
# First Quarter 2018 Earnings Release
# May 1, 2018

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Powering Business Worldwide

# 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 2018 earnings per share, expected organic revenue, tax rate and segment operating profit; full year 2018 earnings per share, segment margins, capital expenditures, cash flow, tax rate, corporate expenses, projected revenue growth, foreign currency exchange impact, share repurchases, planned restructuring actions and three year earnings per share growth. 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.

# Our corporate strategy remains solidly focused on three areas

***Strategic Growth Initiatives*** – Develop technology leadership *(safe, reliable, efficient, connected, and intelligent),* convert on our channel and service strength, deliver superior value

***Expand Margins*** – Accelerate our operational excellence, implement multi-year productivity plans, focus on outliers *(fix the tail, grow the head)*

***Disciplined Capital Allocation*** – Invest to win, consistently return cash to shareholders *(dividends, share buybacks*), criteria-based product and business evaluation

# Strategic Accomplishments in Q1

- Launched eMobility segment
- Made progress on our Internet of Things initiatives
- Launched xStorage and Microgrid initiative in Africa
- Increased penetration in hyperscale data center market
- Launched new circuit breaker products
- Additional restructuring actions on track

# Financial Highlights of Q1

- Earnings per share of $1.10, up 15% over Q1 2017
- Sales of $5.3B
  - Organic revenues up 6%
  - Currency exchange contributed 3%
  - Bookings growth across most segments with particular strength in ES&S and Hydraulics
- Q1 operating cash flow of $339M
- Repurchased $300M of shares in quarter, 1% of outstanding shares at beginning of 2018
- Increased dividend by 10% to $0.66 per share

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# Financial Summary

| (M) | **1Q '18** | **1Q '17** | **V '17** |
|---|---|---|---|
| Sales | $5,251 | $4,848 | ↑ 8% |
| Segment Operating Profit | 796 | 699 | ↑ 14% |
| Segment Operating Margin | 15.2% | 14.4% | ↑ 80 bps |
| Net Income | 488 | 434 | ↑ 12% |
| Earnings Per Share | 1.10 | 0.96 | ↑ 15% |

| | | |
|---|---|---|
| Sales Growth: | Organic | 6% |
| | Forex | 3% |
| | Divestitures | (1)% |
| | Total | 8% |

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# Electrical Products Segment

| (M) | 1Q '18 | 1Q '17 | V '17 |
|---|---|---|---|
| Sales | $1,732 | $1,651 | ↑ 5% |
| Operating Profit as Reported | 307 | 286 | ↑ 7% |
| Acquisition Integration Charges | --- | (1) | |
| Segment Operating Profit | 307 | 287 | ↑ 7% |
| Operating Margin | 17.7% | 17.4% | ↑ 30 bps |

| | | |
|---|---|---|
| Sales Growth: | Organic | 1% |
| | Forex | 4% |
| | Total | 5% |

- Organic growth was 6%, excluding lighting
- Orders down (2)% driven by decline in lighting. Excluding lighting, orders up 2% with particular strength in products for industrial applications.

# Electrical Systems & Services Segment

| (M) | 1Q '18 | 1Q '17 | V '17 |
|---|---|---|---|
| Sales | $1,381 | $1,333 | ↑ 4% |
| Segment Operating Profit | 167 | 155 | ↑ 8% |
| Operating Margin | 12.1% | 11.6% | ↑ 50 bps |

| | | |
|---|---|---|
| Sales Growth: | Organic | 2% |
| | Forex | 2% |
| | Divestiture | (1)% |
| | Total | 4% |

- Orders up 8% in quarter on strength of large industrial projects and services
- Expect organic growth to accelerate in second quarter 2018

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# Hydraulics Segment

| (M) | 1Q ’18 | 1Q ’17 | V ’17 |
|---|---|---|---|
| Sales | $710 | $587 | ↑ 21% |
| Segment Operating Profit | 90 | 60 | ↑ 50% |
| Operating Margin | 12.7% | 10.2% | ↑ 250 bps |

| | | |
|---|---|---|
| Sales Growth: | Organic | 16% |
| | Forex | 5% |
| | Total | 21% |

