BLUEGRASS CAPITAL RESEARCH

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Industrial Goods | *Electrical Equipment*
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Eaton Corporation Inc.

From Grid to Chip, But Not to Plant

ETN has collected 24% YTD, but the market is overlooking a critical risk that AI data centers are moving toward on-site power generation like nuclear small modular reactors (SMRs). That would bypass Eaton's grid-focused portfolio, and with no clear nuclear strategy, we initiate SELL with a one-year price target of $273.06, implying 20% downside.

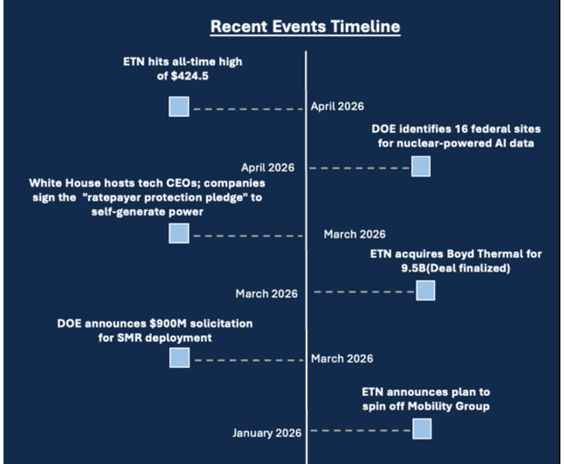
Thesis Point 1 Boyd Thermal's $9.5B acquisition adds "leading-edge liquid-cooling solutions" and positions Eaton to deliver "integrated solutions from grid to chip," but nothing in the announcement mentions power generation, nuclear, or on-site energy production. Meanwhile, a visible policy and capital shift is happening. The ADVANCE Act (2024) and a May 2025 executive order are accelerating nuclear licensing, while the DOE has opened federal land in Oak Ridge and Savannah River for AI data centers with on-site power. Tech giants like Amazon have already committed over $10 billion to nuclear partnerships. Oklo, founded by Sam Altman, has a non-binding agreement with Switch (a data center operator) to deploy up to 12 SMRs, while NuScale has signed multiple non-bindingpreliminary partnership agreements with other data center developers. The earliest SMRs are expected online by 2028-2030, making this a medium-term risk (3-7 years) to Eaton's grid-centric business. Any major announcement of an off-grid SMR-powered data center could trigger a multiple de-rating for Eaton, even if commercial operation is years away.

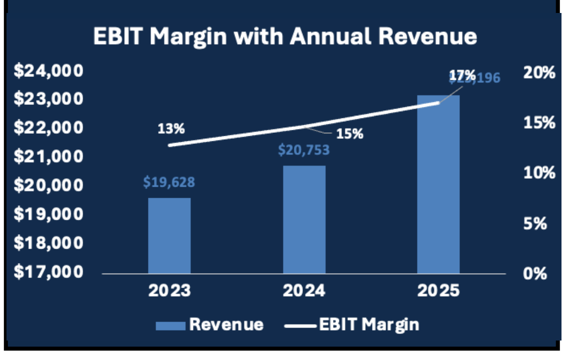
Thesis Point 2 Eaton's revenue is concentrated in grid interconnection hardware, which is the most bypassable part of the data center power chain. Given that Eaton's electrical segment generates about 70% of net sales from products designed to move power from the grid into a facility. If a data center generates power on-site, it still needs distribution inside the walls like switchgear, busway, and cooling, but it needs far fewer grid-interconnection products. In such a case, the most profitable margin part of Eaton's data center bundle becomes optional. Competitors like Vertiv and Schneider Electric have broader portfolios that include generation-adjacent components like generator integration, fuel cells, and microgrid controllers. Eaton does not. This is a structural disadvantage for Eaton because any form of on-site generation (solar and storage, natural gas, or fuel cells) reduces the need for Eaton's grid-facing products.

Company Overview Founded in 1911 as an internal-gear truck axle manufacturing company, Eaton is a power management company serving data centers, utilities, industrials, aerospace, and mobility. It has since altered its operations to meet the growing demand in the artificial intelligence sector through electrification, digitalization, and reindustrialization. Based in Ireland, Eaton operates in over 170 countries, with its major operations being across the United States, Europe, and Latin America, as well as in Asia-Pacific. As of December 2025, about 70% of sales were generated by its electric segment, which they are planning to expand through acquisitions of Fibrebond, Resilient Power, and Boyd Thermal (expected Q2 2026). Additionally, the company announced in the first quarter of 2026 making their Vehicle and eMobility segments into a public company, expected by the end of March 2027 so the company can focus entirely on its Electrical and Aerospace segments to maximize profits.

EATON
Powering Business Worldwide

TICKER:	$ETN
RATING:	SELL
PRICE:	$401.59
PRICE TARGET:	$273.06
MARKET CAP:	$$155.0B/m
52-W RANGE:	$307.62 - $434.33
NTM P/E:	31.0x
IMPLIED UPSIDE:	32.0%





Risk 1 The most concrete risk to our thesis is that Boyd's existing data center customers with their major hyperscalers respond positively to the acquisition. They may view Eaton's broader power distribution portfolio as an additional value rather than a threat. If Eaton successfully bundles liquid cooling with its grid-to-chip power solutions, cross-selling synergies could exceed expectations. In that sense, their revenue growth would accelerate and justify the stock's premium multiple.

