



Fourth Quarter 2019 Earnings Release February 4, 2020

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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, the anticipated completion of the sales of our lighting and hydraulics businesses and the use of those proceeds, performance of our worldwide end markets, first quarter and full year 2020 adjusted earnings per share, expected organic revenue growth, expected revenue from acquired businesses and divested businesses, adjusted segment operating margins and tax rate, and full year 2020 corporate expenses, capital expenditures, cash flow, 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 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.

Recent Highlights

- Announced agreement to sell Hydraulics business for \$3.3B to Danfoss A/S for 13.2x 2019 EBITDA
- Closed acquisition of Souriau-Sunbank, completed sale of Automotive Fluid Conveyance, signed agreement to sell Lighting business, and announced acquisition of Power Distribution, Inc.
- Earnings per share of \$1.09
- Earnings per share of \$1.46, excluding charges of \$0.28 per share for acquisition and divestiture costs and \$0.09 per share for expected Vehicle warranty costs
- Sales of \$5.2B
 - Organic revenue down (4)%; excluding Lighting and Hydraulics down (2)%
 - Currency translation (½)% and acquisitions +½%
- Adjusted segment margins of 17.8%, a 4Q record, excluding acquisition and divestiture costs and expected Vehicle warranty costs
- Operating cash flow of \$937M

Financial Summary

(M)	<u>4Q '19</u>	<u>4Q '18</u>	<u>V '18</u>
Sales	\$5,238	\$5,459	↓ 4%
Segment Operating Profit as Reported	857	950	↓ 10%
Acquisition & Divestiture Costs	(26)	---	
Vehicle Warranty Costs	(50)	---	
Adjusted Segment Operating Profit	933 ⁽¹⁾	950	↓ 2%
Adjusted Segment Operating Margin	17.8% ⁽¹⁾	17.4%	↑ 40 bps
Net Income	452	631	↓ 28%
Adjusted Earnings	605 ⁽¹⁾	631	↓ 4%
Adjusted EPS	\$1.46 ⁽¹⁾	\$1.46	---

Sales Growth:	Organic	(4)%
	Acquisition	½%
	Forex	(½)%
	Total	(4)%

- Earnings per share \$1.09
- Adjusted earnings per share \$1.46 ⁽¹⁾

⁽¹⁾ Excluding Acquisition & Divestiture costs and Vehicle warranty costs

Electrical Products Segment

(M)	<u>4Q '19</u>	<u>4Q '18</u>	<u>V '18</u>
Sales	\$1,753	\$1,797	↓ 2%
Operating Profit as Reported	340	327	↑ 4%
Divestiture Costs	(15)	---	
Adj. Segment Operating Profit	355	327	↑ 9%
Adjusted Operating Margin	20.3%	18.2%	↑ 210 bps

Sales Growth:	Organic	(2)%
	Forex	0%
	Total	(2)%

- Organic growth +1%, excluding Lighting
- Record 4Q margins of 20.3%
- Sale of Lighting business for \$1.4B, expected to close in 1Q 2020
- Excluding Lighting, orders (2)% with strength in residential and commercial construction markets in the Americas offset by weakness in industrial markets globally

Electrical Systems & Services Segment

(M)	<u>4Q '19</u>	<u>4Q '18</u>	<u>V '18</u>
Sales	\$1,669	\$1,611	↑ 4%
Operating Profit as Reported	276	268	↑ 3%
Acquisition & Divestiture Costs	(10)	---	
Adj. Segment Operating Profit	286	268	↑ 7%
Adjusted Operating Margin	17.1%	16.6%	↑ 50 bps

Sales Growth:	Organic	2%
	Acquisitions	2%
	Forex	0%
	Total	4%

- Record 4Q margins of 17.1%
- Orders up 2.5% on a rolling 12 month basis with growth across all regions
- Excluding hyperscale data center orders, 12 month rolling average of orders up 4%
- Announced acquisition of Power Distribution, Inc. with \$125M sales in 2019

Hydraulics Segment

(M)	<u>4Q '19</u>	<u>4Q '18</u>	<u>V '18</u>
Sales	\$565	\$653	↓ 13%
Segment Operating Profit	\$54	\$85	↓ 36%
Operating Margin	9.6%	13.0%	↓ 340 bps

Sales Growth:	Organic	(13)%
	Forex	0%
	Total	(13)%

- Announced sale of Hydraulics business for \$3.3B and 13.2X 2019 EBITDA, expected to close end of 2020
- Retaining Filtration and Golf Grip Businesses
- Orders down (11)% driven by continued weakness in the global mobile equipment market

Aerospace Segment

(M)	<u>4Q '19</u>	<u>4Q '18</u>	<u>V '18</u>
Sales	\$512	\$497	↑ 3%
Operating Profit as Reported	123	114	↑ 8%
Acquisition Costs	(1)	---	
Adj. Segment Operating Profit	124	114	↑ 9%
Adjusted Operating Margin	24.2%	22.9%	↑ 130 bps

