# Fiscal 2018
## Third Quarter Results

July 31, 2018


Johnson Controls

# Forward Looking/Cautionary Statements & Non-GAAP Financial Information

**Johnson Controls International plc Cautionary Statement Regarding Forward-Looking Statements**

Johnson Controls International plc has made statements in this communication that are forward-looking and therefore are subject to risks and uncertainties. All statements in this document other than statements of historical fact are, or could be, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In this communication, statements regarding Johnson Controls’ future financial position, sales, costs, earnings, cash flows, other measures of results of operations, synergies and integration opportunities, capital expenditures and debt levels are forward-looking statements. Words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “should,” “forecast,” “project” or “plan” and terms of similar meaning are also generally intended to identify forward-looking statements. However, the absence of these words does not mean that a statement is not forward-looking. Johnson Controls cautions that these statements are subject to numerous important risks, uncertainties, assumptions and other factors, some of which are beyond Johnson Controls’ control, that could cause Johnson Controls’ actual results to differ materially from those expressed or implied by such forward-looking statements, including, among others, risks related to: any delay or inability of Johnson Controls to realize the expected benefits and synergies of recent portfolio transactions such as the merger with Tyco and the spin-off of Adient, changes in tax laws (including, but not limited to the recently enacted Tax Cuts and Jobs Act), regulations, rates, policies or interpretations, the loss of key senior management, the tax treatment of recent portfolio transactions, significant transaction costs and/or unknown liabilities associated with such transactions, the outcome of actual or potential litigation relating to such transactions, the risk that disruptions from recent transactions will harm Johnson Controls’ business, the strength of the U.S. or other economies, changes to laws or policies governing foreign trade, including increased tariffs or trade restrictions, automotive vehicle production levels, mix and schedules, energy and commodity prices, the availability of raw materials and component products, currency exchange rates, cancellation of or changes to commercial arrangements, and with respect to the recently announced review of strategic alternatives for the Power Solutions business, which review is expected to conclude by the release of our fiscal 2018 fourth quarter earnings, uncertainties as to the structure and timing of any transaction and whether it will be completed, the possibility that closing conditions for a transaction may not be satisfied or waived, the impact of the strategic review and any transaction on Johnson Controls and the Power Solutions business on a standalone basis if a transaction is completed, and whether the strategic benefits of any transaction can be achieved. A detailed discussion of risks related to Johnson Controls’ business is included in the section entitled “Risk Factors” in Johnson Controls’ Annual Report on Form 10-K for the 2017 fiscal year filed with the SEC on November 21, 2017, and its Quarterly Reports on Form 10-Q for the quarterly periods ended December 31, 2017 and March 31, 2018 filed with the SEC on February 2, 2018 and May 3, 2018, respectively, which are and available at www.sec.gov and www.johnsoncontrols.com under the “Investors” tab. Shareholders, potential investors and others should consider these factors in evaluating the forward-looking statements and should not place undue reliance on such statements. The forward-looking statements included in this communication are made only as of the date of this document, unless otherwise specified, and, except as required by law, Johnson Controls assumes no obligation, and disclaims any obligation, to update such statements to reflect events or circumstances occurring after the date of this communication.

**Non-GAAP Financial Information**

This presentation contains financial information regarding adjusted earnings per share, which is a non-GAAP performance measure. The adjusting items include mark-to-market for pension and postretirement plans, transaction/integration/separation costs, restructuring and impairment costs, nonrecurring purchase accounting impacts related to the Tyco merger, Scott Safety gain on sale and discrete tax items. Financial information regarding adjusted sales, adjusted organic sales, adjusted segment EBITA, adjusted segment EBITA margin, adjusted corporate expense, adjusted EBIT, free cash flow, adjusted free cash flow, free cash flow conversion, net debt, and net debt to capitalization are also presented, which are non-GAAP performance measures. Adjusted segment EBITA excludes special items such as transaction/integration/separation costs and nonrecurring purchase accounting impacts because these costs are not considered to be directly related to the operating performance of its business units. Management believes that, when considered together with unadjusted amounts, these non-GAAP measures are useful to investors in understanding period-over-period operating results and business trends of the Company. Management may also use these metrics as guides in forecasting, budgeting and long-term planning processes and for compensation purposes. These metrics should be considered in addition to, and not as replacements for, the most comparable GAAP measure. Reconciliations of non-GAAP performance measures can be found in the attached footnotes.

# Q3 FY18 Strategic Highlights

- Momentum continues…
  - Ongoing traction increasing sales capacity
  - Accelerating Field orders in Buildings – contributing to organic growth
  - Improved secured margins in Buildings
  - Strong organic revenue growth in Products
  - Accelerating service growth
  - Strong OE and aftermarket growth in Power
  - Improved free cash flow
- Synergy and productivity savings
- Power Solutions strategic review



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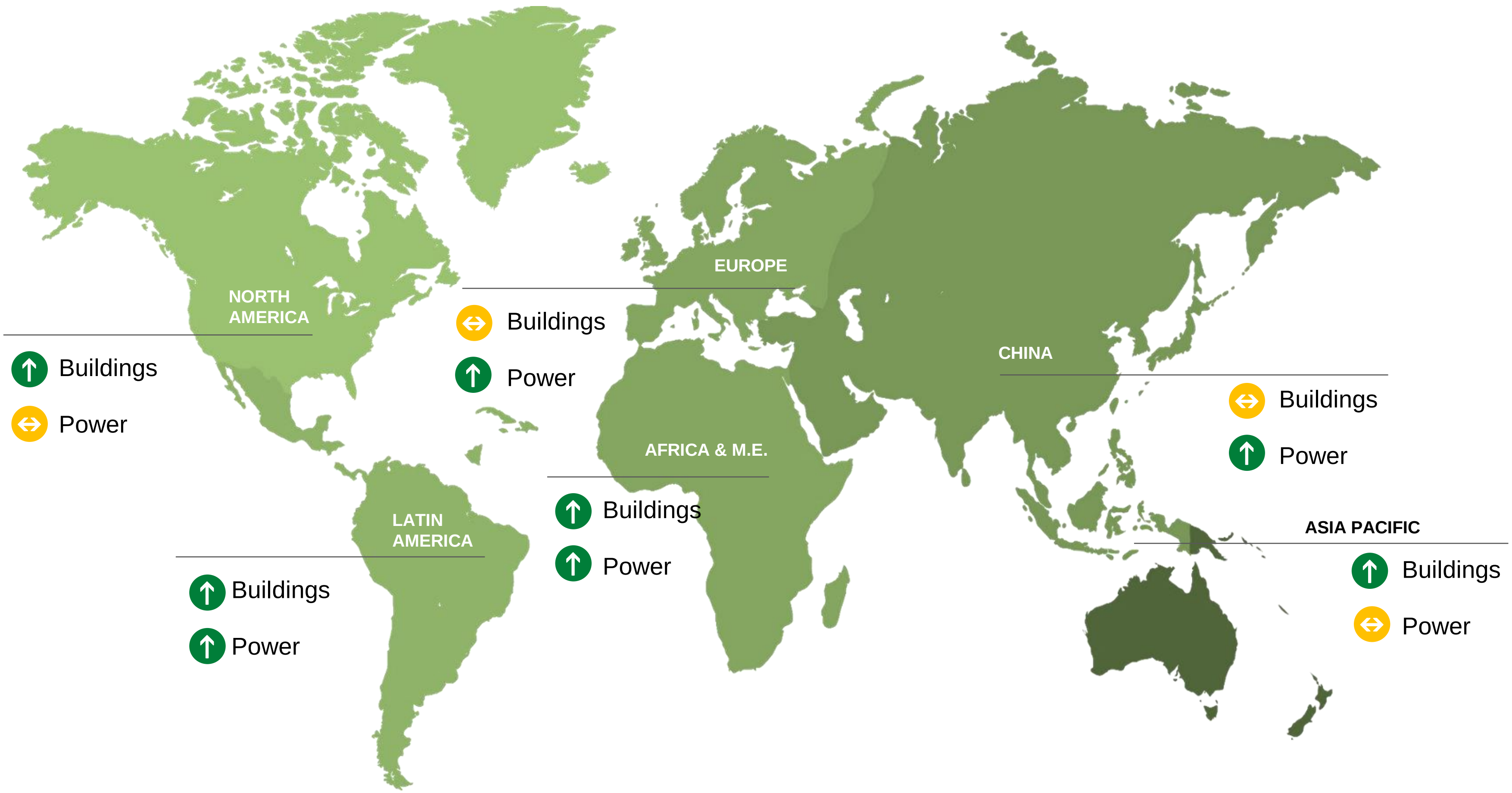
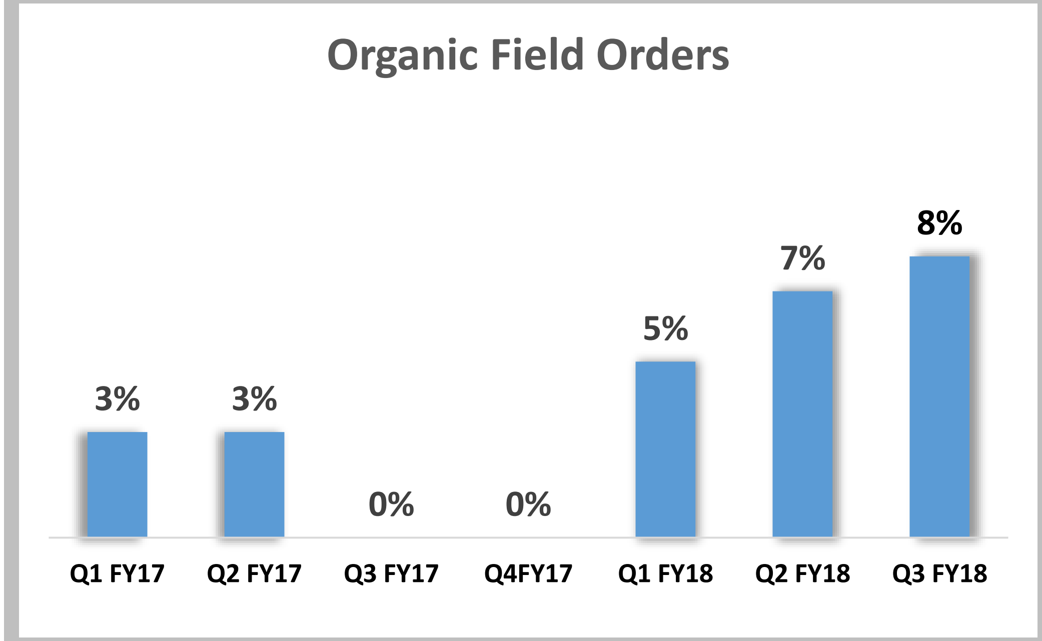
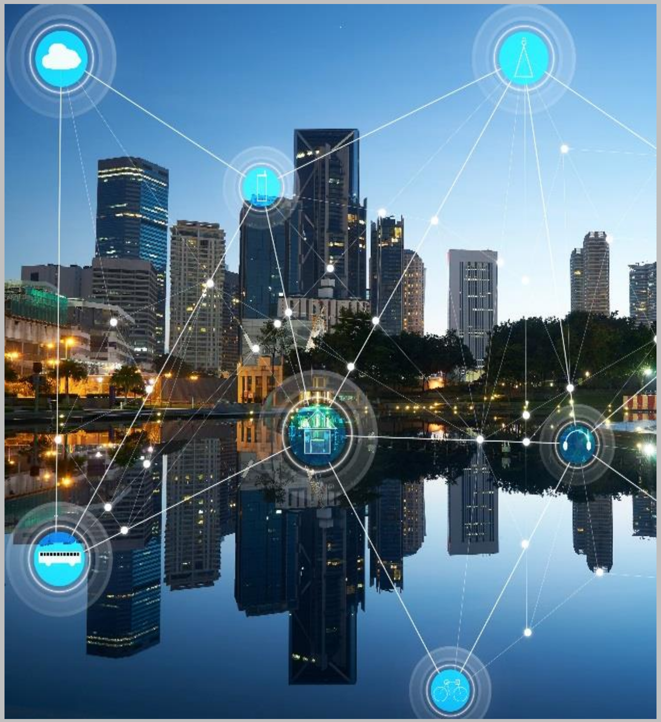
# Macro Environment



