

COMPANY PROFILE

Eaton Corporation plc

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COMPANY OVERVIEW

Eaton Corporation plc (Eaton Corporation or 'the company') is a provider of power management solutions. The company serves customers in electrical, hydraulic and mechanical power markets. It primarily operates in North America, Europe, Asia and Latin America. Eaton is headquartered in Dublin, Ireland.

The company reported revenues of (US Dollars) US\$20,404 million for the fiscal year ended December 2017 (FY2017), an increase of 3.3% over FY2016. In FY2017, the company's operating margin was 12.4%, compared to an operating margin of 11.9% in FY2016. In FY2017, the company recorded a net margin of 14.6%, compared to a net margin of 9.7% in FY2016.

The company reported revenues of US\$5,251.0 million for the first quarter ended March 2018, an increase of 0.7% over the previous quarter.

KEY FACTS

Head Office	Eaton Corporation plc Eaton House 30 Pembroke Road Dublin Dublin IRL
Phone	353 1637 2900
Fax	
Web Address	www.eaton.com
Revenue / turnover (USD Mn)	20,404.0
Financial Year End	December
Employees	96,000
New York Stock Exchange Ticker	ETN

SWOT ANALYSIS

Eaton Corporation plc (Eaton Corporation or ‘the company’) is a provider of power management solutions. The company serves customers in electrical, hydraulic and mechanical power markets. The company has a diversified product portfolio that enables it to provide end-to-end solutions and tap high value customers. However, competition across all business segments could create price wars among market players and may increase pricing pressure on the company, which could adversely affect its margins.

<p>Strength</p> <p>Diversified Product Portfolio Reduces Business Risks and Increases Opportunities Robust Manufacturing Capabilities Reduces Business Risks</p>	<p>Weakness</p> <p>Overdependence on the US Market Weak Financial Results Hamper Long-Term Growth</p>
<p>Opportunity</p> <p>Growing Global Automotive Drivetrain Market could Provide Opportunity to Expand Revenues and Profits Positive Outlook for the Global Electrical Components and Equipment Market could Help Enhance Business Growth</p>	<p>Threat</p> <p>Fluctuations in Foreign Currency Competition Across all Business Segments could adversely affect Margins Government Regulations could Impact the Profit Margins</p>

Strength

Diversified Product Portfolio Reduces Business Risks and Increases Opportunities

Eaton Corporation has a diversified product portfolio. The company operates through five business segments: Electrical Products, Electrical Systems and Services, Vehicle, Hydraulics, and Aerospace. Eaton Corporation's Electrical Products segment offers automation and control products, circuit breakers, electrical distribution products, rack infrastructure, load centers, meter sockets, meter breakers, structured wiring solutions, surge protection devices, portable and standby generators, and uninterruptible power supply (UPS). The segment accounted for 35.2% of the total revenues in FY2016. Similarly, the company's Electrical Systems and Services segment supplies power distribution and assemblies, three phase power quality, hazardous duty electrical equipment, intrinsically safe explosion-proof instrumentation, utility power distribution, power reliability equipment, and services. This segment accounted to 28.7% of total revenues in FY2016.

The Vehicle segment offers transmissions, clutches, hybrid power systems, superchargers, engine valves and valve actuation systems. The segment's other products include cylinder heads, locking and limited slip differentials, transmission controls, fuel vapor components, fluid connectors and conveyance products for the global vehicle industry. This segment accounted to 16% of total revenues in FY2015. Furthermore,

Eaton's Hydraulics segment offers a wide range of power product including pumps, motors and hydraulic power units. It also offers a broad range of control sensing products, including valves, cylinders and electronic controls. In addition, the segment provides fluid conveyance products including: industrial and hydraulic hose, fittings and assemblies' thermoplastic hose and tubing, couplings, connectors, assembly equipment, filtration system solutions, industrial drum and disc brakes, and golf grips. This division accounted to 11.3% of total revenues in FY2016. Additionally, the aerospace segment of Eaton Corporation provides hydraulic power generation systems, controls and sensing products, and fluid conveyance products to the commercial and military aviation and aerospace industries. This segment contributed 8.9% of total revenues in FY2016.

Eaton's diversified product portfolio thus enables the company to provide end-to-end solutions and tap high value customers. In addition, it also helps Eaton Corporation to balance revenues in the face of a slowdown in a particular segment.

Robust Manufacturing Capabilities Reduces Business Risks

Eaton Corporation has strong manufacturing capabilities. It operate many manufacturing facilities across the world. The company sells products to customers in more than 175 countries. The company maintains manufacturing facilities at 330 locations in 42 countries. These facilities are well equipped and aligned with innovative technologies, which enabled Eaton Corporation to offer customers with extensive selection of quality products. In addition, its manufacturing facilities operate under the certifications of international standard for environmental management systems. Such strong manufacturing facility portfolio eliminates the company's dependence on other sources and efficiently delivers products on time to its geographically diversified customer base. The company's robust manufacturing capabilities reduces business risks and shields from macroeconomic risks associated with operational presence in one location.

Weakness

Overdependence on the US Market

The company is highly dependent on the US for a majority of its revenues despite its presence in other countries. The US, Eaton's largest geographical market, accounted for 55.4% of the total revenues in FY2016. Revenues from the US reached \$10,937 million in FY2016. The company's international geographic market, including Europe, Asia Pacific, Latin America and Canada accounted for only 44.5% of the total revenues in FY2016.

