



# Third Quarter 2022 Earnings Release

Craig Arnold & Tom Okray | November 1, 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 fourth quarter 2022 adjusted earnings per share, organic revenue growth, segment operating margins, impact from currency translation, tax rate and planned acquisitions and divestitures; full year 2022 operating cash flow, free cash flow, capital expenditures, share repurchases and corporate expenses; and progress toward our 2025 financial goals. 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 excluding certain items, adjusted earnings per share guidance for the fourth quarter and full year 2022, free cash flow guidance for full year 2022, adjusted operating cash flow for 2021 and adjusted free cash flow for 2021. These non-GAAP measures are reconciled to their nearest GAAP equivalent in the Appendix to this presentation.

# Highlights

Adjusted earnings per share of \$2.02, an all-time record, up 15% versus 3Q21.

Sales of \$5.3B up 8%, with accelerating organic revenue growth of 15%, at high end of guidance range.

All-time record segment margins of 21.2% in 3Q22, up 130 bps versus 3Q21 with incremental margins of 38%.

Accelerating growth in Electrical sector backlog up 75% and rolling 12-month orders up 27% and Aerospace backlog up 17% with rolling 12-month orders up 22%.

Positive momentum in cash flow generation with strong YoY growth in operating cash flow and free cash flow up 29% and 36%, respectively.<sup>(1)</sup>

# Electrical Growth Drivers

## Electrification

- ▶ Extensive manufacturing and **reshoring** announcements with \$1.3T of planned investments
- ▶ Increasing **electric vehicle** adoption requires charging infrastructure build-out
- ▶ **Fiscal stimulus** from 2021/2022 Infrastructure bills incentivizing electrification investments

## Energy transition

- ▶ Growing investment in **renewable energy** generation requires electrical infrastructure
- ▶ Accelerating demand for **microgrid solutions**, distributed energy resources and energy storage
- ▶ **Climate change** driving need for grid resiliency in utility distribution infrastructure

## Digitalization

- ▶ **Intelligent products** are driving higher selling prices and enabling more solutions
- ▶ **Data monetization** is creating new value proposition from unique data insights
- ▶ Selling **software and services** that improve operational efficiency

~\$700M of wins in Q3 driven by secular growth drivers

# Industrial Growth Drivers

## Vehicle Electrification

- ▶ Outlook for battery **electric vehicle** penetration accelerating
- ▶ Growing demand for **power protection** and **power electronics** solutions
- ▶ **Royal Power** opens up large and growing eMobility growth opportunity

## New Vehicle Applications

- ▶ Expanding number of commercial vehicle **engine brake opportunities**
- ▶ Large number of **electric vehicle gearing** opportunities
- ▶ Advanced variable valve actuation wins with **clean technology** solutions to lower emissions

## Aero Growth Cycle

- ▶ Commercial **air traffic recovery** with significant growth in aftermarket orders
- ▶ Commercial **OEM build rate** forecasted to grow mid teens through 2026
- ▶ Souriau and Mission Systems **acquisitions synergies** create new growth opportunities

>\$250M of wins in Q3 underpinned by secular growth drivers

# Financial Summary

(M)	3Q '22	3Q '21	V '21
Sales	\$5,313	\$4,923	▲ 8%
Segment Operating Profit	1,124	978	▲ 15%
Segment Operating Margin	21.2%	19.9%	▲ 130 bps
Adjusted Earnings	807	701	▲ 15%
Adjusted EPS	\$2.02	\$1.75	▲ 15%

<b>\$2.02</b>	<b>All-time Record</b> Adjusted earnings per share
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<b>\$1,124M</b>	<b>All-time Record</b> Segment operating profit
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<b>21.2%</b>	<b>All-time Record</b> Segment operating margin
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<b>Sales Growth:</b>	Organic	15%
	Acq./Divest.	(3)%
	Forex	(4)%
	<b>Total</b>	<b>8%</b>

# Electrical Americas Segment

(M)

	3Q '22	3Q '21	V '21
Sales	\$2,179	\$1,854	▲ 18%
Operating Profit	511	402	▲ 27%
Operating Margin	23.5%	21.7%	▲ 180 bps

- Order growth accelerated from +29% in Q2 to +36% in Q3 on a rolling 12-month basis organically with strength in data center, utility and industrial end markets
- Backlog up 97% to a new record
- All-time record sales, operating profit and margin