- Strength in all regions, especially APAC and EMEA
- Orders up 14% with strength at OEMs, and growth in all geographic regions

# Aerospace Segment

| (M) | **1Q ’18** | **1Q ’17** | **V ’17** |
|---|---|---|---|
| Sales | $458 | $428 | ↑ 7% |
| Segment Operating Profit | 89 | 79 | ↑ 13% |
| Operating Margin | 19.4% | 18.5% | ↑ 90 bps |

| | | |
|---|---|---|
| Sales Growth: | Organic | 6% |
| | Forex | 1% |
| | Total | 7% |

- Military sales up 13%
- Orders up 1% with strength in aftermarket and rotorcraft, partially offset by weakness in transports

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# Vehicle Segment

| (M) | 1Q '18 | 1Q '17 | V '17 |
|---|---|---|---|
| Sales | $893 | $786 | ↑ 14% |
| Segment Operating Profit | 132 | 108 | ↑ 22% |
| Operating Margin | 14.8% | 13.7% | ↑ 110 bps |

| Sales Growth: | | |
|---|---|---|
| | Organic | 13% |
| | Forex | 3% |
| | Divestiture | (2)% |
| | Total | 14% |

- 2018 NAFTA Class 8 production forecast now 295K units
- Strength in Brazilian markets

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# eMobility Segment

| (M) | 1Q ’18 | 1Q ’17 | V ’17 |
|---|---|---|---|
| Sales | $77 | $63 | ↑ 22% |
| Segment Operating Profit | 11 | 11 | --- |
| Operating Margin | 14.3% | 17.5% | ↓ 320 bps |

| | | |
|---|---|---|
| Sales Growth: | Organic | 19% |
| | Forex | 3% |
| | Total | 22% |

- Strength in European electric vehicle and North American truck
- Margin decline driven by additional R&D investments

# Our new eMobility segment is at the intersection of secular trends and our unique capabilities

**Vehicle**

- ✓ Vehicle dynamics
- ✓ System integration
- ✓ Safety standards
- ✓ OEM relationships

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**Electrical**

- ✓ Circuit protection
- ✓ Power electronics
- ✓ R&D resources
- ✓ Current scale

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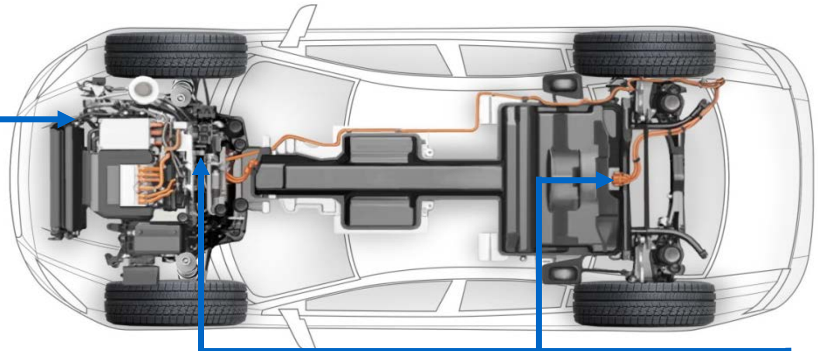
EATON **eMobility**

We are combining the Industry expertise of Vehicle with products, technology and capabilities from Electrical to form new eMobility segment

# eMobility segment is focused on two technologies within electrical vehicles



| Power electronics & conversion | Power distribution & circuit protection |
| --- | --- |
| $25B market (2030) | $8B market (2030) |

## Power electronics & conversion

$25B market (2030)

### Efficiently inverts and converts power and controls energy flow

**Customer needs:**

- Converting power from the grid, to battery, to vehicle
- Managing high-quality power to traction and auxiliary motors
- Packaging high-power density components

**Eaton competencies:**

- Recognized as a global leader in power conversion
- Deep expertise in industrial power electronics
- Strong innovation pipeline in intelligent power management

## Power distribution & circuit protection

$8B market (2030)

