

## Eaton Corp PLC

## Technology Showcase takeaways: the future is electrifying

Reiterate Rating: BUY | PO: 320.00 USD | Price: 299.85 USD

## Technology Showcase: ample reasons to be bullish

We attended the Eaton Technology Showcase at the company's Houston Eaton Experience Center. Overall, the event was constructive and supportive of the company's current valuation, in our view. The company noted a long runway for growth across its key end markets. The event was also an opportunity for Eaton to showcase the depth of its management bench. Brightlayer, the company's software initiative, was a key focus at the event following initial launch in October 2020. Reiterate Buy, \$320 price objective. See inside for list of executives in attendance.

## A long runway for growth across the portfolio

Investors are focused on opportunities in data center and grid. While these end markets are growing, the company emphasized broader growth opportunity including its eMobility, residential, industrial, and aerospace businesses. The company emphasized that it is in early innings of secular growth cycle driven by electrification and reshoring. Eaton (along with the rest of the industry) was somewhat late to add capacity, but capacity additions are well underway. Eaton has publicly announced \$1bn on capacity additions, both greenfield facilities and expanding existing capacity. The majority of the investment is to increase Electrical North America capacity.

## Still focused on profitable growth

Eaton emphasized profitable growth. Management highlighted the levers of value-based pricing, continuous cost-out, manufacturing excellence, and innovation to drive profitable growth. Recently announced restructuring actions will better position Eaton for profitable growth into the cycle.

## Event emphasized material depth of bench

Our sense is that investors are comfortable with succession planning at Eaton with two strong internal candidates. New CFO Olivier Leonetti presented as part of opening remarks. Eaton stressed Leonetti's long-term track record and material contributions as a board member to ETN's strategy since 2019. However, the event was also an opportunity to showcase the impressive depth and breadth of Eaton's executive bench several levels below.

## Software initiative emphasized across verticals

Eaton introduced Brightlayer, its software initiative, in 2020. The company emphasized Brightlayer offerings across industry verticals that can either ingrate with the company's hardware or even a competitors. The software, which provides device connectivity and management tools, is packaged with the services business. We estimate software and services are ~\$1.5bn of the company's sales. As demand for electricity and electrical complexity rises, we believe Eaton's understanding of electrical hardware makes it well-positioned to provide digital monitoring and management tools. The offering will interact with other software layers such as building monitoring systems, distributed control systems, and smart grid management from other providers.

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## Stock Data

Price	299.85 USD
Price Objective	320.00 USD
Date Established	8-Mar-2024
Investment Opinion	B-1-7
52-Week Range	155.38 USD - 303.40 USD
Mrkt Val (mn) / Shares Out (mn)	129,655 USD / 432.4
Free Float	99.7%
Average Daily Value (mn)	571.75 USD
BofA Ticker / Exchange	ETN / NYS
Bloomberg / Reuters	ETN US / ETN.N
ROE (2024E)	21.1%
Net Dbt to Eqty (Dec-2023A)	46.0%
ESGMeter™	High

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# Valuation

We base our \$320 price objective on a 23x EV/EBITDA multiple of our 2025 estimates. Our target multiple is at a premium to the 17x peer average on 2024 estimates. We argue a premium valuation is warranted due to expected upside from cyclical operating leverage, strong margin performance, and Eaton's less cyclical portfolio mix.

## Exhibit 9: Eaton valuation vs. peers

Our \$320 price objective reflects 23x EV/EBITDA multiple on our 2025 estimates

Company	Ticker	Stock Price 3/13/2024	P/E		EV/EBITDA		EBITDA margin		EPS Growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
ABB	ABLZF	\$46.81	22.9 x	20.6 x	14.1 x	13.0 x	18.8%	19.4%	1%	11%
Dover	DOV	\$176.68	19.5 x	17.6 x	14.8 x	13.7 x	21.8%	22.5%	3%	11%
Emerson	EMR	\$110.47	20.6 x	19.0 x	13.9 x	13.0 x	26.0%	26.5%	15%	9%
General Electric	GE	\$170.44	39.1 x	31.9 x	23.6 x	18.6 x	15.7%	14.9%	55%	23%
Honeywell	HON	\$200.67	19.9 x	17.8 x	14.1 x	13.1 x	26.8%	27.1%	10%	12%
Hubbell*	HUBB	\$396.28	24.4 x	22.7 x	17.2 x	15.8 x	22.5%	22.8%	7%	7%
Trane Technologies	TT	\$288.18	28.2 x	26.0 x	20.1 x	18.6 x	18.5%	18.9%	13%	8%
Illinois Tool Works	ITW	\$263.49	26.0 x	24.1 x	18.8 x	17.9 x	28.1%	28.4%	4%	8%
Johnson Controls	JCI	\$62.15	16.0 x	13.6 x	11.3 x	10.4 x	15.8%	16.5%	10%	17%
Legrand	LGRVF	\$96.68	22.5 x	20.7 x	15.1 x	14.1 x	22.1%	23.1%	-14%	8%
Schneider	SBGSF	\$233.23	<u>31.6 x</u>	<u>28.2 x</u>	<u>19.3 x</u>	<u>17.7 x</u>	<u>19.9%</u>	<u>20.3%</u>	<u>4%</u>	<u>12%</u>
<b>AVERAGE</b>			<b>24.6 x</b>	<b>22.0 x</b>	<b>16.6 x</b>	<b>15.1 x</b>	<b>21.4%</b>	<b>21.9%</b>	<b>10%</b>	<b>11%</b>
<b>Eaton</b>	<b>ETN</b>	<b>\$298.49</b>	<b>29.4 x</b>	<b>27.5 x</b>	<b>23.2 x</b>	<b>21.5 x</b>	<b>22.1%</b>	<b>22.3%</b>	<b>11%</b>	<b>7%</b>
<b>Eaton at PO</b>		<b>\$320.00</b>	<b>31.5 x</b>	<b>29.5 x</b>	<b>24.8 x</b>	<b>22.9 x</b>				

