

EATON CORP
Form 425
October 09, 2012

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Eaton Corporation Update
Richard H. Fearon
Vice Chairman and Chief Financial and Planning Officer

October 8, 2012

Filed

by

Eaton

Corporation

pursuant

to

Rule

425

under

the

Securities

Act

of

1933

and

deemed

filed

pursuant

to

Rule

14a-6(b)

under

the

Securities

Exchange

Act

of

1934

Subject

Company:

Cooper

Industries

plc;

Eaton

Corporation

Filer s

SEC

File

No.:

1-1396

Date:

October

8,

2012

2
©
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(1)
Currently
named
Eaton

Corporation
Limited
but
expected
to
be
re-registered
as
Eaton
Corporation
plc
prior
to
the
consummation
of
the
transaction.

NO
OFFER
OR
SOLICITATION

This
communication
is
not
intended
to
and
does
not
constitute
an
offer
to
sell
or
the
solicitation
of
an
offer
to
subscribe
for
or
buy
or
an
invitation

to
purchase
or
subscribe
for
any
securities
or
the
solicitation
of
any
vote
or
approval
in
any
jurisdiction
pursuant
to
the
acquisition
or
otherwise,
nor
shall
there
be
any
sale,
issuance
or
transfer
of
securities
in
any
jurisdiction
in
contravention
of
applicable
law.
No
offer
of
securities
shall
be
made

except
by
means
of
a
prospectus
meeting
the
requirements
of
Section
10
of
the
Securities
Act
of
1933,
as
amended.

IMPORTANT
ADDITIONAL
INFORMATION

WILL

BE

FILED

WITH

THE

SEC

A

registration
statement

on

Form

S-4

has

been

filed

with

the

SEC,

which

includes

the

Joint

Proxy

Statement

of

Eaton

Corporation

(Eaton)
and
Cooper
Industries
plc
(Cooper)
that
also
constitutes
a
Prospectus
of
Eaton
Corporation
plc
(1)

.
The
registration
statement
was
declared
effective
on
September
7,
2012.
Eaton
and
Cooper
have
mailed
to
their
respective
shareholders
(and
to
Cooper
Equity
Award
Holders
for
information
only)
the
definitive
Joint
Proxy
Statement/Prospectus

(including
the
Scheme)
in
connection
with
the
transaction.
Investors
and
shareholders
are
urged
to
read
the
Joint
Proxy
Statement/Prospectus
(including
the
Scheme)
and
other
relevant
documents
filed
or
to
be
filed
with
the
SEC
carefully
because
they
contain
or
will
contain
important
information
about
Eaton,
Cooper,
Eaton
Corporation
plc,
the

transaction
and
related
matters.
Investors
and
security
holders
may
obtain
free
copies
of
the
definitive
Joint
Proxy
Statement/Prospectus
(including
the
Scheme)
and
other
documents
filed
with
the
SEC
by
Eaton
Corporation
plc,
Eaton
and
Cooper
through
the
website
maintained
by
the
SEC
at
www.sec.gov.
In
addition,
investors
and
shareholders
may

obtain
free
copies
of
the
definitive
Joint
Proxy
Statement/Prospectus
(including
the
Scheme)
and
other
documents
filed
by
Eaton
and
Eaton
Corporation
plc
with
the
SEC
by
contacting
Eaton
Investor
Relations
at
Eaton
Corporation,
1111
Superior
Avenue,
Cleveland,
OH
44114
or
by
calling
(888)
328-6647,
and
may
obtain
free
copies
of

the
definitive
Joint
Proxy
Statement/Prospectus
(including
the
Scheme)
and
other
documents
filed
by
Cooper
by
contacting
Cooper
Investor
Relations
at
c/o
Cooper
US,
Inc.,
P.O.
Box
4446,
Houston,
Texas
77210
or
by
calling
(713)
209-8400.
STATEMENT
REQUIRED
BY
THE
IRISH
TAKEOVER
RULES
The
directors
of
Eaton
Corporation
accept
responsibility
for

the
information
contained
in
this
communication.