# Buildings Field Order Growth

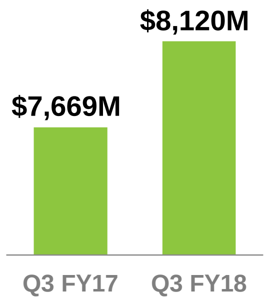


**Strong Order Growth Converting to Increased Sales**

# Q3 FY18 Financial Summary*

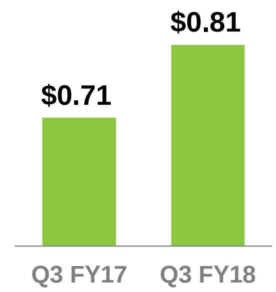
## ADJUSTED NET SALES




+6%
Reported

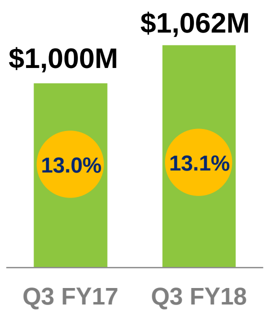
+6%
Organic

## ADJUSTED EPS




+14%
Reported

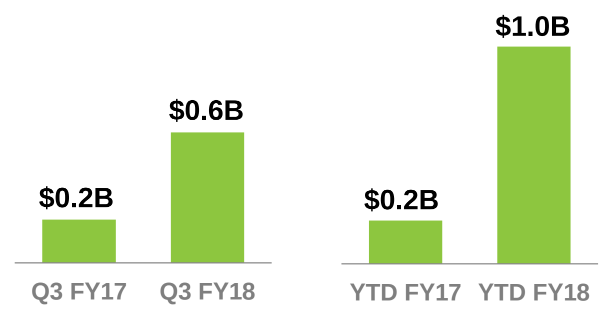
## ADJUSTED EBIT & MARGIN




10bps
Reported

70bps
Excluding FX, Lead and Scott Safety Divestiture

## ADJUSTED FCF




*Non-GAAP excludes special items. See footnotes for reconciliation.
YTD amounts may not sum due to rounding



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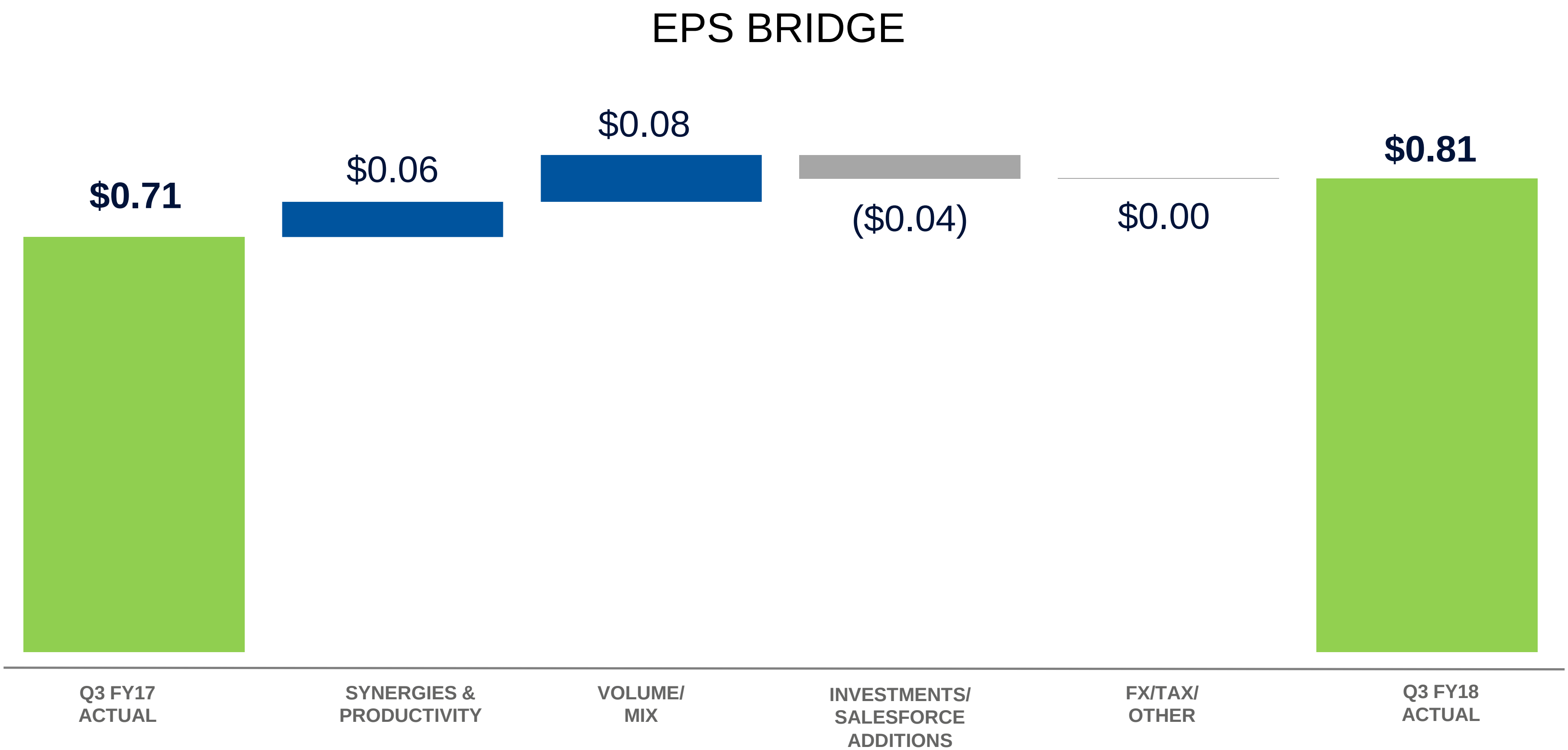
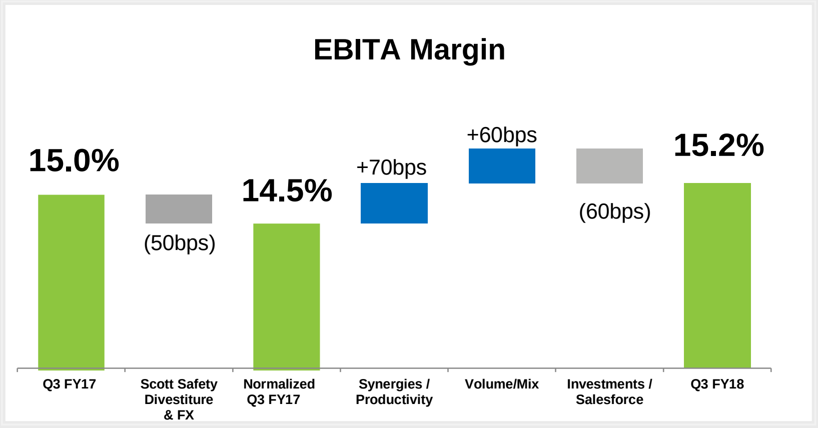
# Q3 FY18 Results vs. Prior Year*




*Non-GAAP excludes special items. See footnotes for reconciliation.

# Buildings*

| ($ in millions) | Q3 FY17 | Q3FY18 | Change |
|---|---|---|---|
| Sales | $6,060 | $6,282 | 4% |
| Segment EBITA | $908 | $954 | 5% |
| EBITA Margin % | 15.0% | 15.2% | 20bps |




- Organic sales up 5%
  - Products up 7%
  - Field up 4%; driven by strong 5% service growth across all geographies
- Sales headwind from M&A of 3% partially offset by 2% favorable impact from foreign currency
- Field orders increased 8% on a year-over-year basis, excluding the impact of foreign currency and M&A
- Field backlog of $8.5 billion increased 7% on a year-over-year basis, excluding the impact of foreign currency and M&A

*Non-GAAP excludes special items. See footnotes for reconciliation.

# Segment Results: Building Solutions North America*

| ($ in millions) | Q3 FY17 | Q3 FY18 | Change |
|---|---|---|---|
| **Sales** | $2,135 | $2,246 | 5% |
| **Segment EBITA** | $290 | $318 | 10% |
| **EBITA Margin %** | 13.6% | 14.2% | 60bps |

- Orders increased 8% on a year-over-year basis, excluding the impact of foreign currency and M&A
- Backlog of $5.4 billion increased 7% on a year-over-year basis, excluding the impact of foreign currency and M&A

- Organic sales up 5%
  - HVAC & Controls up mid-single digits
  - Fire & Security up mid-single digits
  - Solutions down low-single digits
- EBITA margin increased 60 bps
  - Favorable volume/mix
  - Productivity savings and cost synergies
  - Headwind from salesforce additions
  - Lower gross margin backlog conversion

*Non-GAAP excludes special items. See footnotes for reconciliation.



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# Segment Results: Building Solutions EMEA/LA*

| *($ in millions)* | Q3 FY17 | Q3 FY18 | Change |
|---|---|---|---|
| **Sales** | $889 | $926 | 4% |
| **Segment EBITA** | $89 | $98 | 10% |
| **EBITA Margin %** | 10.0% | 10.6% | 60bps |

- Orders increased 13% on a year-over-year basis, excluding the impact of foreign currency and M&A
- Backlog of $1.6 billion increased 6% on a year-over-year basis, excluding the impact of foreign currency and M&A

- Organic sales flat
  - Europe – down low-single digits driven by lower installation in HVAC and Industrial Refrigeration
  - Middle East & Africa – up low-single digits led by stronger service activity
  - Latin America – up mid-single digits led by Fire & Security
- Foreign currency favorably impacted sales by 4%
- EBITA margin up 60bps, including 40bps headwind related to foreign currency
  - Productivity savings and cost synergies

*Non-GAAP excludes special items. See footnotes for reconciliation.



