



# Second Quarter 2019 Earnings Release

## July 30, 2019

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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, performance of our worldwide end markets, third quarter and full year 2019 adjusted earnings per share, expected organic revenue, segment operating margins and tax rate; full year 2019, capital expenditures, foreign currency exchange impact, corporate expenses, cash flow, projected revenue growth and share repurchases. 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: 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 integrating acquisitions; 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).

# Highlights of Q2 Results

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- Earnings per share of \$1.50
- Adjusted earnings per share of \$1.53, excluding transaction and integration costs related to acquisitions and divestitures
  - Up 10% over Q2 2018
- Sales of \$5.5B
  - Organic revenues up 2.5%
  - Currency translation (1.5)%
- All-time record segment margins of 17.9%, 90 basis points above Q2 2018, excluding transaction and integration costs related to acquisitions and divestitures
- All-time record margins in Electrical Products, ES&S and Aerospace
- Operating cash flow of \$880M, up 76% vs. 2Q18 and a Q2 record
- Repurchased \$260M of shares in the quarter and \$410M of shares YTD, representing 1.2% of shares outstanding at beginning of 2019

# Financial Summary

(M)	<u>2Q '19</u>	<u>2Q '18</u>	<u>V '18</u>
Sales	\$5,533	\$5,487	↑ 1%
Segment Operating Profit as Reported	986	932	↑ 6%
Acquisition and Divestiture Transaction Costs	(2)	---	
Segment Operating Profit	988	932	↑ 6%
Segment Operating Margin	17.9%	17.0%	↑ 90 bps
Net Income	636	610	↑ 4%
Adjusted Earnings	650	610	↑ 7%
Adjusted EPS	\$1.53	\$1.39	↑ 10%

Sales Growth:	Organic	2.5%
	Forex	(1.5)%
	Total	1%

- Earnings per share \$1.50
- Adjusted earnings per share \$1.53

# Electrical Products Segment

(M)	<u>2Q '19</u>	<u>2Q '18</u>	<u>V '18</u>
Sales	\$1,849	\$1,806	↑ 2%
Operating Profit as Reported	\$361	334	↑ 8%
Acquisition & Divestiture Transaction Costs	(1)	---	
Segment Operating Profit	362	334	↑ 8%
Operating Margin	19.6%	18.5%	↑ 110 bps

Sales Growth:	Organic	4%
	Forex	(2)%
	Total	2%

- Orders up 1% driven by continued growth in residential and commercial construction markets in the Americas, partially offset by softness in industrial markets
- Backlog up 4%
- All-time record margins of 19.6%

# Electrical Systems & Services Segment

(M)	<u>2Q '19</u>	<u>2Q '18</u>	<u>V '18</u>
Sales	\$1,582	\$1,513	↑ 5%
Operating Profit as Reported	\$275	227	↑ 21%
Acquisition & Divestiture Transaction Costs	(1)	---	
Segment Operating Profit	276	227	↑ 22%
Operating Margin	17.4%	15.0%	↑ 240 bps

Sales Growth:	Organic	5%
	Acquisition	1%
	Forex	(1)%
	Total	5%

- Orders up 3% on a rolling 12 month basis led by growth across all regions, excluding hyperscale data centers orders up 8%
- Backlog up 2%
- All-time record margins of 17.4%

# Hydraulics Segment

(M)	<u>2Q '19</u>	<u>2Q '18</u>	<u>V '18</u>
Sales	\$698	\$723	↓ 3%
Segment Operating Profit	80	101	↓ 21%
Operating Margin	11.5%	14.0%	↓ 250 bps

Sales Growth:	Organic	0%
	Forex	(3)%
	Total	(3)%

- Orders down (8)% driven by continued weakness in global mobile equipment market
- Backlog down (12)%

# Aerospace Segment

(M)	<u>2Q '19</u>	<u>2Q '18</u>	<u>V '18</u>
Sales	\$517	\$463	↑ 12%
Segment Operating Profit	127	90	↑ 41%
Operating Margin	24.6%	19.4%	↑ 520 bps

Sales Growth:	Organic	13%
	Forex	(1)%
	Total	12%

- Orders up 15% on rolling 12 month basis with particular strength in commercial transports, military fighters and commercial aftermarkets
- Backlog up 17%
- All-time record margins of 24.6%
- In July, announced commitment to acquire Souriau-Sunbank Connection Technologies



