



# Third Quarter 2020 Earnings Release

## November 3, 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, preliminary estimates of our 2021 end markets, the closing date of the sale of our hydraulics business; 2020 free cash flow, capital expenditures and share buybacks; 2020 fourth quarter organic revenue growth, tax rate and decremental margins; and our long-term strategic direction, organic growth, segment margins, earnings per share growth 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 \$1.11
- Adjusted earnings per share of \$1.18, excluding charges of (\$0.05) per share related to acquisitions and divestitures and (\$0.02) per share related to multi-year restructuring program
- Sales of \$4.5B
  - Organic revenue down (9)%
  - Acquisitions +2% and divestitures (8)%
- Segment margins of 17.6%
  - Decremental margins of 25.0%
- Operating cash flow of \$921M and free cash flow of \$832M
- Reaffirming 2020 free cash flow guidance midpoint of \$2.5B and narrowing range to \$2.4B to \$2.6B
- Repurchased \$177M of shares in Q3 and \$1.5B YTD

# Financial Summary

(M)	<u>3Q '20</u>	<u>3Q '19</u>	<u>V '19</u>
Sales	\$4,526	\$5,314	↓ 15%
Segment Operating Profit	796	993	↓ 20%
Segment Operating Margin	17.6%	18.7%	↓ 110 bps
Net Income	446	601	↓ 26%
Adjusted Earnings	475 <sup>(1)</sup>	636 <sup>(2)</sup>	↓ 25%
Adjusted EPS	\$1.18 <sup>(1)</sup>	\$1.52 <sup>(2)</sup>	↓ 22%

Sales Growth:	Organic	(9)%
	Acquisition / Divestiture	(6)%
	<b>Total</b>	<b>(15)%</b>

- Earnings per share \$1.11
- Adjusted earnings per share \$1.18<sup>(1)</sup>

*(1) Excluding charges of \$28M (\$21M after-tax) related to Acquisitions & Divestitures and \$10M (\$8M after-tax) from multi-year restructuring program*

*(2) EPS of \$1.44 were \$1.52 excluding charges of \$39M (\$35M after-tax) related to acquisitions and divestitures.*

# Electrical Americas Segment

(M)	<u>3Q '20</u>	<u>3Q '19</u>	<u>V '19</u>
Sales	\$1,699	\$2,040	↓ 17%
Operating Profit	377	395	↓ 5%
Operating Margin	22.2%	19.4%	↑ 280 bps

Sales Growth:	Organic	3%
	Acquisition / Divestiture	(19)%
	Forex	(1)%
	Total	(17)%

- Organic revenues up 3%
- Orders down (1)% on a rolling 12 month basis, excluding Lighting. We saw particular strength in residential and data center markets.
- Backlog up 11% y-o-y

# Electrical Global Segment

(M)	<u>3Q '20</u>	<u>3Q '19</u>	<u>V '19</u>
Sales	\$1,196	\$1,295	↓ 8%
Operating Profit	198	251	↓ 21%
Operating Margin	16.6%	19.4%	↓ 280 bps

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

- Orders down (6)% on a rolling 12 month basis with declines driven by oil & gas and industrial markets partially offset by strength in residential, data center and utility markets.
- Backlog up 7% y-o-y

# Hydraulics Segment

(M)	<u>3Q '20</u>	<u>3Q '19</u>	<u>V '19</u>
Sales	\$439	\$519	↓ 15%
Operating Profit	43	51	↓ 16%
Operating Margin	9.8%	9.8%	---

Sales Growth:	Organic	(15)%
	Forex	--
	Total	(15)%

- Q3 orders up 8% driven by strength in agriculture and construction equipment markets.

# Aerospace Segment

(M)	<u>3Q '20</u>	<u>3Q '19</u>	<u>V '19</u>
Sales	\$540	\$620	↓ 13%
Operating Profit	100	153	↓ 35%
Operating Margin	18.5%	24.7%	↓ 620 bps

Sales Growth:	Organic	(26)%
	Acquisition	12%
	Forex	1%
	Total	(13)%

- Orders down (22)% on rolling 12 month basis driven by the downturn in commercial markets.
- Backlog down (11)% y-o-y

# Vehicle Segment

(M)	<u>3Q '20</u>	<u>3Q '19</u>	<u>V '19</u>
Sales	\$573	\$761	↓ 25%
Operating Profit	80	139	↓ 42%
Operating Margin	14.0%	18.3%	↓ 430 bps

Sales Growth:	Organic	(20)%
	Divestiture	(4)%
	Forex	(1)%
	Total	<u>(25)%</u>

- Global light vehicle market production down (4)% in Q3
- 2020 NAFTA Class 8 production forecast of 200K, up from prior forecast of 175K