To
the
best
of
the
knowledge
and
belief
of
the
directors
of
Eaton
Corporation
(who
have
taken
all
reasonable
care
to
ensure
such
is
the
case),

the
information
contained
in
this
communication
is
in
accordance
with
the
facts
and
does
not
omit
anything
likely

to
affect
the
import
of
such
information.
Persons
interested
in
1%
or
more
of
any
relevant
securities
in
Eaton
or
Cooper
may
from
the
date
of
this
communication
have
disclosure
obligations
under
Rule
8.3
of
the
Irish
Takeover
Panel
Act,
1997,
Takeover
Rules
2007
(as
amended).

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Forward Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are made by Eaton, Eaton Global plc, the acquisition and other transactions contemplated by the Transaction Agreement, our acquisition financing, our credit rating and our revenues and operating earnings. These statements or disclosures may discuss goals, intentions and expectations.

trends, plans, events, results of operations or financial condition, or state other information relating to Eaton or Eaton Global p
beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking
will be accompanied by words such as anticipate,

believe,
plan,
could,
estimate,
expect,
forecast,
guidance,
intend,
may,
possible,
potential,
predict,
project

or other similar words, phrases or expressions. These forward-looking statements are subject to various risks and
uncertainties, many of which are outside of our control. Therefore, you should not place undue reliance on such statements. Fa

actual
results
to
differ
materially
from
those
in
the
forward-looking
statements
include
adverse
regulatory
decisions;
failure
to
satisfy
other
closing
conditions with respect to the Acquisition; the risks that the new businesses will not be integrated successfully or that we will r
cost savings and synergies; our ability to refinance the bridge loan on favorable terms and maintain our current long-term credi
changes in the markets for our business segments; unanticipated downturns in business relationships with customers or their pu
competitive
pressures
on
our
sales
and
pricing;
increases
in

the
cost
of
material,
energy
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
charges,
litigation
or
dispute
resolutions;
new
laws
and
governmental
regulations.
The
foregoing
list
of
factors
is
not
exhaustive.
You
should
carefully
consider the foregoing factors and the other risks and uncertainties that affect our business described in our Annual Report on Form
Reports
on
Form
10-Q,
Current
Reports
on
Form
8-K
and
other
documents
filed

from
time
to
time
with
the
SEC.

We
do
not
assume
any
obligation
to
update these forward-looking statements.

No statement in this presentation is intended to constitute a profit forecast for any period, nor should any statements be interpreted as earnings

or
earnings
per
share
will
necessarily
be
greater
or
lesser
than
those
for
the
relevant
preceding
financial
periods
for
Eaton.

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Eaton Corporation
A Premier Diversified Power
Management Company

A balanced power management company

Eaton's acquisition of Cooper Industries

2012 outlook

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Eaton provides energy efficient solutions using
electrical, mechanical, and fluid technologies
Cities &
Buildings

Transportation

Industrial &

Machinery

Information

Technology

Energy &

Utilities

Infrastructure

Our products & services deliver reliability, efficiency, and safety for:
helping to bridge the gap between rapidly rising demand for energy
and naturally constrained sources of supply with sustainable solutions

6

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Hydraulics

Electrical

Aerospace

Truck

Automotive

International Developed

U.S.

International Emerging

Today we have a global footprint across the five
business segments

2011 Sales by Region

2011 Sales by Business

7

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and our businesses are balanced across the
economic cycle

\$2.2B in Revenues

Electrical Service, Defense,

Filtration, Aerospace Aftermarket
\$3.6B in Revenues
Commercial Aerospace,
Nonresidential Construction,
Large Data Centers
\$4.7B in Revenues
Hydraulics, Industrial Controls,
Medium Duty Truck,
Mid-sized Data Centers
\$5.5B in Revenues
Residential Electric,
Single Phase Power Quality,
Heavy Duty Truck, Automotive
2011 Global Sales by Cycle

8

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EBS embodies the values and processes that bind
the company and have enabled our success

Growth

Robust strategic planning
process for growth and
profitability

Outgrowing end markets
through innovation

Identifying higher growth markets

Established acquisition strategy
and processes

Profitability

Operational excellence

Global scale

Efficient functional support

Capital Efficiency

Effective working capital
management

Capital expenditures
targeted to support
growth

Foundation

Doing business right

Employee development

Customer focus

Supplier partnerships
A powerful combination of proven
foundation elements, tools, and processes,
EBS is at the heart of our strategy for being
a premier diversified industrial

9

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Executing our strategy has resulted in an
upward shift in profitability

Innovative new products

Margin accretive acquisitions

Leveraging
the
Eaton
Business
System
Targeted restructuring
Profitability Drivers