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# Segment Results: Building Solutions Asia Pacific*

| ($ in millions) | Q3 FY17 | Q3 FY18 | Change |
|---|---|---|---|
| **Sales** | $630 | $681 | 8% |
| **Segment EBITA** | $84 | $97 | 15% |
| **EBITA Margin %** | 13.3% | 14.2% | 90bps |

- Orders down 1% on a year-over-year basis, excluding the impact of foreign currency and M&A
- Backlog of $1.5 billion increased 9% on a year-over-year basis, excluding the impact of foreign currency and M&A

- Organic sales up 4%
  - Double-digit growth in service
  - Low-single digit growth in installation
- Foreign currency favorably impacted sales by 4%
- EBITA margin up 90bps, including 50bps headwind related to foreign currency
  - Productivity savings and cost synergies
  - Favorable volume and mix
  - Headwind from salesforce additions

*Non-GAAP excludes special items. See footnotes for reconciliation.



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# Segment Results: Global Products*

| *($ in millions)* | Q3 FY17 | Q3 FY18 | Change |
|---|---|---|---|
| **Sales** | $2,406 | $2,429 | 1% |
| **Segment EBITA** | $445 | $441 | (1%) |
| **EBITA Margin %** | 18.5% | 18.2% | (30bps) |

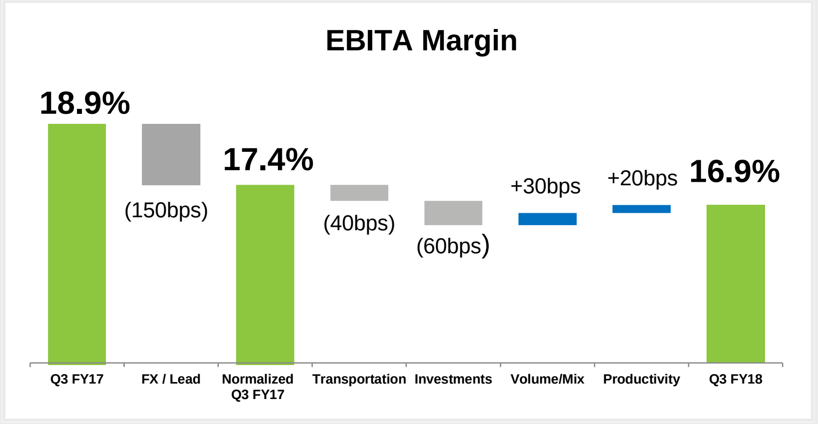
- EBITA margin down 30bps, including 90bps headwind related to Scott Safety divestiture
- Underlying margin up 60bps, excluding Scott Safety impact
  - Favorable volume leverage
  - Productivity savings and cost synergies
  - Product and channel investments

- Organic sales up 7%
  - High-single digit growth in Building Management Systems
  - High-single digit growth in HVAC & Refrigeration Equipment
    - Residential up high-single digits; NA up low-double digits
    - Light commercial up mid-single digits
    - VRF up high-single digits; up strong double-digits in China (unconsolidated entities)
    - Industrial Refrigeration up high-teens
    - Applied equipment up high-single digits
  - Mid-single digit growth in Specialty Products
- Sales headwind from M&A of 7% was partially offset by 1% favorable impact from foreign currency

*Non-GAAP excludes special items. See footnotes for reconciliation.

# Segment Results: Power Solutions*

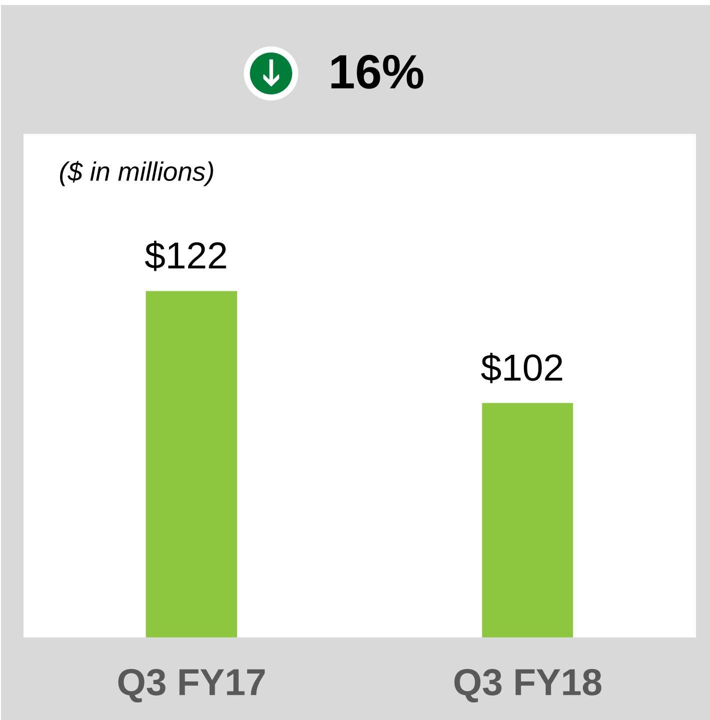
| *($ in millions)* | Q3 FY17 | Q3 FY18 | Change |
|---|---|---|---|
| **Sales** | $1,609 | $1,838 | 14% |
| **Segment EBITA** | $304 | $310 | 2% |
| **EBITA Margin %** | 18.9% | 16.9% | (200bps) |




*Non-GAAP excludes special items. See footnotes for reconciliation.

- Organic sales up 10%
  - Higher unit volumes
  - Favorable price and technology mix
- Sales favorably impacted 2% related to foreign currency and 2% related to lead prices
- OE units up 6%; benefitting from recent new business wins
- Aftermarket units up 6%; driven by strong growth in EMEA and China
- Global start-stop units up 30%
  - Americas up 32%
  - China up 30%
  - EMEA up 32%
- Significant new business wins provide tailwind

# Corporate Expense*




- Ongoing realization of cost synergies and productivity savings
- Expect full year Corporate expense to be approximately $415 million

*Non-GAAP excludes special items. See footnotes for reconciliation.

# Free Cash Flow

| (in $ billions) | Q3 FY17 | Q3 FY18 | YTD FY17 | YTD FY18 |
|---|---|---|---|---|
| Cash provided (used) by operating activities | $0.2 | $0.7 | $(1.3) | $1.3 |
| Capital expenditures | (0.4) | (0.3) | (1.0) | (0.8) |
| **Reported free cash flow*** | **$(0.1)** | **$0.4** | **$(2.3)** | **$0.5** |
| Non-recurring tax payments | 0.1 | 0.1 | 1.4 | 0.1 |
| Restructuring costs | 0.1 | 0.1 | 0.2 | 0.2 |
| Transaction/integration/ separation costs | 0.1 | - | 0.4 | 0.2 |
| Adient cash outflow | - | - | 0.3 | - |
| Change in control pension payment | - | - | 0.2 | - |
| **Adjustments** | **0.3** | **0.2** | **2.5** | **0.5** |
| **Adjusted free cash flow** | **$0.2** | **$0.6** | **$0.2** | **$1.0** |

*Non-GAAP excludes special items. See footnotes for reconciliation.

Table may not sum due to rounding.

- Q3 adjusted free cash flow of $0.6 billion
  - FY18 year-to-date adjusted free cash flow $1.0 billion, up $0.8 billion vs. prior year
- Re-affirm FY18 adjusted free cash flow conversion of 80%+
  - FY18 excludes net one-time payments of $0.8 to $0.9 billion related primarily to integration, restructuring and income taxes
  - Year-to-date results include $0.5 billion of net one-time items

# Balance Sheet

| Capital Structure | Q2 FY18 | Q3 FY18 |
| --- | --- | --- |
| Short-term debt and current portion of long-term debt | $1,136 | $1,583 |
| Long-term debt | 10,962 | 10,373 |
| **Total debt** | **12,098** | **11,956** |
| Less: cash and cash equivalents | 268 | 283 |
| **Net debt** | **$11,830** | **$11,673** |
| Net debt/EBITDA leverage | 2.5x | 2.4x |
| Net debt/Cap | 36.2% | 36.0% |
| **Share repurchases** | **~$50M** | **~$60M** |

**2.0-2.5X NET DEBT/EBITDA LEVERAGE TARGET**



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# Other Items

## Effective Tax Rate & New Revenue Accounting Standard

- Expect FY18 full year and Q4 effective tax rate to be 13%, excluding special items
- New Accounting Standard – ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”
  - Clarifies the principles for recognizing revenue when an entity either enters into a contract with customers to transfer goods or services or enters into a contract for the transfer of non-financial assets
  - To be adopted on a modified retrospective basis in Q1 FY19
  - No material financial impact expected for Buildings
  - No material EBITA impact expected for Power Solutions, but battery core return classification increases revenue for Power resulting in EBITA margin rate dilution



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# Impact of Tariffs

## U.S. Section 232
## Steel and Aluminum Tariffs

- Enacted March 2018
- Retaliatory tariffs announced end of May
- Total steel and aluminum annual spend ~$225 million
  - All steel supplied in country
  - 70% of aluminum supplied in country
- Tariff impact minor
- Price pressure from domestic steel and aluminum producers more relevant
- Risk mitigation in place – impact will be fully offset

## U.S. Section 301
## Tariffs on Chinese Original Goods

- First phase enacted in early July 2018
  - Additional proposal released in mid-July; under comment period
- Continue to assess and monitor changing dynamics; evaluating potential impact
- Proactive planning to offset
  - Impact in Q4 FY18 is minimal
  - Well positioned given existing global and regional supply chain and sourcing strategies
  - Actively managing pricing both within the supply chain and externally