### Intelligently distributes power to multiple sources and provides circuit protection

**Customer needs:**

- Protection of expensive electronics and energy storage
- Efficient distribution of electric power
- Preventive health monitoring

**Eaton competencies:**

- Deep expertise in compact circuit protection devices
- Wide range of power distribution and protection solutions
- Intelligent and predictive health monitoring technology

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# Our eMobility segment is positioned well to win in a new and fast growing $33 billion market

| eMobility Segment Financials | 2017 | 2018 Est. |
|---|---|---|
| Revenue | $283M | ~$320M |
| % ROS | 17.7% | 12% - 13% |

| eMobility Segment Profile | |
|---|---|
| • Combining businesses across enterprise | • Leveraging centers of excellence |
| • ~1,250 people | • Expecting $2B to $4B in revenue by 2030 |
| • Plan to invest $500M over 5 years with $30M of R&D in 2018 | • Currently working on a number of new electric vehicle programs with OEMs |

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# For 2018, We Now Expect Organic Revenue Growth of ~5%

| Segment | Prior Guidance | Current 2018 Organic Growth | Change From Prior Guidance |
|---|---|---|---|
| Electrical Products | ~3% | ~3% | --- |
| Electrical S & S | ~4% | ~4% | --- |
| Hydraulics | ~10% | ~13% | ↑ 3% |
| Aerospace | ~3% | ~3% | --- |
| Vehicle | ~1% | ~4% | ↑ 3% |
| eMobility | | ~12% | --- |
| Total | ~4% | ~5% | ↑ 1% |

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# Segment Operating Margin Expectations

| | Original 2018 Guidance | Update to 2018 Guidance |
|---|---|---|
| Electrical Products | 18.7% - 19.3% | --- |
| Electrical Systems and Services | 13.8% - 14.4% | --- |
| Hydraulics | 14.2% - 14.8% | --- |
| Aerospace | 19.0% - 19.6% | --- |
| Vehicle | 15.8% - 16.4% | 16.5% - 17.1% |
| eMobility | --- | 12.0% - 13.0% |
| Eaton Consolidated | 16.3% - 16.9% | 16.4% - 17.0% |

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# 2018 Guidance

| 2nd Quarter Outlook | |
|---|---|
| $1.25 - $1.35 Earnings Per Share | |
| Organic Revenue Growth | ~5% |
| Segment Operating Margins | 16.2% - 16.8% |
| Tax Rate | 11.5% - 12.5% |

| 2018 Full Year Outlook | |
|---|---|
| $5.10 - $5.30 Earnings Per Share | |
| Organic Revenue Growth | ~5% |
| Forex | ~$250M |
| Divestitures | $(150)M |
| Segment Operating Margins | 16.4% - 17.0% |
| Corporate Expenses (interest, pension, other corporate) | Increased $10M above 2017 levels |
| Tax Rate | 12.5% - 14.5% |
| Operating Cash Flow | $2.9B - $3.1B |
| Free Cash Flow | $2.3B - $2.5B |
| Capex | $575M |
| Share Repurchases | $800M |
| Restructuring Costs | $90M |

# Summary

- After a period of weakness, Eaton's major end markets have returned to growth
- We have a number of attractive growth initiatives that will allow us to grow faster than our markets
- Margins have significantly improved post our 2015-2017 restructuring program
- We continue to restructure and improve our businesses, further boosting future margins
- Our balance sheet is in good shape with net debt to capital below 30%
  - In 2017, we paid down debt and refinanced $1B at a weighted average rate of 3.35%
  - U.S. qualified pension fund now 95% funded
- Cash flow continues to be very strong
  - FCF/net income for 2018 expected above 100%
  - Expect to generate over $8B in free cash flow over next three years
- We will deploy this cash in shareholder friendly ways
  - Will continue to grow dividends with earnings growth, dividend yield now 3.5%
  - Targeting acquisitions with returns > 11-12%
  - Repurchasing 1-2% of outstanding shares on an ongoing basis
- We are on track to deliver 11%-12% EPS growth over the next three years*



* Excludes 2017 gain on Eaton Cummins joint venture and the income related to the new U.S. tax bill.

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