



Fourth Quarter 2013 Earnings Release February 4, 2014

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Forward-looking statements and non-GAAP financial information

This presentation or the comments we make on our call today may contain forward-looking statements concerning the first quarter 2014 operating earnings per share, full year 2014 operating earnings per share and net income per share, segment margins, cash flow and tax rate, acquisition synergies, the repayment of acquisition debt and the performance of our worldwide markets. 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; increases 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 or tax rate changes; stock market and currency fluctuations; 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

- Operating earnings of \$516M, up 63%
- Operating earnings per share of \$1.08, up 32%
- Sales of \$5,527M, up 28%
- Core revenue growth of 4%
- Segment margins of 14.6%
- Record operating cash flow of \$872M, up 27%
- Cooper integration activities and savings remain ahead of our original schedule

Comparison to Q4 Guidance

Operating EPS Reconciliation vs. Guidance

Midpoint of guidance	\$ 1.05
Lower margins	(0.07)
Higher corporate expense	(0.04)
Lower tax rate	<u>0.14</u>
Q4 2013 Operating EPS	\$ 1.08

Financial Summary

(M)	<u>4Q '13</u>	<u>4Q '12</u>	<u>V '12</u>
Sales	\$5,527	\$4,333	↑ 28 %
Segment Operating Profit	806	526	↑ 53 %
Segment Operating Margin	14.6%	12.1%	↑ 250 bps
Acquisition Integration Charges	39	15	
Segment Operating Profit as Reported	767	511	↑ 50 %
Operating Earnings	516	316	↑ 63 %
Net Income	479	179	↑ 168 %

Sales Growth:	Core Growth	4%
	Acquisitions	25%
	Forex	(1)%
	Total	28%

Reconciliation of net income to operating earnings

Net income per share assuming dilution	\$1.00
Per share impact of acquisition integration charges	0.08
Operating earnings per share	<u>\$1.08</u>

Electrical Products Segment

(M)	<u>4Q '13</u>	<u>4Q '12</u>	<u>V '12</u>	
Sales	\$1,791	\$1,138	↑	57 %
Operating Profit	296	181	↑	64 %
Margin	16.5%	15.9%	↑	60 bps
Acquisition Integration Charges	(20)	(3)		
Operating Profit as Reported	276	178	↑	55 %

Sales Growth:	Core	4%
	Acquisition	53%
	Forex	0%
	Total	57%

- Bookings up 4%
- Synergy sales exceeded our target

Electrical Systems & Services Segment

(M)	<u>4Q '13</u>	<u>4Q '12</u>	<u>V '12</u>	
Sales	\$1,646	\$1,197	↑	38 %
Operating Profit	232	151	↑	54 %
Margin	14.1%	12.6%	↑	150 bps
Acquisition Integration Charges	(11)	(5)		
Operating Profit as Reported	221	146	↑	51 %

Sales Growth:	Core	1%
	Acquisition	38%
	Forex	(1)%
	Total	38%

- Bookings down 4% on slowdown in U.S. government orders and continued weak utility demand
- Synergy sales exceeded our target

Hydraulics Segment

(M)	<u>4Q '13</u>	<u>4Q '12</u>	<u>V '12</u>	
Sales	\$714	\$693	↑	3 %
Operating Profit	92	51	↑	80 %
Margin	12.9%	7.4%	↑	550 bps
Acquisition Integration Charges	(8)	(7)		
Operating Profit as Reported	84	44	↑	91 %

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

- Bookings up 19% led by mobile markets

Aerospace Segment

(M)	<u>4Q '13</u>	<u>4Q '12</u>	<u>V '12</u>	
Sales	\$446	\$434	↑	3 %
Operating Profit	59	45	↑	31 %
Margin	13.2%	10.4%	↑	280 bps

Sales Growth:	Core	2%
	Acquisition	0%
	Forex	1%
	Total	3%

- 8% bookings growth on strength of commercial markets
- Aftermarket orders up modestly – strong commercial offsetting weak military
- Divestiture likely to close in early Q2

Vehicle Segment

(M)	<u>4Q '13</u>	<u>4Q '12</u>	<u>V '12</u>	
Sales	\$930	\$871	↑	7 %
Operating Profit	127	98	↑	30 %
Margin	13.7%	11.3%	↑	240 bps

