



Fourth Quarter 2022 Earnings Release

Craig Arnold & Tom Okray | February 8, 2023

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 first quarter and full year 2023, free cash flow guidance for full year 2023, 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 \$2.06 in Q4 up 20% versus 4Q21 and \$7.57 for the full year 2022 up 14% versus 2021 are both all-time records.





Sales of \$5.4B up 12%, with organic revenue growth of 15%.

Record segment margins of 20.8% in 4Q22, up 150 bps versus 4Q21 with incremental margins of 33%.

Strong growth in Electrical sector backlog up 68% and rolling 12-month orders up 25%. Aerospace backlog up 21% with rolling 12-month orders up 24%.

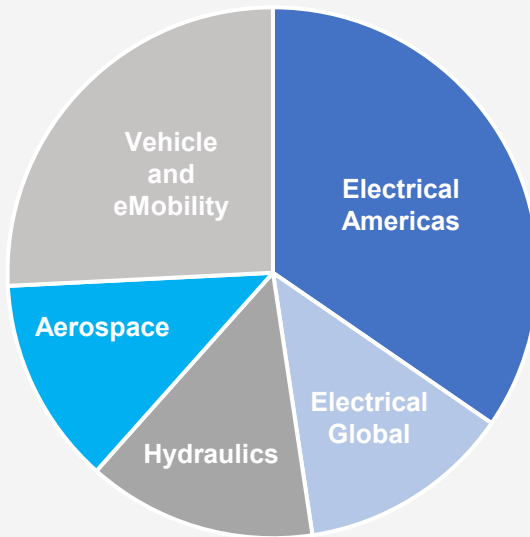
All-time record full year results in 2022 including segment margins and adjusted EPS.

2022 Financial Highlights

	Original Guidance	Guidance as of Q3	Actual	
Organic Revenue	7 – 9%	11 – 13%	13%	
Segment Margins	19.9 – 20.3%	20.0 – 20.4%	20.2%	
Adjusted EPS	\$7.30 – \$7.70	\$7.51 – \$7.61	\$7.57	
Free Cash Flow	\$2.35B – \$2.55B	\$2.35B – \$2.55B	\$1.94B	

Over the past decade we have fundamentally changed the company...

