



# Third Quarter 2021 Earnings Release

Craig Arnold | November 2, 2021

# 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, 2021 organic revenue growth, adjusted earnings per share, adjusted free cash flow, adjusted operating cash flow, capital expenditures, share buybacks, tax rate, corporate expenses, segment operating margins, impact from currency translation, and planned acquisitions and divestitures, 2021 third quarter adjusted earnings per share, organic revenue growth, currency translation impact, acquisitions and divestitures, tax rate and segment operating margins. 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: the course of the COVID – 19 pandemic and government responses thereto, 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 closing or integrating acquisitions; unexpected difficulties completing divestitures, 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, including the following: adjusted earnings, adjusted earnings per share, adjusted earnings per share guidance for the fourth quarter and full year 2021, adjusted operating cash flow, adjusted operating cash flow guidance for full year 2021, and adjusted free cash flow guidance for full year 2021. These non-GAAP measures are reconciled to their nearest GAAP equivalent in the Appendix to this presentation.

# Highlights

All-time record adjusted earnings per share of \$1.75 in 3Q21, up 30% versus 3Q20.

Sales of \$4.9B up 9%. Organic revenue up 8%.

All-time record segment margins of 19.9% in 3Q21, up 230 bps versus 3Q20 with robust incremental margins of 46%.

Electrical segments increased backlog > 50% and rolling 12 months orders up 17%.

# Financial Summary

(M)	3Q '21	3Q '20	V '20
Sales	\$4,923	\$4,526	▲ 9%
Segment Operating Profit	978	796	▲ 23%
Segment Operating Margin	19.9%	17.6%	▲ 230 bps
Adjusted Earnings	701	544	▲ 29%
Adjusted EPS	\$1.75	\$1.35	▲ 30%

<b>\$1.75</b>	All-time quarterly record Adjusted earnings per share
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<b>19.9%</b>	All-time quarterly record Segment operating margin
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<b>Sales Growth:</b>	Organic	8%
	Acq./Divest.	0%
	Forex	1%
	<b>Total</b>	<b>9%</b>

# Electrical Americas Segment

(M)

	3Q '21	3Q '20	V '20
Sales	\$1,854	\$1,699	▲ 9%
Operating Profit	402	377	▲ 7%
Operating Margin	21.7%	22.2%	▼ 50 bps

- Orders up 17% on a rolling 12-month basis organically with particular strength in residential and data center markets
- Backlog up 50% y-o-y to a new record on an organic basis

<b>Sales Growth:</b>	Organic	1%
	Acquisition	8%
	<b>Total</b>	<b>9%</b>

# Electrical Global Segment

(M)	3Q '21	3Q '20	V '20
Sales	\$1,421	\$1,196	▲ 19%
Operating Profit	285	198	▲ 44%
Operating Margin	20.1%	16.6%	▲ 350 bps

- Orders up 17% on a rolling 12-month basis organically with particular strength in data center, residential and utility markets
- Backlog up 55% y-o-y to a new record on an organic basis
- All-time record operating margin of 20.1%

<b>Sales Growth:</b>	Organic	18%
	Forex	1%
	<b>Total</b>	<b>19%</b>

# Aerospace Segment

(M)	3Q '21	3Q '20	V '20
Sales	\$745	\$540	▲ 38%
Operating Profit	164	100	▲ 64%
Operating Margin	22.0%	18.5%	▲ 350 bps

- Orders up 4% on organic rolling 12 month basis primarily driven by strength in business jets
- Backlog up 5% y-o-y on organic basis

Sales Growth:	
Organic	4%
Acquisition	33%
Forex	1%
<b>Total</b>	<b>38%</b>

# Vehicle Segment

(M)

	3Q '21	3Q '20	V '20
Sales	\$640	\$573	▲ 12%
Operating Profit	115	80	▲ 44%
Operating Margin	18.0%	14.0%	▲ 400 bps

- Organic growth driven by North America Class 8 and South America more than offsetting weakness in North America light motor vehicles
- Robust incremental margins > 50%

Sales Growth:	
Organic	11%
Forex	1%
<b>Total</b>	<b>12%</b>

# eMobility Segment

(M)	3Q '21	3Q '20	V '20
Sales	\$84	\$79	▲ 6%
Operating (Loss)	(8)	(2)	---
Operating Margin	(9.5)%	(2.5)%	▼ 7 pts

- Organic growth driven by North America and APAC partially offset by weakness in EMEA
- Cumulative new program wins nearly \$600M of mature year revenues