10

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Total Shareholder Return: Eaton vs. S&P

and DI Indices (2000

Sept 2012)

Cumulative Shareholder Returns

50

100

150

200

250

300

350

400

450

500

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010

2011

Sep-

12

Eaton

S&P 500

S&P 1500 Mach

DI Group

PDI Group

ODI Group

2000

Sept 2012

CAGR*

Return

Index

12.2%

9.6%

8.3%

2.7%

9.1%

6.6%

Note

DI Group represents an equal weighted index of ABB, DHR, DOV, EMR, GE, HON, IR, ITW, MMM, PH, SI, SPW, TXT, UT

*CAGR = Calculated using the End Point Methodology

Source Data: Capital IQ

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Powerful megatrends will help drive our markets
to grow at a multiple of global GDP

Electrical
Hydraulics

Aerospace
Truck
Automotive
23

By the numbers:

Percentage
decrease
in
electricity
demand
possible
through
the
application
of
energy
efficient
equipment
and
demand
management
services
100

Percentage
increase
in
agricultural
output
by
2050
necessary
in
developing
countries
to
feed
the
global
population
30

Percentage
decrease
in
fuel
consumption
of
next
generation
single-aisle
aircraft

planned
by
2020
20
Percentage
decrease
in
fuel
consumption
by
model
year
2018
resulting
from
the
first
ever
U.S.
emissions
standards
for
heavy-duty
trucks
90

Percentage
increase
in
proposed
Corporate
Average
Fuel
Economy
(CAFE)
standards
by
2025
for
passenger
cars

Source: United Nations, IATA, NHTSA, Eaton analysis

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Eaton Corporation

A Premier Diversified Power

Management Company

A balanced power management company

Eaton's acquisition of Cooper Industries

2012 outlook

13

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Acquisitions have played a large role in growing
our electrical business

Electrical Group

Acquisitions

Year
Acq d
Sales
Market Participation
Regional Strength
Power Control
& Distribution
Power
Quality
Lighting &
Safety
Americas
EMEA
Asia-
Pacific
Cutler Hammer
1978
\$0.6B
Westinghouse DCBU
1994
\$1.0 B
Delta Electrical
2003
\$0.3 B
Powerware
2004
\$0.8 B
MGE Small Systems
2007
\$0.2 B
Moeller
2008
\$1.5 B
Phoenixtec
2008
\$0.5 B
Cooper
2012
\$5.4 B
28
other
Electrical
acquisitions
since
1990

14

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Transaction overview for Eaton's acquisition of
Cooper Industries
Combined
company

Premier power management company with 2011 sales of \$21.5B

Under the leadership of Eaton management

Named Eaton Corporation Plc and will continue to trade on NYSE as ETN

Incorporated in Ireland
Consideration

Cooper shareholders will receive \$39.15 in cash and 0.77479 ETN Plc shares, reflecting a 29% equity premium to the closing price on May 18

Eaton shareholders will receive 1 ETN Plc share
Financing

Fully committed bridge financing in place
Financial
benefits

\$375M operating synergies, with >80% realized by year 3, and \$160M
global
cash
management
and
resultant
tax
benefits
in
the
mature
year
(1)

Significantly accretive to Eaton's earnings
Timing

Expect
closing
2
half
of
2012

Conditional on customary regulatory and shareholder approvals
(1)
The
financial
benefits
statements

have
been
reported
on
in
accordance
with
the
Irish
Takeover
Code.
Please
see
the
offer
announcement
dated
May
21,
2012
for
further
details.
nd

Cooper has a wide range of complementary electrical businesses

Cooper Power Systems

\$1.3 B sales

Market leader in
distribution grid
protection

Crouse-Hinds

\$1.0 B sales

Global
leader
in
electrical
solutions
for
harsh
and
hazardous
environments

Safety

\$600 M sales

Leading European
provider of emergency
lighting and video
security
Electrical Products (\$2.5 B sales)

Lighting

\$1.1 B sales

Strong LED platform
driving growth

Bussmann:

\$650 M sales

Global leader in
circuit protection

B-Line Support structures

\$400 M sales

Global provider of
structural
systems

and
wire
management
solutions

Wiring devices

\$350 M sales

Electrical devices for
commercial
and
residential
power
distribution

Energy and Safety Solutions (\$2.9 B sales)

15

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*
*
*
*
*
*
*

*
*
*
*

17

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Broad portfolio of complementary products