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Executives attending the showcase included Craig Arnold, Chairman and Chief Executive Officer; Olivier Leonetti; Executive Vice President and Chief Financial Officer; Heath B. Monesmith; President and Chief Operating Officer, Electrical Sector; Paulo Ruiz, President and Chief Operating Officer, Industrial Sector; Pete Denk, President, Mobility Group; Matt Hockman, President, Global Energy Infrastructure Solutions, Electrical Sector; Harold V. Jones, Chief Sustainability Officer and Executive Vice President, Eaton Business System; John Sapp, President, Aerospace Group; Mike Yelton, President, Americas Region, Electrical Sector; Yan Jin, Senior Vice President, Investor Relations; and Chip Walker, Vice President, Investor Relations.

## Price objective basis & risk

### Eaton Corp PLC (ETN)

We base our \$320 price objective on a 23x EV/EBITDA multiple of our 2025 estimates. Our target multiple is at a premium to the 17x peer average on 2024 estimates. We argue a premium valuation is warranted due to expected upside from cyclical operating leverage, strong margin performance, and Eaton's less cyclical portfolio mix.

Downside risks to our PO are 1) a slower-than-expected manufacturing capex growth, 2) a more active M&A is inherently risky as it relies on the availability of accretive synergistic targets and the company's ability to integrate, and 3) the trajectory of the recovery in automotive and aerospace end markets.

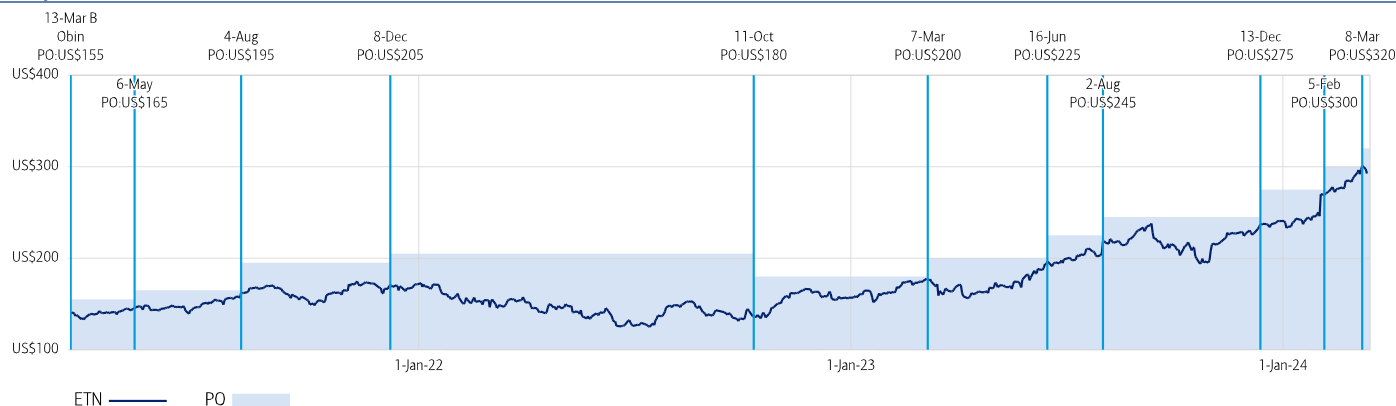
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### Eaton Corp PLC (ETN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Electrical Equipment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	14	53.85%	Buy	10	71.43%
Hold	6	23.08%	Hold	3	50.00%
Sell	6	23.08%	Sell	1	16.67%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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