<b>Sales Growth:</b>	Organic	6%
	<b>Total</b>	<b>6%</b>

# 2021 Organic Growth and Operating Margin Guidance

Segment	Organic Growth Guidance	Operating Margin Guidance
Electrical Americas	5 – 7%	20.7% – 21.1%
Electrical Global	14 – 16%	18.3% – 18.7%
Aerospace	(1) – 1%	20.8% – 21.2%
Vehicle	19 – 21%	17.2% – 17.6%
eMobility	16 – 18%	(8.9)% – (8.5)%
<b>Eaton</b>	<b>9 – 11%</b>	<b>18.6% – 19.0%</b>

# 2021 Guidance

## 2021 Full Year Outlook

<b>Adjusted Earnings Per Share*</b>	<b>\$6.59 – \$6.69</b>
Organic Revenue	9 – 11%
Currency Translation	\$250M
Acquisition & Divestiture	(1)%
Segment Operating Margins	18.6% – 19.0%
Corporate Expenses (interest, pension, other corporate)	Flat with 2020
Tax Rate on Adjusted Earnings	15.0% – 16.0%
Adjusted Operating Cash Flow	\$2.6B – \$2.8B
Adjusted Free Cash Flow	\$2.1B – \$2.3B
Capex	\$500M
Share Repurchases	\$375 – \$425M

## 4<sup>th</sup> Quarter Outlook

<b>Adjusted Earnings Per Share</b>	<b>\$1.68 – \$1.78</b>
Organic Revenue	7 – 9%
Currency Translation	Flat
Acquisition & Divestiture	(3)%
Segment Operating Margins	18.8% – 19.2%
Tax Rate on Adjusted Earnings	14.0% – 15.0%

*\*Excluding gain from sale of Hydraulics*



# 2022 Eaton End Market Initial Assumptions

## Electrical Sector

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**Commercial & Institutional**  
 Most commercial segments will see a rebound from depressed activity in 2020/2021, while institutional is still mixed (strong healthcare, weak education)
- 
**Data Centers & Distributed IT**  
 Hyperscale growth likely to slow from 20%+ growth in 2021 to low double-digit growth, while distributed IT growth will slow but remain solid
- 
**Industrial Facilities**  
 Capacity concerns and reshoring in some sectors will continue to drive new manufacturing projects, while oil and gas is accelerating
- 
**Machinery/ MOEM**  
 Early cycle growth has been exceptionally strong and though growth will slow to a more modest mid-cycle rate, underlying demand for factory MRO, automation, and capital investment remains robust given supply chain and labor shortages
- 
**Utility**  
 Moderate growth in utility T&D expected to continue as grid hardening remains a priority, global renewables growth to pick back up after 2021 pullback
- 
**Residential**  
 Growth will continue to cool off as affordability and long build times are weighing, though trend of increasing electrical content per home is continuing

## Industrial Sector

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**Commercial Aerospace**  
 Large commercial transport market growth to be very strong, driven by single-aisle production rate ramp-ups, while aftermarket is expected to experience strong positive growth as policy barriers to air travel diminish, airline capacity increases, and passenger traffic picks-up
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**Military Aerospace**  
 Underlying OEM demand and backlog remain solid, though increased old aircraft retirements in favor of new aircraft procurement to weigh on aftermarket
- 
**Commercial Vehicles**  
 Industry demand is strong globally, though supply chain issues will likely continue to hold growth back, especially in H1
- 
**ICE Light Vehicles**  
 Growth will be strong as global demand is solid and inventory is unsustainably low, though component shortages are likely to continue to weigh on production in the short-term
- 
**Electric Vehicles**  
 Government regulations and incentives, combined with the increase in new EV models will continue to drive EV demand, production, and share gain

 Down Significantly
  Flat Growth
  Modest Growth
  Solid Growth
  Strong/Double Digit Growth

# Summary

Record results in Q3 with excellent margin performance driving 30% Adjusted EPS growth.

Delivering strong operational execution in challenging supply chain and inflationary environment.

Transformative year in terms of portfolio management to maximize shareholder value.

Robust 2021 outlook with 35% Adjusted EPS growth and 10% organic revenue growth at the midpoint of guidance.

Strong orders momentum and record backlog in Electrical Sector as well as continued recovery in Industrial Sector end markets position ETN well for 2022.

Medium-term targets for organic revenue growth, margin improvement and Adjusted EPS growth remain intact.