Market segment expansion:

Upstream into power solutions encompassing primary and secondary distribution, grid automation, and smart grid

Downstream into lighting, lighting controls, and wiring devices

Expands our solutions with all channels

Well positioned to address long-term global requirements

Aging grid

Increased spending on energy & infrastructure

Protecting people, equipment and data

The strategic rationale for this acquisition is compelling -

I

18

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Aligns with our customer segment focus in oil & gas, mining,
energy efficiency and alternative energy

Adds breadth to our global geographic exposure

Attractive business in EMEA

Strong oil & gas industry positioning globally

Complementary component and utility business in APAC

Offers improved cash management flexibility for the corporation

The strategic rationale for this acquisition is compelling -

II

Our integrated operating company capabilities
(EBS)
will
drive
significant
synergies
(1)

(\$M)

2013

2014

2015

2016

Pre-tax operating synergies

Sales synergies

10

35

70

115

Cost-out synergies

65

140

240

260

Total operating synergies

75

175

310

375

Global cash management and resultant tax benefits

160

160

160

160

Acquisition integration costs, pre-tax

90

75

35

-

\$260M in cost out synergies with over 90% complete by 2015

\$200M in acquisition integration charges with ~80% incurred through 2014

Integration plans

Synergies

(1)

The financial benefits statements have been reported on in accordance with the Irish Takeover Code. Please see the offer announcement dated May 21, 2012 for further details.

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20
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The
acquisition
is
accretive

to
earnings

(1)

(\$)

2013

2014

2015

2016

Operating EPS Accretion

(1)

(0.10)

0.35

0.45

0.55

Cash Operating EPS Accretion

(1,2)

0.40

0.65

0.75

0.85

Accretion

(1)

EPS accretion numbers do not represent a profit forecast as defined in the Irish Takeover Code

(2)

Cash Operating EPS excludes incremental amortization of intangibles arising from purchase
accounting

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Eaton's acquisition of Cooper Industries

2012 outlook

22

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We project growth of 3% -

4% in our markets in 2012

2012E

Total

2012E

U.S.

Non

U.S.

Electrical Americas Index

8

9

5

Electrical ROW Index

(3)

n/a

(3)

Hydraulics Index

3

8

(1)

Aerospace Index

4

1

8

Truck Index

2

11

(4)

Automotive Index

3

10

1

Eaton Consolidated Index

3.5%

8%

(1)%

23

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leading to another year of record margins

2011

2012E

2015 Target

Electrical Americas

14.6%

16.5%

17%

Electrical ROW

9.4%

9.0%

14%

Hydraulics

15.6%

16.0%

17%

Aerospace

14.8%

15.0%

17%

Truck

18.4%

19.0%

20%

Automotive

12.0%

12.0%

13%

Eaton Consolidated

14.2%

14.5% -

15.0%

16% -

17%

24

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2012 Guidance

January

Guidance

February

Guidance

April

Guidance

July

Guidance

Market Growth of 3.5%

\$800M

\$800M

\$800M

\$560M

Market Outgrowth of 40%

\$320M

\$320M

\$320M

\$225M

Net Acquisition Revenue

\$90M

\$315M

\$365M

\$365M

Sales Decrease from FOREX

\$(550)M

\$(550)M

\$(300)M

\$(500)M

Incremental Margin

28%

28%

28%

29%

Tax Rate

17% -

19%

17% -

19%

16% -

18%

14% -

16%

Operating EPS

\$4.15 -

\$4.55

\$4.20 -

\$4.60

\$4.30 -

\$4.70

\$4.20 -

\$4.50

Fully Diluted EPS

\$4.10 -

\$4.50

\$4.13 -

\$4.53

\$4.23 -

\$4.63

\$4.09 -

\$4.39

Operating Cash Flow

\$1.7B to \$1.8B

\$1.7B to \$1.8B

\$1.7B to \$1.8B

\$1.7B to \$1.8B

Free Cash Flow

\$1.1B to \$1.2B

\$1.1B to \$1.2B

\$1.1B to \$1.2B

\$1.1B to \$1.2B

The operating EPS and Fully Diluted EPS guidance provided in July constitute a profit forecast for the purposes of the Irish Takeover Code and reports on those forecasts as required by the Irish Takeover Code will be mailed to Cooper shareholders with the joint proxy statement / prospectus.

