



# Fourth Quarter 2014 Earnings Release February 3, 2015

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# Forward-looking Statements and Non-GAAP Financial Information

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This presentation or the comments we make on our call today contain forward-looking statements concerning, among other matters, the first quarter 2015 operating earnings per share, full year 2015 operating earnings per share, segment margins, capital expenditures, cash flow and tax rate, acquisition synergies, the repayment of acquisition debt, 2015 projected revenue growth, foreign currency exchange rates and the impact in 2015 from foreign exchange on revenues and earnings. 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 Q4 Results

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- Operating earnings per share of \$1.27, up 18% over Q4 2013
- Sales of \$5.6B, up 1%
- Organic revenue growth of 5%
- Segment margins of 15.9%
- Record operating cash flow of \$944M
- Repurchased \$326M of shares

# Comparison to Q4 Guidance

## Operating EPS Reconciliation vs. Guidance

Midpoint of guidance	\$	1.20
Higher margins		0.04
Lower tax rate		0.02
Lower share count		<u>0.01</u>
Q4 2014 Operating EPS	\$	1.27

# Financial Summary

(M)	<u>4Q '14</u>	<u>4Q '13</u>	<u>V '13</u>
Sales	\$5,565	\$5,527	↑ 1%
Segment Operating Profit	886	806	↑ 10%
Segment Operating Margin	15.9%	14.6%	↑ 130 bps
Acquisition Integration Charges	(26)	(39)	
Segment Operating Profit as Reported	860	767	↑ 12%
Operating Earnings	602	516	↑ 17%
Net Income	581	479	↑ 21%

Sales Growth:	Organic	5%
	Divestitures	(1)%
	Forex	(3)%
	<b>Total</b>	<b>1%</b>

## Reconciliation of net income to operating earnings

Net income per share assuming dilution	\$ 1.23
Per share impact of acquisition integration charges	0.04
Operating earnings per share	\$ 1.27

# Electrical Products Segment

(M)	<u>4Q '14</u>	<u>4Q '13</u>	<u>V '13</u>
Sales	\$1,821	\$1,791	↑ 2%
Operating Profit	321	296	↑ 8%
Margin	17.6%	16.5%	↑ 110 bps
Acquisition Integration Charges	(17)	(20)	
Operating Profit as Reported	304	276	↑ 10%

Sales Growth:	Organic	5%
	Acquisition	0%
	Forex	(3)%
	Total	2%

- Bookings grew 4% in Q4
- Regional strength in the Americas
- Lighting strength – volume up 13% with LED at 50% of total lighting revenue

# Electrical Systems & Services Segment

(M)	<u>4Q '14</u>	<u>4Q '13</u>	<u>V '13</u>
Sales	\$1,650	\$1,646	--
Operating Profit	250	232	↑ 8%
Margin	15.2%	14.1%	↑ 110 bps
Acquisition Integration Charges	(8)	(11)	
Operating Profit as Reported	242	221	↑ 10%

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

- Strong margin performance
- Bookings in Q4 were flat

# Hydraulics Segment

(M)	<u>4Q '14</u>	<u>4Q '13</u>	<u>V '13</u>
Sales	\$673	\$714	↓ 6%
Operating Profit	82	92	↓ 11%
Margin	12.2%	12.9%	↓ 70 bps
Acquisition Integration Charges	(1)	(8)	
Operating Profit as Reported	81	84	↓ 4%

Sales Growth:	Organic	(2)%
	Acquisition	0%
	Forex	(4)%
	Total	(6)%

- Bookings declined 3% in Q4 – distributor orders up 9%, OEM orders down (22)%
- OEM weakness in global agriculture and Chinese construction equipment



# Aerospace Segment

(M)	<u>4Q '14</u>	<u>4Q '13</u>	<u>V '13</u>
Sales	\$456	\$446	↑ 2%
Operating Profit	70	59	↑ 19%
Margin	15.4%	13.2%	↑ 220 bps

Sales Growth:	Organic	9%
	Divestitures	(6)%
	Forex	(1)%
	Total	2%

- Bookings increased 6% in Q4, with good balance between commercial and military applications
- Aftermarket bookings continued robust

# Vehicle Segment

(M)	<u>4Q '14</u>	<u>4Q '13</u>	<u>V '13</u>
Sales	\$965	\$930	↑ 4%
Operating Profit	163	127	↑ 28%
Margin	16.9%	13.7%	↑ 320 bps

Sales Growth:	Organic	8%
	Acquisition	0%
	Forex	(4)%
	Total	4%

- 2015 NAFTA Class 8 truck build forecast at 330K units
- Continued weakness in South American markets

# Highlights of Full Year 2014 Results

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- Organic revenue growth of 4%
- Forex impact on revenue of \$(252)M
- Operating EPS, excluding legal settlements and divestiture gain, at \$4.67, up 13% over 2013
- Segment margins of 15.3%, up 40 bps over 2013
- Operating cash flow, excluding legal settlements, a record \$2.53B
- Cooper integration remains on track
- Repurchased 9.6M shares at cost of \$650M

# For 2015, We Expect Organic Revenue Growth of 3 - 4%

<u>Segment</u>	<u>2015 Organic Revenue Growth</u>
Electrical	3% - 5%
Hydraulics	(2)% - 0
Aerospace	2% - 4%
Vehicle	5% - 7%
Total	3% - 4%

# Segment Margin Expectations

	Full Year 2014 Actual	2015 Guidance
Electrical Products	17.2%	17.7% - 18.3%
Electrical Systems and Services	13.8%	14.5% - 15.1%
Hydraulics	12.7%	12.1% - 12.7%
Aerospace	14.7%	15.1% - 15.7%
Vehicle	16.1%	17.0% - 17.6%
Eaton Consolidated	15.3%	15.9% - 16.5%

# 2015 Outlook Summary

Organic Revenue Growth		3% - 4%
Forex		(4)%
Segment Margins		15.9% - 16.5%
Corporate pension, interest, and general corporate expenses		\$30M - \$40M above 2014 levels
Tax Rate		9% - 11%
Operating EPS	Full Year	\$4.75 - \$5.05
	Q1	\$0.95 - \$1.05
Operating Cash Flow		\$2.7B - \$3.1B
Free Cash Flow		\$2.0B - \$2.4B
CAPEX		\$675M

# Summary

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- 2014
  - Strong Q4 performance – 5% organic growth, record Q4 segment margins and all time record quarterly cash flow
  - Full year operating earnings, excluding special items, up 13%
- 2015
  - Organic growth of 3%-4%, offset by negative Forex of (4)%
  - Operating earnings growth of 5% at midpoint of guidance
  - 13% operating earnings growth before \$(0.20) impact from Forex and \$(0.17) impact from higher tax rate. Impact of Forex and tax rate in Q1 of \$(0.09).

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