

**BORGWARNER**

# Q2 2023 Earnings Call Presentation

**August 2, 2023**



# Forward-Looking Statements

This presentation contains forward-looking statements as contemplated by the 1995 Private Securities Litigation Reform Act (the “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 presentation, 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 and Estimates” in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022 (“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 under 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 supply disruptions impacting us or our customers, such as the current shortage of semiconductor chips that has impacted original equipment manufacturer (“OEM”) customers and their suppliers, including us; commodity availability and pricing, and an inability to achieve expected levels of recoverability in commercial negotiations with customers concerning these costs; competitive challenges from existing and new competitors including OEM customers; the challenges associated with rapidly changing technologies, particularly as they relate to electric vehicles, and our ability to innovate in response; the difficulty in forecasting demand for electric vehicles and our electric vehicles sales growth; potential disruptions in the global economy caused by Russia’s invasion of Ukraine; the ability to identify targets and consummate acquisitions on acceptable terms; failure to realize the expected benefits of acquisitions on a timely basis; the possibility that our recently-completed tax-free spin-off of our former Fuel Systems and Aftermarket segments into a separate publicly traded company will not achieve its intended benefits; the failure to promptly and effectively integrate acquired businesses; the potential for unknown or inestimable liabilities relating to the acquired businesses; our dependence on automotive and truck production, both of which are highly cyclical and subject to disruptions; our reliance on major OEM customers; fluctuations in interest rates and foreign currency exchange rates; 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, or governmental investigations, including related litigation; future changes in laws and regulations, including, by way of example, taxes and tariffs, in the countries in which we operate; impacts from any potential future acquisition or disposition transactions; and the other risks 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. 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 2023 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.

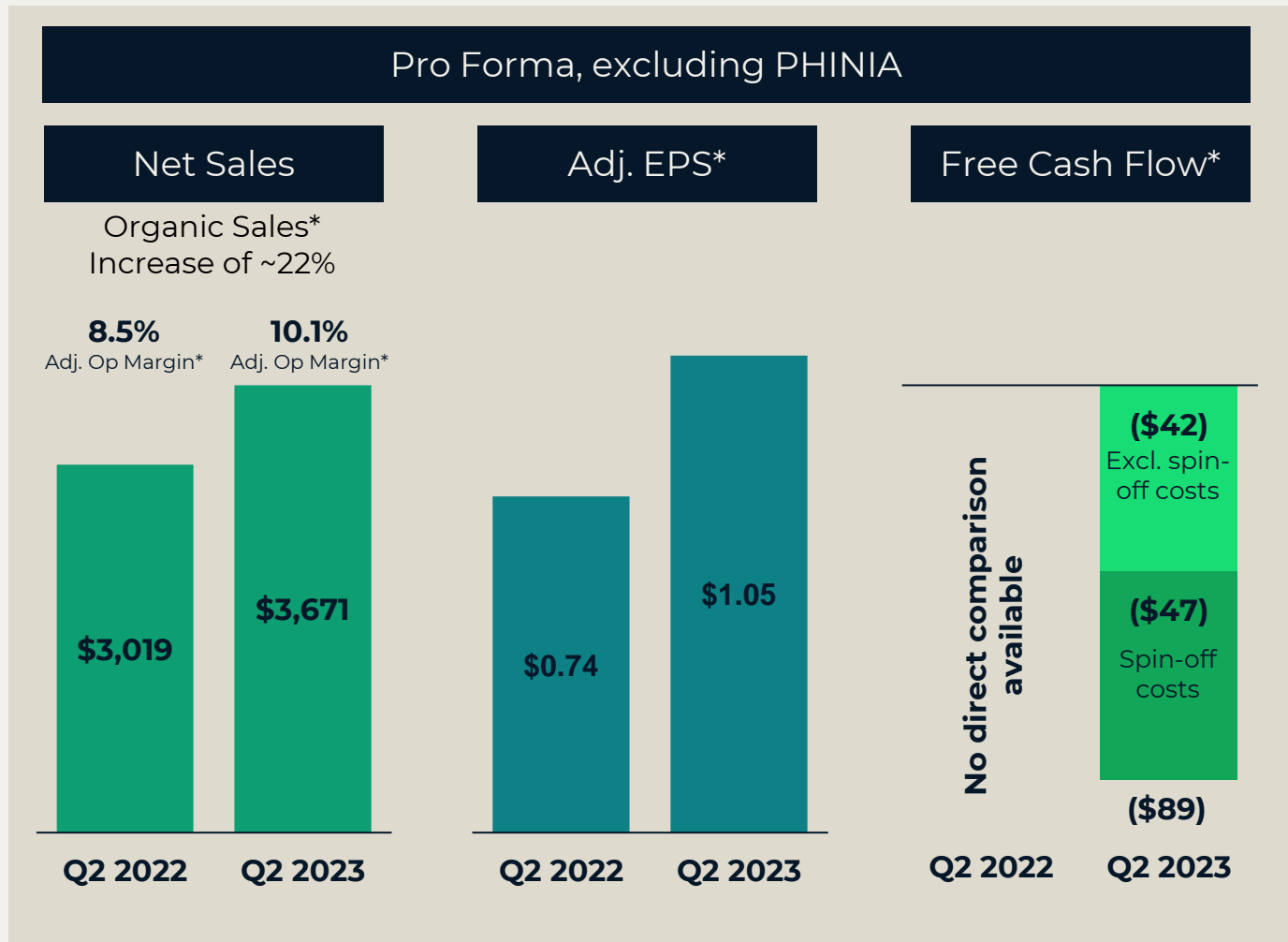
Management believes that these non-GAAP financial measures are useful to management, investors, and banking institutions in their analysis of the Company's business and operating performance. Management also uses this information for operational planning and decision-making purposes.