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Our acquisition of Cooper Industries
remains on track

Proxy filed with SEC and shareholder vote

scheduled for October 26, 2012

U.S. HSR approval in early July, Canadian
Competition Bureau, South Korea and Turkey
approval received in September

Revolving finance facilities upsized to \$2B, and
\$600 million of term debt issued

Eaton Corporation
Reconciliation of Non-GAAP Financial Information
2Q
2012
All numbers \$M except per share numbers
Reconciliation of net income to operating earnings
2003

2004
2005
2006
2007
2008
2009
2010
2011
1Q 2012
2Q 2012
Low
High
Net income from continuing operations
356
\$
626
\$
783
\$
897
\$
959
\$
1,055
\$
383
\$
929
\$
1,350
\$
311
\$
382
\$
Net income from discontinued operations
30
22
22
53
35
3
-
-
-
-
-
Net Income
386
648

805
950
994
1,058
383
929
1,350
311
382
Acquisition integration charges (after-tax)
24
27
24
27
42
51
54
27
10
2
10
Operating earnings
410
\$
675
\$
829
\$
977
\$
1,036
\$
1,109
\$
437
\$
956
\$
1,360
\$
313
\$
392
\$
Net income per share -
diluted
1.28
\$
2.07
\$

2.62
\$
3.11
\$
3.31
\$
3.26
\$
1.14
\$
2.73
\$
3.93
\$
0.91
\$
1.12
\$
4.09
\$
4.39
\$
Per share impact of unusual items (after tax)
0.08
0.08
0.07
0.09
0.14
0.16
0.16
0.08
0.03
0.01
0.03
0.11
0.11
Operating earnings per common share
1.36
\$
2.15
\$
2.69
\$
3.20
\$
3.45
\$
3.42
\$
1.30

\$
2.81
\$
3.96
\$
0.92
\$
1.15
\$
4.20
\$
4.50
\$
Reconciliation of segment operating profit to segment operating profit excluding restructuring charges
2003
2004
2005
2006
2007
2008
2009
2010
2011
1Q 2012
2Q 2012
Segment operating profit
763
\$
1,123
\$
1,374
\$
1,468
\$
1,668
\$
1,805
\$
950
\$
1,700
\$
2,260
\$
544
\$
592
\$
Acquisition integration charges (pre-tax)
36

| | |
|--|--|
| 41 | |
| 36 | |
| 40 | |
| 64 | |
| 76 | |
| 80 | |
| 40 | |
| 14 | |
| 3 | |
| 8 | |
| Segment operating profit excluding restructuring | |
| 799 | |
| \$ | |
| 1,164 | |
| \$ | |
| 1,410 | |
| \$ | |
| 1,508 | |
| \$ | |
| 1,732 | |
| \$ | |
| 1,881 | |
| \$ | |
| 1,030 | |
| \$ | |
| 1,740 | |
| \$ | |
| 2,274 | |
| \$ | |
| 547 | |
| \$ | |
| 600 | |
| \$ | |
| Reconciliation of segment operating margin to segment operating margin excluding restructuring charges | |
| Segment operating margin | |
| 9.8% | |
| 11.8% | |
| 12.7% | |
| 12.0% | |
| 12.8% | |
| 11.7% | |
| 8.0% | |
| 12.4% | |
| 14.1% | |
| 13.7% | |
| 14.6% | |
| Acquisition integration charges | |
| 0.4% | |
| 0.4% | |
| 0.3% | |

