



# Third Quarter 2019 Earnings Release October 29, 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, the anticipated closings of the sale of our lighting business and one acquisition, performance of our worldwide end markets, fourth quarter and full year 2019 adjusted earnings per share, expected organic revenue growth, segment operating margins, corporate expenses and tax rate and 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 Q3 Results

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- Earnings per share of \$1.44
- Adjusted earnings per share of \$1.52, excluding transaction and other charges to acquire, divest and exit businesses
- Sales of \$5.3B
  - Organic revenue down (1)%
  - Currency translation (1½)% and acquisitions +½%
- All-time record adjusted segment margins of 18.7%, 110 basis points above Q3 2018
- All-time record margins in Electrical Products, ES&S and Aerospace
- Operating cash flow of \$1.1B, up 8% vs 3Q18 and a quarterly record
- Repurchased \$539M of shares in the quarter and \$949M of shares YTD, representing 2.8% of shares outstanding at beginning of 2019

# Financial Summary

| (M)   | <u>3Q '19</u> | <u>3Q '18</u>         |   | <u>V '18</u> |
|---|---------------|-----------------------|---|--------------|
| Sales   | \$5,314       | \$5,412               | ↓ | 2%           |
| Segment Operating Profit as Reported          | 986           | 952                   | ↑ | 4%           |
| Acquisition and Divestiture Transaction Costs | (7)           | ---                   |   |              |
| Segment Operating Profit                      | 993           | 952                   | ↑ | 4%           |
| Segment Operating Margin                      | 18.7%         | 17.6%                 | ↑ | 110 bps      |
| Net Income                                    | 601           | 416                   | ↑ | 44%          |
| Adjusted Earnings                             | 636           | 622 <sup>(1)</sup>    | ↑ | 2%           |
| Adjusted EPS                                  | \$1.52        | \$1.43 <sup>(1)</sup> | ↑ | 6%           |

|               |             |       |
|---------------|-------------|-------|
| Sales Growth: | Organic     | (1)%  |
|               | Acquisition | ½%    |
|               | Forex       | (1½)% |
|               | Total       | (2)%  |

- Earnings per share \$1.44
- Adjusted earnings per share \$1.52

(1) Excluding arbitration decision impact in 3Q18

# Electrical Products Segment

| (M)  | <u>3Q '19</u> | <u>3Q '18</u> | <u>V '18</u> |
|--|---------------|---------------|--------------|
| Sales  | \$1,786       | \$1,789       | ---          |
| Operating Profit as Reported                   | 358           | 343           | ↑ 4%         |
| Acquisition & Divestiture<br>Transaction Costs | (4)           | ---           |              |
| Segment Operating Profit                       | 362           | 343           | ↑ 6%         |
| Operating Margin                               | 20.3%         | 19.2%         | ↑ 110 bps    |

|               |         |      |
|---------------|---------|------|
| Sales Growth: | Organic | 1%   |
|               | Forex   | (1)% |
|               | Total   | 0%   |

- All-time record margins of 20.3%
- Announced sale of lighting business for \$1.4B, expected to close in Q1 2020
- Excluding lighting, orders up 1%, with strength in residential and commercial construction markets in the Americas

# Electrical Systems & Services Segment

| (M)  | <u>3Q '19</u> | <u>3Q '18</u> | <u>V '18</u> |
|--|---------------|---------------|--------------|
| Sales  | \$1,572       | \$1,519       | ↑ 3%         |
| Operating Profit as Reported                   | 284           | 234           | ↑ 21%        |
| Acquisition & Divestiture<br>Transaction Costs | (3)           | ---           |              |
| Segment Operating Profit                       | 287           | 234           | ↑ 23%        |
| Operating Margin                               | 18.3%         | 15.4%         | ↑ 290 bps    |

|               |              |           |
|---------------|--------------|-----------|
| Sales Growth: | Organic      | 3%        |
|               | Acquisition  | 1½%       |
|               | Forex        | (1½) %    |
|               | <b>Total</b> | <b>3%</b> |

- All-time record margins of 18.3%
- Orders up 5% on a rolling 12 month basis with growth across all regions
- Excluding hyperscale data centers orders, 12 month rolling average of orders up 8%, the same as in Q2

# Hydraulics Segment

| (M)                      | <u>3Q '19</u> | <u>3Q '18</u> | <u>V '18</u> |
|--------------------------|---------------|---------------|--------------|
| Sales                    | \$603         | \$670         | ↓ 10%        |
| Segment Operating Profit | \$72          | \$94          | ↓ 23%        |
| Operating Margin         | 11.9%         | 14.0%         | ↓ 210 bps    |

|               |         |       |
|---------------|---------|-------|
| Sales Growth: | Organic | (8)%  |
|               | Forex   | (2)%  |
|               | Total   | (10)% |

- Orders down (14)% driven by continued weakness in the global mobile equipment market and destocking at OEMs and distributors

