

# Earnings Call Presentation

## Q2 2020



August 5, 2020

 **BorgWarner**

# Forward-Looking Statements

Statements in this presentation may contain forward-looking statements as contemplated by the 1995 Private Securities Litigation Reform Act that are based on management's current outlook, expectations, estimates and projections. Words such as "anticipates," "believes," "continues," "could," "designed," "effect," "estimates," "evaluates," "expects," "forecasts," "goal," "guidance," "initiative," "intends," "may," "outlook," "plans," "potential," "predicts," "project," "pursue," "seek," "should," "target," "when," "will," "would," and variations of such words and similar expressions are intended to identify such forward-looking statements. Further, all statements, other than statements of historical fact contained or incorporated by reference in this Release that we expect or anticipate will or may occur in the future regarding our financial position, business strategy and measures to implement that strategy, including changes to operations, competitive strengths, goals, expansion and growth of our business and operations, plans, references to future success and other such matters, are forward-looking statements. Accounting estimates, such as those described under the heading "Critical Accounting Policies" in Item 7 of our most recently-filed Annual Report on Form 10-K ("Form 10-K"), are inherently forward-looking. All forward-looking statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. Forward-looking statements are not guarantees of performance, and the Company's actual results may differ materially from those expressed, projected or implied in or by the forward-looking statements.

You should not place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. Forward-looking statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results to differ materially from those expressed, projected or implied in or by the forward-looking statements. These risks and uncertainties, among others, include: uncertainties regarding the extent and duration of impacts of matters associated with COVID-19/coronavirus, including additional production disruptions; the failure to complete our anticipated acquisition of Delphi Technologies PLC, as a result of, by way of example, the failure to: satisfy the conditions to the completion of the transaction or obtain the regulatory approvals required for the transaction on the terms expected or on the anticipated schedule; our dependence on automotive and truck production, both of which are highly cyclical; our reliance on major OEM customers; commodities availability and pricing; supply disruptions; fluctuations in interest rates and foreign currency exchange rates; availability of credit; our dependence on key management; our dependence on information systems; the uncertainty of the global economic environment; the outcome of existing or any future legal proceedings, including litigation with respect to various claims; future changes in laws and regulations, including, by way of example, tariffs, in the countries in which we operate; and the other risks, including, by way of example, pandemics and quarantines, noted in reports that we file with the Securities and Exchange Commission, including Item 1A, "Risk Factors" in our most recently-filed Form 10-K as updated by Item 1A of our most recently filed Quarterly Report on Form 10-Q. We do not undertake any obligation to update or announce publicly any updates to or revisions to any of the forward-looking statements in this presentation to reflect any change in our expectations or any change in events, conditions, circumstances, or assumptions underlying the statements.

# Non-GAAP Financial Measures

This presentation contains information about BorgWarner's financial results that is not presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Such non-GAAP financial measures are reconciled to their closest GAAP financial measures in the Appendix. The provision of these comparable GAAP financial measures for 2020 is not intended to indicate that BorgWarner is explicitly or implicitly providing projections on those GAAP financial measures, and actual results for such measures are likely to vary from those presented. The reconciliations include all information reasonably available to the company at the date of this presentation and the adjustments that management can reasonably predict.