2012 Profit



Improved performance

~640 bps expansion in segment margin

Disciplined capital allocation

~\$13B invested in capex and R&D

~\$20B invested in acquisitions

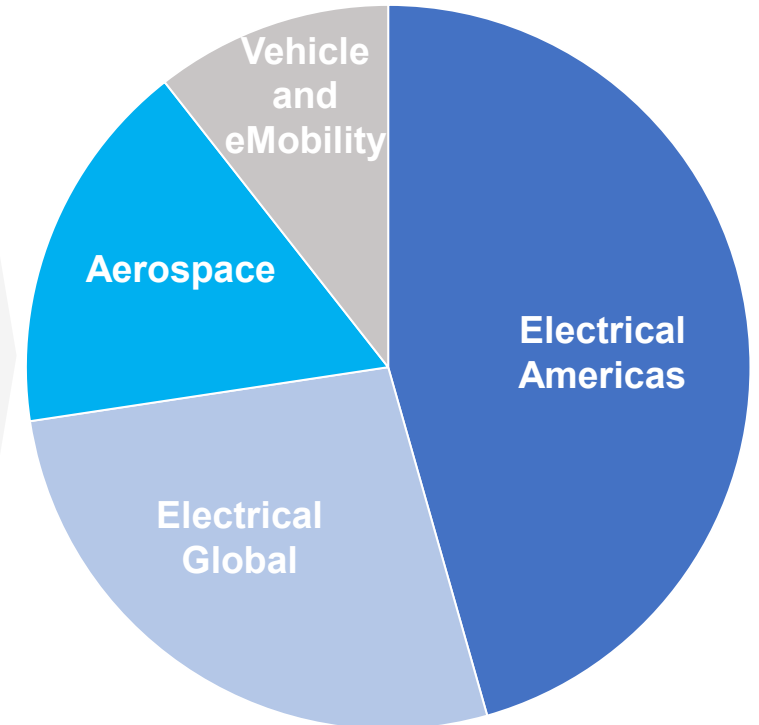
~\$7B share repurchases

Portfolio transformation

Key acquisitions: Cooper, Souriau, Cobham Mission Systems, TrippLite

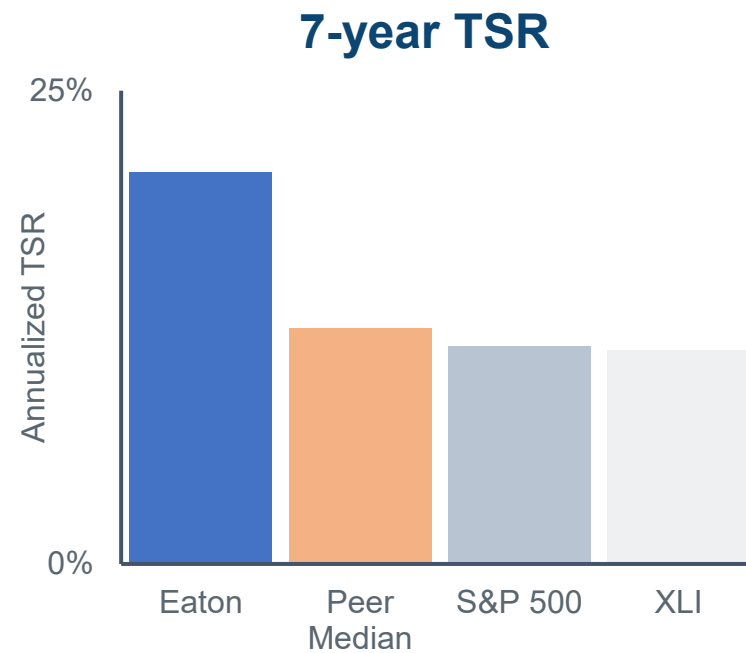
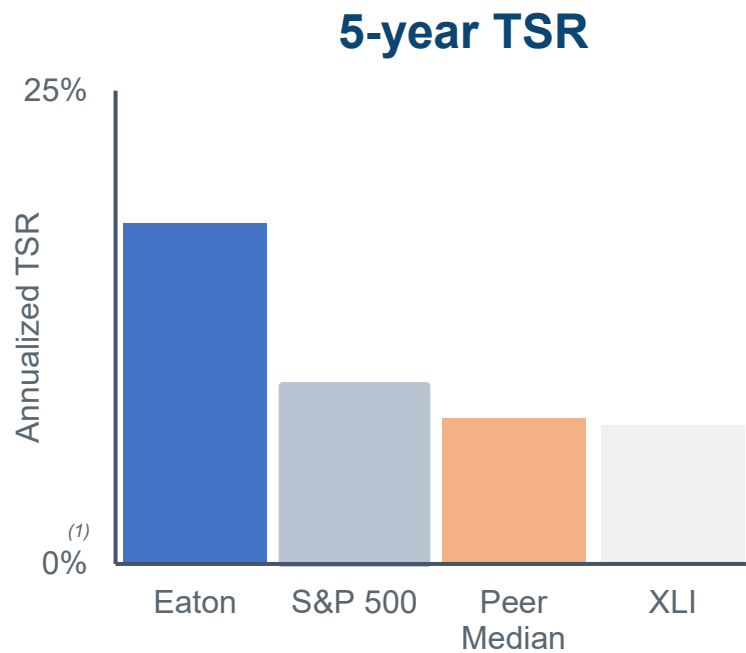
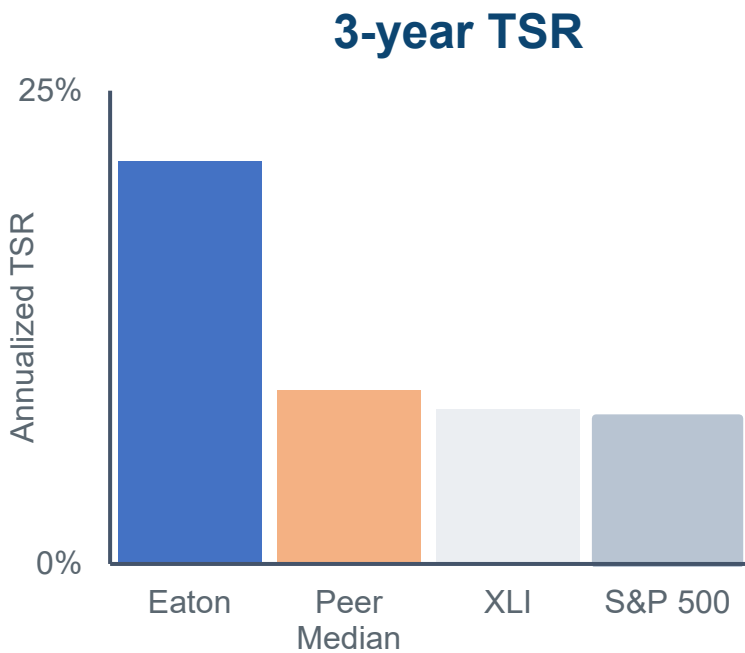
Key divestitures: Hydraulics, Lighting, Automotive Fluid Conveyance, Cummins JV