# Vehicle Segment

(M)	<u>2Q '19</u>	<u>2Q '18</u>	<u>V '18</u>
Sales	\$803	\$899	↓ 11%
Segment Operating Profit	136	166	↓ 18%
Operating Margin	16.9%	18.5%	↓ 160 bps

Sales Growth:	Organic	(9)%
	Forex	(2)%
	Total	(11)%

- 2019 NAFTA Class 8 production forecast 324K units
- Eaton Cummins JV revenues up 11% in Q2
- Global light vehicle markets down ~7% in Q2

# eMobility Segment

(M)	<u>2Q '19</u>	<u>2Q '18</u>	<u>V '18</u>
Sales	\$84	\$83	↑ 1%
Segment Operating Profit	7	14	↓ 50%
Operating Margin	8.3%	16.9%	↓ 860 bps

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

- Won \$160M+ mature year revenue high voltage inverter for a new plug-in hybrid platform
- \$390M of mature year revenue wins since eMobility segment formed at start of 2018
- Margin decline driven by additional R&D investments

# For 2019, we now expect organic revenue growth of 3%

Segment	Prior Guidance	Current 2019 Organic Growth	Change From Prior Guidance
Electrical Products	4 - 5%	4 – 5%	---
Electrical S & S	6 - 7%	6 – 7%	---
Hydraulics	3 - 4%	0 – 1%	(3)%
Aerospace	9 - 10%	9 – 10%	---
Vehicle	(4) - (5)%	(7) – (8)%	(3)%
eMobility	11 - 12%	5 – 6%	(6)%
Total	~4%	~3%	(1)%

# Segment Operating Margin Expectations

	Prior 2019 Guidance	Update to 2019 Guidance
Electrical Products	19.0% - 19.6%	19.1% - 19.5%
Electrical Systems and Services	15.2% - 15.8%	16.0% - 16.4%
Hydraulics	13.4% - 14.0%	12.0% - 12.4%
Aerospace	21.8% - 22.4%	22.8% - 23.2%
Vehicle	16.5% - 17.1%	16.6% - 17.0%
eMobility	6.1% - 6.7%	6.2% - 6.6%
Eaton Consolidated	17.1% - 17.5%	---

# 2019 Guidance

## 3rd Quarter Outlook <sup>(1)</sup>

\$1.50 - \$1.60 Adjusted Earnings Per Share

Organic Revenue Growth	~3%
Segment Operating Margins	17.7% - 18.1%
Corporate Expenses	Flat with 3Q18
Tax Rate	16.0% - 17.0%

## 2019 Full Year Outlook <sup>(1)</sup>

\$5.77 - \$5.97 Adjusted Earnings Per Share

Organic Revenue Growth	~3%
Acquisition Revenue Growth	\$100M
Forex	\$(300)M
Segment Operating Margins	17.1% - 17.5%
Corporate (interest, pension, other corp)	Flat with 2018 levels
Tax Rate	14.5% - 15.5%
Operating Cash Flow	\$3.3B - \$3.5B
Free Cash Flow	\$2.7B - \$2.9B
Capex	\$600M
Share Repurchases	\$800M

<sup>(1)</sup> Guidance excludes acquisition and divestiture transaction and integration costs.

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## 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

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019	Q3 2019 Guidance		2019 Guidance	
									Low	High	Low	High
Net Income attributable to Eaton ordinary shareholders	2,985	488	610	416	831	2,145	522	636				
Acquisition integration and divestiture charges (after-tax)	2	-	-	-	-	-	11	14				
Adjusted earnings	<u>\$ 2,987</u>	<u>\$ 488</u>	<u>\$ 610</u>	<u>\$ 416</u>	<u>\$ 831</u>	<u>\$ 2,145</u>	<u>\$ 533</u>	<u>\$ 650</u>				
Net income attributable to Eaton ordinary shareholders per share - diluted	\$ 6.68	\$ 1.10	\$ 1.39	\$ 0.95	\$ 1.46	\$ 4.91	\$ 1.23	\$ 1.50	\$ 1.45	\$ 1.55	\$ 5.30	\$ 5.50
Per share impact of acquisition integration and divestiture charges (after-tax)	-	-	-	-	-	-	0.03	0.03	0.05	0.05	0.47	0.47
Adjusted earnings per ordinary share	<u>\$ 6.68</u>	<u>\$ 1.10</u>	<u>\$ 1.39</u>	<u>\$ 0.95</u>	<u>\$ 1.46</u>	<u>\$ 4.91</u>	<u>\$ 1.26</u>	<u>\$ 1.53</u>	<u>\$ 1.50</u>	<u>\$ 1.60</u>	<u>\$ 5.77</u>	<u>\$ 5.97</u>