Sales Growth:	Organic	2%
	Acquisition	1%
	Forex	0%
	Total	3%

- Record 4Q margins of 24.2%
- Orders up 6% on rolling 12 month basis with particular strength in military, aftermarket and business jets
- Closed acquisition of Souriau-Sunbank Connection Technologies

Vehicle Segment

(M)	<u>4Q '19</u>	<u>4Q '18</u>	<u>V '18</u>
Sales	\$664	\$821	↓ 19%
Operating Profit as Reported	63	147	↓ 57%
Vehicle Warranty Costs	(50)	---	
Adjusted Segment Operating Profit	113 ⁽¹⁾	147	↓ 23%
Adjusted Operating Margin	17.0% ⁽¹⁾	17.9%	↓ 90 bps

Sales Growth:	Organic	(18)%
	Forex	(1)%
	Total	(19)%

- Warranty charge to correct performance of a product which incorporated a defective part from a supplier
- Revenue down due to GM strike, lower Class 8 market, and continued weakness in light vehicle markets
- Completed sale of Automotive Fluid Conveyance business

eMobility Segment

(M)	<u>4Q '19</u>	<u>4Q '18</u>		<u>V '18</u>
Sales	\$75	\$80	↓	6%
Segment Operating Profit	1	9	↓	89%
Operating Margin	1.3%	11.3%	↓	10 pts

Sales Growth:	Organic	(6)%
	Forex	0%
	Total	(6)%

- \$450M of mature year revenue wins since formation in 1Q 2018
- Currently in discussions on a large number of additional programs
- Margin decline driven by additional R&D investments and manufacturing start-up costs associated with new electric vehicle programs

Highlights of Full Year 2019 Results

- All-time record segment margins of 17.6% increased 80bps over 2018, excluding pre-tax charges for acquisition and divestiture costs and expected Vehicle warranty costs
- EPS of \$5.76, excluding these above items, up 7% over 2018*
- Free cash flow of \$2.9B, up 20% over 2018* & free cash flow to sales of 13.4%
- Delivered significant portfolio transformation with \$1.2B paid for 3 acquisitions in Electrical and Aerospace; and signed 2 divestitures, including \$1.4B for Lighting expected to close in 1Q
- Returned \$2.2B to shareholders in 2019
 - \$1.2B in dividends
 - Repurchased \$1.0B (12.5M shares), 3% of shares outstanding at beginning of 2019
- Total shareholder return of 43% in 2019, +500bps over median of proxy peers

2020 Organic Growth and Margin Guidance

Segment	Organic Revenue Growth	Adjusted Segment Operating Margin
Electrical Products	1 – 3%	21.2% – 21.8%
Electrical Systems and Services	0 – 2%	16.4% – 17.0%
Hydraulics	(4) – (6)%	11.7% – 12.3%
Aerospace	2 – 4%	22.9% – 23.5%
Vehicle	(7) – (9)%	15.7% – 16.3%
eMobility	3 – 5%	2.5% – 3.1%
Eaton	(1) - 1%	17.8% – 18.2%

2020 Guidance

2020 Full Year Outlook	
Adjusted Earnings Per Share	\$5.60 - \$5.90
Organic Revenue	(1) – 1%
Acquisition Revenue	2%
Divested Revenue	(7.5)%
Adjusted Segment Operating Margins	17.8% - 18.2%
Corporate Expenses (interest, pension, other corporate)	Flat with 2019 levels
Tax Rate on Adjusted Earnings	14.8% - 15.8%
Operating Cash Flow	\$3.4B - \$3.6B
Free Cash Flow	\$2.8B - \$3.0B
Capex	\$550M
Share Repurchases	\$2.4B - \$2.8B

1 st Quarter Outlook	
Adjusted Earnings Per Share	\$1.16 - \$1.26
Organic Revenue	(3)%
Acquisition Revenue	2%
Divested Revenue	(3)%
Adjusted Segment Operating Margins	15.8% - 16.2%
Tax Rate	15% - 16%

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Powering Business Worldwide

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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 and net income attributable to Eaton ordinary shareholders per share to adjusted earnings per ordinary share

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2019 YTD	Q1 2020 Guidance		2020 Guidance	
												Low	High	Low	High
Net income attributable to Eaton ordinary shareholders	2,985	488	610	416	631	2,145	522	636	601	452	2,211				
Acquisition integration and divestiture charges (after-tax)	2	-	-	-	-	-	11	14	35	114	174				
Adjusted earnings	\$ 2,987	\$ 488	\$ 610	\$ 416	\$ 631	\$ 2,145	\$ 533	\$ 650	\$ 636	\$ 566	\$ 2,385				
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	\$ 1.09	\$ 5.25				
Per share impact of acquisition integration and divestiture charges (after-tax)	-	-	-	-	-	-	0.03	0.03	0.08	0.28	0.42				
Adjusted earnings per ordinary share	\$ 6.68	\$ 1.10	\$ 1.39	\$ 0.95	\$ 1.46	\$ 4.91	\$ 1.26	\$ 1.53	\$ 1.52	\$ 1.37	\$ 5.67	\$ 1.16	\$ 1.26	\$ 5.60	\$ 5.90