2022 Profit

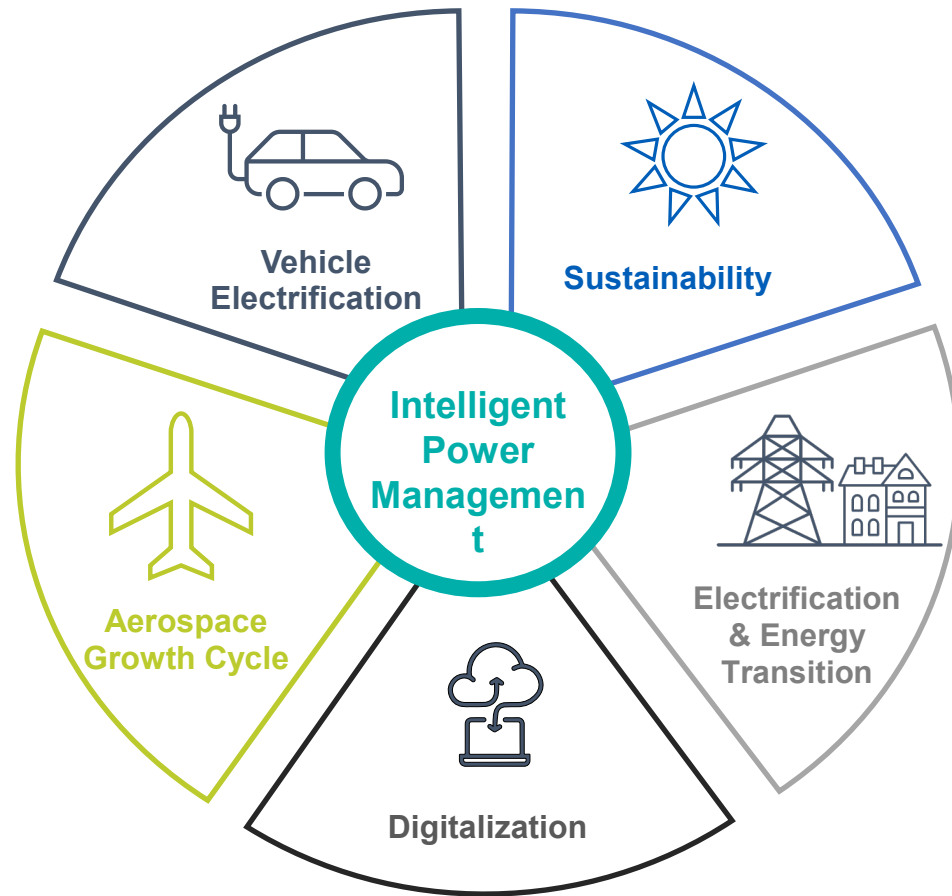


~90% of profit from Electrical and Aerospace

...which has delivered strong and differentiated total shareholder returns



Transformation has positioned ETN in sweet spot of megatrends shaping the global economy...