# Aerospace Segment

| (M)                      | <u>3Q '19</u> | <u>3Q '18</u> | <u>V '18</u> |
|--------------------------|---------------|---------------|--------------|
| Sales                    | \$513         | \$478         | ↑ 7%         |
| Segment Operating Profit | 129           | 105           | ↑ 23%        |
| Operating Margin         | 25.1%         | 22.0%         | ↑ 310 bps    |

|               |         |      |
|---------------|---------|------|
| Sales Growth: | Organic | 8%   |
|               | Forex   | (1)% |
|               | Total   | 7%   |

- All-time record margins of 25.1%
- Orders up 13% on rolling 12 month basis with particular strength for the military market, specifically for fighters, rotorcraft, and aftermarket, as well as for business jets
- Acquisition of Souriau-Sunbank Connection Technologies expected to close in Q4



# Vehicle Segment

| (M)                      | <u>3Q '19</u> | <u>3Q '18</u> | <u>V '18</u> |
|--------------------------|---------------|---------------|--------------|
| Sales                    | \$761         | \$876         | ↓ 13%        |
| Segment Operating Profit | 139           | 166           | ↓ 16%        |
| Operating Margin         | 18.3%         | 18.9%         | ↓ 60 bps     |

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

- Global light vehicle markets down (4)% in Q3
- 2019 NAFTA Class 8 production forecast 340K units

# eMobility Segment

| (M)                      | <u>3Q '19</u> | <u>3Q '18</u> | <u>V '18</u> |
|--------------------------|---------------|---------------|--------------|
| Sales                    | \$79          | \$80          | ↓ 1%         |
| Segment Operating Profit | 4             | 10            | ↓ 60%        |
| Operating Margin         | 5.1%          | 12.5%         | ↓ 740 bps    |

|               |         |      |
|---------------|---------|------|
| Sales Growth: | Organic | 0%   |
|               | Forex   | (1)% |
|               | Total   | (1)% |

- Currently in discussions on a large number of additional programs
- Margin decline driven by additional R&D investments

# For 2019, we now expect organic revenue growth of ~1%

| Segment             | Prior Guidance | Current 2019 Organic Growth |
|---------------------|----------------|-----------------------------|
| Electrical Products | 4 - 5%         | ~2.5%                       |
| Electrical S & S    | 6 - 7%         | ~4.5%                       |
| Hydraulics          | 0 - 1%         | ~(4.5)%                     |
| Aerospace           | 9 - 10%        | ~9.5%                       |
| Vehicle             | (7) - (8)%     | ~(10)%                      |
| eMobility           | 5 - 6%         | ~4%                         |
| Total               | ~3%            | ~1%                         |

# Segment Operating Margin Expectations

|                                 | Prior 2019 Guidance | Update to 2019 Guidance |
|---------------------------------|---------------------|-------------------------|
| Electrical Products             | 19.1% - 19.5%       | 19.4% - 19.8%           |
| Electrical Systems and Services | 16.0% - 16.4%       | 16.5% - 16.9%           |
| Hydraulics                      | 12.0% - 12.4%       | 10.9% - 11.3%           |
| Aerospace                       | 22.8% - 23.2%       | 24.0% - 24.4%           |
| Vehicle                         | 16.6% - 17.0%       | 16.2% - 16.6%           |
| eMobility                       | 6.2% - 6.6%         | ---                     |
| Eaton Consolidated              | 17.1% - 17.5%       | 17.3% - 17.7%           |

# 2019 Guidance

| <b>4th Quarter Outlook <sup>(1)</sup></b>    |                   |
|--|-------------------|
| \$1.36 - \$1.46 Adjusted Earnings Per Share  |                   |
| Organic Revenue Growth                       | ~(2)%             |
| Segment Operating Margins                    | 17.2% - 17.6%     |
| Corporate Expenses                           | Flat with 4Q18    |
| Tax Rate on Adjusted Earnings                | ~17%              |
| <b>2019 Full Year Outlook <sup>(1)</sup></b> |                   |
| \$5.67 - \$5.77 Adjusted Earnings Per Share  |                   |
| Organic Revenue Growth                       | ~1%               |
| Acquisition Revenue Growth                   | \$100M            |
| Forex  | \$(350)M          |
| Segment Operating Margins                    | 17.3% - 17.7%     |
| Tax Rate on Adjusted Earnings                | ~15%              |
| Operating Cash Flow                          | \$3.4B - \$3.6B   |
| Free Cash Flow                               | \$2.85B - \$3.05B |
| Capex  | \$550M            |
| Share Repurchases                            | \$1B              |

<sup>(1)</sup> Guidance excluding transaction and other charges to acquire, divest and exit businesses.