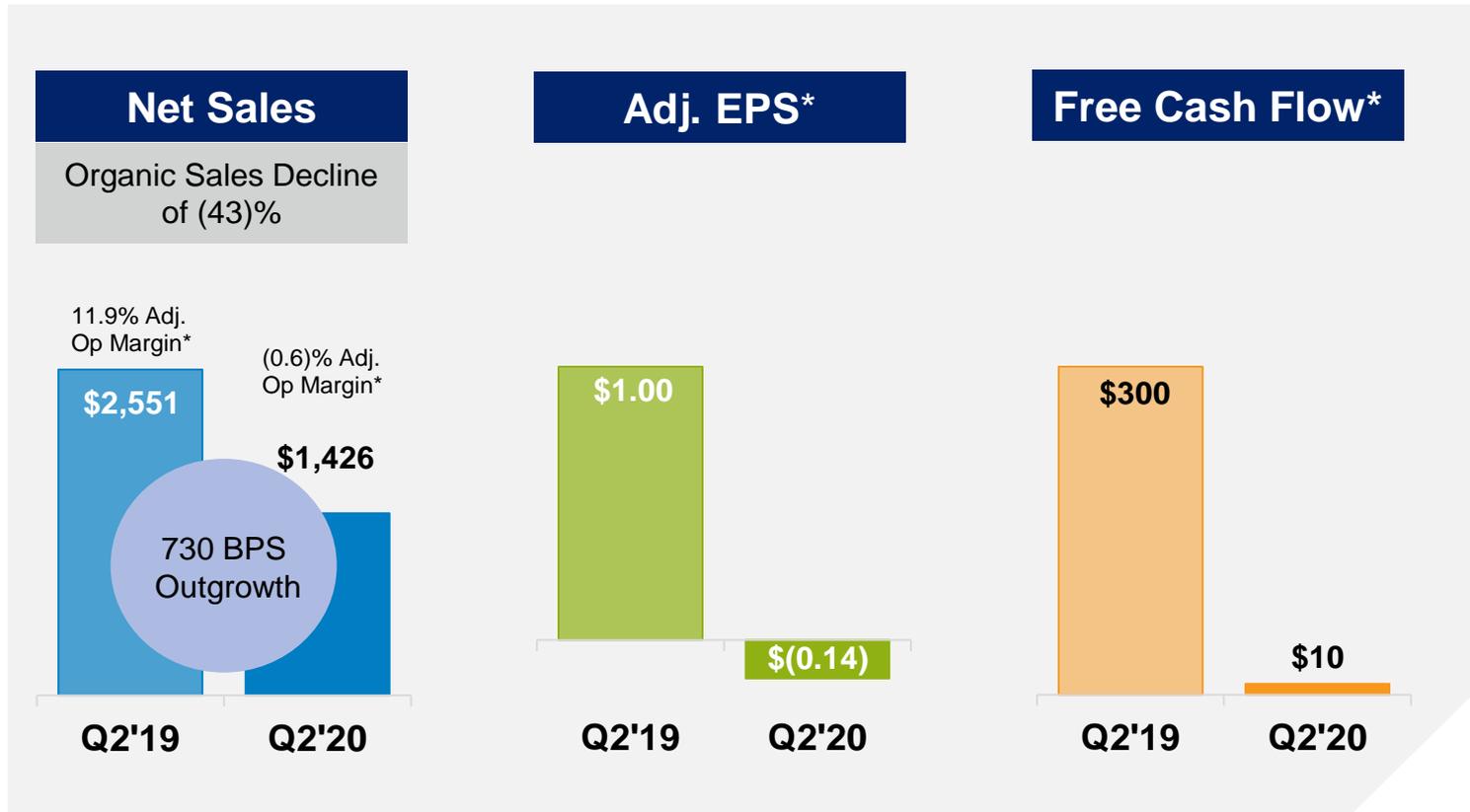
Management believes that these non-GAAP financial measures are useful to management, investors, and banking institutions in their analysis of the Company's business and operating performance. Management also uses this information for operational planning and decision-making purposes.

Non-GAAP financial measures are not and should not be considered a substitute for any GAAP measure. Additionally, because not all companies use identical calculations, the non-GAAP financial measures as presented by BorgWarner may not be comparable to similarly titled measures reported by other companies.

# Agenda

- Fred Lissalde  
*Chief Executive Officer*
- Kevin Nowlan  
*Chief Financial Officer*
- Q&A