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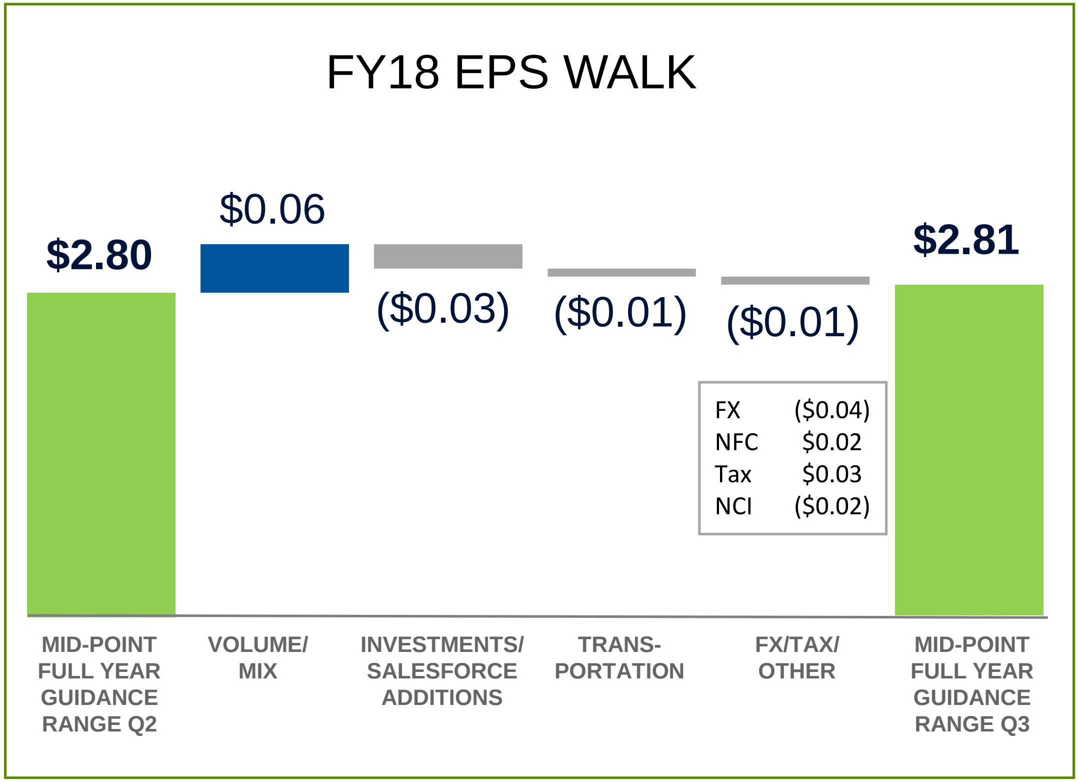
# Full Year Guidance*




## Full Year Guidance

- Various puts and takes to full year guidance
- Stronger operations offset by increased investments and transportation costs
- Tightening full year EPS* guidance range to $2.80 to $2.82 from previous range of $2.75 to $2.85

**EPS* Guidance Range $2.80 to $2.82**

*Non-GAAP excludes special items. See footnotes for reconciliation.



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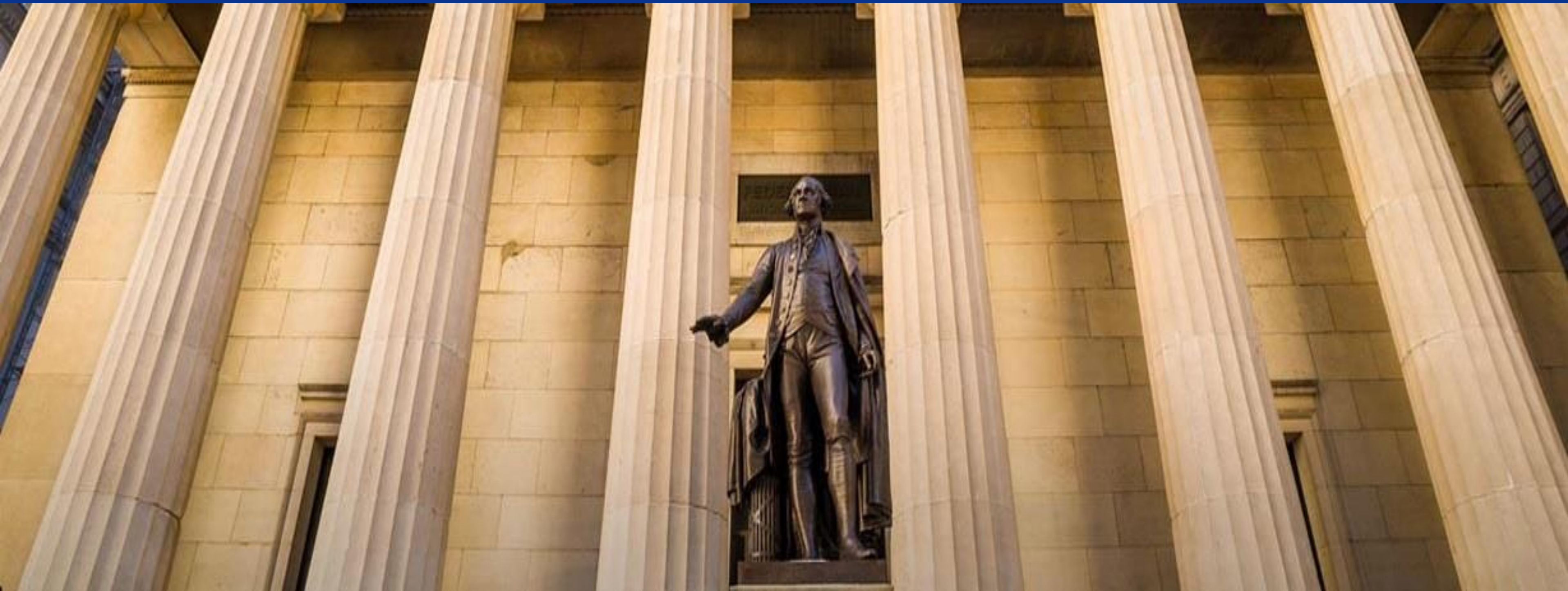
# Appendix



# FY18 Guidance

| | Guidance (May) | Updated Guidance (July) | Change Driver |
|---|---|---|---|
| **Sales** | $31.0B to $31.5B<br>+3% to +5% reported<br>Low-single digit Organic Growth | ~$31.3B<br>~+4% reported<br>Low to mid-single digit Organic Growth<br>FX Benefit ~$550M / Divestitures ~($750M)<br>Lead +$150M | *Higher organic growth*<br>*Lower FX benefit*<br>*Lower lead benefit* |
| **Segment Details: Buildings** | Organic Growth<br>Low-single digits<br><br>EBITA Margin<br>+10 to +30bps<br>*(including 40bps headwind from divestiture of Scott Safety)* | Organic Growth<br>Low to mid-single digits<br><br>EBITA Margin<br>~Flat<br>*(including 40bps headwind from divestiture of Scott Safety)* | *Stronger growth across portfolio*<br><br>*Investments incremental 20bps headwind* |
| **Segment Details: Power** | Organic Growth<br>Low-single digits<br><br>EBITA Margin<br>down 100 to 120bps<br>*(assumes Lead @ $2,445 LME; 70bps unfavorable impact to margin)* | Organic Growth<br>Low-single digits<br><br>EBITA Margin<br>down 130 to 150bps<br>*(assumes Lead @ $2,100 LME; 60bps unfavorable impact to margin)* | *Lead and incremental transportation costs 20bps headwind* |
| **EBIT Margin Expansion*** | 12.0% - 12.2%<br>+10 to +30bps<br>*(including 30bps headwind from divestiture of Scott Safety)* | ~11.9%<br>Flat<br>*(including 30bps headwind from divestiture of Scott Safety)* | *Changes in Buildings and Power partially offset by Corporate* |
| **Net Financing Charges** | $460M to $475M | ~$445M | *Refinanced debt with lower interest rates* |
| **Tax Rate** | 14% | 13% | *Tax planning* |
| **Noncontrolling Interest** | $200M to $210M | ~$220M | *Higher income in consolidated joint ventures* |
| **FX** | $0.09 | $0.05 | *Significant swing in FX rates* |
| **EPS*** | $2.75 to $2.85<br>+6% to +10% | $2.80 to $2.82<br>+8% | |

*Non-GAAP excludes special items.

# Building Technologies & Solutions Segment Structure

**Building Solutions**

Field / Direct Channel

**~$15B**

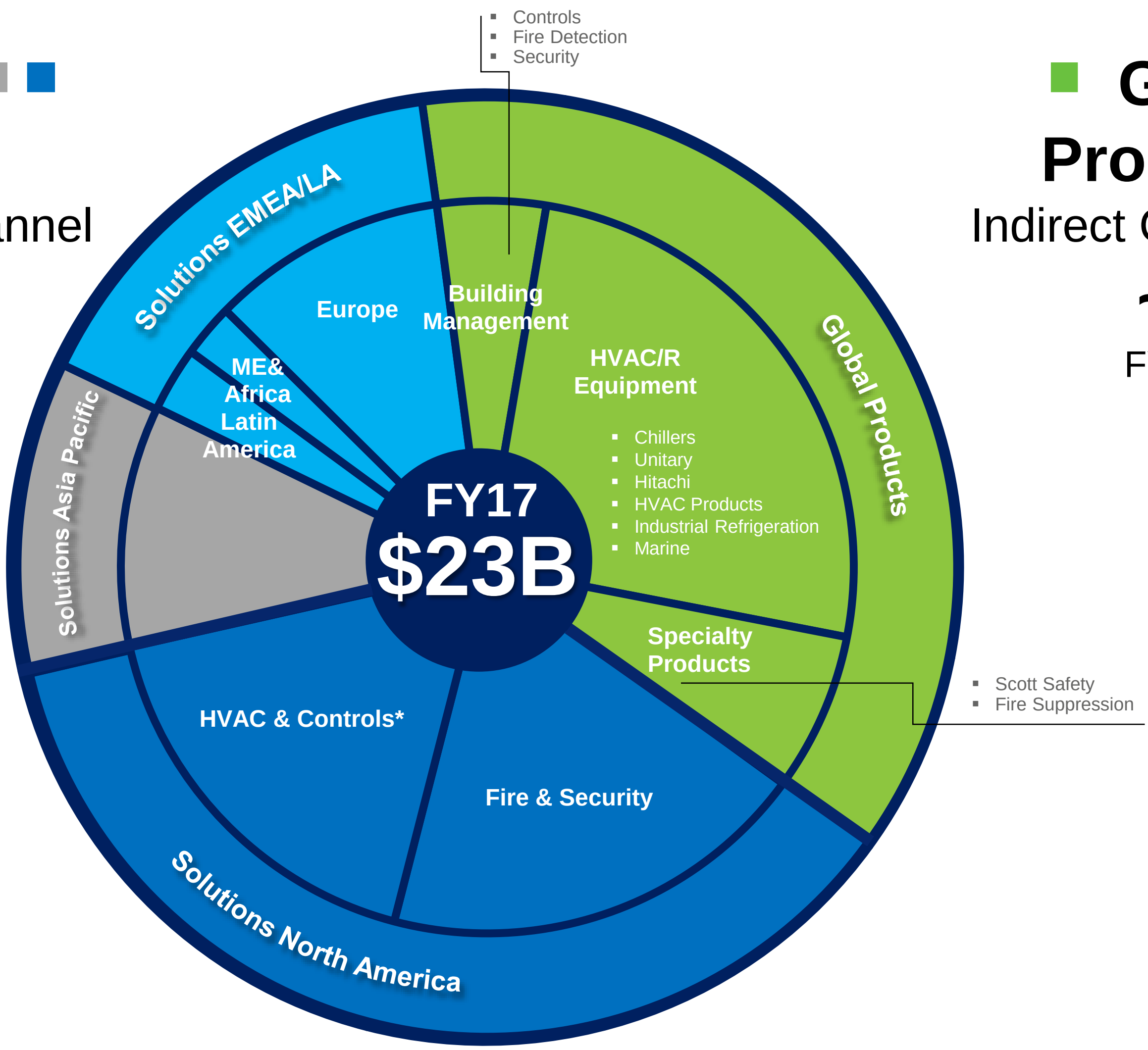
FY17 Sales

**Global Products**

Indirect Channel

**~$8B**

FY17 Sales




*Includes performance contracting.