Risk 2 A deceleration in U.S. nonresidential construction would support our thesis with construction spending remaining strong due to falling interest rates or increased infrastructure funding. If nonresidential construction spending maintains or grows, Eaton's electrical sector would face pricing power. In such a scenario, Eaton would not need to discount products, and margins would either remain stable or expand. In such a case, our thesis would be contradicted and drive the stock higher.

Catalysts for the stock to move towards our underperforming price target include a sharper deceleration in Eaton's data center organic growth. When the company reports Q2 2026 earnings, lapping prior-period strength will expose a growth rate closer to 15-20%, below what the market has priced. Also, if management discloses integration challenges or delayed synergy realization from the Boyd Thermal acquisition, such as higher-than-expected restructuring costs, investor confidence in the AI data center growth thesis would put significant pressure on Eaton's valuation. The other primary catalyst is a shift in analyst sentiment following earnings miss or cautious guidance because a high-profile downgrade or price target reductions would likely accelerate the stock's re-rating lower.

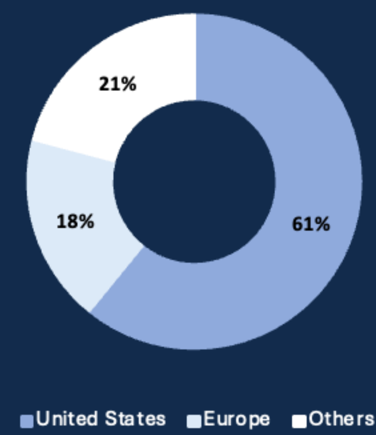
Valuation

DCF Analysis ($mm)	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Revenue	11,220	11,902	12,616	13,338	14,042	14,704
Revenue Growth	*6%*	*6%*	*6%*	*6%*	*5%*	*5%*
Americas	8,000	8,160	8,344	8,552	8,787	9,051
Rest of World	1,520	1,702	1,885	2,065	2,235	2,391
China Mainland	1,700	2,040	2,387	2,721	3,020	3,262
EBIT	2,300	2,500	2,649	2,801	2,949	3,088
EBIT Margin	*20%*	*21%*	*21%*	*21%*	*21%*	*21%*
Tax Expense	650	750	795	840	885	926
Effective Tax Rate	*28%*	*30%*	*30%*	*30%*	*30%*	*30%*
NOPAT	1,650.00	1,749.65	1,854.52	1,960.64	2,064.24	2,161.51
D&A	470	512	533	554	572	588
Capex	730	833	852	867	878	882
Changes in NWC	228	119	79	33	(18)	(74)
UFCF	1,162	1,309	1,457	1,614	1,776	1,941
PV of FCF	1,143	1,215	1,242	1,264	1,279	1,284

While our base case 5-year DCF model anticipates continued revenue growth in the near term, driven by Eaton's strong data center and electrical backlog, we see structural headwinds emerging that are not yet reflected in consensus estimates. The $9.5B Boyd Thermal acquisition leaves a strategic gap as policy shifts encourage AI data centers to self-generate power (including nuclear SMRs) within 5-10 years. With Eaton not articulating a nuclear or on-site generation strategy, it faces the risk of being partially bypassed.

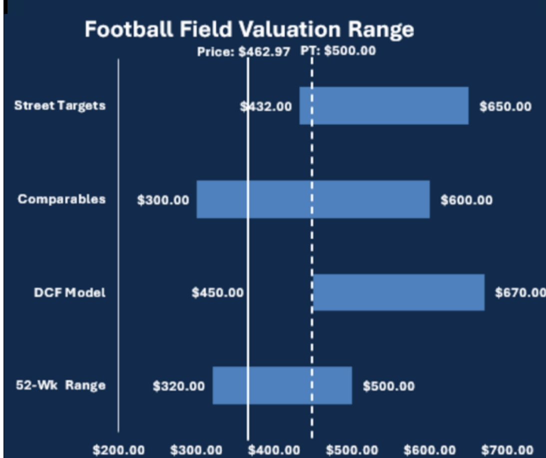
Conclusion While our base case 5-year DCF model anticipates continued revenue growth in the near term driven by the company's data center and electrical backlog, we see structural setbacks emerging that are not yet reflected in estimates available in the market. The $9.5B Boyd Thermal acquisition addresses liquid cooling but not power generation, leaving a strategic gap as policy shifts encourage AI data centers to self-generate power within the next 5-10 years. With Eaton not articulating a nuclear or on-site generation strategy, its grid-centric portfolio faces the risk of being partially bypassed.

