

Earnings Call Presentation

Q3 2020



October 29, 2020

 **BorgWarner**

Forward-Looking Statements

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 (including instances where "E" immediately precedes a year)," "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" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019 ("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 realize the expected benefits of the acquisition of Delphi Technologies PLC that the Company completed on October 1, 2020; 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; 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. 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.

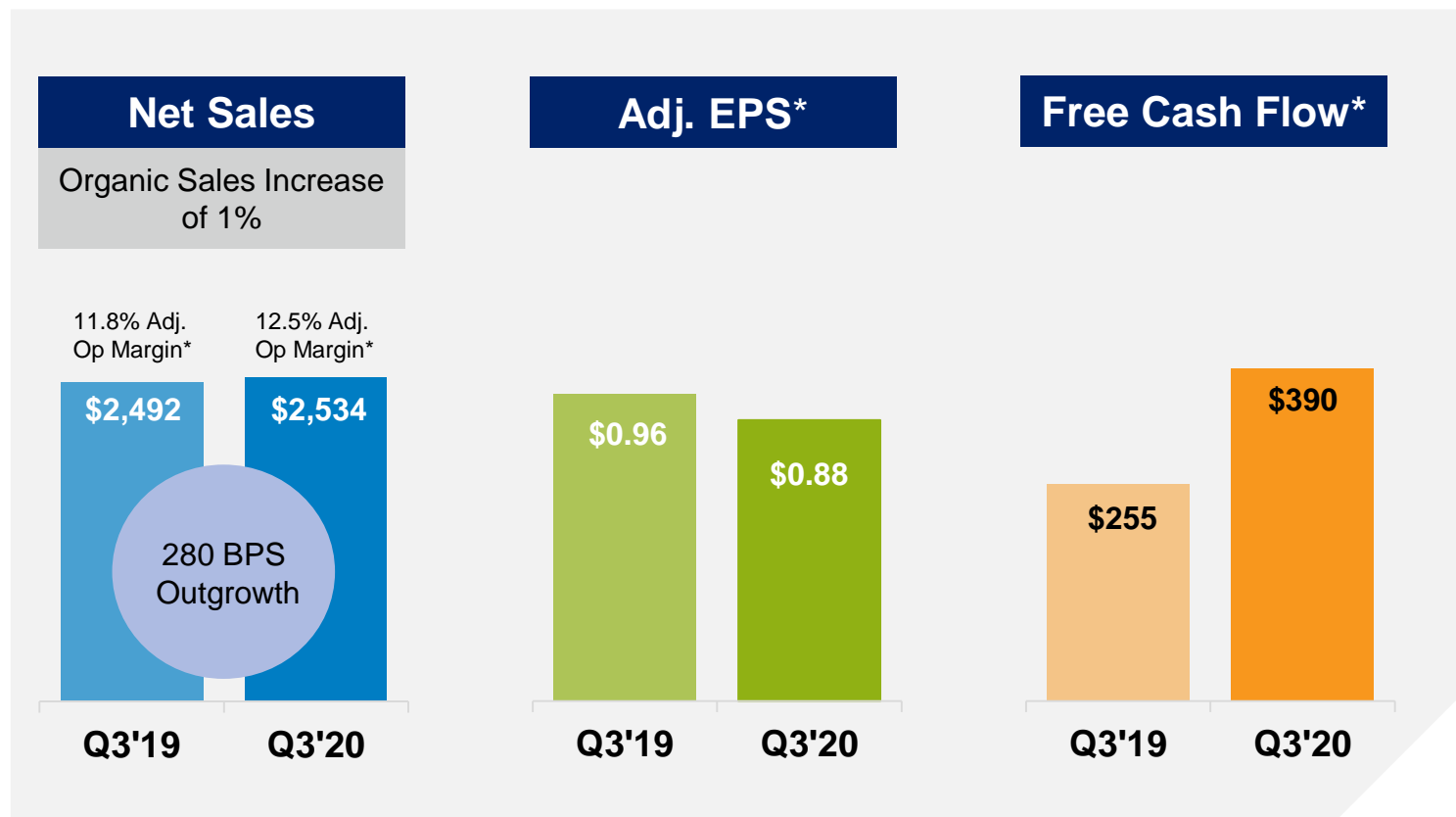
Management believes that these non-GAAP financial measures are useful to management, investors, and banking institutions in their analysis of the Company's business and operating performance. Management also uses this information for operational planning and decision-making purposes.