# FY18 Third Quarter
# Financial Results (continuing operations)

| *($ in millions, except earnings per share)* | Q3 FY17 GAAP | Q3 FY18 GAAP | Q3 FY17 * NON-GAAP | Q3 FY18* NON-GAAP | % Change NON-GAAP |
|---|---|---|---|---|---|
| **Sales** | $7,683 | $8,120 | $7,669 | $8,120 | 6% |
| **Gross profit** | 2,431 | 2,472 | 2,420 | 2,472 | 2% |
| ***% of sales*** | *31.6%* | *30.4%* | *31.6%* | *30.4%* | |
| **SG&A expenses** | 1,609 | 1,527 | 1,489 | 1,476 | (1%) |
| **Restructuring & impairment costs** | 49 | - | - | - | |
| **Equity income** | 69 | 66 | 69 | 66 | (4%) |
| **EBIT** | 842 | 1,011 | 1,000 | 1,062 | 6% |
| **EBIT margin** | ***11.0%*** | ***12.5%*** | ***13.0%*** | ***13.1%*** | |
| **Net financing charges** | 124 | 101 | 124 | 101 | (19%) |
| **Income before income taxes** | 718 | 910 | 876 | 961 | 10% |
| **Income tax provision** | 89 | 106 | 131 | 125 | (5%) |
| **Net income** | 629 | 804 | 745 | 836 | 12% |
| **Income attributable to noncontrolling interests** | 74 | 81 | 74 | 81 | 9% |
| **Net income attributable to JCI** | $555 | $723 | $671 | $755 | 13% |
| **Diluted EPS** | **$0.59** | **$0.78** | **$0.71** | **$0.81** | 14% |

*Non-GAAP excludes special items. See footnotes for reconciliation.

# Special Items (continuing operations)

*$ In millions, except EPS*

| Q3 FY18 | Pre-tax Income (Expense) | Tax (Expense) Benefit | NCI (Expense) Benefit | After-tax Income (Expense) | EPS Impact |
|---|---|---|---|---|---|
| **Transaction costs** | $(2) | $- | $- | $(2) | $- |
| **Integration costs** | (49) | 6 | - | (43) | (0.05) |
| **Discrete income tax items** | - | 13 | - | 13 | 0.01 |
| **Total*** | **$(51)** | **$19** | **$-** | **$(32)** | **$(0.03)** |

| Q3 FY17 | Pre-tax Income (Expense) | Tax (Expense) Benefit | NCI (Expense) Benefit | After-tax Income (Expense) | EPS Impact |
|---|---|---|---|---|---|
| **Transaction & separation costs** | $(16) | $2 | $- | $(14) | $(0.01) |
| **Integration costs** | (54) | 9 | - | (45) | (0.05) |
| **Restructuring & impairment costs** | (49) | 15 | - | (34) | (0.04) |
| **Nonrecurring purchase accounting** | 6 | (2) | - | 4 | - |
| **Pension mark-to-market** | (45) | 18 | - | (27) | (0.03) |
| **Total*** | **$(158)** | **$42** | **$-** | **$(116)** | **$(0.12)** |

* May not sum due to rounding.



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# Third Quarter
# Restructuring and Impairment Costs

*$ In millions*

| Business Unit | Cash | | Non-cash | | Total | |
|---|---|---|---|---|---|---|
| | Q3 FY17 | Q3FY18 | Q3 FY17 | Q3FY18 | Q3 FY17 | Q3FY18 |
| Buildings | $6 | $- | $27 | $- | $33 | $- |
| Power Solutions | - | - | 4 | - | 4 | - |
| Corporate | 12 | - | - | - | 12 | - |
| **Total pre-tax charge** | **$18** | **$-** | **$31** | **$-** | **$49** | **$-** |
| **Tax benefit** | | | | | **(15)** | **-** |
| **Total after-tax charge** | | | | | **$34** | **$-** |

Restructuring and non-cash impairment charges primarily related to workforce reductions and asset impairments

# Reorganized Segment Financial Information*

| | Q1FY17 | | Q2FY17 | | Q3FY17 | | Q4FY17 | | FY17 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Building Solutions North America | $ 1,942 | | $ 2,074 | | $ 2,135 | | $ 2,165 | | $ 8,316 | |
| Building Solutions EMEA / LA | 878 | | 891 | | 889 | | 921 | | 3,579 | |
| Building Solutions Asia Pacific | 576 | | 562 | | 630 | | 677 | | 2,445 | |
| Global Products | 1,800 | | 2,014 | | 2,406 | | 2,241 | | 8,461 | |
| Total Building Technologies & Solutions | 5,196 | | 5,541 | | 6,060 | | 6,004 | | 22,801 | |
| Power Solutions | 1,900 | | 1,696 | | 1,609 | | 2,132 | | 7,337 | |
| **Sales** | **7,096** | | **7,237** | | **7,669** | | **8,136** | | **30,138** | |
| | | | | | | | | | | |
| Building Solutions North America | 236 | 12.2% | 229 | 11.0% | 290 | 13.6% | 315 | 14.5% | 1,070 | 12.9% |
| Building Solutions EMEA / LA | 65 | 7.4% | 79 | 8.9% | 89 | 10.0% | 95 | 10.3% | 328 | 9.2% |
| Building Solutions Asia Pacific | 72 | 12.5% | 67 | 11.9% | 84 | 13.3% | 109 | 16.1% | 332 | 13.6% |
| Global Products | 205 | 11.4% | 253 | 12.6% | 445 | 18.5% | 385 | 17.2% | 1,288 | 15.2% |
| Total Building Technologies & Solutions | 578 | 11.1% | 628 | 11.3% | 908 | 15.0% | 904 | 15.1% | 3,018 | 13.2% |
| Power Solutions | 390 | 20.5% | 303 | 17.9% | 304 | 18.9% | 431 | 20.2% | 1,428 | 19.5% |
| **Segment EBITA** | **968** | **13.6%** | **931** | **12.9%** | **1,212** | **15.8%** | **1,335** | **16.4%** | **4,446** | **14.8%** |
| | | | | | | | | | | |
| Amortization of Intangibles | (103) | | (92) | | (90) | | (97) | | (382) | |
| Corporate Expenses | (108) | | (128) | | (122) | | (107) | | (465) | |
| **EBIT** | **757** | **10.7%** | **711** | **9.8%** | **1,000** | **13.0%** | **1,131** | **13.9%** | **3,599** | **11.9%** |
| Net Financing Charges | (119) | | (116) | | (124) | | (120) | | (479) | |
| Income before Tax | 638 | | 595 | | 876 | | 1,011 | | 3,120 | |
| Tax | (96) | | (89) | | (131) | | (152) | | (468) | |
| Tax Rate | 15.0% | | 15.0% | | 15.0% | | 15.0% | | 15.0% | |
| Noncontrolling Interest | (40) | | (33) | | (74) | | (46) | | (193) | |
| **Net Income** | **$ 502** | | **$ 473** | | **$ 671** | | **$ 813** | | **$ 2,459** | |
| **EPS** | **$ 0.53** | | **$ 0.50** | | **$ 0.71** | | **$ 0.87** | | **$ 2.60** | |
| Diluted weighted average shares outstanding | 947.4 | | 948.6 | | 944.4 | | 938.0 | | 944.6 | |

*Non-GAAP excludes special items. See 8-K filed November 9, 2017 for reconciliation.



Johnson Controls

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**JOHNSON CONTROLS INTERNATIONAL PLC**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share data; unaudited)

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 |
|---|---|---|
| Net sales | $ 8,120 | $ 7,683 |
| Cost of sales | 5,648 | 5,252 |
| Gross profit | 2,472 | 2,431 |
| Selling, general and administrative expenses | (1,527) | (1,609) |
| Restructuring and impairment costs | - | (49) |
| Net financing charges | (101) | (124) |
| Equity income | 66 | 69 |
| Income from continuing operations before income taxes | 910 | 718 |
| Income tax provision | 106 | 89 |
| Income from continuing operations | 804 | 629 |
| Loss from discontinued operations, net of tax | - | - |
| Net income | 804 | 629 |
| Less: Income from continuing operations attributable to noncontrolling interests | 81 | 74 |
| Less: Income from discontinued operations attributable to noncontrolling interests | - | - |
| Net income attributable to JCI | $ 723 | $ 555 |
| Income from continuing operations | $ 723 | $ 555 |
| Loss from discontinued operations | - | - |
| Net income attributable to JCI | $ 723 | $ 555 |
| Diluted earnings per share from continuing operations | $ 0.78 | $ 0.59 |
| Diluted loss per share from discontinued operations | - | - |
| Diluted earnings per share | $ 0.78 | $ 0.59 |
| Diluted weighted average shares | 930.7 | 944.4 |
| Shares outstanding at period end | 924.9 | 932.4 |

**JOHNSON CONTROLS INTERNATIONAL PLC**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share data; unaudited)

| | Nine Months Ended June 30, 2018 | Nine Months Ended June 30, 2017 |
|---|---|---|
| Net sales | $ 23,030 | $ 22,036 |
| Cost of sales | 16,169 | 15,210 |
| Gross profit | 6,861 | 6,826 |
| Selling, general and administrative expenses | (4,532) | (4,905) |
| Restructuring and impairment costs | (158) | (226) |
| Net financing charges | (332) | (376) |
| Equity income | 170 | 177 |
| Income from continuing operations before income taxes | 2,009 | 1,496 |
| Income tax provision | 451 | 570 |
| Income from continuing operations | 1,558 | 926 |
| Loss from discontinued operations, net of tax | - | (34) |
| Net income | 1,558 | 892 |
| Less: Income from continuing operations attributable to noncontrolling interests | 167 | 147 |
| Less: Income from discontinued operations attributable to noncontrolling interests | - | 9 |
| Net income attributable to JCI | $ 1,391 | $ 736 |
| Income from continuing operations | $ 1,391 | $ 779 |
| Loss from discontinued operations | - | (43) |
| Net income attributable to JCI | $ 1,391 | $ 736 |
| Diluted earnings per share from continuing operations | $ 1.49 | $ 0.82 |
| Diluted loss per share from discontinued operations | - | (0.05) |
| Diluted earnings per share * | $ 1.49 | $ 0.78 |
| Diluted weighted average shares | 932.1 | 946.8 |
| Shares outstanding at period end | 924.9 | 932.4 |

* May not sum due to rounding.

