



# Second Quarter 2020 Earnings Release

## July 29, 2020

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# Forward-looking Statements and Non-GAAP Financial Information

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This presentation or the comments we make on our call today contain forward-looking statements concerning, among other matters, 2020 full year free cash flow, capital expenditures, decremental margins, tax rate, and share buybacks; 2020 third quarter revenues and decremental margins; 2030 sustainability targets; expected restructuring program costs and benefits; and our long-term strategic direction, organic growth, segment margins, earnings per share growth, dividend policy and free cash flow. 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. A reconciliation of those measures to the most directly comparable GAAP equivalent is provided in the investor relations section of our website at [www.eaton.com](http://www.eaton.com).

# Recent Highlights

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- Earnings per share of \$0.13
- Adjusted earnings per share of \$0.70, excluding charges of (\$0.20) per share related to acquisitions and divestitures and (\$0.37) per share related to multi-year restructuring program
- Sales of \$3.9B
  - Organic revenue down (22)%
  - Currency translation (2)%, acquisitions +2%, divestitures (8)%
- Segment margins of 14.7%
  - Decremental margins of 25.0%
- Announced \$280M multi-year restructuring program, including \$187M in 2Q20, to reduce structural costs in select end-markets where we expect the recovery from the pandemic will take several years
- Operating cash flow of \$757M and free cash flow of \$667M
- Reaffirming 2020 guidance midpoint of \$2.5B of free cash flow
- Announced 2030 sustainability goals

# Creating a Sustainable Enterprise: 2030 ESG goals

## Growth & customer solutions

- Invest **\$3B** in R&D to create sustainable product solutions
- \*Reduce emissions from our installed base of products and upstream sources by **15%**
- Leverage our leadership in providing **efficient solutions** to accelerate global energy transition

## Operational excellence

- \*Reduce our GHG emissions in our operations **50%** from 2018 levels
- Achieve carbon neutrality in our operations by **2030**
- Certify **100%** of our manufacturing sites as zero waste-to-landfill

## Employee development and engagement

- Achieve and maintain employee engagement scores of **80% or higher**
- Record **250,000 hours** of employee volunteer time annually
- Provide **12 hours** of training and development per employee per year

*\*goals support Eaton's commitment to achieve a global science-based carbon reduction target*

# Financial Summary

(M)	<u>2Q '20</u>	<u>2Q '19</u>		<u>V '19</u>
Sales	\$3,856	\$5,533	↓	30%
Segment Operating Profit	568	988	↓	43%
Segment Operating Margin	14.7%	17.9%	↓	320 bps
Net Income	51	636	↓	92%
Adjusted Earnings	279 <sup>(1)</sup>	650	↓	57%
Adjusted EPS	\$0.70 <sup>(1)</sup>	\$1.53	↓	54%

Sales Growth:	Organic	(22)%
	Acquisition / Divestiture	(6)%
	Forex	(2)%
	<b>Total</b>	<b>(30)%</b>

- Earnings per share \$0.13
- Adjusted earnings per share \$0.70 <sup>(1)</sup>

*(1) Excluding charges of \$103M (\$80M after-tax) related to Acquisitions & Divestitures and \$187M (\$148M after-tax) from multi-year restructuring program*

# Electrical Americas Segment

(M)	<u>2Q '20</u>	<u>2Q '19</u>		<u>V '19</u>
Sales	\$1,490	\$2,085	↓	29%
Operating Profit	308	404	↓	24%
Operating Margin	20.7%	19.4%	↑	130 bps

Sales Growth:	Organic	(9)%
	Acquisition / Divestiture	(19)%
	Forex	(1)%
	Total	(29)%

- Organic revenues down (9)%
- Orders up 2.1% on a rolling 12 month basis. In the current quarter, growth was strongest in residential and utility markets, with continued weakness in industrial markets.
- Backlog up 11% y-o-y

# Electrical Global Segment

(M)	<u>2Q '20</u>	<u>2Q '19</u>	<u>V '19</u>
Sales	\$1,111	\$1,324	↓ 16%
Operating Profit	178	233	↓ 24%
Operating Margin	16.0%	17.6%	↓ 160 bps

Sales Growth:	Organic	(14)%
	Forex	(2)%
	Total	(16)%

- Orders down (4.6)% on a rolling 12 month basis. In the current quarter, declines were driven by global oil & gas markets and industrial markets.
- Backlog up 2% y-o-y

# Hydraulics Segment

(M)	<u>2Q '20</u>	<u>2Q '19</u>	<u>V '19</u>
Sales	\$411	\$603	↓ 32%
Operating Profit	37	53	↓ 30%
Operating Margin	9.0%	8.8%	↑ 20 bps

Sales Growth:	Organic	(30)%
	Forex	(2)%
	Total	<u>(32)%</u>

- Q2 orders down (33.7)% versus prior year driven by continued weakness at both OEMs and distributors.