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

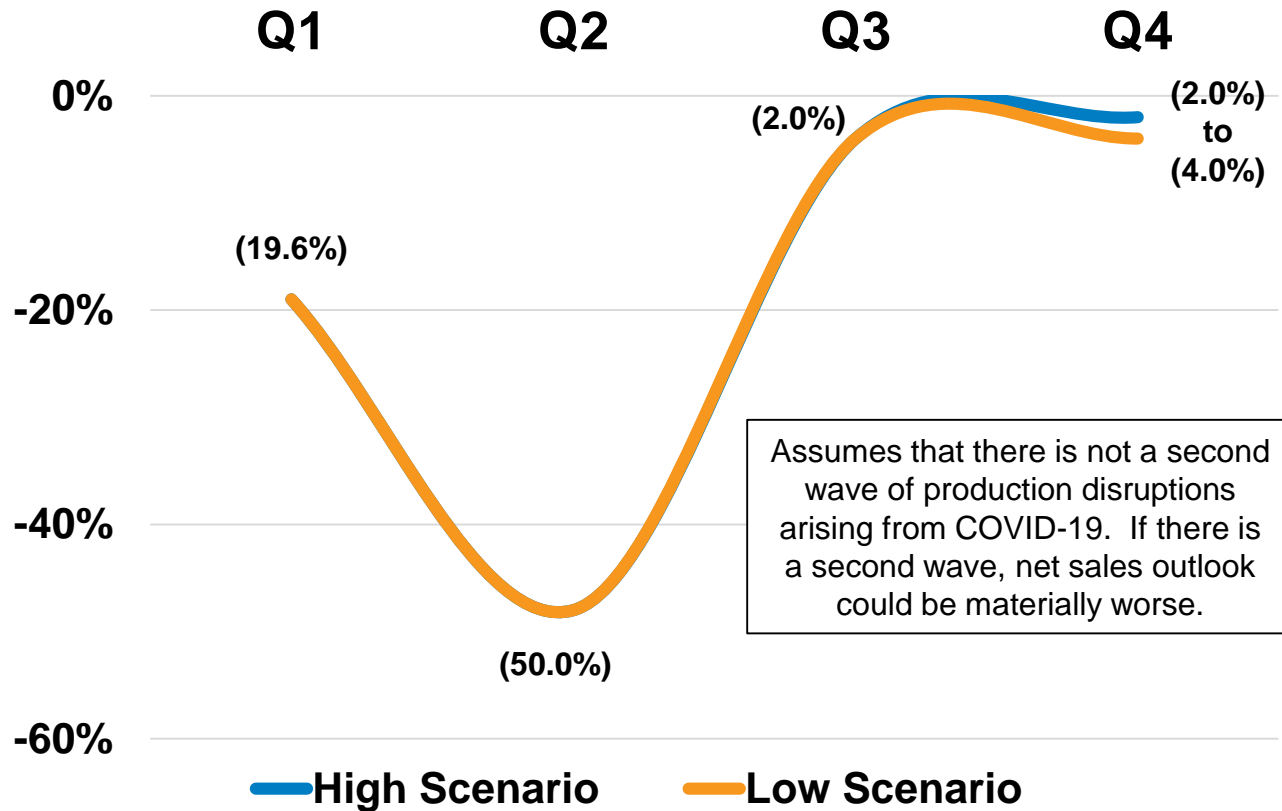
Q3 2020 Financial Highlights



- Organic sales increase driven by strong outgrowth in China
- Margin improvement driven by higher sales and cost actions
- Significant free cash flow generation
- Completed Delphi Technologies transaction on October 1, 2020, which strengthens propulsion systems leadership