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# 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

|   | 2017     | 1Q 2018 | 2Q 2018 | 3Q 2018 | 4Q 2018 | 2018 YTD | 1Q 2019 | 2Q 2019 | 3Q 2019 | Q4 2019 Guidance |         | 2019 Guidance |         |
|---|----------|---------|---------|---------|---------|----------|---------|---------|---------|------------------|---------|---------------|---------|
|   |          |         |         |         |         |          |         |         |         | Low              | High    | Low           | High    |
| Net Income attributable to Eaton ordinary shareholders                          | 2,985    | 488     | 610     | 416     | 631     | 2,145    | 522     | 636     | 601     |                  |         |               |         |
| Acquisition integration and divestiture charges (after-tax)                     | 2        | -       | -       | -       | -       | -        | 11      | 14      | 35      |                  |         |               |         |
| Adjusted earnings   | \$ 2,987 | \$ 488  | \$ 610  | \$ 416  | \$ 631  | \$ 2,145 | \$ 533  | \$ 650  | \$ 636  |                  |         |               |         |
| 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 | \$ 1.44 | \$ 1.03          | \$ 1.13 | \$ 5.20       | \$ 5.30 |
| Per share impact of acquisition integration and divestiture charges (after-tax) | -        | -       | -       | -       | -       | -        | 0.03    | 0.03    | 0.08    | 0.33             | 0.33    | 0.47          | 0.47    |
| Adjusted earnings per ordinary share  | \$ 6.68  | \$ 1.10 | \$ 1.39 | \$ 0.95 | \$ 1.46 | \$ 4.91  | \$ 1.26 | \$ 1.53 | \$ 1.52 | \$ 1.36          | \$ 1.46 | \$ 5.67       | \$ 5.77 |

### 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               | \$ 4.65 | \$ 1.43 | \$ 5.39  |

### 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)    | 208     |
| Net income attributable to Eaton ordinary shareholders excluding certain items   | \$ 2,080 | \$ 622  |

### 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 | 3Q 2019 |
|---|----------|---------|---------|---------|---------|----------|---------|---------|---------|
| Segment operating profit as reported                      | \$ 3,214 | \$ 796  | \$ 932  | \$ 952  | \$ 950  | \$ 3,630 | \$ 846  | \$ 986  | \$ 986  |
| Acquisition integration and divestiture charges (pre-tax) | 4        | -       | -       | -       | -       | -        | 1       | 2       | 7       |
| Segment operating profit (excluding AIDC)                 | \$ 3,218 | \$ 796  | \$ 932  | \$ 952  | \$ 950  | \$ 3,630 | \$ 847  | \$ 988  | \$ 993  |
| 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 | 3Q 2019 |
|---|-------|---------|---------|---------|---------|----------|---------|---------|---------|
| Segment operating margin, as reported   | 15.8% | 15.2%   | 17.0%   | 17.6%   | 17.4%   | 16.8%    | 15.9%   | 17.8%   | 18.6%   |
| Acquisition integration and divestiture charges                                   | 0.0%  | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%     | 0.1%    | 0.1%    | 0.1%    |
| Segment operating margin (excluding AIDC)   | 15.8% | 15.2%   | 17.0%   | 17.6%   | 17.4%   | 16.8%    | 16.0%   | 17.9%   | 18.7%   |
| Restructuring Program 2015 - 2017 - Costs   | 0.4%  |         |         |         |         |          |         |         |         |
| Segment operating margin (excluding AIDC) excluding certain restructuring charges | 16.2% |         |         |         |         |          |         |         |         |

### 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 | 3Q 2019  | 2019 Guidance (\$ Billions) |         |
|---|----------|---------|---------|----------|---------|----------|---------|---------|----------|-----------------------------|---------|
|   |          |         |         |          |         |          |         |         |          | Low                         | High    |
| Operating cash flow                                       | \$ 2,666 | \$ 339  | \$ 499  | \$ 1,000 | \$ 820  | \$ 2,668 | \$ 551  | \$ 880  | \$ 1,083 | \$ 3.40                     | \$ 3.60 |
| Capital expenditures                                      | 520      | 131     | 149     | 131      | 154     | 565      | 149     | 149     | 143      | 0.55                        | 0.55    |
| Free cash flow  | \$ 2,146 | \$ 208  | \$ 350  | \$ 869   | \$ 666  | \$ 2,093 | \$ 402  | \$ 731  | \$ 940   | \$ 2.85                     | \$ 3.05 |
| Impact of certain items (2017-U.S. pension contributions) | 350      |         |         |          |         |          |         |         |          |                             |         |
| Adjusted free cash flow excluding certain items           | \$ 2,496 |         |         |          |         |          |         |         |          |                             |         |

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

|   | 4Q 2018  | 2018 YTD |
|---|----------|----------|
| Operating cash flow                                   | \$ 820   | \$ 2,668 |
| Impact of certain items (4Q 2018-arbitration payment) | 297      | 297      |
| Adjusted operating cash flow excluding certain items  | \$ 1,117 | \$ 2,965 |





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## Reconciliation of Non-GAAP Financial Information

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

### 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