## JOHNSON CONTROLS INTERNATIONAL PLC

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions; unaudited)

| | June 30, 2018 | September 30, 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 283 | $ 321 |
| Accounts receivable - net | 6,895 | 6,666 |
| Inventories | 3,509 | 3,209 |
| Assets held for sale | 12 | 189 |
| Other current assets | 1,766 | 1,907 |
| Current assets | 12,465 | 12,292 |
| | | |
| Property, plant and equipment - net | 6,093 | 6,121 |
| Goodwill | 19,512 | 19,688 |
| Other intangible assets - net | 6,424 | 6,741 |
| Investments in partially-owned affiliates | 1,290 | 1,191 |
| Noncurrent assets held for sale | - | 1,920 |
| Other noncurrent assets | 3,622 | 3,931 |
| Total assets | $ 49,406 | $ 51,884 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| Short-term debt and current portion of long-term debt | $ 1,583 | $ 1,608 |
| Accounts payable and accrued expenses | 5,394 | 5,342 |
| Liabilities held for sale | - | 72 |
| Other current liabilities | 4,324 | 4,832 |
| Current liabilities | 11,301 | 11,854 |
| | | |
| Long-term debt | 10,373 | 11,964 |
| Other noncurrent liabilities | 5,692 | 6,315 |
| Noncurrent liabilities held for sale | - | 173 |
| Redeemable noncontrolling interests | 231 | 211 |
| Shareholders' equity attributable to JCI | 20,773 | 20,447 |
| Noncontrolling interests | 1,036 | 920 |
| Total liabilities and equity | $ 49,406 | $ 51,884 |

## JOHNSON CONTROLS INTERNATIONAL PLC

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 |
|---|---|---|
| **Operating Activities** | | |
| Net income attributable to JCI | $ 723 | $ 555 |
| Income from continuing operations attributable to noncontrolling interests | 81 | 74 |
| Income from discontinued operations attributable to noncontrolling interests | - | - |
| Net income | 804 | 629 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 292 | 281 |
| Pension and postretirement benefit expense (income) | (36) | 18 |
| Pension and postretirement contributions | (17) | (17) |
| Equity in earnings of partially-owned affiliates, net of dividends received | (32) | (50) |
| Deferred income taxes | 2 | (3) |
| Non-cash restructuring and impairment costs | - | 31 |
| Other - net | 37 | 35 |
| Changes in assets and liabilities, excluding acquisitions and divestitures: | | |
| Accounts receivable | (390) | (298) |
| Inventories | (38) | (215) |
| Other assets | (79) | (108) |
| Restructuring reserves | (51) | (25) |
| Accounts payable and accrued liabilities | 323 | 9 |
| Accrued income taxes | (87) | (71) |
| Cash provided by operating activities | 728 | 216 |
| **Investing Activities** | | |
| Capital expenditures | (285) | (362) |
| Sale of property, plant and equipment | 13 | 5 |
| Acquisition of businesses, net of cash acquired | (9) | - |
| Business divestitures, net of cash divested | (13) | - |
| Other - net | - | (3) |
| Cash used by investing activities | (294) | (360) |
| **Financing Activities** | | |
| Increase in short and long-term debt - net | 18 | 692 |
| Debt financing costs | - | (1) |
| Stock repurchases | (56) | (307) |
| Payment of cash dividends | (241) | (234) |
| Proceeds from the exercise of stock options | 3 | 42 |
| Dividends paid to noncontrolling interests | - | - |
| Cash transferred to Adient related to spin-off | - | - |
| Cash paid related to prior acquisitions | - | (38) |
| Other - net | 2 | (1) |
| Cash provided (used) by financing activities | (274) | 153 |
| Effect of exchange rate changes on cash and cash equivalents | (145) | 37 |
| **Increase in cash and cash equivalents** | $ 15 | $ 46 |

**JOHNSON CONTROLS INTERNATIONAL PLC**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in millions; unaudited)

| | Nine Months Ended June, 2018 | Nine Months Ended June, 2017 |
|---|---|---|
| **Operating Activities** | | |
| Net income attributable to JCI | $ 1,391 | $ 736 |
| Income from continuing operations attributable to noncontrolling interests | 167 | 147 |
| Income from discontinued operations attributable to noncontrolling interests | - | 9 |
| Net income | 1,558 | 892 |
| Adjustments to reconcile net income to cash provided (used) by operating activities: | | |
| Depreciation and amortization | 844 | 919 |
| Pension and postretirement benefit income | (108) | (184) |
| Pension and postretirement contributions | (54) | (275) |
| Equity in earnings of partially-owned affiliates, net of dividends received | (111) | (166) |
| Deferred income taxes | (75) | 1,056 |
| Non-cash restructuring and impairment costs | 30 | 70 |
| Gain on Scott Safety business divestiture | (114) | - |
| Other - net | 69 | 117 |
| Changes in assets and liabilities, excluding acquisitions and divestitures: | | |
| Accounts receivable | (282) | (319) |
| Inventories | (338) | (585) |
| Other assets | (64) | (258) |
| Restructuring reserves | (63) | 22 |
| Accounts payable and accrued liabilities | (198) | (590) |
| Accrued income taxes | 167 | (2,002) |
| Cash provided (used) by operating activities | 1,261 | (1,303) |
| **Investing Activities** | | |
| Capital expenditures | (782) | (996) |
| Sale of property, plant and equipment | 23 | 23 |
| Acquisition of businesses, net of cash acquired | (24) | (6) |
| Business divestitures, net of cash divested | 2,101 | 180 |
| Other - net | (14) | (33) |
| Cash provided (used) by investing activities | 1,304 | (832) |
| **Financing Activities** | | |
| Increase (decrease) in short and long-term debt - net | (1,524) | 1,468 |
| Debt financing costs | (4) | (18) |
| Stock repurchases | (255) | (426) |
| Payment of cash dividends | (714) | (469) |
| Proceeds from the exercise of stock options | 39 | 130 |
| Dividends paid to noncontrolling interests | (46) | (78) |
| Dividend from Adient spin-off | - | 2,050 |
| Cash transferred to Adient related to spin-off | - | (665) |
| Cash paid related to prior acquisitions | - | (75) |
| Other - net | (24) | (20) |
| Cash provided (used) by financing activities | (2,528) | 1,897 |
| Effect of exchange rate changes on cash and cash equivalents | (84) | 12 |
| Change in cash held for sale | 9 | 105 |
| **Decrease in cash and cash equivalents** | $ (38) | $ (121) |

## FOOTNOTES

### 1. Financial Summary

The Company evaluates the performance of its business units primarily on segment earnings before interest, taxes and amortization (EBITA), which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, significant restructuring and impairment costs, and the net mark-to-market adjustments related to pension and postretirement plans.

| (in millions; unaudited) | Three Months Ended June 30, | | | | Nine Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Actual | Adjusted Non-GAAP | Actual | Adjusted Non-GAAP | Actual | Adjusted Non-GAAP | Actual | Adjusted Non-GAAP |
| Net sales (1) | | | | | | | | |
| Building Solutions North America | $ 2,246 | $ 2,246 | $ 2,142 | $ 2,135 | $ 6,355 | $ 6,355 | $ 6,181 | $ 6,151 |
| Building Solutions EMEA/LA | 926 | 926 | 896 | 889 | 2,748 | 2,748 | 2,669 | 2,658 |
| Building Solutions Asia Pacific | 681 | 681 | 630 | 630 | 1,864 | 1,864 | 1,767 | 1,768 |
| Global Products | 2,429 | 2,429 | 2,406 | 2,406 | 6,250 | 6,250 | 6,214 | 6,220 |
| Total Building Technologies & Solutions | 6,282 | 6,282 | 6,074 | 6,060 | 17,217 | 17,217 | 16,831 | 16,797 |
| Power Solutions | 1,838 | 1,838 | 1,609 | 1,609 | 5,813 | 5,813 | 5,205 | 5,205 |
| Net sales | $ 8,120 | $ 8,120 | $ 7,683 | $ 7,669 | $ 23,030 | $ 23,030 | $ 22,036 | $ 22,002 |
| | | | | | | | | |
| Segment EBITA (1) | | | | | | | | |
| Building Solutions North America | $ 314 | $ 318 | $ 290 | $ 290 | $ 780 | $ 798 | $ 741 | $ 755 |
| Building Solutions EMEA/LA | 96 | 98 | 100 | 89 | 242 | 247 | 238 | 233 |
| Building Solutions Asia Pacific | 97 | 97 | 85 | 84 | 242 | 242 | 215 | 223 |
| Global Products | 435 | 441 | 437 | 445 | 949 | 856 | 806 | 903 |
| Total Building Technologies & Solutions | 942 | 954 | 912 | 908 | 2,213 | 2,143 | 2,000 | 2,114 |
| Power Solutions | 310 | 310 | 304 | 304 | 1,008 | 1,008 | 996 | 997 |
| Segment EBITA | 1,252 | 1,264 | 1,216 | 1,212 | 3,221 | 3,151 | 2,996 | 3,111 |
| Corporate expenses (2) | (141) | (102) | (172) | (122) | (434) | (313) | (605) | (358) |
| Amortization of intangible assets (3) | (100) | (100) | (108) | (90) | (288) | (288) | (383) | (285) |
| Mark-to-market gain (loss) for pension plans (4) | - | - | (45) | - | - | - | 90 | - |
| Restructuring and impairment costs (5) | - | - | (49) | - | (158) | - | (226) | - |
| EBIT (6) | 1,011 | 1,062 | 842 | 1,000 | 2,341 | 2,550 | 1,872 | 2,468 |
| EBIT margin | 12.5% | 13.1% | 11.0% | 13.0% | 10.2% | 11.1% | 8.5% | 11.2% |
| Net financing charges (7) | (101) | (101) | (124) | (124) | (332) | (332) | (376) | (359) |
| Income from continuing operations before income taxes | 910 | 961 | 718 | 876 | 2,009 | 2,218 | 1,496 | 2,109 |
| Income tax provision (8) | (106) | (125) | (89) | (131) | (451) | (288) | (570) | (316) |
| Income from continuing operations | 804 | 836 | 629 | 745 | 1,558 | 1,930 | 926 | 1,793 |
| Income from continuing operations attributable to noncontrolling interests | (81) | (81) | (74) | (74) | (167) | (167) | (147) | (147) |
| Net income from continuing operations attributable to JCI | $ 723 | $ 755 | $ 555 | $ 671 | $ 1,391 | $ 1,763 | $ 779 | $ 1,646 |

*Building Technologies & Solutions* - Provides facility systems and services including comfort, energy and security management for the non-residential buildings market, and provides heating, ventilating, and air conditioning products and services, security products and services, and fire detection and suppression products and services.

*Power Solutions* - Services both automotive original equipment manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise.

(1) The Company's press release contains financial information regarding adjusted net sales, adjusted segment EBITA and adjusted segment EBITA margins, which are non-GAAP performance measures. The Company's definition of adjusted segment EBITA excludes special items because these costs are not considered to be directly related to the underlying operating performance of its business units. Management believes these non-GAAP measures are useful to investors in understanding the ongoing operations and business trends of the Company.