Sustainability: Climate change, energy efficiency and increasing regulations require new solutions

Electrification & Energy Transition: Increase in global electricity demand, adoption of renewables and changing grid will continue to drive growth

Digitalization: Interconnectivity of products and systems are leading to new business models

Aerospace Growth Cycle: Commercial air traffic recovery driving OEM and aftermarket growth combined with increased defense spending

Vehicle Electrification: Robust EV penetration and increasing electrification for commercial vehicles powering growth

Driving accelerating long term organic growth

...supported by unprecedented government stimulus globally to advance energy transition and sustainability

Impacting end markets representing more than 50% of Eaton revenues including:

Transportation



Airports, Ports, Rail

Water, Wastewater



EVCI



Grid Mod



Utilities & Hydro

Buildings



Education, Healthcare, Affordable Housing, Government Buildings

Residential



US Infrastructure & IRA: **\$450B** grid modernization, climate and energy programs

EU Recovery Plan: **€240B** energy transition

China “1+N” Policy Framework: Large investments in renewables, EVCI and grid infrastructure

Increases ETN's total addressable market in the U.S. and EU by **\$11B to \$14B** over next 5 years

Financial Summary

(M)	4Q '22	4Q '21	V '21
Sales	\$5,384	\$4,798	▲ 12%
Segment Operating Profit	1,117	926	▲ 21%
Segment Operating Margin	20.8%	19.3%	▲ 150 bps
Adjusted Earnings	825	691	▲ 19%
Adjusted EPS	\$2.06	\$1.72	▲ 20%

\$2.06	All-time Record Adjusted earnings per share
\$1,117M	4 th Quarter Record Segment operating profit
20.8%	4 th Quarter Record Segment operating margin

Sales Growth:	Organic	15%
	Acquisition	1%
	Forex	(4)%
	Total	12%

Electrical Americas Segment

(M)

	4Q '22	4Q '21	V '21
Sales	\$2,296	\$1,917	▲ 20%
Operating Profit	545	368	▲ 48%
Operating Margin	23.7%	19.2%	▲ 450 bps

- Orders up 34% on a rolling 12-month basis with growth remaining at high levels and strength driven by data center, utility and industrial markets
- Backlog up 87% to a new record
- All-time record sales, operating profit and margin

Sales Growth:

Organic	20%
Total	20%

Electrical Global Segment

(M)

	4Q '22	4Q '21	V '21
Sales	\$1,430	\$1,424	▲ ---
Operating Profit	268	277	▼ (3)%
Operating Margin	18.7%	19.5%	▼ 80 bps

- Orders up 11% on a rolling 12-month basis with particular strength in data center and commercial markets
- Backlog growth of 17%
- All-time record Q4 sales and full year sales, operating profit and margins

Sales Growth:

Organic	8%
Forex	(7)%
Divestiture	(1)%
Total	---

Aerospace Segment

(M)

	4Q '22	4Q '21	V '21
Sales	\$812	\$759	▲ 7%
Operating Profit	199	189	▲ 5%
Operating Margin	24.5%	24.9%	▼ 40 bps

- Order growth accelerated from +22% in Q3 to +24% in Q4 on a rolling 12-month basis driven by strength in commercial and military markets, including aftermarket up nearly 30%
- Backlog growth of 21%
- All-time record sales and operating profit

Sales Growth:

Organic	11%
Forex	(4)%
Total	7%

Vehicle Segment

(M)

	4Q '22	4Q '21	V '21
Sales	\$707	\$610	▲ 16%
Operating Profit	107	100	▲ 7%
Operating Margin	15.2%	16.4%	▼ (120) bps