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

2020 BorgWarner Light Vehicle Production Outlook



- Q3 industry production exceeded expectations driven by China and North America
- Midpoint of guidance assumes Q4 market decline of low- to mid-single digits

Full Year Production			
(% change from 2019)			
North America	(20)%	to	(21)%
Europe	(23)%	to	(24)%
China	(7)%	to	(9)%
Global	(18.5)%	to	(19.0)%

eTurbo™ for European-Based OEM

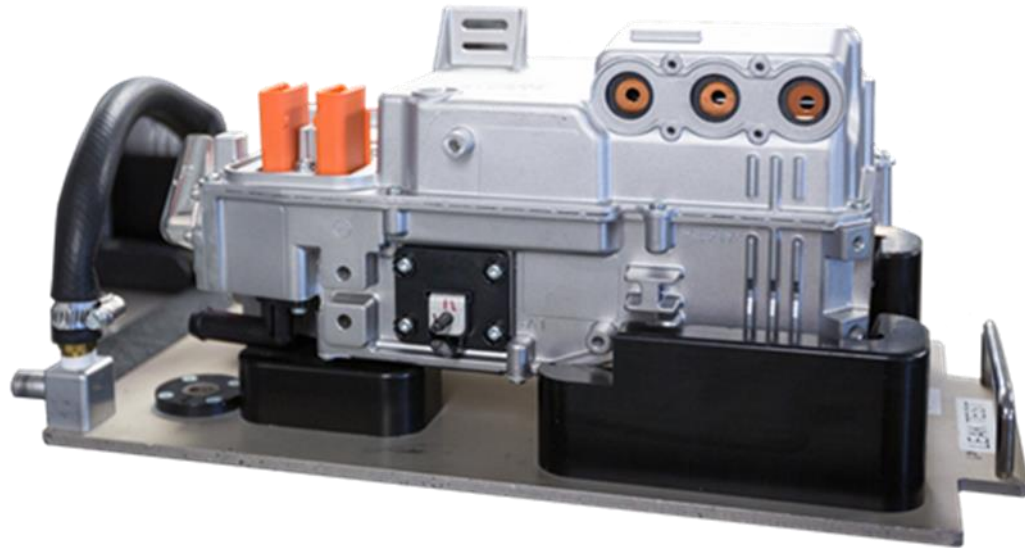


eTurbo™

- Award with European-based OEM expected to launch in 2023
 - Delivers improved performance, better fuel economy, reduced emissions and more efficient energy usage
 - Combines mechanical, rotating electric and electronics and software expertise

Second eTurbo™ program award in 2020

800-Volt Inverter for Premium European OEM



800-Volt Inverter

- Partnering with premium European OEM on next-generation BEVs expected to launch in 2024
 - Second largest power electronic award to date
 - Primary inverter supplier to three of the top four premium OEMs
 - 800-volt technology significantly extends electric vehicle range

Continued momentum in inverter awards

Customer Engagement in Electrification

- Customer meetings on combined electrification offering already underway
- Plans to meet with customers representing 70% of global industry volume over the next four months
- Pursuing **both** full system and individual component opportunities