# Q2 2020 Financial Highlights

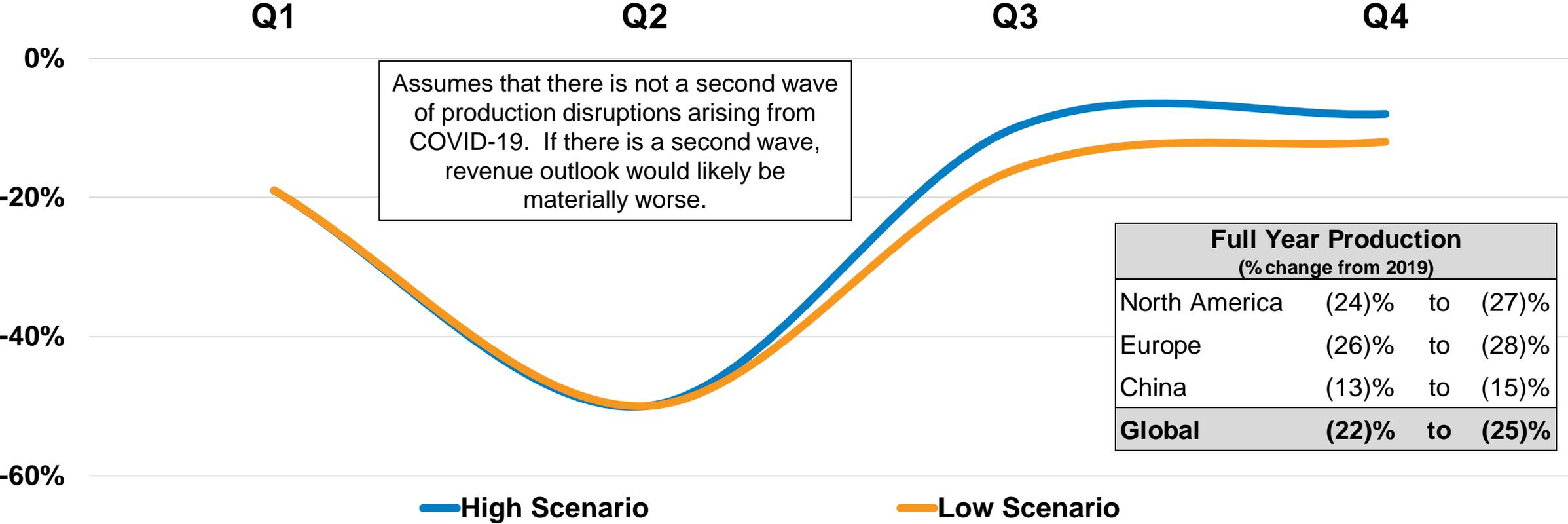


- COVID-19 drove lower sales, partially offset by outgrowth in all major regions
- Decremental margin of 28%\*\* , as cost actions partially offset sales decline
- Positive FCF in spite of significant production declines
- Safely managed production restarts in Europe and North America, while also supporting strong China demand

\* Adj. EPS, Adj. operating margin and free cash flow on this slide are non-US GAAP measures. See reconciliation to US GAAP in Appendix.

\*\* Decremental margin is operating income market growth, pricing, backlog and other income divided by sales market growth, pricing and backlog

# 2020 BorgWarner LV Production Scenarios



# Integrated Drive Module for Ford Mach-E



## Integrated Drive Module (iDM)

- Award for Ford's new all-electric Mustang Mach-E SUV
- Details
  - iDM powers RWD and multiple AWD vehicle configurations
  - State-of-the-art gearing handles 4,278 Nm of axle torque and input speeds up to 13,800 rpm
  - Project fueled by our extensive systems integration knowledge

**Extends iDM sales to North American EV market**

# Update on Delphi Technologies Acquisition

- BorgWarner completed \$1.1 billion senior notes offering
- Delphi Technologies shareholders approved acquisition by an overwhelming majority
- Regulatory approvals received in 6 of 7 jurisdictions
- Integration teams continue to work diligently

**Expected transaction closing remains in second half of 2020**

# Commitment to Sustainability



## Create a cleaner, more energy-efficient world

### Products that drive clean mobility

- > 80% revenue from electric, hybrid, and emissions-reducing combustion parts

### Leading environmental targets

- 50% carbon and 37% energy intensity reductions by 2030 from 2015



## Live the BorgWarner Beliefs

### Fostering talent and diversity

- CEO Action for Diversity & Inclusion™ signatory
- ~58,000 hours of employee training in 2019