- Organic growth driven by strength in North America auto and truck, along with South America vehicle markets
- Secured wins in new and sustainable technologies including EV gearing and transmissions with a growing opportunity pipeline

Sales Growth:

Organic	18%
Forex	(2)%
Total	16%

eMobility Segment

(M)

	4Q '22	4Q '21	V '21
Sales	\$139	\$88	▲ 58%
Operating Profit (Loss)	(2)	(8)	▲ NM
Operating Margin	(1.3)%	(9.1)%	▲ 780 bps

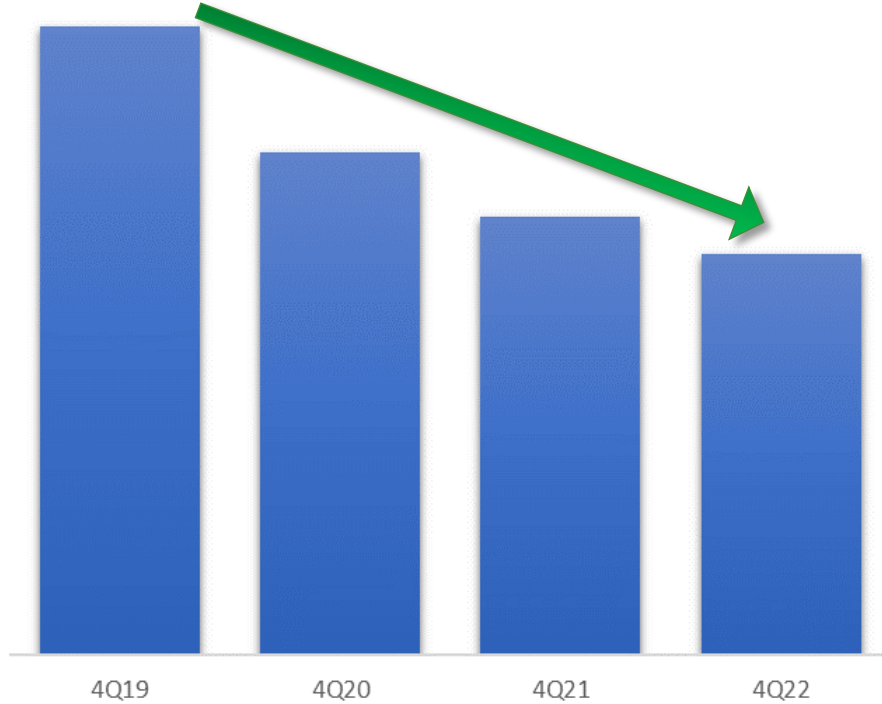
- Over \$1.4B in wins since eMobility was launched in 2018
- Won new \$400M program starting in 2024 with European customer by leveraging capabilities in both Electrical and Industrial businesses including Breaktor technology, Vehicle expertise and Royal Power components.

Sales Growth:

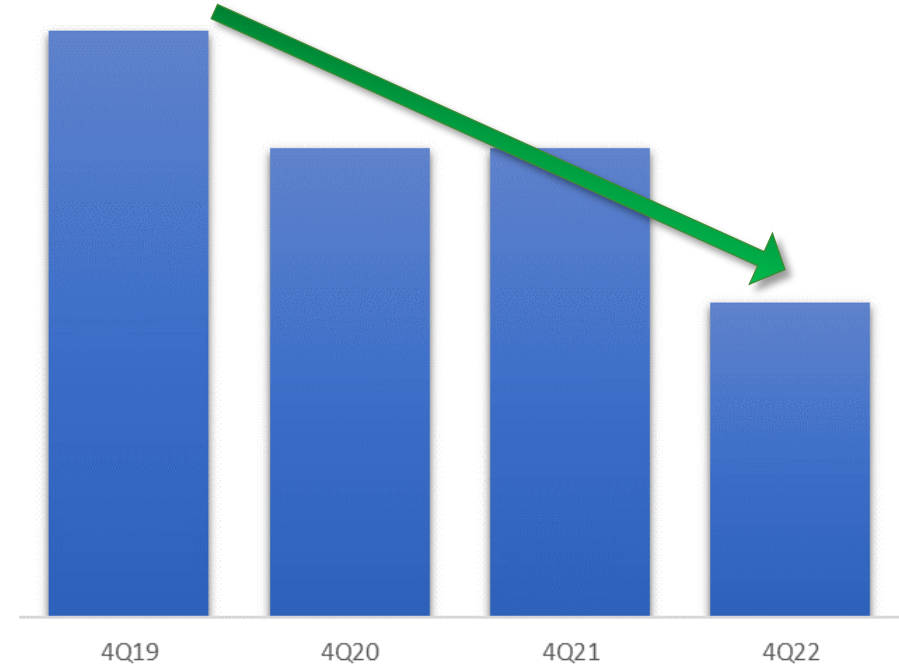
Organic	17%
Acquisition	44%
Forex	(3)%
Total	58%

Adding working capital but improving our efficiency

Net Working Capital to Trailing 12 Month
Electrical & Aerospace Orders



Electrical & Aerospace
Inventory as % of Backlog



2023 Organic Growth and Operating Margin Guidance

Segment	Organic Growth Guidance	Operating Margin Guidance
Electrical Americas	8 – 10%	23.1% – 23.5%
Electrical Global	4 – 6%	19.5% – 19.9%
Aerospace	8 – 10%	23.7% – 24.1%
Vehicle	3 – 5%	16.3% – 16.7%
eMobility	30 – 40%	2.0% - 4.0%
Eaton	7 – 9%	20.7% – 21.1%

2023 Guidance

2023 Full Year Outlook







Adjusted Earnings Per Share	\$8.04 – \$8.44
Organic Revenue	7 – 9%
Currency Translation	(\$100)M – (\$200)M
Segment Operating Margins	20.7% – 21.1%
Corporate Expenses	\$700M
Tax Rate on Adjusted Earnings	16% – 17%
Operating Cash Flow	\$3.2B – \$3.6B
Free Cash Flow	\$2.6B – \$3.0B
Capex	\$630M
Share Repurchases	\$300M – \$600M

1st Quarter Outlook

Adjusted Earnings Per Share	\$1.72 – \$1.82
Organic Revenue	8 – 10%
Currency Translation	(\$75)M
Segment Operating Margins	19.5% – 19.9%
Corporate Expenses	\$25M to \$30M above 1Q22
Tax Rate on Adjusted Earnings	16.5% – 17.5%






2023 Eaton End Market Assumptions

Electrical Sector

% of Total Eaton Sales 2022 FY		
	Data Centers & Distributed IT	14%
	Industrial Facilities	12%
	Utility	10%
	Commercial & Institutional *	19%
	Machinery / MOEM	6%
	Residential	8%

Electrical Total: ~70%

Industrial Sector

% of Total Eaton Sales 2022 FY		
	Electric Vehicles	3%
	Commercial Aerospace	9%
	ICE Light Vehicles	6%
	Military Aerospace	6%
	Commercial Vehicles	8%

Industrial Total: ~30%

 Declining  Flat  Modest Growth  Solid Growth  Strong/Double Digit Growth

* Denotes change in market assumption versus prior quarter outlook

Summary

Portfolio transformation positions Eaton for differentiated results across economic cycles.

Achieved record financial performance in 2022 and realizing benefits from secular growth tailwinds.

Record backlogs and solid orders provides unparalleled visibility for 2023.

Record earnings results in Q4 with strong margin performance driving 20% Adjusted EPS growth.

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



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. Columns may not add due to rounding.