Well positioned for expected industry activity over next 12-24 months

Illustrative Sample of Pursuit Opportunities

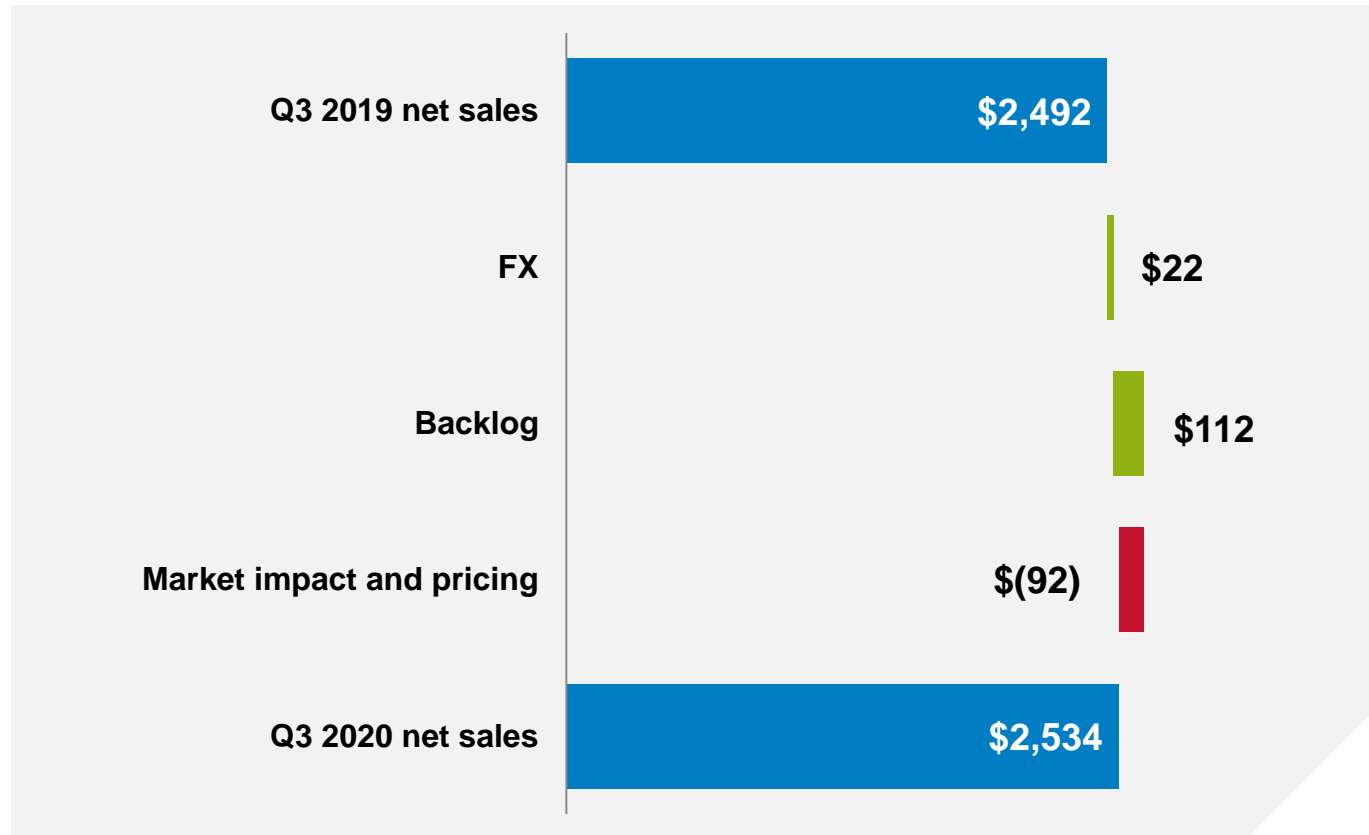
Individual Component Pursuits		Synergy Related Pursuits	
Customers	Products	Customers	Products
Customer 1	Inverter	Customer A	P2
	Inverter		BEV iDM
Customer 2	Inverter		BEV iDM
	Inverter	Customer B	BEV iDM
Customer 3	Inverter		BEV iDM
Customer 4	Inverter	Customer C	BEV iDM
Customer 5	Inverter	Customer D	BEV iDM
Customer 6	Motor	Customer E	P2
Customer 7	Inverter		BEV iDM
Customer 8	Inverter	Customer F	P2
		Customer G	DHT Inverter
Customer 9	Converter / OnBoard Charger	Customer H	48V P4
	Inverter		P1
Customer 10	Motor	Customer I	Motor + Inverter
Customer 11	Motor	Customer J	BEV Motor
Customer 12	Motor	Customer K	BEV iDM
		Customer L	P2