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

	2017	3Q 2018	2018 YTD	4Q 2019	2019 YTD
Net income attributable to Eaton ordinary shareholders per share - diluted	\$ 6.68	\$ 0.95	\$ 4.91	\$ 1.09	\$ 5.25
Per share impact of acquisition integration and divestiture charges (after-tax)	-	-	-	0.28	0.42
Per share impact of certain items (3Q 2017-gain on sale of business; 4Q 2017-U.S. tax bill; 3Q 2018-arbitration decision; 4Q 2019-Vehicle warranty costs) (after-tax)	(2.03)	0.48	0.48	0.09	0.09
Net income attributable to Eaton ordinary shareholders per share or Adjusted earnings per ordinary share excluding certain items	\$ 4.65	\$ 1.43	\$ 5.39	\$ 1.46	\$ 5.76

Reconciliation of net income attributable to Eaton ordinary shareholders to net income attributable to Eaton ordinary shareholders or adjusted earnings excluding certain items

	2017	3Q 2018	4Q 2019	2019 YTD
Net income attributable to Eaton ordinary shareholders	\$ 2,985	\$ 416	\$ 452	\$ 2,211
Acquisition integration and divestiture charges (after-tax)	2	-	114	174
Net income impact of certain items (3Q 2017-gain on sale of business; 4Q 2017-U.S. tax bill; 3Q 2018-arbitration decision; 4Q 2019-Vehicle warranty costs) (after-tax)	(905)	206	39	39
Net income attributable to Eaton ordinary shareholders or Adjusted earnings excluding certain items	\$ 2,082	\$ 622	\$ 605	\$ 2,424

Reconciliation of segment operating profit as reported to segment operating profit excluding acquisition integration and divestiture charges, certain restructuring and Q4 2019 Vehicle warranty charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2019 YTD
Segment operating profit as reported	\$ 3,214	\$ 796	\$ 932	\$ 952	\$ 950	\$ 3,630	\$ 846	\$ 986	\$ 986	\$ 857	\$ 3,675
Acquisition integration and divestiture charges (pre-tax)	4	-	-	-	-	-	1	2	7	26	36
Q4 2019 Vehicle warranty costs (pre-tax)	-	-	-	-	-	-	-	-	-	50	50
Segment operating profit (excluding AIDC and Q4 2019 Vehicle warranty costs)	\$ 3,218	\$ 796	\$ 932	\$ 952	\$ 950	\$ 3,630	\$ 847	\$ 988	\$ 993	\$ 933	\$ 3,761
Restructuring Program 2015 - 2017 - Costs	\$ 91	-	-	-	-	-	-	-	-	-	-

Reconciliation of segment operating margin as reported to segment operating margin excluding acquisition integration and divestiture charges, certain restructuring and Q4 2019 Vehicle warranty charges

	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018 YTD	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2019 YTD
Segment operating margin, as reported	15.8%	15.2%	17.0%	17.6%	17.4%	16.8%	15.9%	17.8%	18.6%	16.4%	17.2%
Acquisition integration and divestiture charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.5%	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%	16.9%	17.3%
Restructuring Program 2015 - 2017 - Costs; Q4 2019 Vehicle warranty costs	0.4%	-	-	-	-	-	-	-	-	0.9%	0.3%
Segment operating margin (excluding AIDC) excluding 2017 certain restructuring charges and Q4 2019 Vehicle warranty costs	16.2%	-	-	-	-	-	-	-	-	17.8%	17.6%

Reconciliation of Hydraulics business pre-tax income to EBITDA

	2019 YTD
Hydraulics business pre-tax income	\$ 174
Depreciation	58
Amortization	18
EBITDA	\$ 250

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	4Q 2019	2019 YTD	2020 Guidance	
												Low	High
Operating cash flow	\$ 2,666	\$ 339	\$ 499	\$ 1,000	\$ 820	\$ 2,668	\$ 551	\$ 880	\$ 1,083	\$ 937	\$ 3,451	\$ 3.4	\$ 3.6
Capital expenditures	520	131	149	131	154	565	149	149	143	146	587	0.6	0.6
Free cash flow	\$ 2,146	\$ 208	\$ 350	\$ 869	\$ 666	\$ 2,093	\$ 402	\$ 731	\$ 940	\$ 791	\$ 2,864	\$ 2.8	\$ 3.0
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