Such overdependence on the US market could adversely impact the company's revenues if the economic conditions in the region were to worsen further. Thus, the concentration of operations increases the company's exposure to country specific factors such as sharp changes in economic conditions and labor related issues, which in turn could negatively impact its business operations in an economic downturn.

Weak Financial Results Hamper Long-Term Growth

Eaton Corporation witnessed weak financial results during FY2016. For instance, the company's

revenues decreased by 5.3% during FY2016 to \$19,747 million, as compared to FY2015. The company also witnessed weak revenues in most of its business segments during FY2016. For instance, during FY2016, the Electrical Systems and Services segment recorded revenues of \$5,662 million, a decrease of 4.5% over FY2015. Similarly, the revenues of the Electrical Products, Vehicles, Hydraulics and Aerospace segment decreased by 0.3%, 14.4%, 9.6% and 3% respectively.

Thus, the company's strong financial results increases shareholder's confidence in the company. In addition, sustained healthy financial results provide financial resource to drive the long-term growth of the company.

Opportunity

Growing Global Automotive Drivetrain Market could Provide Opportunity to Expand Revenues and Profits

Drivetrains deliver the power generated from the engine to the wheels in the vehicle in order to keep the vehicle moving. The automotive drivetrain market is projected to grow with the increasing vehicle production. According to industry estimates, the global automotive drivetrain market is anticipated to grow at a CAGR of 6.2% to reach \$314.4 billion by 2019. The Asia-Oceania region is expected to be the largest market for automotive drivetrain. Similarly, Germany will be the largest market for automotive drivetrain in the European region. The growing demand for comfort and safety in vehicles and better vehicle handling in unfavorable terrain are major drivers for the growth of the global automotive drivetrain market.

Eaton Corporation delivers drivetrain and powertrain systems and critical components that reduce emissions and improve fuel economy, stability, performance, and safety of cars, light trucks and commercial vehicles. Therefore, growth of global automotive drivetrain market could provide an opportunity for the company to capitalize on this market and to expand its revenues and profits.

Positive Outlook for the Global Electrical Components and Equipment Market could Help Enhance Business Growth

The global electrical equipment market is expanding at a rapid pace. The global electrical components and equipment market has seen increasing growth from 2010 through to 2014 and is forecast to continue to grow at a strong rate through to 2018. According to MarketLine, the global electrical components and equipment market generated is expected to drive the market to a value of \$138 billion by the end of 2018, an increase of 3% over the previous year.

Eaton Corporation's electrical products segment provides electrical components, residential products, industrial components, single phase power quality, emergency lighting, fire detection, wiring devices, structural support systems, circuit protection, and lighting products. Similarly, the company's electrical systems and services segment supplies power distribution and assemblies, three phase power quality, hazardous duty electrical equipment, intrinsically safe explosion-proof instrumentation, utility power distribution, power reliability equipment, and services. Therefore, the positive outlook of global electrical components and equipment market could provide ample opportunities to Eaton Corporation to boost up its business growth.

Threat

Fluctuations in Foreign Currency

The company has operations in more than 175 countries globally. The company owns manufacturing, sales and distribution facilities around the world and thus makes investments and enters into transactions denominated in various foreign currencies. As a result of its global presence, a significant portion of the company's revenues and expenses is denominated in currencies other than the US dollar. Eaton Corporation's primary exposures are to the Euro, British pound, Japanese yen, and Canadian dollar, among other. While the company employs financial instruments to hedge some of its transactional foreign exchange exposure, these activities do not insulate it completely from those exposures. Thus, volatile exchange rates could adversely impact Eaton Corporation's financial results and business growth.

Competition Across all Business Segments could adversely affect Margins

Eaton Corporation faces substantial competition in all of its business segments. The number and size of competitors vary considerably depending on the product line. Eaton Corporation has competitors in each product category. The company faces significant competition from both larger and smaller companies, with the key competitive factors being customer and end-user service, price, quality, brand name and innovation.

The key competitors of Eaton Corporation are Johnson Controls, ITT Corporation, ABB and Thomas & Betts, among others. Thus, competition across all business segments could create price wars among market players and may increase pricing pressure on the company, which could adversely affect its margins.

Government Regulations could Impact the Profit Margins

Eaton Corporation is subject to environmental laws and regulations in the countries in which it operates. The company's business operations are subject to numerous governmental laws and regulations, including those governing antitrust and competition, corruption, the environment, securities transactions and disclosures, import and export of products, currency conversions and repatriation, taxation of foreign earnings and earnings of expatriate personnel and use of local employees and suppliers.

The company is also subject to the US Foreign Corrupt Practices Act (FCPA)'s anti-bribery provisions, as a reporting company under section 12 of the US Securities Exchange Act of 1934. Its operations are also subject to the 1997 OECD convention on combating bribery of foreign public officials in international business transactions. The convention obliges signatories to adopt national legislation that makes it a crime to bribe foreign public officials. Those countries which have adopted implementing legislation and have ratified the convention include the US and several European nations in which, Eaton Corporation has significant operations.

Moreover, the company has operations in certain countries known to experience governmental corruption. While the company is committed to conducting business in a legal and ethical manner its

employees may take actions that violate the US FCPA, legislation promulgated pursuant to the 1997 OECD convention on combating bribery of foreign public officials in international business transactions, antitrust laws or other laws or regulations. Thus, such actions could result in substantial costs and liabilities to Eaton Corporation, which in turn could impact the company's profit margins.

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