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

# Charging Forward 2027 Established, Strong Progress in Second Quarter



- Delivered double-digit organic sales growth
- Strong margin performance supported by conversion on sales and customer pricing
- Additional eProduct program awards
- Unveiled *Charging Forward 2027*
- Published 2023 Sustainability Report
- Announced acquisition of Eldor's power electronics business
- Completed PHINIA spin-off on 7/3

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

# CHARGING FORWARD 2027 STRATEGY



**eProduct  
Growth**



**eProduct  
Profitability**



**Maximize  
Foundational  
Value**

## Established 2027 Targets

**eProduct  
Growth**



\$10B+ in eProduct sales by 2027

**eProduct  
Profitability**



eProduct Adj. Operating Margin  
~7% by 2027

**Maximize  
Foundational  
Value**



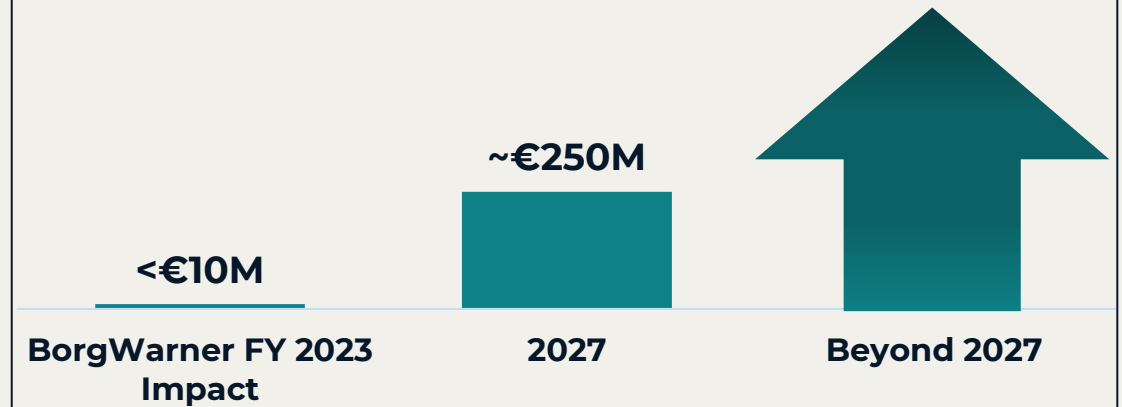
Maintain double-digit margins  
for Foundational products

# Pending Acquisition of Electric Hybrid Systems (EHS) Business Segment of Eldor Corporation

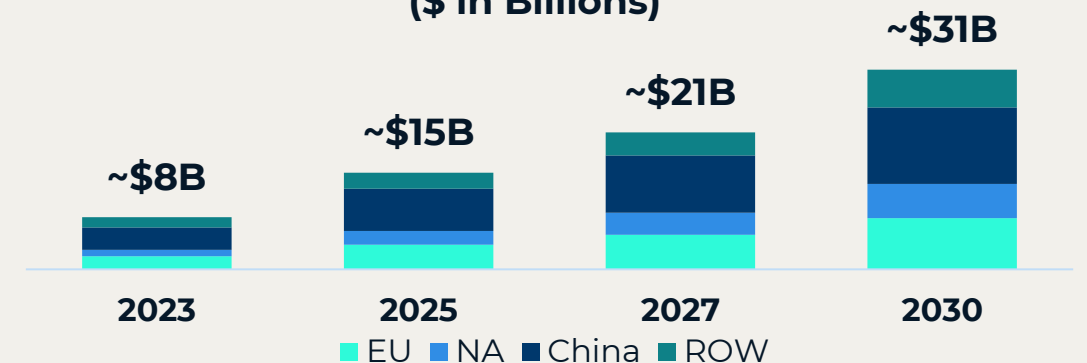
## Strategic Rationale

- ▶ **Complementary** product portfolio with integrated high-voltage boxes, DC/DC converters and integrated high-voltage boxes and on-board chargers (OBCs)
- ▶ Power Electronics (including OBC) is **largely outsourced** by OEMs, and market is trending towards HV boxes
- ▶ Would **Augment existing Power Electronics capabilities** with additional resources, capacity, and technology
- ▶ Experienced engineering team with **deep grid knowledge**

## Estimated Sales (€ in Millions)



## HV Box and OBC True Addressable Market (\$ in Billions)

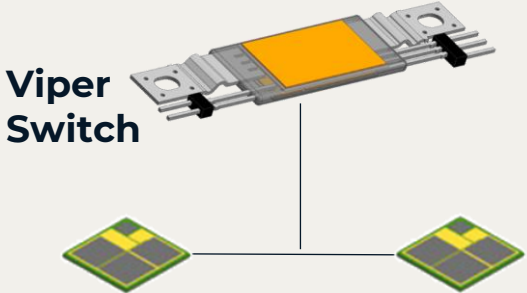


# onsemi Agreement Further Improves Supply Resilience

**onsemi**

*“onsemi’s continuous and strategic investment in ramping SiC manufacturing capacity across its end-to-end supply chain gives us confidence in our ability to support the increasing demand for our solutions, now and in the future...”*