### Top-quartile worker safety rate

- 75% improvement in total incident rate over the past decade



## Partner with and report to stakeholders

### Responsibility in our supply chain

- Supplier sustainability training and assessment programs

### Transparency in our reporting

- SASB, TCFD, and GRI aligned reporting

**Delivering our vision of a clean, energy-efficient world**

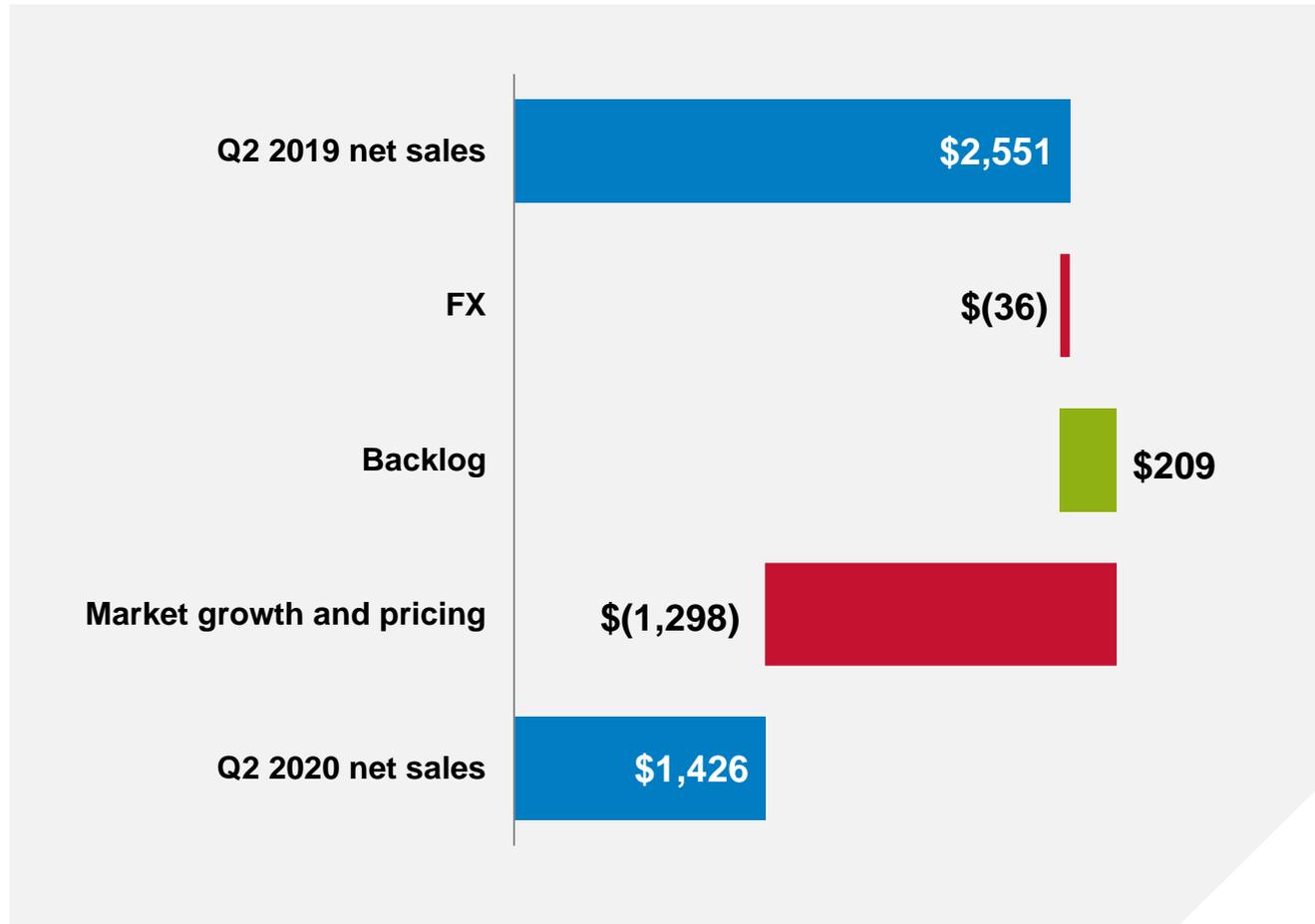
# Summary of Q2 Results and 2020 Outlook



- Achieved second quarter outgrowth in all major regions
- Positive free cash flow year-to-date, with expected second half generation at or above first half levels
- Delphi Technologies acquisition expected closing on track for second half
- Believe we remain strongly positioned to capitalize on long-term industry trends