The following is the three months ended June 30, 2018 and 2017 reconciliation of net sales, segment EBITA and segment EBITA margin as reported to adjusted net sales, adjusted segment EBITA and adjusted segment EBITA margin (unaudited):

| (in millions) | Building Solutions North America | | Building Solutions EMEA/LA | | Building Solutions Asia Pacific | | Global Products | | Total Building Technologies & Solutions | | Power Solutions | | Consolidated JCI plc | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net sales as reported | $ 2,246 | $ 2,142 | $ 926 | $ 896 | $ 681 | $ 630 | $ 2,429 | $ 2,406 | $ 6,282 | $ 6,074 | $ 1,838 | $ 1,609 | $ 8,120 | $ 7,683 |
| Adjusting items: | | | | | | | | | | | | | | |
| Nonrecurring purchase accounting impacts | - | (7) | - | (7) | - | - | - | - | - | (14) | - | - | - | (14) |
| Adjusted net sales | $ 2,246 | $ 2,135 | $ 926 | $ 889 | $ 681 | $ 630 | $ 2,429 | $ 2,406 | $ 6,282 | $ 6,060 | $ 1,838 | $ 1,609 | $ 8,120 | $ 7,669 |
| Segment EBITA as reported | $ 314 | $ 290 | $ 96 | $ 100 | $ 97 | $ 85 | $ 435 | $ 437 | $ 942 | $ 912 | $ 310 | $ 304 | $ 1,252 | $ 1,216 |
| Segment EBITA margin as reported | 14.0% | 13.5% | 10.4% | 11.2% | 14.2% | 13.5% | 17.9% | 18.2% | 15.0% | 15.0% | 16.9% | 18.9% | 15.4% | 15.8% |
| Adjusting items: | | | | | | | | | | | | | | |
| Transaction costs | - | 2 | - | - | - | - | - | 4 | - | 6 | - | - | - | 6 |
| Integration costs | 4 | 10 | 2 | - | - | - | 6 | 4 | 12 | 14 | - | - | 12 | 14 |
| Nonrecurring purchase accounting impacts | - | (12) | - | (11) | - | (1) | - | - | - | (24) | - | - | - | (24) |
| Adjusted segment EBITA | $ 318 | $ 290 | $ 98 | $ 89 | $ 97 | $ 84 | $ 441 | $ 445 | $ 954 | $ 908 | $ 310 | $ 304 | $ 1,264 | $ 1,212 |
| Adjusted segment EBITA margin | 14.2% | 13.6% | 10.6% | 10.0% | 14.2% | 13.3% | 18.2% | 18.5% | 15.2% | 15.0% | 16.9% | 18.9% | 15.6% | 15.8% |

The following is the nine months ended June 30, 2018 and 2017 reconciliation of net sales, segment EBITA and segment EBITA margin as reported to adjusted net sales, adjusted segment EBITA and adjusted segment EBITA margin (unaudited):

| (in millions) | Building Solutions North America | | Building Solutions EMEA/LA | | Building Solutions Asia Pacific | | Global Products | | Total Building Technologies & Solutions | | Power Solutions | | Consolidated JCI plc | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net sales as reported | $ 6,355 | $ 6,181 | $ 2,748 | $ 2,669 | $ 1,864 | $ 1,767 | $ 6,250 | $ 6,214 | $ 17,217 | $ 16,831 | $ 5,813 | $ 5,205 | $ 23,030 | $ 22,036 |
| Adjusting items: | | | | | | | | | | | | | | |
| Nonrecurring purchase accounting impacts | - | (30) | - | (11) | - | 1 | - | 6 | - | (34) | - | - | - | (34) |
| Adjusted net sales | $ 6,355 | $ 6,151 | $ 2,748 | $ 2,658 | $ 1,864 | $ 1,768 | $ 6,250 | $ 6,220 | $ 17,217 | $ 16,797 | $ 5,813 | $ 5,205 | $ 23,030 | $ 22,002 |
| Segment EBITA as reported | $ 780 | $ 741 | $ 242 | $ 238 | $ 242 | $ 215 | $ 949 | $ 806 | $ 2,213 | $ 2,000 | $ 1,008 | $ 996 | $ 3,221 | $ 2,996 |
| Segment EBITA margin as reported | 12.3% | 12.0% | 8.8% | 8.9% | 13.0% | 12.2% | 15.2% | 13.0% | 12.9% | 11.9% | 17.3% | 19.1% | 14.0% | 13.6% |
| Adjusting items: | | | | | | | | | | | | | | |
| Transaction costs | - | 13 | - | 5 | - | 2 | - | 13 | - | 33 | - | 1 | - | 34 |
| Integration costs | 18 | 24 | 5 | 4 | - | 3 | 21 | 13 | 44 | 44 | - | - | 44 | 44 |
| Scott Safety gain on sale | - | - | - | - | - | - | (114) | - | (114) | - | - | - | (114) | - |
| Nonrecurring purchase accounting impacts | - | (23) | - | (14) | - | 3 | - | 71 | - | 37 | - | - | - | 37 |
| Adjusted segment EBITA | $ 798 | $ 755 | $ 247 | $ 233 | $ 242 | $ 223 | $ 856 | $ 903 | $ 2,143 | $ 2,114 | $ 1,008 | $ 997 | $ 3,151 | $ 3,111 |
| Adjusted segment EBITA margin | 12.6% | 12.3% | 9.0% | 8.8% | 13.0% | 12.6% | 13.7% | 14.5% | 12.4% | 12.6% | 17.3% | 19.2% | 13.7% | 14.1% |

(2) Adjusted Corporate expenses for the three months ended June 30, 2018 excludes $37 million of integration costs and $2 million of transaction costs. Adjusted Corporate expenses for the nine months ended June 30, 2018 excludes $111 million of integration costs and $10 million of transaction costs. Adjusted Corporate expenses for the three months ended June 30, 2017 excludes $40 million of integration costs and $10 million of transaction costs. Adjusted Corporate expenses for the nine months ended June 30, 2017 excludes $185 million of integration costs, $58 million of transaction costs and $4 million of separation costs.

(3) Adjusted amortization of intangible assets for the three and nine months ended June 30, 2017 excludes $18 million and $98 million, respectively, of nonrecurring asset amortization related to Tyco purchase accounting.

(4) The three months ended June 30, 2017 pension mark-to-market loss of $45 million and the nine months ended June 30, 2017 pension mark-to-market gain of $90 million due to lump sum payouts for certain U.S. pension plans are excluded from the adjusted non-GAAP results.

(5) Restructuring and impairment costs for the nine months ended June 30, 2018 of $158 million are excluded from the adjusted non-GAAP results. Restructuring and impairment costs for the three and nine months ended June 30, 2017 of $49 million and $226 million, respectively, are excluded from the adjusted non-GAAP results.

(6) Management defines earnings before interest and taxes (EBIT) as income from continuing operations before net financing charges, income taxes and noncontrolling interests.

(7) Adjusted net financing charges for the nine months ended June 30, 2017 exclude $17 million of transaction costs related to the debt exchange offers.

(8) Adjusted income tax provision for the three months ended June 30, 2018 excludes the tax benefits of the change in effective tax rate from 14% to 13% on the first and second quarters of $13 million and integration costs of $6 million. Adjusted income tax provision for the nine months ended June 30, 2018 excludes the net tax provision related to the U.S. Tax Reform legislation of $204 million and the Scott Safety gain on sale of $30 million, partially offset by the tax benefits for tax audit settlements of $25 million, restructuring and impairment costs of $24 million, integration costs of $21 million and transaction costs of $1 million. Adjusted income tax provision for the three months ended June 30, 2017 excludes the tax benefits of the pension mark-to-market loss of $18 million, restructuring and impairment costs of $15 million, integration costs of $9 million and transaction costs of $2 million, partially offset by the tax provision for Tyco nonrecurring purchase accounting impacts of $2 million. Adjusted income tax provision for the nine months ended June 30, 2017 excludes the non-cash tax charge of $457 million related to establishment of a deferred tax liability on the outside basis difference of the Company's investment in certain subsidiaries of the Scott Safety business and the tax provision for the pension mark-to-market net gain of $36 million, partially offset by the tax benefits of changes in entity tax status of $101 million, restructuring and impairment costs of $49 million, integration costs of $41 million, Tyco nonrecurring purchase accounting impacts of $36 million and transaction costs of $12 million.

**2. Diluted Earnings Per Share Reconciliation**

The Company's press release contains financial information regarding adjusted earnings per share, which is a non-GAAP performance measure. The adjusting items include transaction/integration/separation costs, nonrecurring purchase accounting impacts related to the Tyco merger, mark-to-market gain or loss for pension and postretirement plans, Scott Safety gain on sale, restructuring and impairment costs and discrete tax items. The Company excludes these items because they are not considered to be directly related to the underlying operating performance of the Company. Management believes these non-GAAP measures are useful to investors in understanding the ongoing operations and business trends of the Company.

A reconciliation of diluted earnings per share as reported to diluted adjusted earnings per share for the respective periods is shown below (unaudited):

| | Net Income Attributable to JCI plc | | Net Income Attributable to JCI plc from Continuing Operations | | Net Income Attributable to JCI plc | | Net Income Attributable to JCI plc from Continuing Operations | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended June 30, | | Three Months Ended June 30, | | Nine Months Ended June 30, | | Nine Months Ended June 30, | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Earnings per share as reported for JCI plc | $ 0.78 | $ 0.59 | $ 0.78 | $ 0.59 | $ 1.49 | $ 0.78 | $ 1.49 | $ 0.82 |
| Adjusting items: | | | | | | | | |
| Transaction costs | - | 0.02 | - | 0.02 | 0.01 | 0.12 | 0.01 | 0.12 |
| Related tax impact | - | - | - | - | - | (0.01) | - | (0.01) |
| Integration costs | 0.05 | 0.06 | 0.05 | 0.06 | 0.17 | 0.24 | 0.17 | 0.24 |
| Related tax impact | (0.01) | (0.01) | (0.01) | (0.01) | (0.02) | (0.04) | (0.02) | (0.04) |
| Separation costs | - | - | - | - | - | 0.09 | - | - |
| Nonrecurring purchase accounting impacts | - | (0.01) | - | (0.01) | - | 0.14 | - | 0.14 |
| Related tax impact | - | - | - | - | - | (0.04) | - | (0.04) |
| Mark-to-market loss (gain) for pension plans | - | 0.05 | - | 0.05 | - | (0.10) | - | (0.10) |
| Related tax impact | - | (0.02) | - | (0.02) | - | 0.04 | - | 0.04 |
| Scott Safety gain on sale | - | - | - | - | (0.12) | - | (0.12) | - |
| Related tax impact | - | - | - | - | 0.03 | - | 0.03 | - |
| Restructuring and impairment costs | - | 0.05 | - | 0.05 | 0.17 | 0.24 | 0.17 | 0.24 |
| Related tax impact | - | (0.02) | - | (0.02) | (0.03) | (0.05) | (0.03) | (0.05) |
| Discrete tax items | (0.01) | - | (0.01) | - | 0.19 | 0.40 | 0.19 | 0.38 |
| Adjusted earnings per share for JCI plc* | $ 0.81 | $ 0.71 | $ 0.81 | $ 0.71 | $ 1.89 | $ 1.80 | $ 1.89 | $ 1.74 |

* May not sum due to rounding.