*- Stefan Demmerle, President, ePropulsion*

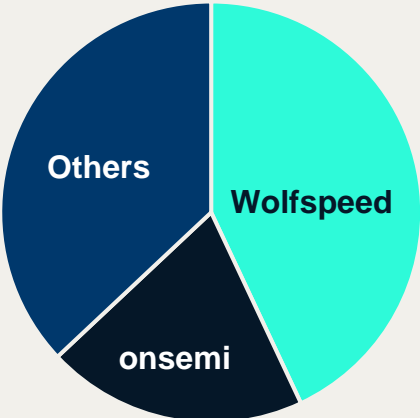


**Viper Switch**

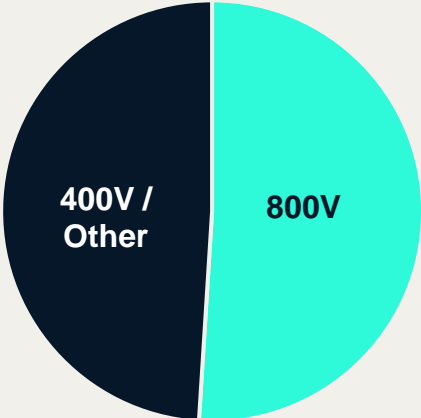
**Flexible power-switch design:**

Offering die-level interchangeability from all major suppliers (Si & SiC)

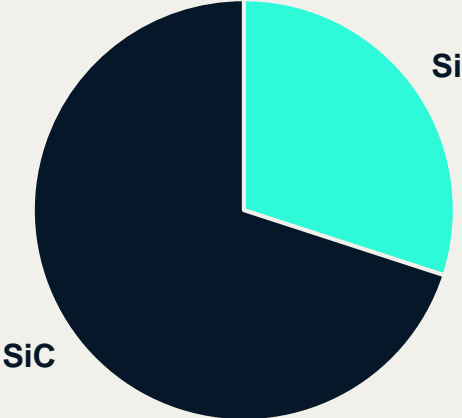
**2027E Si/SiC Suppliers**



**2027E Voltage Volume Split**



**2027E Si vs. SiC Dies**



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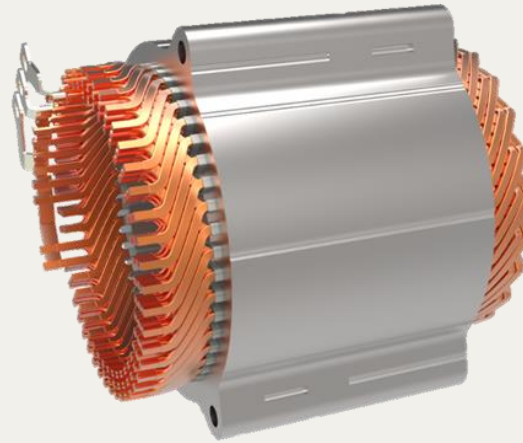


# Key Wins Drive *Charging Forward* 2027 Pillars



## Integrated Drive Modules

- Award with leading Chinese domestic OEM, expected to launch in 2024



## Inverters + eMotors

- Award with major East Asian OEM to supply the automaker's new electric vehicle platform, expected to launch in mid-2025