# Aerospace Segment

(M)	<u>2Q '20</u>	<u>2Q '19</u>	<u>V '19</u>
Sales	\$461	\$634	↓ 27%
Operating Profit	68	155	↓ 56%
Operating Margin	14.8%	24.4%	↓ 9.6 pts

Sales Growth:	Organic	(35)%
	Acquisition	8%
	Total	(27)%

- Orders down (12.8)% on rolling 12 month basis. In the second quarter, we saw particular weakness in commercial OEM and aftermarket.
- Backlog down (5)% y-o-y

# Vehicle Segment

(M)	<u>2Q '20</u>	<u>2Q '19</u>	<u>V '19</u>
Sales	\$327	\$803	↓ 59%
Operating Profit (Loss)	(21)	136	--
Operating Margin	(6.4)%	16.9%	↓ 23.3 pts

Sales Growth:	Organic	(52)%
	Divestiture	(4)%
	Forex	(3)%
	Total	(59)%

- Global light vehicle market production down (55)% in Q2
- 2020 NAFTA Class 8 production forecast of 175K, down from prior forecast of 180K

# eMobility Segment

(M)	<u>2Q '20</u>	<u>2Q '19</u>	<u>V '19</u>
Sales	\$56	\$84	↓ 33%
Operating Profit (Loss)	(2)	7	--
Operating Margin	(3.6)%	8.3%	↓ 11.9 pts

Sales Growth:	Organic	<u>(33)%</u>
	Total	(33)%

- Approximately \$500M of mature year revenue wins since formation in 1Q 2018

# We are Accelerating and Expanding our Restructuring Actions

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- Accelerating and expanding our restructuring actions with multi-year program with \$280M of spending, yielding \$200M of mature year benefits.
- Restructuring charge of \$187M in 2Q20 with expected additional costs of \$93M through 2022 including:
  - \$33M 2H 2020
  - \$55M 2021
  - \$5M 2022
- Principal end markets affected are commercial aerospace, oil and gas, NAFTA Class 8 trucks and North American / European light vehicles.

# 3Q 2020 Organic Revenues and End Market Outlook

Segment	3Q 2020 Organic Revenue YoY		Key market drivers (Y-o-Y)
Electrical Americas	(2) - 2%	<ul style="list-style-type: none"> <li>+</li> <li>+</li> <li>+</li> <li>●</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>Residential markets relatively strong with slight Y/Y decline in housing starts offset by higher electrical content</li> <li>Utilities markets have shown strong resilience throughout COVID and should remain positive in Q3</li> <li>Data center markets positive as some customers continue to expand aggressively</li> <li>Commercial flat to down slightly driven by pandemic issues mitigated by project restarts</li> <li>Industrial markets down significantly, with no oil &amp; gas recovery projected in 2020 and industrial capex cut</li> </ul>
Electrical Global	(14) - (10)%	<ul style="list-style-type: none"> <li>+</li> <li>●</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>APAC markets up as infrastructure and building construction rebounds while data center also shows growth</li> <li>EMEA construction and industrial markets expected to decline in Q3 despite improvement from Q2</li> <li>Oil and gas markets to decline significantly amid capex pullback</li> </ul>
Aerospace	(32) - (28)%	<ul style="list-style-type: none"> <li>+</li> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>Continued strength in military market</li> <li>Commercial OEM weakness as airlines defer deliveries and production schedules are reduced</li> <li>Commercial aftermarket severely impacted by aircraft groundings and reduced air travel</li> </ul>
Vehicle	(34) - (30)%	<ul style="list-style-type: none"> <li>+</li> <li>-</li> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>China markets strong on infrastructure push, fuel incentives, and improving economy</li> <li>Class 8 truck market down but sentiment better as freight continues to improve and orders exceed expectations</li> <li>U.S. LMV market only down single digits as OEMs rush to rebuild depleted inventory</li> <li>Brazil and India markets still struggling to find footing after months of closures and lingering effects</li> </ul>
eMobility	(17) - (13)%	<ul style="list-style-type: none"> <li>●</li> </ul>	<ul style="list-style-type: none"> <li>Growing governmental incentives should help BEV market in Q3, but ICE platforms still down</li> </ul>
Hydraulics	(27) - (23)%	<ul style="list-style-type: none"> <li>+</li> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>China construction equipment markets should continue to see boost from infrastructure spending</li> <li>Hydraulics inventory levels should stabilize after significant destocking</li> <li>End market demand for mobile equipment will still remain negative in U.S./Europe</li> </ul>
Eaton	(17) - (13)%		

