



Fourth Quarter 2017 Earnings Release

February 1, 2018

Craig Arnold



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, first quarter 2018 net income and adjusted earnings per share, organic revenue growth, segment margins and tax rate, full year 2018 net income and adjusted earnings per share, margins, capital expenditures, cash flow, tax rate, corporate expenses, organic revenue growth and foreign currency exchange impact. 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.

Highlights of Q4 Results

- \$1.43 net income and adjusted earnings per share
- Excluding income of \$62M from Tax Cuts and Jobs Act in Q4, net income and adjusted earnings per share of \$1.29, \$0.05 above midpoint of guidance
- Sales of \$5.2B
 - Organic revenues up 5% and forex impact of positive 2%
 - Bookings strong across all segments
- 16.5% segment operating margins, a quarterly record
 - 17.1% excluding restructuring costs
- Restructuring expense of \$41M in Q4
- Q4 operating cash flow of \$879M
- Share repurchases of \$61M or 782K shares in Q4

Financial Summary

(M)	<u>4Q '17</u>	<u>4Q '16</u>	<u>V '16</u>
Sales	\$5,213	\$4,867	↑ 7%
Segment Operating Profit as Reported	857	711	↑ 21%
Acquisition Integration Charges	(1)	(1)	
Segment Operating Profit	858	712	↑ 21%
Segment Operating Margin	16.5%	14.6%	↑ 190 bps
Restructuring Costs	(36)	(83)	
Segment Operating Margin, excluding restructuring costs	17.1%	16.3%	↑ 80 bps
Net Income	634	504	↑ 26%

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

Reconciliation of net income to adjusted earnings

Net income and adjusted earnings per share assuming dilution	\$ 1.43
Adjusted earnings per share (excluding income from U.S. tax reform)	\$ 1.29

Electrical Products Segment

(M)	<u>4Q '17</u>	<u>4Q '16</u>	<u>V '16</u>	
Sales	\$1,822	\$1,726	↑	6%
Operating Profit as Reported	330	316	↑	4%
Acquisition Integration Charges	(1)	(1)		
Segment Operating Profit	331	317	↑	4%
Operating Margin	18.2%	18.4%	↓	20 bps
Restructuring Costs	(15)	(17)		
Operating Margin Excluding Restructuring Costs	19.0%	19.4%	↓	40 bps

Sales Growth:	Organic	3%
	Forex	3%
	Total	6%

- Bookings up 5% on strength in Americas and EMEA
 - In Americas strength in industrial and large commercial markets, residential products and Canada
 - In EMEA strength in power quality and industrial and large commercial markets

Electrical Systems & Services Segment

(M)	<u>4Q '17</u>	<u>4Q '16</u>	<u>V '16</u>
Sales	\$1,498	\$1,455	↑ 3%
Segment Operating Profit	225	177	↑ 27%
Operating Margin	15.0%	12.2%	↑ 280 bps
Restructuring Costs	(9)	(29)	
Operating Margin Excluding Restructuring Costs	15.6%	14.2%	↑ 140 bps

Sales Growth:	Organic	2%
	Divestiture	(1)%
	Forex	2%
	Total	3%

- Bookings up 12%
 - Strength in Americas
 - Strength in power distribution assemblies, harsh and hazardous systems, and services

Hydraulics Segment

(M)	<u>4Q '17</u>	<u>4Q '16</u>	<u>V '16</u>
Sales	\$614	\$520	↑ 18%
Segment Operating Profit	74	37	↑ 100%
Operating Margin	12.1%	7.1%	↑ 500 bps
Restructuring Costs	(6)	(23)	
Operating Margin Excluding Restructuring Costs	13.0%	11.5%	↑ 150 bps

Sales Growth:	Organic	17%
	Forex	1%
	Total	18%

- Bookings up 25% in Q4
 - Strength at OEMs and distributors
 - Strength across all geographies