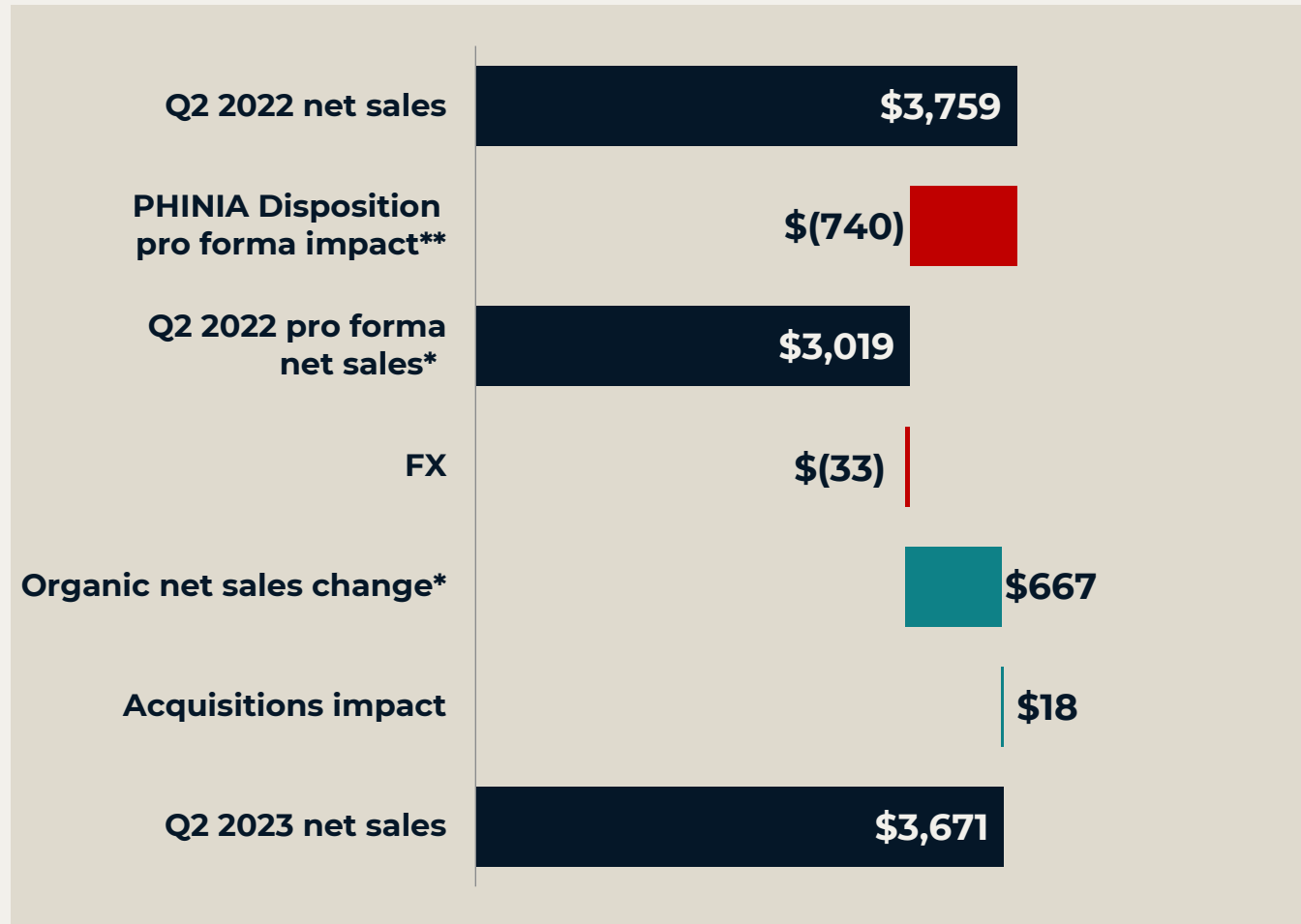


## High-Voltage Coolant Heaters

- Award with global supplier for use on a series of three electric vehicle (EV) platforms for a major OEM expected to launch in 2025

# Q2 2023 Net Sales Walk

\$ in millions



- **Organic sales\* increased ~22%** supported by the following:
  - Global weighted vehicle **markets up ~15%** year over year
  - **Customer recoveries** of material cost inflation
  - **Europe** – Exhaust gas recirculation, ePropulsion, battery packs and gas turbos
  - **China** – Inverters and other ePropulsion products
  - **North America** – In line with market

\*Organic net sales change on this slide is a non-US-GAAP measure. See reconciliation to US GAAP in Appendix.

# Pro Forma Financial Results & Adj. Operating Income

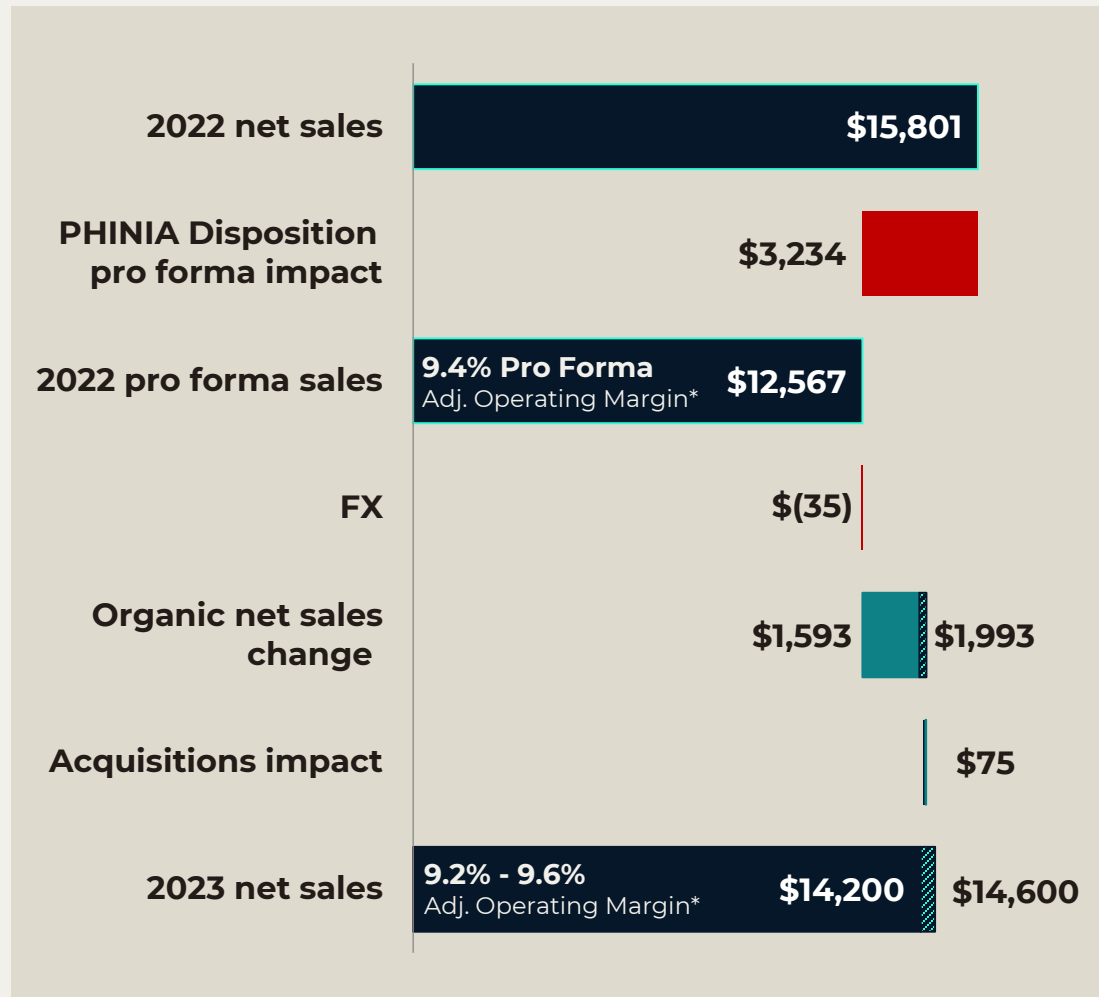
\$ in millions

		(in millions, except per share amounts)		Three months ended June 30,	
		Non-GAAP Financial Information		2022	2023
Q2 2022 adj. operating income*	\$348				
PHINIA Disposition pro forma impact**	\$(90)				
Q2 2022 pro forma adj. operating income*	\$258				
FX	\$(9)				
Organic change, R&D and performance	\$126				
Acquisitions impact	\$(6)				
Q2 2023 adj. operating income*	\$369				
		Net Sales		\$3,019	\$3,671
		Adj. operating income*		\$258	\$369
		Adj. operating margin*		8.5%	10.1%
		Adj. diluted EPS*		\$0.74	\$1.05
		Free cash flow*		N/A	(\$89)
		Free cash flow* excl. one-time spin-off costs		N/A	(\$42)