The following table reconciles the denominators used to calculate basic and diluted earnings per share for JCI plc (in millions; unaudited):

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Weighted Average Shares Outstanding for JCI plc** | | | | |
| Basic weighted average shares outstanding | 925.6 | 935.4 | 926.0 | 937.2 |
| Effect of dilutive securities: | | | | |
| Stock options, unvested restricted stock and unvested performance share awards | 5.1 | 9.0 | 6.1 | 9.6 |
| Diluted weighted average shares outstanding | 930.7 | 944.4 | 932.1 | 946.8 |

The Company has presented forward-looking statements regarding adjusted EPS from continuing operations, adjusted EBIT margin, organic adjusted net sales growth and adjusted free cash flow conversion (defined as adjusted free cash flow divided by adjusted net income from continuing operations attributable to JCI) for the full fiscal year of 2018, which are non-GAAP financial measures. These non-GAAP financial measures are derived by excluding certain amounts, expenses, income or cash flows from the corresponding financial measures determined in accordance with GAAP. The determination of the amounts that are excluded from these non-GAAP financial measures are a matter of management judgment and depends upon, among other factors, the nature of the underlying expense or income amounts recognized in a given period, including but not limited to the high variability of the net mark-to-market adjustments related to pension and postretirement plans and the effect of foreign currency exchange fluctuations. Our fiscal 2018 outlook for organic adjusted net sales growth also excludes the effect of acquisitions and divestitures, and for our Power Solutions business, the impacts of lead price fluctuations. We are unable to present a quantitative reconciliation of the aforementioned forward-looking non-GAAP financial measures to their most directly comparable forward-looking GAAP financial measures because such information is not available and management cannot reliably predict all of the necessary components of such GAAP measures without unreasonable effort or expense. The unavailable information could have a significant impact on the Company's full year 2018 GAAP financial results.

**3. Organic Adjusted Net Sales Growth Reconciliation**

The components of the changes in adjusted net sales for the three months ended June 30, 2018 versus the three months ended June 30, 2017, including organic net sales, is shown below (unaudited):

| (in millions) | Adjusted Net Sales for the Three Months Ended June 30, 2017 | Base Year Adjustments - Divestitures | | Adjusted Base Net Sales for the Three Months Ended June 30, 2017 | Foreign Currency | | Lead Impact | | Organic Net Sales | | Adjusted Net Sales for the Three Months Ended June 30, 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Building Solutions North America | $ 2,135 | $ - | 0.0% | $ 2,135 | $ 8 | 0.4% | $ - | 0.0% | $ 103 | 4.8% | $ 2,246 | 5.2% |
| Building Solutions EMEA/LA | 889 | - | 0.0% | 889 | 33 | 3.7% | - | 0.0% | 4 | 0.4% | 926 | 4.2% |
| Building Solutions Asia Pacific | 630 | (3) | -0.5% | 627 | 26 | 4.1% | - | 0.0% | 28 | 4.5% | 681 | 8.6% |
| Global Products | 2,406 | (175) | -7.3% | 2,231 | 35 | 1.6% | - | 0.0% | 163 | 7.3% | 2,429 | 8.9% |
| Total Building Technologies & Solutions | 6,060 | (178) | -2.9% | 5,882 | 102 | 1.7% | - | 0.0% | 298 | 5.1% | 6,282 | 6.8% |
| Power Solutions | 1,609 | - | 0.0% | 1,609 | 37 | 2.3% | 31 | 1.9% | 161 | 10.0% | 1,838 | 14.2% |
| Total net sales | $ 7,669 | $ (178) | -2.3% | $ 7,491 | $ 139 | 1.9% | $ 31 | 0.4% | $ 459 | 6.1% | $ 8,120 | 8.4% |

The components of the changes in adjusted net sales for the nine months ended June 30, 2018 versus the nine months ended June 30, 2017, including organic net sales, is shown below (unaudited):

| (in millions) | Adjusted Net Sales for the Nine Months Ended June 30, 2017 | Base Year Adjustments - Divestitures | | Adjusted Base Net Sales for the Nine Months Ended June 30, 2017 | Foreign Currency | | Lead Impact | | Organic Net Sales | | Adjusted Net Sales for the Nine Months Ended June 30, 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Building Solutions North America | $ 6,151 | $ - | 0.0% | $ 6,151 | $ 28 | 0.5% | $ - | 0.0% | $ 176 | 2.9% | $ 6,355 | 3.3% |
| Building Solutions EMEA/LA | 2,658 | (80) | -3.0% | 2,578 | 160 | 6.2% | - | 0.0% | 10 | 0.4% | 2,748 | 6.6% |
| Building Solutions Asia Pacific | 1,768 | (12) | -0.7% | 1,756 | 75 | 4.3% | - | 0.0% | 33 | 1.9% | 1,864 | 6.2% |
| Global Products | 6,220 | (474) | -7.6% | 5,746 | 127 | 2.2% | - | 0.0% | 377 | 6.6% | 6,250 | 8.8% |
| Total Building Technologies & Solutions | 16,797 | (566) | -3.4% | 16,231 | 390 | 2.4% | - | 0.0% | 596 | 3.7% | 17,217 | 6.1% |
| Power Solutions | 5,205 | - | 0.0% | 5,205 | 228 | 4.4% | 230 | 4.4% | 150 | 2.9% | 5,813 | 11.7% |
| Total net sales | $ 22,002 | $ (566) | -2.6% | $ 21,436 | $ 618 | 2.9% | $ 230 | 1.1% | $ 746 | 3.5% | $ 23,030 | 7.4% |

**4. Adjusted Free Cash Flow Reconciliation**

The Company's press release contains financial information regarding free cash flow and adjusted free cash flow, which are non-GAAP performance measures. Free cash flow is defined as cash used by operating activities less capital expenditures. Adjusted free cash flow excludes special items, as included in the table below, because these cash flows are not considered to be directly related to its underlying business. Management believes these non-GAAP measures are useful to investors in understanding the strength of the Company and its ability to generate cash.

The following is the three and nine months ended June 30, 2018 and 2017 reconciliation of free cash flow and adjusted free cash flow (unaudited):

| (in billions) | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Nine Months Ended June 30, 2018 | Nine Months Ended June 30, 2017 |
|---|---|---|---|---|
| Cash provided (used) by operating activities | $ 0.7 | $ 0.2 | $ 1.3 | $ (1.3) |
| Capital expenditures | (0.3) | (0.4) | (0.8) | (1.0) |
| Reported free cash flow * | $ 0.4 | $ (0.1) | $ 0.5 | $ (2.3) |
| Adjusting items: | | | | |
| Transaction/integration/separation costs | - | 0.1 | 0.2 | 0.4 |
| Nonrecurring tax payments | 0.1 | 0.1 | 0.1 | 1.4 |
| Adient cash outflow | - | - | - | 0.3 |
| Change in control pension payment | - | - | - | 0.2 |
| Restructuring costs | 0.1 | 0.1 | 0.2 | 0.2 |
| Total adjusting items | 0.2 | 0.3 | 0.5 | 2.5 |
| Adjusted free cash flow | $ 0.6 | $ 0.2 | $ 1.0 | $ 0.2 |

* May not sum due to rounding.

**5. Net Debt to Capitalization**

The Company provides financial information regarding net debt as a percentage of total capitalization, which is a non-GAAP performance measure. The Company believes the percentage of total net debt to total capitalization is useful to understanding the Company's financial condition as it provides a review of the extent to which the Company relies on external debt financing for its funding and is a measure of risk to its shareholders. The following is the June 30, 2018 and September 30, 2017 calculation of net debt as a percentage of total capitalization (unaudited):

| (in millions) | June 30, 2018 | September 30, 2017 |
|---|---|---|
| Short-term debt and current portion of long-term debt | $ 1,583 | $ 1,608 |
| Long-term debt | 10,373 | 11,964 |
| Total debt | 11,956 | 13,572 |
| Less: cash and cash equivalents | 283 | 321 |
| Total net debt | 11,673 | 13,251 |
| Shareholders' equity attributable to JCI | 20,773 | 20,447 |
| Total capitalization | $ 32,446 | $ 33,698 |
| Total net debt as a % of total capitalization | 36.0% | 39.3% |

**6. Mark-to-Market of Pension and Postretirement Plans**

The pension and postretirement mark-to-market gain or loss for each period is excluded from adjusted diluted earnings per share. There was no mark-to-market gain or loss for pension and postretirement plans for the three and nine months ended June 30, 2018. The three months ended June 30, 2017 includes a pension mark-to-market loss of $45 million and the nine months ended June 30, 2017 includes a pension mark-to-market gain of $90 million recorded due to lump sum payouts for certain U.S. pension plans.

**7. Divestitures**

On March 16, 2017, the Company announced that it signed a definitive agreement to sell its Scott Safety business to 3M for approximately $2.0 billion. The transaction closed on October 4, 2017. Net cash proceeds from the transaction approximated $1.9 billion and the Company recorded a net gain of $114 million ($84 million after tax). Scott Safety is a leader in the design, manufacture and sale of high performance respiratory protection, gas and flame detection, thermal imaging and other critical products for fire services, law enforcement, industrial, oil and gas, chemical, armed forces, and homeland defense end markets. The Scott Safety business is included within assets held for sale and liabilities held for sale in the accompanying condensed consolidated statement of financial position as of September 30, 2017.

On October 31, 2017, the Company completed the spin-off of its Automotive Experience business by way of the transfer of the Automotive Experience business from JCI plc to Adient plc and the issuance of ordinary shares of Adient plc directly to holders of JCI plc ordinary shares on a pro rata basis. Following the separation, Adient plc is now an independent public company trading on the New York Stock Exchange (NYSE) under the symbol "ADNT." The Company did not retain any equity interest in Adient plc. Beginning in the first quarter of fiscal 2017, Adient's historical financial results are reflected in the Company's consolidated financial statements as a discontinued operation.

**8. Income Taxes**

The Company's effective tax rate from continuing operations before consideration of the transaction/integration/separation costs, nonrecurring purchase accounting impacts related to the Tyco merger, mark-to-market gains or losses for pension and postretirement plans, Scott Safety gain on sale, restructuring and impairment costs and discrete tax items for the nine months ending June 30, 2018 and June 30, 2017 is approximately 13 percent and 15 percent, respectively.

**9. Restructuring**

The nine months ended June 30, 2018 include restructuring and impairment costs of $158 million related primarily to workforce reductions, plant closures and asset impairments in the Building Technologies & Solutions and Power Solutions businesses, and at Corporate. The three and nine months ended June 30, 2017 restructuring and impairment costs of $49 million and $226 million, respectively, related primarily to workforce reductions, plant closures and asset impairments in the Building Technologies & Solutions and Power Solutions businesses, and at Corporate.