<b>Sales Growth:</b>	Organic	18%
	<b>Total</b>	<b>18%</b>

# Electrical Global Segment

(M)	3Q '22	3Q '21	V '21
Sales	\$1,486	\$1,421	▲ 5%
Operating Profit	305	285	▲ 7%
Operating Margin	20.6%	20.1%	▲ 50 bps

- Orders up 14% on a rolling 12-month basis organically with strength in commercial & institutional and industrial end markets
- Backlog growth of 22%
- All-time record operating profit and margin

Sales Growth:	
Organic	13%
Forex	(8)%
<b>Total</b>	<b>5%</b>

# Aerospace Segment

(M)	3Q '22	3Q '21	V '21
Sales	\$768	\$745	▲ 3%
Operating Profit	185	164	▲ 13%
Operating Margin	24.0%	22.0%	▲ 200 bps

- Orders up 22% on a rolling 12-month basis driven by strength in commercial and military markets
- Backlog growth of 17%

Sales Growth:	
Organic	8%
Forex	(5)%
<b>Total</b>	<b>3%</b>

# Vehicle Segment

(M)

	3Q '22	3Q '21	V '21
Sales	\$744	\$640	▲ 16%
Operating Profit	125	115	▲ 9%
Operating Margin	16.8%	18.0%	▼ (120) bps

- Organic growth driven by strength in North America auto and truck, along with South America vehicle markets

Sales Growth:	
Organic	19%
Forex	(3)%
<b>Total</b>	<b>16%</b>

# eMobility Segment

(M)	3Q '22	3Q '21	V '21
Sales	\$137	\$84	▲ 63%
Operating (Loss)	(2)	(8)	---
Operating Margin	(1.5)%	(9.5)%	▲ 800 bps

- Continued momentum to achieve growth goals with new platform wins for power protection solutions, including Breaktor
- Robust pipeline of opportunity for innovative power distribution, conversion and protection solutions

Sales Growth:	
Organic	17%
Acquisition	49%
Forex	(3)%
<b>Total</b>	<b>63%</b>

# 2022 Organic Growth and Operating Margin Guidance

Segment	Organic Growth Guidance	Operating Margin Guidance
Electrical Americas	13 – 15%	22.0% – 22.4%
Electrical Global	11.5% – 13.5%	19.5% – 19.9%
Aerospace	11 – 13%	22.3% – 22.7%
Vehicle	10 – 12%	16.3% – 16.7%
eMobility	17 – 19%	(1.0)% - 1.0%
<b>Eaton</b>	<b>11 – 13%</b>	<b>20.0% – 20.4%</b>

# 2022 Guidance

## 2022 Full Year Outlook

<b>Adjusted Earnings Per Share</b>	<b>\$7.51 – \$7.61</b>
Organic Revenue	11 – 13%
Currency Translation	(\$600)
Acquisition & Divestiture	(4)%
Segment Operating Margins	20.0% – 20.4%
Corporate Expenses	\$20M to \$40M above 2021
Tax Rate on Adjusted Earnings	16% – 17%
Operating Cash Flow	\$3.0B – \$3.2B
Free Cash Flow	\$2.35B – \$2.55B
Capex	\$650M
Share Repurchases	\$200M – \$300M

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

<b>Adjusted Earnings Per Share</b>	<b>\$2.00 – \$2.10</b>
Organic Revenue	13 – 15%
Currency Translation	(4)%
Acquisition & Divestiture	1%
Segment Operating Margins	20.5% – 20.9%
Corporate Expenses	\$10M to \$20M above 4Q21
Tax Rate on Adjusted Earnings	14.5% – 15.5%

# 2023 Eaton End Market Initial Assumptions

## Electrical Sector

% of Total Eaton Sales  
2022 FY Estimate

	<b>Data Centers &amp; Distributed IT</b>	16%
	<b>Industrial Facilities</b>	13%
	<b>Utility</b>	10%
	<b>Commercial &amp; Institutional</b>	19%
	<b>Machinery / MOEM</b>	5%
	<b>Residential</b>	7%

Electrical Total: 70%

## Industrial Sector

% of Total Eaton Sales  
2022 FY Estimate

	<b>Electric Vehicles</b>	3%
	<b>Commercial Aerospace</b>	8%
	<b>ICE Light Vehicles</b>	6%
	<b>Military Aerospace</b>	7%
	<b>Commercial Vehicles</b>	6%

Industrial Total: 30%

 Declining 
  Flat 
  Modest Growth 
  Solid Growth 
  Strong/Double Digit Growth

# Summary

Record results in Q3 with excellent margin performance driving 15% Adjusted EPS growth.