\*Adj. operating income, adj. operating margin, adj. diluted EPS and free cash flow on this slide are non-US-GAAP measures. See reconciliation to US GAAP in Appendix.  
 Net sales, adj. operating margin, adj. EPS and free cash flow are BorgWarner excluding PHINIA.

# 2023 Outlook and Other Items

## Full-year Net Sales Outlook



## Market & Earnings Outlook

	Prior Guidance	2023 Outlook
Organic growth*	10% to 15%	13% to 16%
eProduct sales**	\$2.3B to \$2.6B	\$2.3B to \$2.4B
eR&D increase	\$60M to \$70M	\$60M to \$70M
Adj. diluted EPS*	\$3.45 to \$3.85	\$3.50 to \$3.85
Free cash flow*	\$250M to \$350M	\$250M to \$350M
FCF* excl. spin-off costs	\$400M to \$500M	\$400M to \$500M

\*Adj. operating margin, adj. diluted EPS, free cash flow (FCF) and organic growth on this slide are non-US GAAP measures. See reconciliation to US GAAP in Appendix.

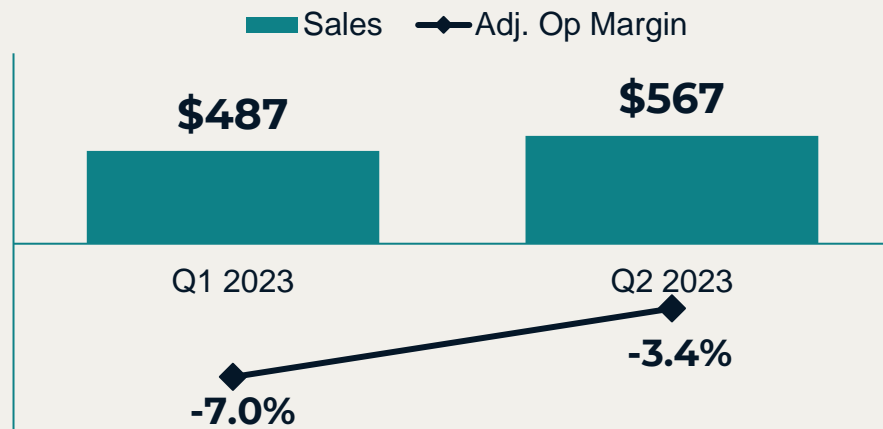
\*\*eProducts include all products utilized on EVs, plus those products and components that are included in hybrid powertrains whose underlying technologies are adaptable or applicable to those used in EVs.

Note: FX rates assume ~US\$ 1.09 per Euro and 7.14 RMB per USD.

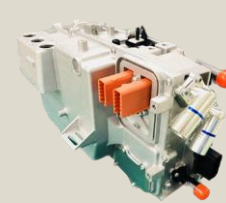
# Anticipated ePropulsion Profitability on Track

## ePropulsion Segment Performance & Outlook

- Sales and margins improved vs. Q1 2023
  - Driven in part by Q2 customer recoveries of first half material cost inflation from suppliers
- Believe we remain on track for positive operating margins in Q4 2023
- Second half 2023 sales growth heavily weighted towards Chinese NEV market



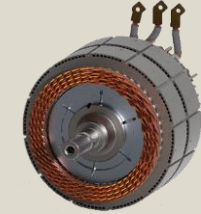
## ePropulsion Product Examples



Inverters



Integrated drive modules (iDM)



eMotors

## Chinese ePropulsion Customers

<b>BYD</b>	<b>Chang'an</b>	<b>Chery</b>
<b>Geely</b>	<b>Great Wall</b>	<b>Li Auto</b>
<b>Xpeng</b>	<b>Others</b>	

**Globally, BorgWarner supplies 7 of 10 top light vehicle EV/PHEV OEMs**

August 2, 2023

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Q2 2023

Earnings Call Presentation

**THANK YOU**

# APPENDIX

# Financial Results Including PHINIA



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



# 2023 Planning Assumptions

- **CapEx** **\$750 to \$800 million**
- **Adjusted tax rate for ongoing operations** **25% to 26%**

# BorgWarner Global Production Outlook (2023 vs. 2022)

## Actual & Estimated Production Totals (in Millions of Units)

	North America		Europe		China		Total	
	2022	2023	2022	2023	2022	2023	2022	2023
<b>Light Vehicle</b>	14.3	14.7 to 15.2	15.8	16.6 to 17.0	26.2	25.4 to 25.9	82.3	82.8 to 85.5
<b>Commercial Vehicle</b>	0.6	~0.7	0.6	~0.6	0.8	1.0 to 1.1	3.1	3.3 to 3.4

## Estimated Year-over-Year Change in Production

	North America	Europe	China	Total
<b>Light Vehicle</b>	3% to 6.5%	5% to 7.5%	(3%) to (1%)	0.5% to 4%
<b>Commercial Vehicle</b>	~9.5%	~3.5%	23.5% to 29.5%	8.5% to 11.5%
<b>BorgWarner-Weighted</b>	<b>3.5% to 7%</b>	<b>5% to 7%</b>	<b>(0.5%) to 1.5%</b>	<b>2.5% to 5.5%</b>

Note: 2023 estimates are BorgWarner-weighted market assumptions based on July 2023 LV S&P Global and July 2023 CV On-Hwy S&P Global.