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

	2017	3Q 2018	2018 YTD
Net Income attributable to Eaton ordinary shareholders and Adjusted earnings per ordinary share - diluted	\$ 6.68	\$ 0.95	\$ 4.91
Per share impact of certain items (3Q 2017-gain on sale of business; 4Q 2017-U.S. tax bill; 3Q 2018-arbitration decision) (after-tax)	(2.03)	0.48	0.48
Net Income attributable to Eaton ordinary shareholders and Adjusted earnings per ordinary share excluding certain items	<u>\$ 4.65</u>	<u>\$ 1.43</u>	<u>\$ 5.39</u>

### Reconciliation of net income attributable to Eaton ordinary shareholders to net income attributable to Eaton ordinary shareholders excluding certain items

	2017	3Q 2018
Net Income attributable to Eaton ordinary shareholders	\$ 2,985	\$ 416
Net income impact of certain items (3Q 2017-gain on sale of business; 4Q 2017-U.S. tax bill; 3Q 2018-arbitration decision) (after-tax)	(905)	206
Net income attributable to Eaton ordinary shareholders excluding certain items	<u>\$ 2,080</u>	<u>\$ 622</u>

### Reconciliation of segment operating profit as reported to segment operating profit excluding acquisition integration and divestiture charges and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
Segment operating profit as reported	\$ 3,214	\$ 796	\$ 932	\$ 952	\$ 950	\$ 3,630	\$ 846	\$ 986
Acquisition integration and divestiture charges (pre-tax)	4	-	-	-	-	-	1	2
Segment operating profit (excluding AIDC)	<u>\$ 3,218</u>	<u>\$ 796</u>	<u>\$ 932</u>	<u>\$ 952</u>	<u>\$ 950</u>	<u>\$ 3,630</u>	<u>\$ 847</u>	<u>\$ 988</u>
Restructuring Program 2015 - 2017 - Costs	\$ 91							

### Reconciliation of segment operating margin as reported to segment operating margin excluding acquisition integration and divestiture charges and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
Segment operating margin, as reported	15.8%	15.2%	17.0%	17.6%	17.4%	16.8%	15.9%	17.8%
Acquisition integration and divestiture charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Segment operating margin (excluding AIDC)	<u>15.8%</u>	<u>15.2%</u>	<u>17.0%</u>	<u>17.6%</u>	<u>17.4%</u>	<u>16.8%</u>	<u>16.0%</u>	<u>17.9%</u>
Restructuring Program 2015 - 2017 - Costs	0.4%							
Segment operating margin (excluding AIDC) excluding certain restructuring charges	<u>16.2%</u>							

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

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019	2019 Guidance	
									Low	High
Operating cash flow	\$ 2,666	\$ 339	\$ 499	\$ 1,000	\$ 820	\$ 2,658	\$ 551	\$ 880	\$ 3.3	\$ 3.5
Capital expenditures	520	131	149	131	154	565	149	149	0.6	0.6
Free cash flow	<u>\$ 2,146</u>	<u>\$ 208</u>	<u>\$ 350</u>	<u>\$ 869</u>	<u>\$ 666</u>	<u>\$ 2,093</u>	<u>\$ 402</u>	<u>\$ 731</u>	<u>\$ 2.7</u>	<u>\$ 2.9</u>
Impact of certain items (2017-U.S. pension contributions)	350									
Adjusted free cash flow excluding certain items	<u>\$ 2,496</u>									

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

	4Q 2018	2018 YTD
Operating cash flow	\$ 820	\$ 2,658
Impact of certain items (4Q 2018-arbitration payment)	297	297
Adjusted operating cash flow excluding certain items	<u>\$ 1,117</u>	<u>\$ 2,955</u>

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### Reconciliation of Non-GAAP Financial Information

All numbers \$M except per share numbers, unless otherwise noted

#### Reconciliation of Eaton Electrical Products operating profit as reported to operating profit excluding acquisition integration and divestiture charges, and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
Electrical Products operating profit as reported (including AIDC)	\$ 1,233	\$ 307	\$ 334	\$ 343	\$ 327	\$ 1,311	\$ 331	\$ 361
Acquisition integration and divestiture charges (pre-tax)	4	-	-	-	-	-	1	1
Electrical Products operating profit (excluding AIDC)	\$ 1,237	\$ 307	\$ 334	\$ 343	\$ 327	\$ 1,311	\$ 332	\$ 362
Restructuring Program 2015 - 2017 - Costs	\$ 29							

