10       |
| Higher segment margins         | 0.03          |
| Higher organic revenues        | 0.01          |
| Less negative forex            | 0.01          |
| Lower restructuring costs      | 0.01          |
| Higher tax rate                | <u>(0.01)</u> |
| Q2 2017 Actual Operating EPS   | \$ 1.15       |

# Financial Summary

| (M)   | <u>2Q '17</u> | <u>2Q '16</u> | <u>V '16</u> |
|---|---------------|---------------|--------------|
| Sales   | \$5,132       | \$5,080       | ↑ 1%         |
| Segment Operating Profit as Reported                    | 802           | 779           | ↑ 3%         |
| Acquisition Integration Charges                         | (1)           | (1)           |              |
| Segment Operating Profit                                | 803           | 780           | ↑ 3%         |
| Segment Operating Margin                                | 15.6%         | 15.4%         | ↑ 20 bps     |
| Restructuring Costs                                     | (27)          | (35)          |              |
| Segment Operating Margin, excluding restructuring costs | 16.2%         | 16.0%         | ↑ 20 bps     |
| Net Income  | 515           | 491           | ↑ 5%         |

|                       |      |
|-----------------------|------|
| Sales Growth: Organic | 2%   |
| Forex                 | (1)% |
| Total                 | 1%   |

|  |        |
|--|--------|
| Net income per share assuming dilution | \$1.15 |
| Operating earnings per share           | \$1.15 |

# Electrical Products Segment

| (M)   | <u>2Q '17</u> | <u>2Q '16</u> | <u>V '16</u> |
|---|---------------|---------------|--------------|
| Sales   | \$1,802       | \$1,784       | ↑ 1%         |
| Operating Profit as Reported                    | 314           | 322           | ↓ 2%         |
| Acquisition Integration Charges                 | (1)           | (1)           |              |
| Segment Operating Profit                        | 315           | 323           | ↓ 2%         |
| Operating Margin                                | 17.5%         | 18.1%         | ↓ 60 bps     |
| Restructuring Costs                             | (11)          | (9)           |              |
| Operating Margin, excluding restructuring costs | 18.1%         | 18.6%         | ↓ 50 bps     |

|               |         |      |
|---------------|---------|------|
| Sales Growth: | Organic | 2%   |
|               | Forex   | (1)% |
|               | Total   | 1%   |

- Orders up 3%
  - Strength in Americas and APAC, with EMEA flat
  - Particular strength in industrial controls

# Electrical Systems & Services Segment

| (M)   | <u>2Q '17</u> | <u>2Q '16</u> | <u>V '16</u> |
|---|---------------|---------------|--------------|
| Sales   | \$1,414       | \$1,429       | ↓ 1%         |
| Segment Operating Profit                        | 194           | 178           | ↑ 9%         |
| Operating Margin                                | 13.7%         | 12.5%         | ↑ 120 bps    |
| Restructuring Costs                             | (5)           | (3)           |              |
| Operating Margin, excluding restructuring costs | 14.1%         | 12.7%         | ↑ 140 bps    |

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

- Orders down 2% on declines in EMEA and APAC
  - EMEA orders down due to reduced large project activity in Middle East
  - APAC orders impacted by unusually large utility order in Q2 2016

# Hydraulics Segment

| (M)   | <u>2Q '17</u> | <u>2Q '16</u> | <u>V '16</u> |
|---|---------------|---------------|--------------|
| Sales   | \$633         | \$589         | ↑ 7%         |
| Segment Operating Profit                        | 74            | 59            | ↑ 25%        |
| Operating Margin                                | 11.7%         | 10.0%         | ↑ 170 bps    |
| Restructuring Costs                             | (8)           | (18)          |              |
| Operating Margin, excluding restructuring costs | 13.0%         | 13.1%         | ↓ 10 bps     |

|               |         |      |
|---------------|---------|------|
| Sales Growth: | Organic | 9%   |
|               | Forex   | (2)% |
|               | Total   | 7%   |

- Orders up 32% with solid growth across all regions
- Continued order strength from both OEMs and distributors



# Aerospace Segment

| (M)   | <u>2Q '17</u> | <u>2Q '16</u> | <u>V '16</u> |
|---|---------------|---------------|--------------|
| Sales   | \$437         | \$447         | ↓ 2%         |
| Segment Operating Profit                        | 81            | 83            | ↓ 2%         |
| Operating Margin                                | 18.5%         | 18.6%         | ↓ 10 bps     |
| Restructuring Costs                             | ---           | ---           |              |
| Operating Margin, excluding restructuring costs | 18.5%         | 18.6%         | ↓ 10 bps     |

|               |         |      |
|---------------|---------|------|
| Sales Growth: | Organic | 0%   |
|               | Forex   | (2)% |
|               | Total   | (2)% |

- Orders up 12%
- Broad order strength across major end markets, with the exception of military rotorcraft