# eMobility Segment

(M)	<u>3Q '20</u>	<u>3Q '19</u>	<u>V '19</u>
Sales	\$79	\$79	---
Operating Profit (Loss)	(2)	4	---
Operating Margin	(2.5)%	5.1%	↓ 760 bps

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

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

# 4Q 2020 Organic Revenues and End Market Outlook

Segment	4Q 2020 Organic Revenue YoY		Key market drivers (Y-o-Y)
Electrical Americas	0 - 3%	<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 very strong with new housing starts and renovation activity both robust</li> <li>Utilities markets should continue to post low-single digit stable growth</li> <li>Particular strength in hyperscale data centers</li> <li>Commercial likely down modestly driven by weakness in office and lodging, offset by warehouse and institutional</li> <li>Industrial markets improving but still down due to industrial capex cuts</li> </ul>
Electrical Global	(10) - (7)%	<ul style="list-style-type: none"> <li>+</li> <li>●</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>APAC markets up as China infrastructure, building construction, data center, and renewables drive growth</li> <li>EMEA construction and industrial markets still expected to decline in Q4 and COVID-19 risks raise uncertainty</li> <li>Oil and gas markets are still down significantly and will not see meaningful improvement in the near term</li> </ul>
Aerospace	(26) - (23)%	<ul style="list-style-type: none"> <li>+</li> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>Military demand remains relatively strong</li> <li>Commercial OEM market under downward pressure due to aircraft production rate cuts and delivery deferrals</li> <li>Commercial aftermarket faces headwinds of reduced air travel, idled aircraft, and deferred maintenance</li> </ul>
Vehicle	(10) - (7)%	<ul style="list-style-type: none"> <li>+</li> <li>-</li> <li>-</li> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>China LMV demand remains firm while HD trucks at all-time high driven by infrastructure and replacement demand</li> <li>NA Class 8 truck market continues to improve as freight demand and fleet profitability increase, still down Y/Y</li> <li>U.S. LMV sales continue to exceed expectations, while OEMs try to replenish depleted inventories</li> <li>EU LMV market rebounding but a second COVID-19 wave may negatively impact Q4</li> <li>Brazil and India showing significant improvement from severe Q2 shutdown impacts</li> </ul>
eMobility	0 - 3%	<ul style="list-style-type: none"> <li>+</li> </ul>	<ul style="list-style-type: none"> <li>BEV and hybrid vehicle sales are helped by government incentives and new vehicle model launches</li> </ul>
Hydraulics	(9) - (6)%	<ul style="list-style-type: none"> <li>+</li> <li>+</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>China construction equipment markets continue to see boost from infrastructure spending</li> <li>Global agricultural equipment demand finally moving higher following multiple years of depressed activity</li> <li>While improving vs. Q2 and Q3, Americas and EMEA markets will still be down vs. last year</li> </ul>
Eaton	(7) - (5)%		

# Q4 and 2020 Outlook

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## Q4

- Q4 Organic Growth: Down (5) – (7)%
- Q4 Margins: Targeting decremental margins of (25)%
- Q4 Tax Rate on Adjusted Earnings: Targeting ~14%

## 2020

- 2020 Capex: Reaffirm capex spending of ~\$400M
- 2020 Free Cash Flow: Reaffirm guidance midpoint of \$2.5B and narrowing range to \$2.4B to \$2.6B
- 2020 Share Buyback: Reaffirm guidance range of \$1.7B to \$1.9B, including \$1.5B completed through 9/30/20

# 2021 Preliminary End-Market Outlook

End-Market	Electrical Sector (1)	Industrial Sector (1)	2021 Outlook
Data Center	15%		Green
Utility	15%		Green
Residential	10%		Green
Institutional/Infrastructure	10%		Green
Industrial	30%		Yellow
Commercial Construction	20%		Yellow
Commercial Aerospace		25%	Green
Military Aerospace		20%	Green
Truck		25%	Green
Light Motor Vehicles		25%	Green
Electric Vehicles		5%	Green

(1) Electrical sector excluding Lighting sales; Industrial sector excluding Hydraulics and Automotive Fluid Conveyance sales and including Souriau-Sunbank sales.

# Summary

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- Intelligent power management strategy supported by macro trends of electrification, energy transition, IoT connectivity and digitalization.
- Financial objectives include higher secular growth, higher margins and more earnings consistency
- 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
- Goals over planning horizon include 2-3% organic growth, 20% segment margins, 8-9% EPS growth and \$3B of free cash flow

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