# BorgWarner Q2 2020 Net Sales Walk

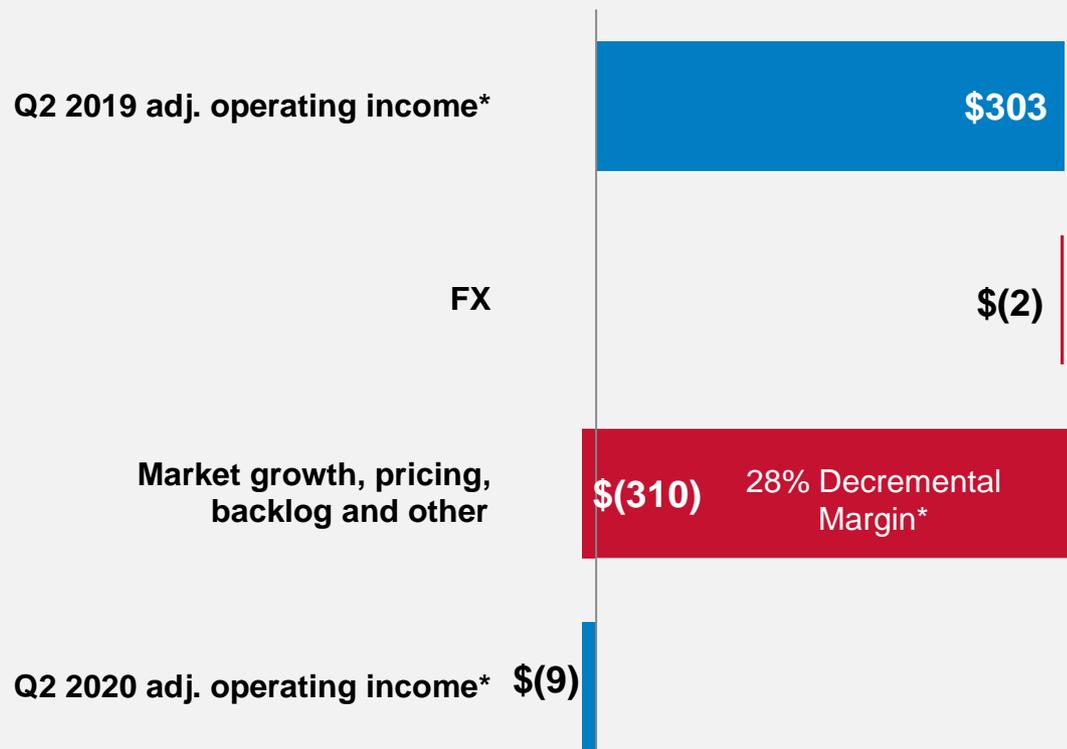
\$ in millions



- Global light vehicle market down ~50% year over year
- Organic sales declined ~43% with strong outgrowth in all major regions
  - **Europe.** Strong diesel demand and mix
  - **North America.** Beneficial vehicle mix; other net new business
  - **China.** Dual clutch transmission modules (DCT); commercial vehicle

# BorgWarner Financial Results & Adj. Operating Income

\$ in millions



\* Decremental margin is operating income market growth, pricing, backlog and other income divided by sales market growth, pricing and backlog

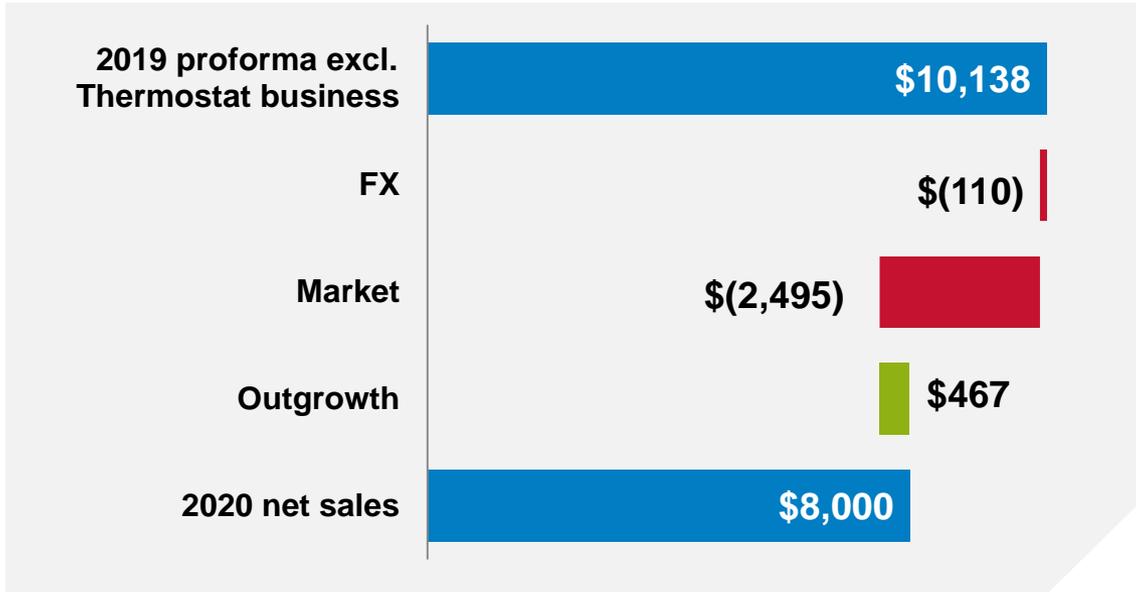
(in millions, except per share amounts) GAAP & Non-GAAP Financials	Three months ended June 30,	
	2019	2020
Sales	\$2,551	\$1,426
Adj. operating income**	\$303	\$(9)
Adj. Operating Margin %	11.9%	(0.6)%
Adj. diluted EPS from continuing operations**	\$1.00	\$(0.14)
Free cash flow**	\$300	\$10

\*\* Adj. operating income, Adj. operating margin %, Adj. EPS and free cash flow on this slide are non-US GAAP measures. See reconciliation to US GAAP in Appendix.