# 2022 BorgWarner Excluding PHINIA Spin-Off Pro Forma Historical Information

On July 3, 2023, BorgWarner completed the previously announced spin-off of its Fuel Systems and Aftermarket segments in a transaction intended to qualify as tax-free to the Company's stockholders for U.S. federal income tax purposes, which was accomplished by the distribution of 100% of the outstanding common stock of PHINIA, Inc. ("PHINIA") to holders of record of common stock of the Company on a pro rata basis. For informational purposes only, in the following tables, the Company provides unaudited pro forma financial information as if the Spin-Off had occurred on January 1, 2022, in that they reflect the removal of PHINIA results for all periods presented.

(in millions)	2022				
	Three Months Ended March 31, 2022	Three Months Ended June 30, 2022	Three Months Ended September 30, 2022	Three Months Ended December 31, 2022	Year Ended December 31, 2022
<b>Net Sales</b>					
Air Management	\$ 1,768	\$ 1,724	\$ 1,841	\$ 1,796	\$ 7,129
Drivetrain & Battery Systems	895	896	954	991	3,736
ePropulsion	440	432	489	545	1,906
Inter-segment eliminations	(65)	(33)	(51)	(55)	(204)
<b>Net Sales</b>	<b>\$ 3,038</b>	<b>\$ 3,019</b>	<b>\$ 3,233</b>	<b>\$ 3,277</b>	<b>\$ 12,567</b>
<b>Adjusted Operating Income</b>					
Air Management	\$ 251	\$ 244	\$ 294	\$ 279	\$ 1,068
Drivetrain & Battery Systems	113	113	101	135	462
ePropulsion	(17)	(42)	(32)	8	(83)
Corporate & Non-Operating	(57)	(57)	(52)	(103)	(269)
<b>Adjusted Operating Income</b>	<b>\$ 290</b>	<b>\$ 258</b>	<b>\$ 311</b>	<b>\$ 319</b>	<b>\$ 1,178</b>
<b>Adjusted Operating Margin</b>	<b>9.5 %</b>	<b>8.5 %</b>	<b>9.6 %</b>	<b>9.7 %</b>	<b>9.4 %</b>
Equity in affiliates' earnings, net of tax	4	9	7	7	27
Intangible amortization	(16)	(20)	(17)	(17)	(70)
Other postretirement income (expense)	1	1	—	(3)	(1)
Interest expense, net	(14)	(13)	(11)	(9)	(47)
Provision for income taxes	(68)	(44)	(75)	(64)	(251)
Net earnings attributable to noncontrolling interest, net of tax	(23)	(16)	(19)	(24)	(82)
<b>Net earnings attributable to BorgWarner Inc.</b>	<b>\$ 174</b>	<b>\$ 175</b>	<b>\$ 196</b>	<b>\$ 209</b>	<b>\$ 754</b>
Weighted average shares outstanding	236.8	236.8	236.8	236.8	236.8
<b>Pro forma adjusted earnings per diluted share</b>	<b>\$ 0.73</b>	<b>\$ 0.74</b>	<b>\$ 0.83</b>	<b>\$ 0.88</b>	<b>\$ 3.18</b>
PHINIA Spin-Off	\$ 0.32	\$ 0.31	\$ 0.41	\$ 0.38	\$ 1.42
Other non-comparable items	(0.21)	(0.14)	(0.08)	(0.17)	(0.61)
<b>Earnings per diluted share - GAAP</b>	<b>\$ 0.84</b>	<b>\$ 0.91</b>	<b>\$ 1.16</b>	<b>\$ 1.09</b>	<b>\$ 3.99</b>

# Q1 & Q2 2023 BorgWarner Excluding PHINIA Spin-Off Pro Forma Historical Information

On July 3, 2023, BorgWarner completed the previously announced spin-off of its Fuel Systems and Aftermarket segments in a transaction intended to qualify as tax-free to the Company's stockholders for U.S. federal income tax purposes, which was accomplished by the distribution of 100% of the outstanding common stock of PHINIA, Inc. ("PHINIA") to holders of record of common stock of the Company on a pro rata basis. For informational purposes only, in the following tables, the Company provides unaudited pro forma financial information as if the Spin-Off had occurred on January 1, 2022, in that they reflect the removal of PHINIA results for all periods presented.

(in millions)	2023	
	Three Months Ended March 31, 2023	Three Months Ended June 30, 2023
<b>Net Sales</b>		
Air Management	\$ 1,979	\$ 2,027
Drivetrain & Battery Systems	955	1,118
ePropulsion	487	567
Inter-segment eliminations	(40)	(41)
<b>Net Sales</b>	<b>\$ 3,381</b>	<b>\$ 3,671</b>
<b>Adjusted Operating Income</b>		
Air Management	\$ 285	\$ 307
Drivetrain & Battery Systems	110	140
ePropulsion	(34)	(19)
Corporate & Non-Operating	(53)	(59)
<b>Adjusted Operating Income</b>	<b>\$ 308</b>	<b>\$ 369</b>
<b>Adjusted Operating Margin</b>	<b>9.1 %</b>	<b>10.1 %</b>
Equity in affiliates' earnings, net of tax	2	12
Intangible amortization	(18)	(17)
Other postretirement expense	(2)	(3)
Interest expense, net	(7)	(10)
Provision for income taxes	(74)	(89)
Net earnings attributable to noncontrolling interest, net of tax	(14)	(17)
<b>Net earnings attributable to BorgWarner Inc.</b>	<b>\$ 195</b>	<b>\$ 245</b>
Weighted average shares outstanding	234.3	234.3
<b>Pro forma adjusted earnings per diluted share</b>	<b>\$ 0.83</b>	<b>\$ 1.05</b>
PHINIA Spin-Off	\$ 0.26	\$ 0.30
Other non-comparable items	(0.16)	(0.48)
<b>Earnings per diluted share - GAAP</b>	<b>\$ 0.93</b>	<b>\$ 0.87</b>