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

Higher quality company with increased long or no cycle business from transformative portfolio management delivering differentiated results.

Acceleration of order growth with strengthening backlog which remains at record levels and enhances visibility into 2023.

2022 on track for record financial performance including operating margins and Adjusted EPS.

Line of sight to meeting or exceeding 2025 targets for organic revenue growth, margin improvement and Adjusted EPS growth.

# 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, net income attributable to Eaton ordinary shareholders per share to adjusted earnings per ordinary share, and net income attributable to Eaton ordinary shareholders per share to adjusted earnings per ordinary share excluding certain items

	3Q 2021	4Q 2021	3Q 2022	Q4 2022 Guidance		2022 Guidance	
				Low	High	Low	High
Net income attributable to Eaton ordinary shareholders	\$ 629	\$ 551	\$ 607				
Acquisition and divestiture charges (income), after-tax	(52)	37	86				
Restructuring program charges, after-tax	25	12	18				
Intangible asset amortization expense, after-tax	99	91	97				
Adjusted earnings	\$ 701	\$ 691	\$ 807				
Net income attributable to Eaton ordinary shareholders per share - diluted	\$ 1.57	\$ 1.37	\$ 1.52	\$ 1.66	\$ 1.76	\$ 6.00	\$ 6.10
Per share impact of acquisition and divestiture charges (income), after-tax	(0.13)	0.09	0.21	0.07	0.07	0.40	0.40
Per share impact of restructuring program charges, after-tax	0.06	0.03	0.04	0.03	0.03	0.13	0.13
Per share impact of intangible asset amortization expense, after-tax	0.25	0.23	0.25	0.24	0.24	0.98	0.98
Adjusted earnings per ordinary share	\$ 1.75	\$ 1.72	\$ 2.02	\$ 2.00	\$ 2.10	\$ 7.51	\$ 7.61
Per share impact of Hydraulics segment operating profit, after-tax	(0.04)	-	-				
Per share impact of Royal Power Solutions operating profit, after-tax	-	-	(0.01)				
Per share impact of foreign currency translation, after-tax (estimate)	-	-	0.08				
Adjusted earnings per ordinary share excluding certain items	\$ 1.71		\$ 2.09				

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

	3Q 2021	4Q 2021	3Q 2022
Acquisition integration, divestiture charges and transaction costs	\$ 179	\$ 37	\$ 103
Gain on sale of the Hydraulics business	(617)	-	-
Total charges (income) before income taxes	(438)	37	103
Income tax expense (benefit)	386	-	(17)
Total charges (income) after income taxes	\$ (52)	\$ 37	\$ 86
Charges (income) per ordinary share - diluted	\$ (0.13)	\$ 0.09	\$ 0.21

#### Restructuring program charges:

	3Q 2021	4Q 2021	3Q 2022
Restructuring program charges	\$ 34	\$ 15	\$ 22
Income tax benefit	9	3	4
Total after income taxes	\$ 25	\$ 12	\$ 18
Per ordinary share - diluted	\$ 0.06	\$ 0.03	\$ 0.04

#### Intangible asset amortization expense:

	3Q 2021	4Q 2021	3Q 2022
Intangible asset amortization expense	\$ 126	\$ 118	\$ 124
Income tax benefit	27	27	27
Total after income taxes	\$ 99	\$ 91	\$ 97
Per ordinary share - diluted	\$ 0.25	\$ 0.23	\$ 0.25



Powering Business Worldwide

# 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 free cash flow

Operating cash flow  
Capital expenditures for property, plant and equipment  
Free cash flow

3Q 2022	2022 Guidance (\$ Billions)	
	Low	High
\$ 965	\$ 3.0	\$ 3.2
(135)	(0.65)	(0.65)
<u>\$ 830</u>	<u>\$ 2.35</u>	<u>\$ 2.55</u>

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

Operating cash flow  
Taxes paid on the Hydraulics sale  
Adjusted operating cash flow  
Capital expenditures for property, plant and equipment  
Adjusted free cash flow

3Q 2021	
\$ 471	
279	
<u>750</u>	
(140)	
<u>\$ 610</u>	