Aerospace Segment

(M)	<u>4Q '17</u>	<u>4Q '16</u>	<u>V '16</u>
Sales	\$441	\$425	↑ 4%
Segment Operating Profit	88	84	↑ 5%
Operating Margin	20.0%	19.8%	↑ 20 bps
Restructuring Costs	(1)	(1)	
Operating Margin Excluding Restructuring Costs	20.2%	20.0%	↑ 20 bps

Sales Growth:	Organic	2%
	Forex	2%
	Total	4%

- Bookings up 9% on strength in almost all end markets
 - Aftermarket bookings up 9%
 - Strong order growth in military OEM

Vehicle Segment

(M)	<u>4Q '17</u>	<u>4Q '16</u>	<u>V '16</u>
Sales	\$838	\$741	↑ 13%
Segment Operating Profit	140	97	↑ 44%
Operating Margin	16.7%	13.1%	↑ 360 bps
Restructuring Costs	(5)	(13)	
Operating Margin Excluding Restructuring Costs	17.3%	14.8%	↑ 250 bps

Sales Growth:	Organic	12%
	Divestiture	(2)%
	Forex	3%
	Total	13%

- NAFTA Class 8 truck production up 37% in Q4
- Global light vehicle markets flat

Highlights of Full Year 2017 Results

- Markets returned to growth with acceleration in 2H17. Organic revenues were up 3% over 2016.
- Successful completion of our multi-year restructuring program, driving margin improvements
- Net income and adjusted earnings per share of \$6.68
- Adjusted EPS of \$4.65, excluding \$1.89 gain from formation of JV with Cummins and \$0.14 income from Q4 U.S. tax reform
 - \$0.20 above original midpoint of guidance
 - 10% above 2016
- Operating cash flow was a record \$2.7B, including \$350M pension contribution in the year
- U.S. qualified pension plans 95% funded at year end 2017
- Returned over \$1.9B to shareholders in 2017
 - \$1.07B in dividends
 - Repurchased \$850M or 2.5% of outstanding shares in year three of four-year, \$3B repurchase program

Organic revenue and margin outlook for 2018

Segment	2018 Organic Revenue Growth	2018 Margin Guidance*
Electrical Products	~ 3%	18.7% - 19.3%
Electrical Systems & Services	~ 4%	13.8% - 14.4%
Hydraulics	~ 10%	14.2% - 14.8%
Aerospace	~ 3%	19.0% - 19.6%
Vehicle	~ 1%	15.8% - 16.4%
Eaton Consolidated	~ 4%	16.3% - 16.9%

2018 Guidance

2018 Full Year Outlook	
\$5.00 - \$5.20 Adjusted EPS / Net Income Per Share	10% growth at midpoint*
Organic Revenue Growth	4%
Revenue Impact from JVs	\$(150)M
Forex	\$150M
Segment Operating Margins	16.3% - 16.9%
Corporate Expenses (incl. interest, pension, other corporate)	Flat with 2017 levels
Tax Rate	13% - 15%
Operating Cash Flow	\$2.9B - \$3.1B
Free Cash Flow	\$2.3B - \$2.5B
Capex	\$575M
Share Repurchases	~\$800M
Restructuring Costs	\$90M

1 st Quarter Outlook	
\$1.00 - \$1.10 Adjusted EPS / Net Income Per Share	9% growth at midpoint
Organic Revenue Growth	~4%
Segment Operating Margins	14.5% - 15.1%
Tax Rate	13.5% - 14.5%

* Excluding \$1.89 gain from formation of Cummins joint venture and \$0.14 from U.S. tax reform, both in 2017

EATON

Powering Business Worldwide

Summary of 2017 restructuring costs

2017 Full year restructuring cost by segment

Electrical Products	\$29
Electrical Systems & Services	\$16
Hydraulics	\$32
Aerospace	\$2
Vehicle	\$12
Corporate	\$25
Total	\$116