# Second Quarter & YTD Reconciliation to US GAAP

## Adjusted Operating Income and Operating Margin

The Company defines adjusted operating income as operating income adjusted to exclude the impact of restructuring expense, merger, acquisition and divestiture expense, intangible asset amortization expense, other net expenses, discontinued operations, and other gains and losses not reflective of the Company's ongoing operations. Adjusted operating margin is defined as adjusted operating income divided by net sales.

\$ in millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Net sales</b>	\$ 4,520	\$ 3,759	\$ 8,700	\$ 7,633
<b>Operating income</b>	\$ 383	\$ 272	\$ 723	\$ 624
<b>Operating margin</b>	8.5 %	7.2 %	8.3 %	8.2 %
<b>Non-comparable items:</b>				
Merger, acquisition and divestiture expense, net	\$ 56	\$ 9	\$ 86	\$ 32
Intangible asset amortization expense	24	27	48	50
Restructuring expense	12	27	19	42
Service and lease agreement termination	9	—	9	—
Gain on sale of business	(5)	—	(5)	(24)
Gain on sale of asset	(6)	—	(6)	—
Other non-comparable items	1	13	(4)	13
<b>Adjusted operating income</b>	<b>\$ 474</b>	<b>\$ 348</b>	<b>\$ 870</b>	<b>\$ 737</b>
<b>Adjusted operating margin</b>	<b>10.5 %</b>	<b>9.3 %</b>	<b>10.0 %</b>	<b>9.7 %</b>
PHINIA spin-off	(105)	(90)	(193)	(189)
<b>Pro forma adjusted operating income</b>	<b>\$ 369</b>	<b>\$ 258</b>	<b>\$ 677</b>	<b>\$ 548</b>
<b>Pro forma adjusted operating margin</b>	<b>10.1 %</b>	<b>8.5 %</b>	<b>9.6 %</b>	<b>9.0 %</b>

# Second Quarter & YTD Reconciliation to US GAAP

## Adjusted Earnings Per Diluted Share

The Company defines adjusted earnings per diluted share as earnings per diluted share adjusted to eliminate the impact of restructuring expense, merger, acquisition and divestiture expense, other net expenses, discontinued operations, other gains and losses not reflective of the Company's ongoing operations, and related tax effects. The non-comparable items presented below are calculated after tax using the corresponding effective tax rate discrete to each item and the weighted average number of diluted shares for each of the periods then ended.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Earnings per diluted share</b>	<b>\$ 0.87</b>	<b>\$ 0.91</b>	<b>\$ 1.80</b>	<b>\$ 1.74</b>
<b>Non-comparable items:</b>				
Merger, acquisition and divestiture expense, net	0.24	0.04	0.35	0.13
Restructuring expense	0.04	0.11	0.06	0.17
Service and lease agreement termination	0.03	—	0.03	—
Gain on sale of business	(0.02)	—	(0.02)	(0.08)
Gain on sale of asset	(0.02)	—	(0.02)	—
Other non-comparable items	—	0.05	(0.01)	0.05
Unrealized loss (gain) on debt and equity securities	0.18	(0.03)	0.23	0.11
Tax adjustments	0.03	(0.03)	0.02	(0.03)
<b>Adjusted earnings per diluted share</b>	<b>\$ 1.35</b>	<b>\$ 1.05</b>	<b>\$ 2.44</b>	<b>\$ 2.09</b>
PHINIA spin-off	(0.30)	(0.31)	(0.56)	(0.63)
<b>Pro forma adjusted earnings per diluted share</b>	<b>\$ 1.05</b>	<b>\$ 0.74</b>	<b>\$ 1.88</b>	<b>\$ 1.46</b>

# Second Quarter & YTD Organic Net Sales Change

## Organic Net Sales Change

BorgWarner net sales change year over year excluding the estimated impact of foreign exchange (FX) and the 2022 acquisitions of Santroll's light vehicle eMotor business, Rhombus Energy Solutions, Drivetek and the electric vehicle solution, smart grid and smart energy businesses of Hubei Surpass Sun Electric..

\$ in millions	Q2 2022 Net Sales	FX	Acquisition Impact	Organic Net Sales Change	Q2 2023 Net Sales	Organic Net Sales Change %
Air Management	\$ 1,724	\$ (8)	\$ 13	\$ 298	\$ 2,027	17.3 %
Drivetrain & Battery Systems	896	(11)	—	233	1,118	26.0 %
Fuel Systems	516	(4)	—	93	605	18.0 %
ePropulsion	432	(14)	5	144	567	33.3 %
Aftermarket	326	1	—	12	339	3.7 %
Inter-segment eliminations	(135)	—	—	(1)	(136)	—
<b>Net sales</b>	<b>\$ 3,759</b>	<b>\$ (36)</b>	<b>\$ 18</b>	<b>\$ 779</b>	<b>\$ 4,520</b>	<b>20.7%</b>