# Q3 and 2020 Outlook

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## Income Statement

- Q3 Organic Growth: Down (13) – (17)%, including down low double digits in July
- Q3 Margins: Targeting decremental margins of (25) – (30)%
- 2020 Margins: Reaffirm decremental margins of (25) – (30)%
- 2020 Tax Rate on Adjusted Earnings: Estimated range of 15% to 16%

## Free Cash Flow

- 2020 Capex: Reaffirm capex spending of approximately \$400M
- 2020 Free Cash Flow: Reaffirm guidance range of \$2.3B to \$2.7B
- 2020 Share Buyback: Targeting \$1.7B to \$1.9B, including \$1.3B completed in 1Q20

# Summary

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- Strategic direction to become intelligent power management company supported by macro trends of electrification, energy transition, IoT and blended power
- Financial objectives include higher secular growth, higher margins and more earnings consistency
- Goals over planning horizon include 2-3% organic growth, 20% segment margins, 8-9% EPS growth and \$3B of free cash flow
- Continue to deliver strong and resilient free cash flow
- Good stewards of capital with strong balance sheet, attractive growing dividend and commitment to share repurchases
- Strong track record of being a disciplined acquirer while actively managing the portfolio

**EATON**

*Powering Business Worldwide*

# Eaton Corporation plc

## Reconciliation of Non-GAAP Financial Information

All numbers \$M except per share numbers, 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

	2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2019 YTD	1Q 2020	2Q 2020	2020 YTD
Net Income attributable to Eaton ordinary shareholders	\$ 2,145	\$ 522	\$ 636	\$ 601	\$ 452	\$ 2,211	\$ 438	\$ 51	\$ 489
Acquisition and divestiture charges (after-tax)	-	11	14	35	114	174	9	80	89
Restructuring program charges (after-tax)	-	-	-	-	-	-	-	148	148
Adjusted earnings	<u>\$ 2,145</u>	<u>\$ 533</u>	<u>\$ 650</u>	<u>\$ 636</u>	<u>\$ 566</u>	<u>\$ 2,385</u>	<u>\$ 447</u>	<u>\$ 279</u>	<u>\$ 726</u>
Net income attributable to Eaton ordinary shareholders per share - diluted	\$ 4.91	\$ 1.23	\$ 1.50	\$ 1.44	\$ 1.09	\$ 5.25	\$ 1.07	\$ 0.13	\$ 1.20
Per share impact of acquisition and divestiture charges (after-tax)	-	0.03	0.03	0.08	0.28	0.42	0.02	0.20	0.22
Per share impact of restructuring program charges (after-tax)	-	-	-	-	-	-	-	0.37	0.37
Adjusted earnings per ordinary share	<u>\$ 4.91</u>	<u>\$ 1.26</u>	<u>\$ 1.53</u>	<u>\$ 1.52</u>	<u>\$ 1.37</u>	<u>\$ 5.67</u>	<u>\$ 1.09</u>	<u>\$ 0.70</u>	<u>\$ 1.79</u>

### Reconciliation of Electrical Americas operating profit excluding the divested Lighting business

	2Q 2019
Electrical Americas operating profit as reported (including Lighting)	\$ 404
Lighting operating profit	38
Electrical Americas operating profit (excluding Lighting)	<u>\$ 366</u>

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

	2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2019 YTD	1Q 2020	2Q 2020	2020 YTD	2020 Guidance (\$ Billions)	
										Low	High
Operating cash flow	\$ 2,658	\$ 551	\$ 880	\$ 1,083	\$ 937	\$ 3,451	\$ 323	\$ 757	\$ 1,080	\$ 2.7	\$ 3.1
Capital expenditures	565	149	149	143	146	587	112	90	202	0.4	0.4
Free cash flow	<u>\$ 2,093</u>	<u>\$ 402</u>	<u>\$ 731</u>	<u>\$ 940</u>	<u>\$ 791</u>	<u>\$ 2,864</u>	<u>\$ 211</u>	<u>\$ 667</u>	<u>\$ 878</u>	<u>\$ 2.3</u>	<u>\$ 2.7</u>

### Methodology for calculations

Free cash flow = cash flow from operations - capital expenditures