# 2020 Net Sales Outlook\*

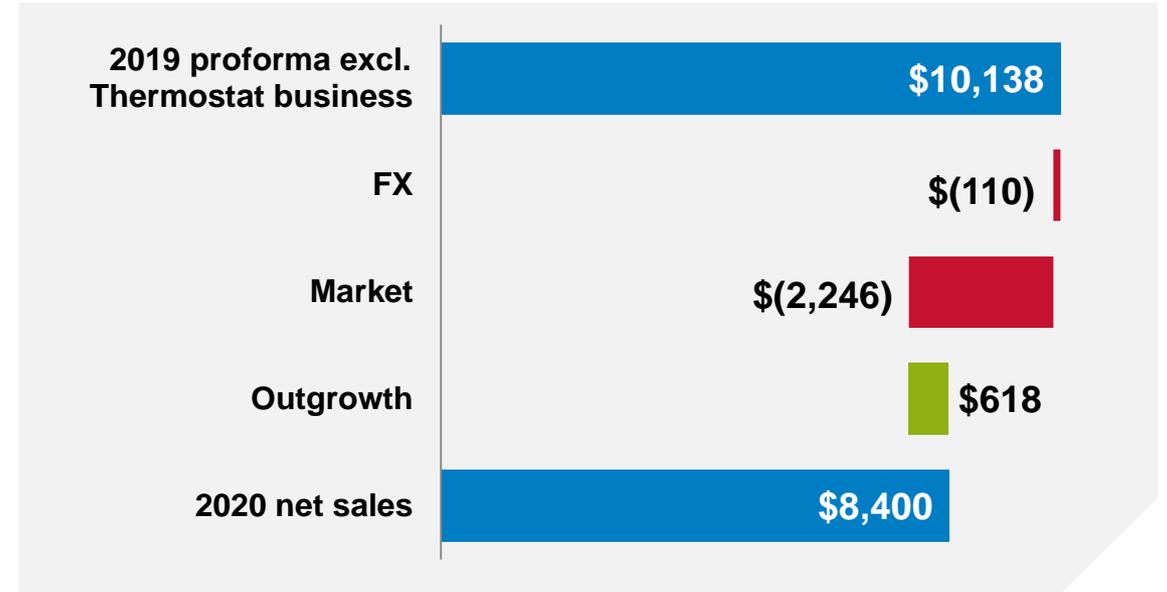
\$ in millions

## Full-year Net Sales Outlook Low-End



- Global BWA LV market down ~25%
- Organic revenue decline of ~20%, as market decline is offset by ~450 basis points of outgrowth

## Full-Year Net Sales Outlook High-End



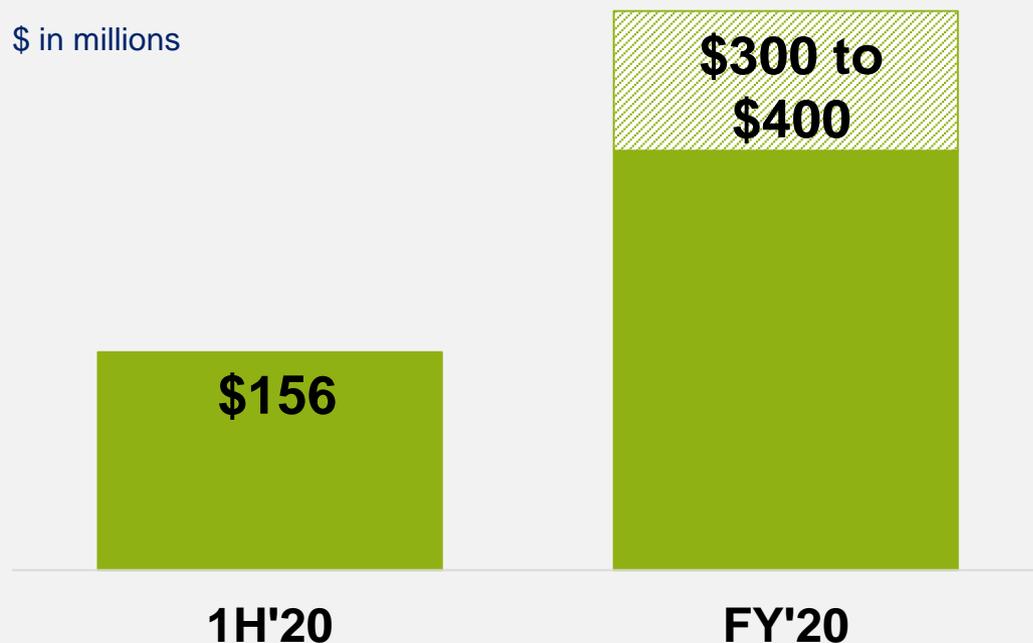
- Global BWA LV market down ~22%
- Organic revenue decline of ~16%, as market decline is offset by ~600 basis points of outgrowth

\* Net Sales Outlook uses BorgWarner LV Production Scenarios on Slide 6 as a basis

# Cash Flow and Other Considerations

## 2020 FCF Trends

\$ in millions



- **Free cash flow** expected to be positive in second half and full year 2020
  - Second half FCF weighted more to Q4
- **Decrementals** expected to remain in the ~30% range for full year
  - Q4 decremental impacted by strong performance in Q4 2019
- **Dividend** sustained during challenging market environment

**Expect to deliver \$300M to \$400M in FCF for 2020**

# Delphi Technologies Financing Actions

March 2020

June 2020

August-September 2020

## Renewed and Increased Revolver

- Increased facility from \$1.2B to \$1.5B
- Facility increases to \$2.0B at Delphi Technologies closing
- Provides appropriate level of liquidity through March 2025