\$ in millions	Q2 2022 YTD Net Sales	FX	Acquisition Impact	Organic Net Sales Change	Q2 2023 YTD Net Sales	Organic Net Sales Change %
Air Management	\$ 3,492	\$ (89)	\$ 15	\$ 588	\$ 4,006	16.8 %
Drivetrain & Battery Systems	1,791	(43)	—	325	2,073	18.1 %
Fuel Systems	1,107	(28)	—	69	1,173	6.2 %
ePropulsion	872	(33)	25	190	1,054	21.8 %
Aftermarket	633	(5)	—	41	669	6.5 %
Inter-segment eliminations	(262)	—	—	(13)	(275)	—
<b>Net sales</b>	<b>\$ 7,633</b>	<b>\$ (198)</b>	<b>\$ 40</b>	<b>\$ 1,200</b>	<b>\$ 8,700</b>	<b>16.0%</b>

# 2023 Adj. Operating Income and Adj. Operating Margin Guidance Reconciliation From Continuing Operations

\$ in millions	Full-Year 2023 Guidance	
	Low	High
<b>Net sales</b>	<b>\$ 14,200</b>	<b>\$ 14,600</b>
<b>Operating income</b>	<b>\$ 1,086</b>	<b>\$ 1,161</b>
<b>Operating margin</b>	<b>7.6 %</b>	<b>8.0 %</b>
<b>Non-comparable items:</b>		
Intangible asset amortization expense	\$ 95	\$ 95
Merger, acquisition and divestiture expense, net	90	100
Restructuring expense	40	50
Service and lease agreement termination	9	9
Gain on sale of business	(5)	(5)
Gain on sale of asset	(6)	(6)
Other non-comparable items	(4)	(4)
<b>Adjusted operating income</b>	<b>\$ 1,305</b>	<b>\$ 1,400</b>
<b>Adjusted operating margin</b>	<b>9.2 %</b>	<b>9.6 %</b>



# 2023 Adj. Earnings per Diluted Share Guidance Reconciliation From Continuing Operations

	Full-Year 2023 Guidance	
	Low	High
<b>Earnings per diluted share</b>	<b>\$ 2.58</b>	<b>\$ 2.75</b>
<b>Non-comparable items:</b>		
Merger, acquisition and divestiture expense, net	0.56	0.70
Restructuring expense	0.13	0.17
Unrealized loss on debt and equity securities	0.23	0.23
Service and lease agreement termination	0.03	0.03
Gain on sale of business	(0.02)	(0.02)
Gain on sale of asset	(0.02)	(0.02)
Other non-comparable items	(0.01)	(0.01)
Tax adjustments	0.02	0.02
<b>Adjusted earnings per diluted share</b>	<b>\$ 3.50</b>	<b>\$ 3.85</b>

# 2023 Organic Net Sales Change Guidance Reconciliation From Continuing Operations

## Organic Net Sales Change

BorgWarner net sales change year over year excluding the estimated impact of foreign exchange (FX) and the acquisitions of Santroll's light vehicle eMotor business, Rhombus Energy Solutions, Drivetek and the electric vehicle solution, smart grid and smart energy businesses of Hubei Surpass Sun Electric.

\$ in millions	FY 2022 Net Sales	Disposition Impact	FY 2022 Pro Forma Net Sales	FX	FY 2023 Acquisition Impact	Organic Net Sales Change	FY 2023 Net Sales	Organic Net Sales Change %
Low	\$ 15,801	\$ (3,234)	\$ 12,567	\$ (35)	\$ 75	\$ 1,593	\$ 14,200	12.7 %
High	\$ 15,801	\$ (3,234)	\$ 12,567	\$ (35)	\$ 75	\$ 1,993	\$ 14,600	15.9 %

# Q2 2023, Q2 2022 & Full-Year 2023 Free Cash Flow Reconciliation From Continuing Operations

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.

\$ in millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net cash provided by operating activities	\$ 280	\$ 216	\$ 268	\$ 332
Capital expenditures, including tooling outlays	(242)	(154)	(520)	(331)
<b>Free cash flow</b>	<b>\$ 38</b>	<b>\$ 62</b>	<b>\$ (252)</b>	<b>\$ 1</b>
PHINIA spin-off net cash provided by operating activities	\$ 168	N/A	\$ 84	N/A
PHINIA spin-off capital expenditures, including tooling outlays	(41)	N/A	(69)	N/A
One-time cash costs for spin-off transaction	(47)	N/A	(60)	N/A
<b>Pro forma free cash flow excluding one-time cash costs for spin-off transaction</b>	<b>\$ (42)</b>	<b>N/A</b>	<b>\$ (207)</b>	<b>N/A</b>

\$ in millions	Full-Year 2023 Guidance	
	Low	High
Net cash provided by operating activities	\$ 1,000	\$ 1,150
Capital expenditures, including tooling outlays	(750)	(800)
<b>Free cash flow</b>	<b>\$ 250</b>	<b>\$ 350</b>
One-time cash costs for spin-off transaction	150	150
<b>Free cash flow excluding one-time cash costs for spin-off transaction</b>	<b>\$ 400</b>	<b>\$ 500</b>

# Key Definitions

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

**Organic Net Sales Change.** BorgWarner net sales change year over year excluding the estimated impact of foreign exchange (FX), the acquisitions of Santroll's light vehicle eMotor business, Rhombus Energy Solutions, Drivetek and the electric vehicle solution, smart grid and smart energy businesses of Hubei Surpass Sun Electric.

**Market.** Light and commercial vehicle production weighted for BorgWarner's geographic exposure as estimated by BorgWarner.