#### Reconciliation of Eaton Electrical Systems & Services operating profit as reported to operating profit excluding acquisition integration and divestiture charges, and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
Electrical Systems & Services operating profit as reported (including AIDC)	\$ 770	\$ 167	\$ 227	\$ 234	\$ 268	\$ 896	\$ 192	\$ 275
Acquisition integration and divestiture charges (pre-tax)	-	-	-	-	-	-	-	1
Electrical Systems & Services operating profit (excluding AIDC)	\$ 770	\$ 167	\$ 227	\$ 234	\$ 268	\$ 896	\$ 192	\$ 276
Restructuring Program 2015 - 2017 - Costs	\$ 16							

#### Reconciliation of Eaton Hydraulics operating profit as reported to operating profit excluding acquisition integration and divestiture charges, and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
Hydraulics operating profit as reported (including AIDC)	\$ 288	\$ 90	\$ 101	\$ 94	\$ 85	\$ 370	\$ 80	\$ 80
Acquisition integration and divestiture charges (pre-tax)	-	-	-	-	-	-	-	-
Hydraulics operating profit (excluding AIDC)	\$ 288	\$ 90	\$ 101	\$ 94	\$ 85	\$ 370	\$ 80	\$ 80
Restructuring Program 2015 - 2017 - Costs	\$ 32							

#### Reconciliation of Eaton Aerospace operating profit as reported to operating profit excluding acquisition integration and divestiture charges, and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
Aerospace operating profit as reported (including AIDC)	\$ 332	\$ 89	\$ 90	\$ 105	\$ 114	\$ 398	\$ 118	\$ 127
Acquisition integration and divestiture charges (pre-tax)	-	-	-	-	-	-	-	-
Aerospace operating profit (excluding AIDC)	\$ 332	\$ 89	\$ 90	\$ 105	\$ 114	\$ 398	\$ 118	\$ 127
Restructuring Program 2015 - 2017 - Costs	\$ 2							

#### Reconciliation of Eaton Vehicle operating profit as reported to operating profit excluding acquisition integration and divestiture charges, and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
Vehicle operating profit as reported (including AIDC)	\$ 541	\$ 132	\$ 166	\$ 166	\$ 147	\$ 611	\$ 122	\$ 136
Acquisition integration and divestiture charges (pre-tax)	-	-	-	-	-	-	-	-
Vehicle operating profit (excluding AIDC)	\$ 541	\$ 132	\$ 166	\$ 166	\$ 147	\$ 611	\$ 122	\$ 136
Restructuring Program 2015 - 2017 - Costs	\$ 12							

#### Reconciliation of Eaton eMobility operating profit as reported to operating profit excluding acquisition integration and divestiture charges, and certain restructuring charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019
eMobility operating profit as reported (including AIDC)	\$ 50	\$ 11	\$ 14	\$ 10	\$ 9	\$ 44	\$ 5	\$ 7
Acquisition integration and divestiture charges (pre-tax)	-	-	-	-	-	-	-	-
eMobility operating profit (excluding AIDC)	\$ 50	\$ 11	\$ 14	\$ 10	\$ 9	\$ 44	\$ 5	\$ 7
Restructuring Program 2015 - 2017 - Costs	\$ -							



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## Reconciliation of Non-GAAP Financial Information

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### Methodology for calculations used in the presentations

Return on equity = trailing 4 quarters net income / average trailing 5 quarters shareholders' equity

Return on sales = net income / sales

Total return = stock price appreciation + dividend yield

Net debt to total capital = (total debt - cash - short-term investments) / (total debt - cash - short-term investments + equity)

Cash flow coverage ratio = (pre-tax income + depreciation + amortization + interest expense) / interest expense

Segment net working capital (including acquisitions) = accounts receivable + inventory - accounts payable. All amounts average over the year.

DSO = average of quarterly DSO; quarterly DSO = quarter end accounts receivable / quarter sales \* 90 days

DOH = average of quarterly DOH; quarterly DOH = quarter end inventory / quarter COGS \* 90 days

DPO = average of quarterly DPO; quarterly DPO = quarter end accounts payable / quarter COGS \* 90 days

Cash conversion cycle = DSO + DOH - DPO

Cash adjusted earnings per share = adjusted earnings per ordinary share excluding certain items - corporate amortization expense (after tax) per share - inventory step up (after tax) per share

Free cash flow = cash flow from operations - capital expenditures