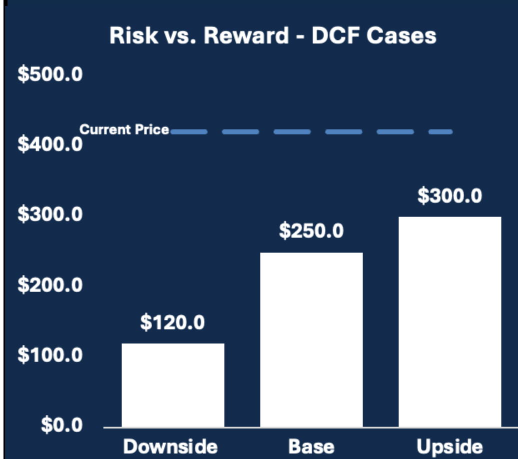
Revenue Segments



Terminal Value	
Perpetuity Growth Method	
2034 FCF	$72
Growth	3.00%
Terminal Value	$1,252
PV of Terminal Value	$811
PV of Projection Period	$103,100
PV of Terminal Value	$811
Implied TEV	$103,910
(-) Debt	$50
(+) Cash	$803
Implied Equity Value	$104,663
Basic Shares Outstanding	388
Implied Share Price	$269.76
Upside/Downside	-34.34%

Implied Exit BF EV/EBIT	95.6x





Bluegrass Capital Research

Income Statement ($mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	24,878	25,300	27,593	29,884	32,122	6.6%
EBITDA	5,169	2,241	4,332	4,019	3,598	-8.7%
EBIT	4,673	1,429	3,311	2,914	2,409	-15.3%
NOPAT	3,905	1,064	2,649	2,331	1,927	-16.2%

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	20.8%	8.9%	15.7%	13.5%	11.2%	14.0%
EBIT Margin	18.8%	5.6%	12.0%	9.8%	7.5%	10.7%
Revenue Growth	7.3%	1.7%	9.1%	8.3%	7.5%	6.8%
EBIT Growth	18.8%	-69.4%	131.7%	-12.0%	-17.3%	10.4%

Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	67.2x	1.6x	78.1x	95.3x	130.6x	74.5x
EV/Sales	6.4x	6.3x	5.7x	5.3x	4.9x	5.7x
EV/EBITDA	30.7x	70.8x	36.6x	39.5x	44.1x	44.3x
FCF Yield	1.5%	63.5%	1.3%	1.0%	0.8%	13.6%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Schneider Electric	$155,110	$188,530	18.4x	$44,400	$11,400
ABB Ltd.	$187,000	$183,000	34.3x	$34,920	$6,984
Vertiv Holdings Co.	$141,083	$145,000	90.5x	$8,500	$1,700
Emerson Electric Co.	$76,890	$77,500	31.4x	$19,629	$5,100
Eaton Corporation Inc.	$155,000	$165,000	39.0x	$24,878	$5,169

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margi	EBIT Margin	1 Yr Rev Growth Rate LF
Schneider Electric	16.5x	42.0%	25.7%	18.7%	10.0%
ABB Ltd.	26.2x	38.0%	20.0%	18.4%	10.0%
Vertiv Holdings Co.	85.3x	35.0%	20.0%	17.9%	30.0%
Emerson Electric Co.	15.2x	42.0%	26.0%	19.6%	8.0%
Eaton Corporation Inc.	31.9x	36.0%	20.8%	20.1%	8.0%

High	85.29x	42.0%	26.0%	20.1%	30.0%
75th Percentile	31.92x	42.0%	25.7%	19.6%	10.0%
Average	35.03x	38.6%	22.5%	18.9%	13.2%
Median	26.20x	38.0%	0.0%	18.7%	10.0%
25th Percentile	16.54x	36.0%	20.0%	18.4%	8.0%
Low	15.20x	35.0%	20.0%	17.9%	8.0%

Eaton Corporation Inc.		
Implied Enterprise Value (25th Percentile)	$	85,483
Implied Enterprise Value (Median)	**$**	**135,442**
Implied Enterprise Value (75th Percentile)	$	165,000
Implied Share Price (25th Percentile)	$	222.09
Implied Share Price (Median)	**$**	**350.75**
Implied Share Price (75th Percentile)	$	426.87

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.24
Risk Free Rate	4.42%
Cost of Equity	8.27%
Weighted Average Cost of Debt	4.17%
Tax Rate	20.00%
Cost of Debt	0.52%
Total Equity	$159,408
Total Debt	($753)
Equity/Total Capitalization	84.39%
Debt/Total Capitalization	15.61%
WACC	8.79%

Downside Case: We assume policy shifts encouraging AI data centers to self-generate power gain traction thus partially bypassing Eaton's grid-centric portfolio. We assume an EV/EBITDA exit multiple of 16x (a significant discount to its current 24-28x LTM multiple). Our downside case presents 20% downside with a price target of $314.

Upside Case: We assume the nuclear self-generation policy shift is delayed beyond 10 years or fails to materialize. With Q1 2026 data center orders surging approximately 240%, Electrical Americas' backlog climbing 44%, and management projecting segment margins to recover to ~30% in Q2 2026. We assume an EV/EBITDA exit multiple of 22-24x and present an upside to $408+, consistent with consensus analyst targets.