# APPENDIX

# Appendix

## Eaton Corporation plc

### Reconciliation of Non-GAAP Financial Information

All amounts are in millions except per share amounts, unless otherwise noted

Reconciliation of net income attributable to Eaton ordinary shareholders to adjusted earnings, and net income attributable to Eaton ordinary shareholders per share to adjusted earnings per ordinary share

During the first quarter of 2021, the Company revised its definition of adjusted earnings to exclude intangible asset amortization expense and prior periods have been retrospectively adjusted to apply this change.

	3Q 2020	2020	3Q 2021	Q4 2021 Guidance		2021 Guidance	
				Low	High	Low	High
Net Income attributable to Eaton ordinary shareholders	\$ 446	\$ 1,410	\$ 629				
Acquisition and divestiture charges (income) (after-tax)	21	133	(52)				
Restructuring program charges (after-tax)	8	170	25				
Intangible asset amortization expense (after-tax)	69	272	99				
Adjusted earnings <sup>(1)</sup>	<u>\$ 544</u>	<u>\$ 1,985</u>	<u>\$ 701</u>				

<sup>(1)</sup> The Company's Adjusted earnings 3Q 2021 results excludes the impact of the gain from the sale of the Hydraulics business.

Net income attributable to Eaton ordinary shareholders per share - diluted	\$ 1.11	\$ 3.49	\$ 1.57	\$ 1.28	\$ 1.38	\$ 5.26	\$ 5.36
Per share impact of acquisition and divestiture charges (income) (after-tax)	0.05	0.33	(0.13)	0.10	0.10	0.24	0.24
Per share impact of restructuring program charges (after-tax)	0.02	0.42	0.06	0.06	0.06	0.18	0.18
Per share impact of intangible asset amortization expense (after-tax)	0.17	0.67	0.25	0.24	0.24	0.91	0.91
Adjusted earnings per ordinary share <sup>(1)</sup>	<u>\$ 1.35</u>	<u>\$ 4.91</u>	<u>\$ 1.75</u>	<u>\$ 1.68</u>	<u>\$ 1.78</u>	<u>\$ 6.59</u>	<u>\$ 6.69</u>

<sup>(1)</sup> The Company's Adjusted earnings per ordinary share 3Q 2021 results and full year guidance for 2021 excludes the impact of the gain from the sale of the Hydraulics business.

#### Acquisition and divestiture charges (income):

	3Q 2020	2020	3Q 2021
Acquisition integration, divestiture charges and transaction costs	\$ 28	\$ 288	\$ 179
Gain on sale of the Hydraulics and Lighting businesses	-	(221)	(617)
Total charges (income) before income taxes	28	67	(438)
Income tax expense (benefit)	(7)	66	386
Total charges (income) after income taxes	<u>\$ 21</u>	<u>\$ 133</u>	<u>\$ (52)</u>
Charges (income) per ordinary share - diluted	\$ 0.05	\$ 0.33	\$ (0.13)

#### Restructuring program charges:

	3Q 2020	2020	3Q 2021
Restructuring program charges	\$ 10	\$ 214	\$ 34
Income tax benefit	2	44	9
Total after income taxes	<u>\$ 8</u>	<u>\$ 170</u>	<u>\$ 25</u>
Per ordinary share - diluted	\$ 0.02	\$ 0.42	\$ 0.06

#### Intangible asset amortization expense:

	3Q 2020	2020	3Q 2021
Intangible asset amortization expense	\$ 90	\$ 354	\$ 126
Income tax benefit	21	82	27
Total after income taxes	<u>\$ 69</u>	<u>\$ 272</u>	<u>\$ 99</u>
Per ordinary share - diluted	\$ 0.17	\$ 0.67	\$ 0.25



# Appendix

## Eaton Corporation plc Reconciliation of Non-GAAP Financial Information

All amounts are in millions except per share amounts, unless otherwise noted

### Reconciliation of operating cash flow to adjusted operating cash flow

Operating cash flow  
Taxes paid on the Hydraulics sale  
Adjusted operating cash flow

3Q 2021	
\$	471
	279
\$	750

### Reconciliation of operating cash flow to adjusted operating cash flow and adjusted free cash flow

Operating cash flow  
Estimated cash taxes on Hydraulics sale  
U.S. qualified pension plan contribution  
Adjusted operating cash flow  
Capital expenditures for property, plant and equipment  
Adjusted free cash flow

2021 Guidance (\$ Billions)		
	Low	High
\$	2.1	\$ 2.3
	0.3	0.3
	0.2	0.2
\$	2.6	\$ 2.8
	0.5	0.5
\$	2.1	\$ 2.3