0.3%

0.5%

0.5%

0.7%

0.3%

0.1%

0.1%

0.1%

Segment operating margin excluding restructuring

10.2%

12.2%

13.0%

12.3%

13.3%

12.2%

8.7%

12.7%

14.2%

13.8%

14.7%

Reconciliation of net income margin to after tax operating margin

Net income margin

5.0%

6.8%

7.4%

7.8%

7.6%

6.9%

3.2%

6.8%

8.4%

7.9%

9.4%

Acquisition integration charges

0.3%

0.3%

0.2%

0.2%

0.3%

0.3%

0.5%

0.2%

0.1%

0.1%

0.2%

After tax operating margin

5.3%

7.1%

7.6%

8.0%

7.9%

7.2%

3.7%

7.0%

8.5%

8.0%

9.6%

2012 Guidance

Reconciliation of net income to EBIT and EBITDA

2003
2004
2005
2006
2007
2008

| | |
|---|--|
| 2009 | |
| 2010 | |
| 2011 | |
| 1Q 2012 | |
| 2Q 2012 | |
| Net income from continuing operations | |
| 356 | |
| \$ | |
| 626 | |
| \$ | |
| 783 | |
| \$ | |
| 897 | |
| \$ | |
| 959 | |
| \$ | |
| 1,055 | |
| \$ | |
| 383 | |
| \$ | |
| 929 | |
| \$ | |
| 1,350 | |
| \$ | |
| 311 | |
| \$ | |
| 382 | |
| \$ | |
| Net income from discontinued operations | |
| 30 | |
| 22 | |
| 22 | |
| 53 | |
| 35 | |
| 3 | |
| - | |
| - | |
| - | |
| - | |
| - | |
| Net income | |
| 386 | |
| 648 | |
| 805 | |
| 950 | |
| 994 | |
| 1,058 | |
| 383 | |
| 929 | |
| 1,350 | |

311
382
Income tax
122
133
191
77
97
73
(82)
99
201
57
37
Net interest expense
87
78
90
104
146
157
150
136
118
28
30
Other expense (income)
(5)
28
(27)
(72)
(43)
(30)
(9)
(1)
(38)
3
8
EBIT (including acquisition integration)
590
\$
887
\$
1,059
\$
1,059
\$
1,194
\$
1,258

| | |
|--|--|
| \$ | |
| 442 | |
| \$ | |
| 1,163 | |
| \$ | |
| 1,631 | |
| \$ | |
| 399 | |
| \$ | |
| 457 | |
| \$ | |
| Depreciation & amortization | |
| 394 | |
| 400 | |
| 409 | |
| 434 | |
| 439 | |
| 571 | |
| 573 | |
| 551 | |
| 556 | |
| 140 | |
| 138 | |
| EBITDA (including acquisition integration) | |
| 984 | |
| \$ | |
| 1,287 | |
| \$ | |
| 1,468 | |
| \$ | |
| 1,493 | |
| \$ | |
| 1,633 | |
| \$ | |
| 1,829 | |
| \$ | |
| 1,015 | |
| \$ | |
| 1,714 | |
| \$ | |
| 2,187 | |
| \$ | |
| 539 | |
| \$ | |
| 595 | |
| \$ | |
| Reconciliation of EBIT and EBITDA to EBIT excluding restructuring and EBITDA excluding restructuring | |
| 2003 | |
| 2004 | |
| 2005 | |

2006
2007
2008
2009
2010
2011
1Q 2012
2Q 2012
EBIT (including acquisition integration)
590
\$
887
\$
1,059
\$
1,059
\$
1,194
\$
1,258
\$
442
\$
1,163
\$
1,631
\$
399
\$
457
\$
Acquisition integration charges (pre-tax)
37
41
36
40
64
77
82
40
14
3
8
EBIT (excluding restructuring)
627
\$
928
\$
1,095
\$

1,099

\$

1,258

\$

1,335

\$

524

\$

1,203

\$

1,645

\$

402

\$

465

\$

EBITDA (including acquisition integration)

984

\$

1,287

\$

1,468

\$

1,493

\$

1,633

\$

1,829

\$

1,015

\$

1,714

\$

2,187

\$

539

\$

595

\$

Acquisition integration charges (pre-tax)

37

41

36

40

64

77

82

40

14

3

8
EBITDA (excluding restructuring)
1,021
\$
1,328
\$
1,504
\$
1,533
\$
1,697
\$
1,906
\$
1,097
\$
1,754
\$
2,201
\$
542
\$
603
\$
Reconciliation of operating cash flow to free cash flow
2003
2004
2005
2006
2007
2008
2009
2010
2011
1Q 2012
2Q 2012
Operating cash flow
874
\$
838
\$
1,135
\$
1,431
\$
1,158
\$
1,441
\$
1,408

\$
1,282
\$
1,248
\$
(98)
\$
469
\$
1,700
\$
1,800
\$
Capital expenditures
273
330
363
360
354
448
195
394
568
105
126
600
600
Free cash flow
601
\$
508
\$
772
\$
1,071
\$
804
\$
993
\$
1,213
\$
888
\$
680
\$
(203)
\$
343
\$

1,100

\$

1,200

\$

2012 Guidance

Reconciliation of Eaton Electrical Americas operating profit to operating profit excluding restructuring

