



Fourth Quarter 2021 Earnings Release

Craig Arnold | February 4, 2022

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, full year and first quarter 2022 organic revenue growth, segment operating margins, impact from currency translation, tax rate and planned acquisitions and divestitures, and full year 2022 operating cash flow, capital expenditures, share buybacks and corporate expenses. 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; continued supply chain disruptions, unanticipated changes in the cost of material, labor 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 first quarter and full year 2022, adjusted operating cash flow for full year 2021, adjusted free cash flow for full year 2021, and free cash flow guidance for full year 2022. These non-GAAP measures are reconciled to their nearest GAAP equivalent in the Appendix to this presentation.

Highlights

Adjusted earnings per share of \$1.72, a fourth quarter record, up 19% versus 4Q20.

Sales of \$4.8B up 2%. Organic revenue up 6%.

Segment margins of 19.3%, a fourth quarter record, up 190 bps versus 4Q20 with strong incremental margins.

Electrical segment backlog was up 56% and rolling 12 months orders up 21% while Aerospace backlog was up 16% with rolling 12 month orders up 19%, all on an organic basis.

Acquired Royal Power Solutions in January to capitalize on electrification trends across multiple high-growth markets.

Financial Summary

(M)	4Q '21	4Q '20	V '20
Sales	\$4,798	\$4,687	▲ 2%
Segment Operating Profit	926	815	▲ 14%
Segment Operating Margin	19.3%	17.4%	▲ 190 bps
Adjusted Earnings	691	581	▲ 19%
Adjusted EPS	\$1.72	\$1.45	▲ 19%

\$1.72	Q4 record Adjusted earnings per share
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19.3%	Q4 record Segment operating margin
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Sales Growth:	Organic	6%
	Acq./Divest.	(3)%
	Forex	(1)%
	Total	2%

Electrical Americas Segment

(M)

	4Q '21	4Q '20	V '20
Sales	\$1,917	\$1,703	▲ 13%
Operating Profit	368	359	▲ 3%
Operating Margin	19.2%	21.1%	▼ 190 bps

- Orders up 20% on a rolling 12-month basis organically with particular strength in residential and data center markets
- Backlog up 57% to a new record on an organic basis

Sales Growth:	Organic	5%
	Acquisition	8%
	Total	13%

Electrical Global Segment

(M)	4Q '21	4Q '20	V '20
Sales	\$1,424	\$1,252	▲ 14%
Operating Profit	277	208	▲ 33%
Operating Margin	19.5%	16.6%	▲ 290 bps

- Orders up 22% on a rolling 12-month basis organically with particular strength in data center, residential and utility markets
- Backlog up 51% on an organic basis

Sales Growth:	Organic	15%
	Forex	(1)%
	Total	14%

Aerospace Segment

(M)

	4Q '21	4Q '20	V '20
Sales	\$759	\$542	▲ 40%
Operating Profit	189	99	▲ 91%
Operating Margin	24.9%	18.3%	▲ 660 bps

- Orders up 19% on organic rolling 12 month basis primarily driven by strength in commercial markets
- Backlog up 16% y-o-y on organic basis
- All-time record operating margin of 24.9%

Sales Growth:	
Organic	4%
Acquisition	37%
Forex	(1)%
Total	40%

Vehicle Segment

(M)

	4Q '21	4Q '20	V '20
Sales	\$610	\$620	▼ (2)%
Operating Profit	100	103	▼ (3)%
Operating Margin	16.4%	16.6%	▼ (20) bps

- Organic growth from North America Class 8 and South America more than offset by weakness in global light motor vehicle

Sales Growth:		
	Organic	(1)%
	Forex	(1)%
	Total	(2)%

eMobility Segment

(M)	4Q '21	4Q '20	V '20
Sales	\$88	\$85	▲ 4%
Operating (Loss)	(8)	(5)	---
Operating Margin	(9.1)%	(5.9)%	▼ 320 bps

- Acquired Royal Power Solutions on January 5th
- Cumulative new program wins of \$800M of mature year revenues, including Royal Power Solutions

Sales Growth:	Organic	4%
	Total	4%

2021 Highlights

Robust organic growth of 10% with record Electrical backlog and solid Aerospace backlog

Record segment margins of 18.9%, up 250 bps, with incremental margins of 43%

Transformative portfolio management with ~\$8B of completed portfolio actions

Outstanding Adjusted EPS growth of 35%

Total shareholder return of 47% in 2021, 23 percentage points over median of proxy peers

2022 Organic Growth and Operating Margin Guidance

Segment	Organic Growth Guidance	Operating Margin Guidance
Electrical Americas	7 – 9%	21.3% – 21.7%
Electrical Global	7 – 9%	19.4% – 19.8%
Aerospace	10 – 12%	22.1% – 22.5%
Vehicle	7.5– 9.5%	18.5% – 18.9%
eMobility	11 – 13%	0.8% – 1.2%
Eaton	7– 9%	19.9% – 20.3%

2022 Guidance

2022 Full Year Outlook

Adjusted Earnings Per Share	\$7.30 – \$7.70
Organic Revenue	7 – 9%
Currency Translation	Flat with 2021
Acquisition & Divestiture	(3.5)%
Segment Operating Margins	19.9% – 20.3%
Corporate Expenses (interest, pension, other corporate)	Flat with 2021
Tax Rate on Adjusted Earnings	16.0% – 17.0%
Operating Cash Flow	\$3.0B – \$3.2B
Free Cash Flow	\$2.35B – \$2.55B
Capex	\$650M
Share Repurchases	\$200M – \$300M