## Issued \$1.1B Senior Notes

- Issued 2.65% USD Senior Notes due 2027
- Swapped notes to Euro-denominated debt at effective interest rate of 1.78%
- Intend to utilize majority of proceeds to refinance certain Delphi Technologies' debt at closing

## Execute Obligor Exchange on Delphi Technologies \$800M 5.00% Notes Due 2025

- Intend to exchange Delphi Technologies 2025 notes for BorgWarner notes
- Eliminates substantially all restrictive covenants in existing notes

**Financing actions to facilitate closing are nearly complete**

# Thank you!



Combustion



Hybrid



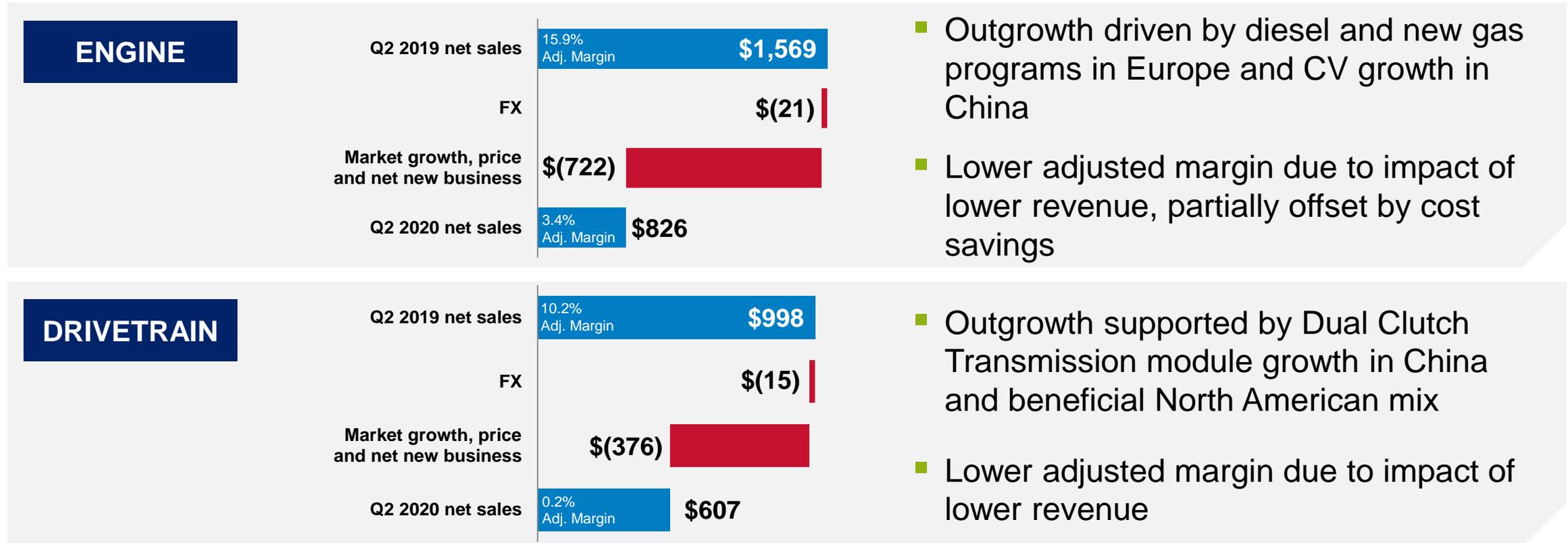
Electric

# Appendix

# Segment Net Sales & Adj. EBIT Margin\*

\$ in millions

## Net Sales



\* Adj. EBIT Margin % on this slide is a non-US GAAP measure. See reconciliation to US GAAP also in the Appendix.

# Second Quarter and Year-to-Date Reconciliation to US GAAP

## Adjusted Operating Income

The Company defines adjusted operating income as operating income adjusted to eliminate the impact of restructuring expense, merger, acquisition and divestiture expense, other net expenses, discontinued operations, and other gains and losses not reflective of the Company's ongoing operations.