Sales Growth:	Core	9%
	Acquisition	0%
	Forex	(2)%
	Total	7%

- 2014 NAFTA Class 8 truck build forecast of 265K units
- Segment margins to recover from Q4 product launch expenses in Q1

Highlights of Full Year 2013 Results

- Record operating earnings of \$2.0B, up 42%
- Record operating earnings per share of \$4.13, up 5%
- Record sales of \$22B, up 35%
- Record segment margins of 14.9%, up 110 bps
- Record operating cash flow of \$2.3B, up 37%
- Realized \$115M in Cooper synergies, exceeding our original forecast by \$40M

2014 End Market Growth Forecast

(Y-O-Y % Growth)

Electrical	3%
Hydraulics	3%
Aerospace	3%
Vehicle	4%
Consolidated Markets	3%

2014 Margin Expectations

	2013 Actual	2014 Guidance
Electrical Products	16.1%	17.5%
Electrical Systems and Services	14.4%	14.75%
Hydraulics	13.1%	13.5%
Aerospace	14.2%	14.0%
Vehicle	15.4%	16.0%
Eaton Consolidated	14.9%	15.75%

2014 EPS Guidance

	<u>Operating Earnings</u>	<u>Net Income</u>
Full Year	\$4.50 - \$4.90	\$4.25 - \$4.65
Midpoint	\$4.70	\$4.45
Q1	\$0.95 - \$1.05	\$0.85 - \$0.95
Midpoint	\$1.00	\$0.90

Does not include the gain from announced Aerospace divestiture

2014 EPS Guidance Bridge Update

2013 Actual Operating EPS **\$ 4.13**

Several Pluses:

• Organic growth at 26% margin	\$	0.56
• Incremental acquisition synergies		0.20
• Lower interest and pension expense		0.20
• Lower PPA and inventory step up		0.07
• Lower corporate expense		0.06
		1.09
	\$	

Several Negatives:

• Higher tax rate	\$	(0.44)
• Forex		(0.04)
• Aerospace divestiture		(0.02)
• Higher number of shares		(0.02)
		(0.52)
	\$	

2014 Operating EPS **\$ 4.70**

We remain on track to deliver our Cooper synergy projections

(\$Millions)	Annual Pre-tax Synergies			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sales synergies	40-15	35	70	115
Cost-out synergies	405-100	175	280	325
Total Operational Synergies	115	210	350	440
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Acquisition integration costs, pre-tax	430-112	420-150	30-35	-

Comparison of Q4 2013 to Q1 2014

Q4 2013 Operating EPS	\$	1.08
Higher volume		0.01
Lower corporate expense		0.08
Higher tax rate		(0.15)
Forex		(0.01)
Higher pension expense		(0.01)
		<hr/>
Q1 2014 Operating EPS	\$	1.00

Comparison of Q1 2014 to Q1 2013

Q1 2013 Operating EPS	\$	0.84
Higher core volume at 26%		0.13
Lower PPA and inventory step up		0.06
Additional acquisition synergies		0.04
Lower interest expense		0.02
Higher pension expense		(0.04)
Higher corporate expense		(0.02)
Forex		(0.02)
Higher shares		(0.01)
		<hr/>
Q1 2014 Operating EPS	\$	1.00

2014 Outlook

Market Growth		3%
Outgrowth		\$330M
Revenues from Divestiture		(\$80)M
Forex		(\$200)M
Incremental Margin		26%
Tax Rate		5%
Operating EPS	Full Year	\$4.50 – \$4.90
	Q1	\$0.95 – \$1.05
Operating Cash Flow		\$2.7B – \$2.9B
Free Cash Flow		\$2.0B – \$2.2B
CAPEX		\$700M



Summary

- Record sales, earnings and cash flow in 2013
- Cooper acquisition purchase price accounting now complete
- Aerospace divestiture likely to close early in Q2
- Cooper acquisition incremental savings on track
 - 2014 = \$95M
 - 2015 = \$140M
- Repayment of acquisition debt projected to be complete by early 2016
- 2014 operating EPS at midpoint of our guidance expected to grow 14%

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