2006
2007
2008
2009
2010
2011

1Q 2012

2Q 2012

Electrical operating profit (including restructuring)

448

\$

534

\$

630

\$

518

\$

529

\$

605

\$

162

\$

190

\$

Acquisition integration charges (pre-tax)

2

-

4

4

2

8

1

2

Electrical operating profit (excluding restructuring)

450

\$

534

\$

634

\$

522

\$

531

\$

613

\$

163

\$
192
\$
Reconciliation of Eaton Electrical Rest of World operating profit to operating profit excluding restructuring
2006
2007
2008
2009
2010
2011
1Q 2012
2Q 2012
Electrical operating profit (including restructuring)
26
\$
45
\$
233
\$
107
\$
264
\$
278
\$
53
\$
52
\$
Acquisition integration charges (pre-tax)
5

12

43

60

33

2

1

3

Electrical operating profit (excluding restructuring)
31
\$
57

\$
276
\$
167
\$
297
\$
280
\$
54
\$
55
\$
Reconciliation of Eaton Hydraulics operating profit to operating profit excluding restructuring
2005
2006
2007
2008
2009
2010
2011
1Q 2012
2Q 2012
Hydraulic operating profit (including restructuring)
153
\$
221
\$
265
\$
285
\$
51
\$
279
\$
438
\$
109
\$
123
\$
Acquisition integration charges (pre-tax)
6

11

12

6

3

1

4

1

3

Hydraulic operating profit (excluding restructuring)

159

\$

232

\$

277

\$

291

\$

54

\$

280

\$

442

\$

110

\$

126

\$

Reconciliation of Eaton Aerospace operating profit to operating profit excluding restructuring

2005

2006

2007

2008

2009

2010

2011

1Q 2012

2Q 2012

Aerospace operating profit (including restructuring)

157

\$

182

\$

233

\$

283

\$

245

\$
220
\$
244
\$
60
\$
59
\$
Acquisition integration charges (pre-tax)

1

12

39

20

12

4

-

-

-

Aerospace operating profit (excluding restructuring)

158
\$
194
\$
272
\$
303
\$
257
\$
224
\$
244
\$
60
\$
59
\$

Reconciliation of Eaton Truck operating profit to operating profit excluding restructuring

2005
2006

2007

2008

2009

2010

2011

1Q 2012

2Q 2012

Truck operating profit (including restructuring)

453

\$

448

\$

357

\$

315

\$

39

\$

245

\$

486

\$

116

\$

120

\$

Acquisition integration charges (pre-tax)

4

5

-

-

-

-

-

Truck operating profit (excluding restructuring)

457

\$

453

\$

357

\$

315

\$

39

\$

245

\$

486

\$

116

\$

120

\$

Reconciliation of Eaton Automotive operating profit to operating profit excluding restructuring

2005

2006

2007

2008

2009

2010

2011

1Q 2012

2Q 2012

Automotive operating profit (including restructuring)

236

\$

143

\$

234

\$

59

\$

(10)

\$

163

\$

209

\$

44

\$

48

\$

Acquisition integration charges (pre-tax)

4

5

1

3

1

-
-
-
-

Automotive operating profit (excluding restructuring)

240
\$
148
\$
235
\$
62
\$
(9)
\$
163
\$
209
\$
44
\$
48
\$

Methodology for calculations used in the presentations

Return on equity = trailing 4 quarters net income / average trailing 5 quarters shareholder's equity

Return on invested capital = (EBIT - taxes) / average (total debt + equity)

Return on sales = net income / sales

Total return = stock price appreciation + dividend yield

Net debt to total capital = (total debt - cash & equivalents) / (total debt - cash & equivalents + equity)

Cash flow coverage ratio = (pre-tax income + depreciation + amortization + interest expense) / interest expense

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Segment net working capital (including acquisitions) = accounts receivable + inventory - accounts payable. All amounts averaged

DSO = average of quarterly DSO; quarterly DSO = quarter end accounts receivable / quarter sales * 90 days

DOH = average of quarterly DOH; quarterly DOH = quarter end inventory / quarter COGS * 90 days

DPO = average of quarterly DPO; quarterly DPO = quarter end accounts payable / quarter COGS * 90days

Cash conversion cycle = DSO + DOH - DPO

Free cash flow = cash flow from operations - capital expenditures