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

	4Q 2021	2021	4Q 2022	2022	Q1 2023 Guidance		2023 Guidance	
					Low	High	Low	High
Net income attributable to Eaton ordinary shareholders	\$ 551	\$ 2,144	\$ 721	\$ 2,462				
Acquisition and divestiture charges, after-tax	37	94	14	147				
Restructuring program charges (income), after-tax	12	60	(10)	29				
Intangible asset amortization expense, after-tax	91	361	99	394				
Adjusted earnings	<u>\$ 691</u>	<u>\$ 2,659</u>	<u>\$ 825</u>	<u>\$ 3,032</u>				
Net income attributable to Eaton ordinary shareholders per share - diluted	\$ 1.37	\$ 5.34	\$ 1.80	\$ 6.14	\$ 1.40	\$ 1.50	\$ 6.91	\$ 7.31
Per share impact of acquisition and divestiture charges, after-tax	0.09	0.23	0.04	0.37	0.05	0.05	0.20	0.20
Per share impact of restructuring program charges (income), after-tax	0.03	0.15	(0.02)	0.07	0.02	0.02	0.07	0.07
Per share impact of intangible asset amortization expense, after-tax	0.23	0.90	0.24	0.99	0.25	0.25	0.86	0.86
Adjusted earnings per ordinary share	<u>\$ 1.72</u>	<u>\$ 6.62</u>	<u>\$ 2.06</u>	<u>\$ 7.57</u>	<u>\$ 1.72</u>	<u>\$ 1.82</u>	<u>\$ 8.04</u>	<u>\$ 8.44</u>
Per share impact of foreign currency translation, after-tax (estimate)			0.05					
Adjusted earnings per ordinary share excluding certain items			<u>\$ 2.11</u>					

Acquisition and divestiture charges (income):

	4Q 2021	2021	4Q 2022	2022
Acquisition integration, divestiture charges and transaction costs	\$ 37	\$ 349	\$ 12	\$ 194
Gain on sale of the Hydraulics business	-	(617)	-	(24)
Total charges (income) before income taxes	37	(268)	12	170
Income tax expense (benefit)	-	362	2	(23)
Total charges after income taxes	<u>\$ 37</u>	<u>\$ 94</u>	<u>\$ 14</u>	<u>\$ 147</u>
Per ordinary share - diluted	<u>\$ 0.09</u>	<u>\$ 0.23</u>	<u>\$ 0.04</u>	<u>\$ 0.37</u>

Restructuring program charges (income):

	4Q 2021	2021	4Q 2022	2022
Restructuring program charges (income)	\$ 15	\$ 78	\$ (16)	\$ 33
Income tax expense (benefit)	(3)	(18)	6	(4)
Total charges (income) after income taxes	<u>\$ 12</u>	<u>\$ 60</u>	<u>\$ (10)</u>	<u>\$ 29</u>
Per ordinary share - diluted	<u>\$ 0.03</u>	<u>\$ 0.15</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>

Intangible asset amortization expense:

	4Q 2021	2021	4Q 2022	2022
Intangible asset amortization expense	\$ 118	\$ 444	\$ 124	\$ 499
Income tax benefit	27	83	25	105
Total after income taxes	<u>\$ 91</u>	<u>\$ 361</u>	<u>\$ 99</u>	<u>\$ 394</u>
Per ordinary share - diluted	<u>\$ 0.23</u>	<u>\$ 0.90</u>	<u>\$ 0.24</u>	<u>\$ 0.99</u>

Eaton Corporation plc

Reconciliation of Non-GAAP Financial Information

All amounts are in millions except per share amounts, unless otherwise noted. Columns may not add due to rounding.

Reconciliation of operating cash flow to free cash flow

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

4Q 2022	2022	2023 Guidance (\$ Billions)	
		Low	High
\$ 1,186	\$ 2,533	\$ 3.2	\$ 3.6
(209)	(598)	(0.63)	(0.63)
<u>\$ 977</u>	<u>\$ 1,935</u>	<u>\$ 2.6</u>	<u>\$ 3.0</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

4Q 2021
<u>\$ 795</u>
61
<u>856</u>
(163)
<u>\$ 693</u>