1st Quarter Outlook

Adjusted Earnings Per Share	\$1.55 – \$1.65
Organic Revenue	7 – 9%
Currency Translation	Flat with 1Q21
Acquisition & Divestiture	(6)%
Segment Operating Margins	18.4% – 18.8%
Tax Rate on Adjusted Earnings	15.0% – 16.0%

Summary

Eaton is an intelligent power management company

Well aligned with secular growth trends of electrification, energy transition and digitalization

Continuing to expand margins and delivering double digit EPS growth

Demonstrating shareholder-oriented capital allocation, including disciplined M&A

Transforming our portfolio to deliver higher growth, better margins and more consistent earnings

Ongoing commitment to ESG that's creating value for all stakeholders

Well positioned to achieve 2022 financial targets

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.

	4Q 2020	2020	4Q 2021	2021	Q1 2022 Guidance		2022 Guidance	
					Low	High	Low	High
Net income attributable to Eaton ordinary shareholders	\$ 475	\$ 1,410	\$ 551	\$ 2,144				
Acquisition and divestiture charges (after-tax)	23	133	37	94				
Restructuring program charges (after-tax)	14	170	12	60				
Intangible asset amortization expense (after-tax)	69	272	91	361				
Adjusted earnings ⁽¹⁾	<u>\$ 581</u>	<u>\$ 1,985</u>	<u>\$ 691</u>	<u>\$ 2,659</u>				

⁽¹⁾ The Company's 2021 and 2020 Adjusted earnings results excludes the impact of the gain from the sale of the Hydraulics and Lighting businesses, respectively.

Net income attributable to Eaton ordinary shareholders per share - diluted	\$ 1.18	\$ 3.49	\$ 1.37	\$ 5.34	\$ 1.24	\$ 1.34	\$ 6.05	\$ 6.45
Per share impact of acquisition and divestiture charges (after-tax)	0.06	0.33	0.09	0.23	0.06	0.06	0.25	0.25
Per share impact of restructuring program charges (after-tax)	0.04	0.42	0.03	0.15	0.01	0.01	0.05	0.05
Per share impact of intangible asset amortization expense (after-tax)	0.17	0.67	0.23	0.90	0.24	0.24	0.95	0.95
Adjusted earnings per ordinary share ⁽¹⁾	<u>\$ 1.45</u>	<u>\$ 4.91</u>	<u>\$ 1.72</u>	<u>\$ 6.62</u>	<u>\$ 1.55</u>	<u>\$ 1.65</u>	<u>\$ 7.30</u>	<u>\$ 7.70</u>

⁽¹⁾ The Company's 2021 and 2020 Adjusted earnings per ordinary share results excludes the impact of the gain from the sale of the Hydraulics and Lighting businesses, respectively.

Acquisition and divestiture charges:

	4Q 2020	2020	4Q 2021	2021
Acquisition integration, divestiture charges and transaction costs	\$ 25	\$ 288	\$ 37	\$ 349
Gain on sale of the Hydraulics and Lighting businesses	-	(221)	-	(617)
Total charges (income) before income taxes	25	67	37	(268)
Income tax expense (benefit)	(2)	66	-	362
Total charges after income taxes	<u>\$ 23</u>	<u>\$ 133</u>	<u>\$ 37</u>	<u>\$ 94</u>
Charges per ordinary share - diluted	<u>\$ 0.06</u>	<u>\$ 0.33</u>	<u>\$ 0.09</u>	<u>\$ 0.23</u>

Restructuring program charges:

	4Q 2020	2020	4Q 2021	2021
Restructuring program charges	\$ 17	\$ 214	\$ 15	\$ 78
Income tax benefit	3	44	3	18
Total after income taxes	<u>\$ 14</u>	<u>\$ 170</u>	<u>\$ 12</u>	<u>\$ 60</u>
Per ordinary share - diluted	<u>\$ 0.04</u>	<u>\$ 0.42</u>	<u>\$ 0.03</u>	<u>\$ 0.15</u>

Intangible asset amortization expense:

	4Q 2020	2020	4Q 2021	2021
Intangible asset amortization expense	\$ 89	\$ 354	\$ 118	\$ 444
Income tax benefit	20	82	27	83
Total after income taxes	<u>\$ 69</u>	<u>\$ 272</u>	<u>\$ 91</u>	<u>\$ 361</u>
Per ordinary share - diluted	<u>\$ 0.17</u>	<u>\$ 0.67</u>	<u>\$ 0.23</u>	<u>\$ 0.90</u>



Appendix

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Reconciliation of Non-GAAP Financial Information

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

	2021
Operating cash flow	\$ 2,163
Taxes paid on the Hydraulics sale	340
U.S. qualified pension plan contribution	200
Adjusted operating cash flow	2,703
Capital expenditures for property, plant and equipment	(575)
Adjusted free cash flow	\$ 2,128

Reconciliation of operating cash flow to free cash flow

	2022 Guidance (\$ Billions)	
	Low	High
Operating cash flow	\$ 3.0	\$ 3.2
Capital expenditures for property, plant and equipment	(0.65)	(0.65)
Free cash flow	\$ 2.35	\$ 2.55