# Vehicle Segment

| (M)   | <u>2Q '17</u> | <u>2Q '16</u> | <u>V '16</u> |
|---|---------------|---------------|--------------|
| Sales   | \$846         | \$831         | ↑ 2%         |
| Segment Operating Profit                        | 139           | 137           | ↑ 1%         |
| Operating Margin                                | 16.4%         | 16.5%         | ↓ 10 bps     |
| Restructuring Costs                             | (3)           | (5)           |              |
| Operating Margin, excluding restructuring costs | 16.8%         | 17.1%         | ↓ 30 bps     |

|               |         |    |
|---------------|---------|----|
| Sales Growth: | Organic | 1% |
|               | Forex   | 1% |
|               | Total   | 2% |

- Margin improvement over Q1 2017 driven by incremental sales and benefits from restructuring programs
- NAFTA Class 8 truck build forecast for 2017 raised to 235K
- Global light vehicle forecast reduced modestly
- Closed Eaton/Cummins Automated Transmission Technologies joint venture on July 31<sup>st</sup>

# For 2017, We Continue to Expect Organic Revenue Growth of 1% – 3%

| <u>Segment</u>      | <u>Prior Guidance</u> | <u>Current 2017 Organic Growth</u> | <u>Change From Prior Guidance at Midpoint</u> |
|---------------------|-----------------------|------------------------------------|---|
| Electrical Products | 2% - 4%               | 2% - 4%                            | No change                                     |
| Electrical S & S    | (2)% - 0%             | (2)% - 0%                          | No change                                     |
| Hydraulics          | 6% - 8%               | 10% - 12%                          | ↑ 4%  |
| Aerospace           | 1% - 3%               | (1)% - 1%                          | ↓ 2%  |
| Vehicle             | 0% - 2%               | 0% - 2%                            | No change                                     |
| Total               | 1% - 3%               | 1% - 3%                            | No change                                     |

# Update on Restructuring Actions

|                     | 2017      |           |         |       |
|---------------------|-----------|-----------|---------|-------|
| \$M                 | Q1 Actual | Q2 Actual | 2H Plan | Total |
| Restructuring Costs | \$20      | \$33      | \$47    | \$100 |

For FY 2017, total restructuring costs of \$100M and incremental annual benefits of \$155M remain unchanged

# Segment Operating Margin Expectations

|                                 | Prior 2017 Guidance* | Updated 2017 Guidance* |
|---------------------------------|----------------------|------------------------|
| Electrical Products             | 18.3% - 18.9%        | 18.0% - 18.6%          |
| Electrical Systems and Services | 13.2% - 13.8%        | No Change              |
| Hydraulics                      | 11.3% - 11.9%        | 11.5% - 12.1%          |
| Aerospace                       | 19.1% - 19.7%        | 18.7% - 19.3%          |
| Vehicle                         | 14.8% - 15.4%        | No Change              |
| Eaton Consolidated              | 15.5% - 16.1%        | No Change              |

# 2017 Guidance

## 2017 Full Year Outlook<sup>1</sup>

### \$4.50 - \$4.70 Operating EPS / Net Income Per Share

|   |   |
|---|---|
| Organic Revenue Growth                                  | 1% - 3%   |
| Forex   | Flat  |
| Segment Operating Margins                               | 15.5% - 16.1%   |
| Corporate Expenses (interest, pension, other corporate) | Up \$25M over 2016, excluding impact of insurance income in Q4 2016 |
| Tax Rate  | 9.5% - 10.5%  |
| Operating Cash Flow                                     | \$2.6B - \$2.8B   |
| Free Cash Flow  | \$2.1B - \$2.3B   |
| Capex   | \$525M  |
| Share Repurchases                                       | ~\$750M   |

## 3<sup>rd</sup> Quarter Outlook<sup>1</sup>

### \$1.20 - \$1.30 Operating EPS / Net Income Per Share

- Organic revenues expected to increase 2.5% - 3.5% versus Q3 2016
- Forex expected to be flat
- Segment margins between 16.2% and 16.6%
- Tax rate between 9% and 10%

1. Does not include any impact related to the joint venture with Cummins completed on July 31<sup>st</sup>

# Summary

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- Most of Eaton's end markets are now growing
  - 2% organic growth in both Q1 and Q2
  - Expect very modest sequential quarterly revenue growth in Q3 and sequential seasonal decline in Q4
- Restructuring program remains on track to deliver \$155M of incremental benefits in 2017
- Commodity costs subsiding from first half levels, but at a bit slower rate than we had expected
- Maintained midpoint and narrowed the range for full year operating and net income EPS guidance, now at \$4.50 to \$4.70
- Repurchased \$465M in shares in 1H 2017
  - Remain on track for ~\$750M in total repurchases in 2017
- Closed the joint venture with Cummins for automated transmissions on July 31<sup>st</sup>

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