\$ in millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Sales	\$ 1,426	\$ 2,551	\$ 3,705	\$ 5,117
Operating (loss) income	\$ (78)	\$ 285	\$ 111	\$ 549
<i>Operating margin %</i>	-5.5%	11.2%	3.0%	10.7%
<b>Non-comparable items:</b>				
Restructuring expense	37	13	52	27
Merger, acquisition and divestiture expense	21	5	42	6
Asset impairments	17	-	26	-
Net gain on insurance proceeds for property damage	(6)	-	(6)	-
Unfavorable arbitration loss	-	-	-	14
Officer stock awards modification	-	-	-	2
Adjusted operating (loss) income	\$ (9)	\$ 303	\$ 225	\$ 598
Adjusted operating (loss) income margin %	(0.6)%	11.9%	6.1%	11.7%

# Second Quarter and Year-to-Date Reconciliation to US GAAP

## Adjusted Earnings Per Share

The Company defines adjusted earnings per diluted share as earnings per diluted share adjusted for the items above and related tax effects.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>(Loss) Earnings per diluted share</b>	<u>\$ (0.47)</u>	<u>\$ 0.83</u>	<u>\$ 0.15</u>	<u>\$ 1.60</u>
Non-comparable items:				
Restructuring expense	0.15	0.05	0.21	0.10
Merger, acquisition and divestiture expense	0.10	0.02	0.20	0.02
Asset impairments	0.08	-	0.12	-
Net gain on insurance proceeds for property damage	(0.02)	-	(0.02)	-
Delayed-draw term loan cancellation	0.01	-	0.01	-
Unfavorable arbitration loss	-	-	-	0.07
Officer stock awards modification	-	-	-	0.01
Pension settlement loss	-	0.10	-	0.10
Tax adjustments	0.01	-	(0.05)	0.09
Adjusted (loss) earnings per diluted share	<u>\$ (0.14)</u>	<u>\$ 1.00</u>	<u>\$ 0.62</u>	<u>\$ 1.99</u>

# Second Quarter Adj. EBIT to US GAAP Reconciliation

Adjusted EBIT is comprised of earnings before interest, income taxes and noncontrolling interest ("EBIT") adjusted for restructuring, goodwill impairment charges, affiliates' earnings and other items not reflective of on-going operating income or loss ("Adjusted EBIT"). Adjusted EBIT is the measure of segment income or loss used by the Company. The Company believes Adjusted EBIT is most reflective of the operational profitability or loss of our reporting segments. The following table shows Adjusted EBIT for the Company's reporting segments.

	Three Months Ended June 30,	
	2020	2019
Engine	\$ 28	\$ 249
Drivetrain	1	102
Adjusted EBIT	29	351
Restructuring expense	37	13
Merger, acquisition and divestiture expense	21	5
Asset impairments	17	-
Net gain on insurance proceeds for property damage	(6)	-
Corporate, including stock-based compensation	38	48
Equity in affiliates earnings, net of tax	(2)	(9)
Interest income	(3)	(2)
Interest expense	18	14
Other postretirement (income) expense	(1)	27
(Loss) earnings before income taxes and noncontrolling interest	(90)	255
(Benefit) Provision for income taxes	(6)	73
Net (loss) earnings	(84)	182
Net earnings attributable to the noncontrolling interest, net of tax	14	10
Net (loss) earnings attributable to BorgWarner Inc.	\$ (98)	\$ 172

# Free Cash Flow to US GAAP

The Company defines free cash flow as net cash provided by operating activities minus capital expenditures, including tooling outlays. The measure is useful to both management and investors in evaluating the Company's ability to service and repay its debt.

	Three Months Ended June 30,		Year to Date June 30,	
	2020	2019	2020	2019
Net cash provided by operating activities	\$ 64	\$ 427	\$ 327	\$ 467
Capital expenditures, including tooling outlays	(54)	(127)	(171)	(244)
Free cash flow	\$ 10	\$ 300	\$ 156	\$ 223

	Full Year 2020 Outlook	
	Low	High
Net cash provided by operating activities	\$ 700	\$ 850
Capital expenditures, including tooling outlays	(400)	(450)
Free cash flow	\$ 300	\$ 400

# Key Definitions

## Key Definitions:

The terms below are commonly used by management and investors in assessing ongoing financial performance.

- **Organic Revenue Change.** BorgWarner revenue change year over year excluding the estimated impact of FX and net M&A
- **Market.** Light vehicle production weighted for BorgWarner's geographic exposure as estimated by BorgWarner
- **Outgrowth.** "Organic Revenue Change" vs. change in "Market"

# General

The release, publication or distribution of this communication in or into certain jurisdictions may be restricted by the laws of those jurisdictions. Accordingly, copies of this communication and all other documents relating to the proposed transaction are not being, and must not be, released, published, mailed or otherwise forwarded, distributed or sent in, into or from any such jurisdictions. Persons receiving such documents (including, without limitation, nominees, trustees and custodians) should observe these restrictions. Failure to do so may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies involved in the proposed transaction disclaim any responsibility or liability for the violations of any such restrictions by any person.

Any response in relation to the proposed transaction should be made only on the basis of the information contained in the proxy statement and other relevant documents. Delphi Technologies shareholders are advised to read carefully the formal documentation in relation to the proposed transaction once the proxy statement and other relevant documents have been dispatched.