Summary of Q3 Results and 2020 Outlook

- Achieved better-than-expected outgrowth driven by business expansion in China
- Full-year decremental margin performance tracking in line with prior expectations
- Strong year-to-date free cash flow generation
- Believe we remain strongly positioned to capitalize on long-term industry trends

BorgWarner Q3 2020 Net Sales Walk

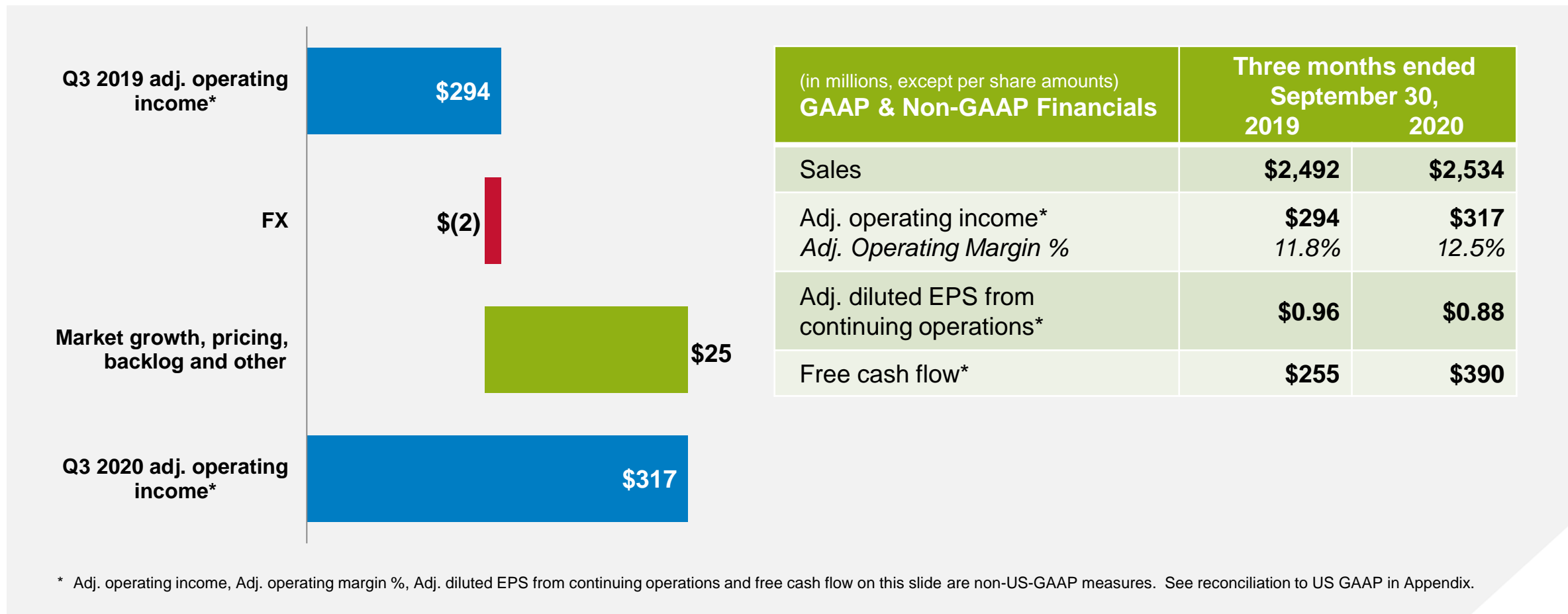
\$ in millions



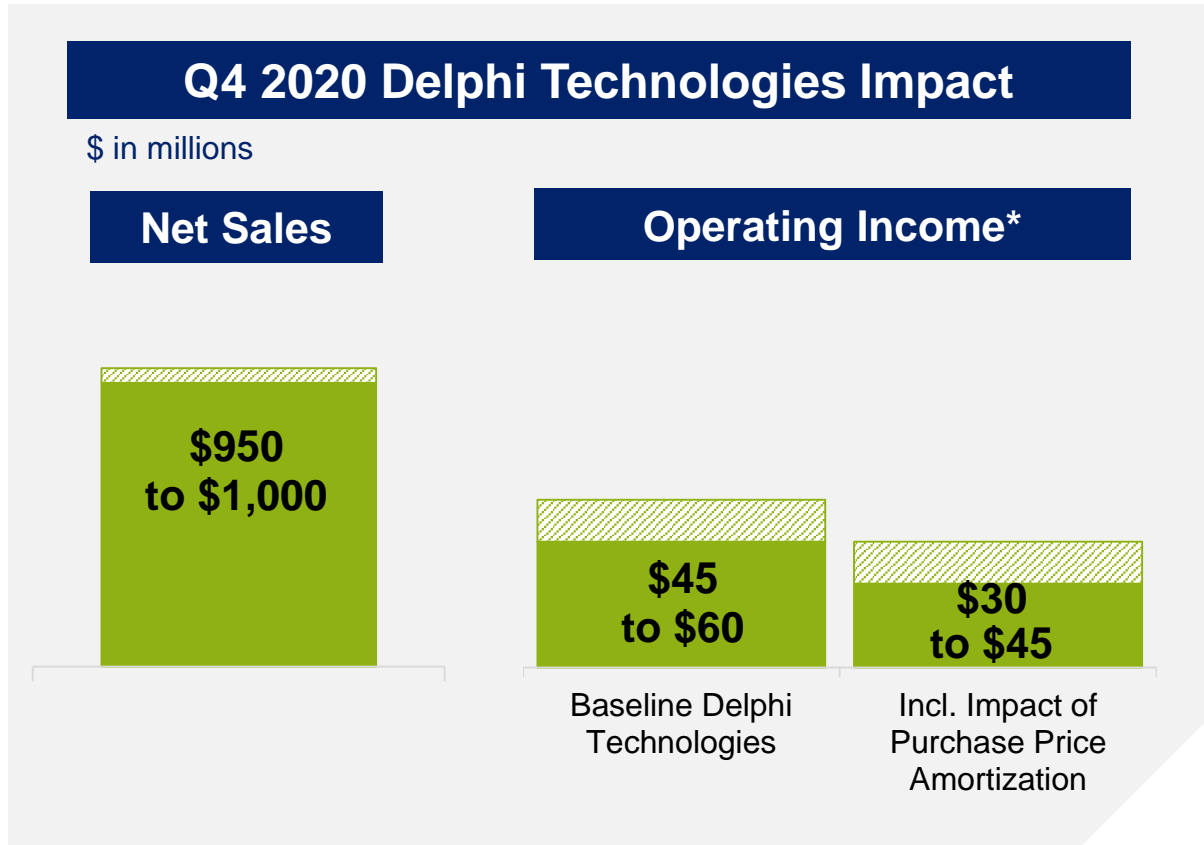
- Global light vehicle market down ~2% year over year
- Organic sales grew ~0.8%, driven by outgrowth in China and North America
 - **China** – Dual clutch transmission modules (DCT); commercial vehicles
 - **North America** – Beneficial vehicle mix; other net new business
 - **Europe** – Negatively impacted by lapping diesel outperformance

BorgWarner Financial Results & Adj. Operating Income

\$ in millions



Q4 Impact of Delphi Technologies Transaction



- **Net sales** expected to be down year over year due to lower market and LV diesel headwinds
- **Operating income** expected to be impacted by purchase price amortization of ~(\$15) million in Q4
- **Free cash flow** impacted by ~\$(100) million of one-time, transaction-related costs and costs of synergies in Q4

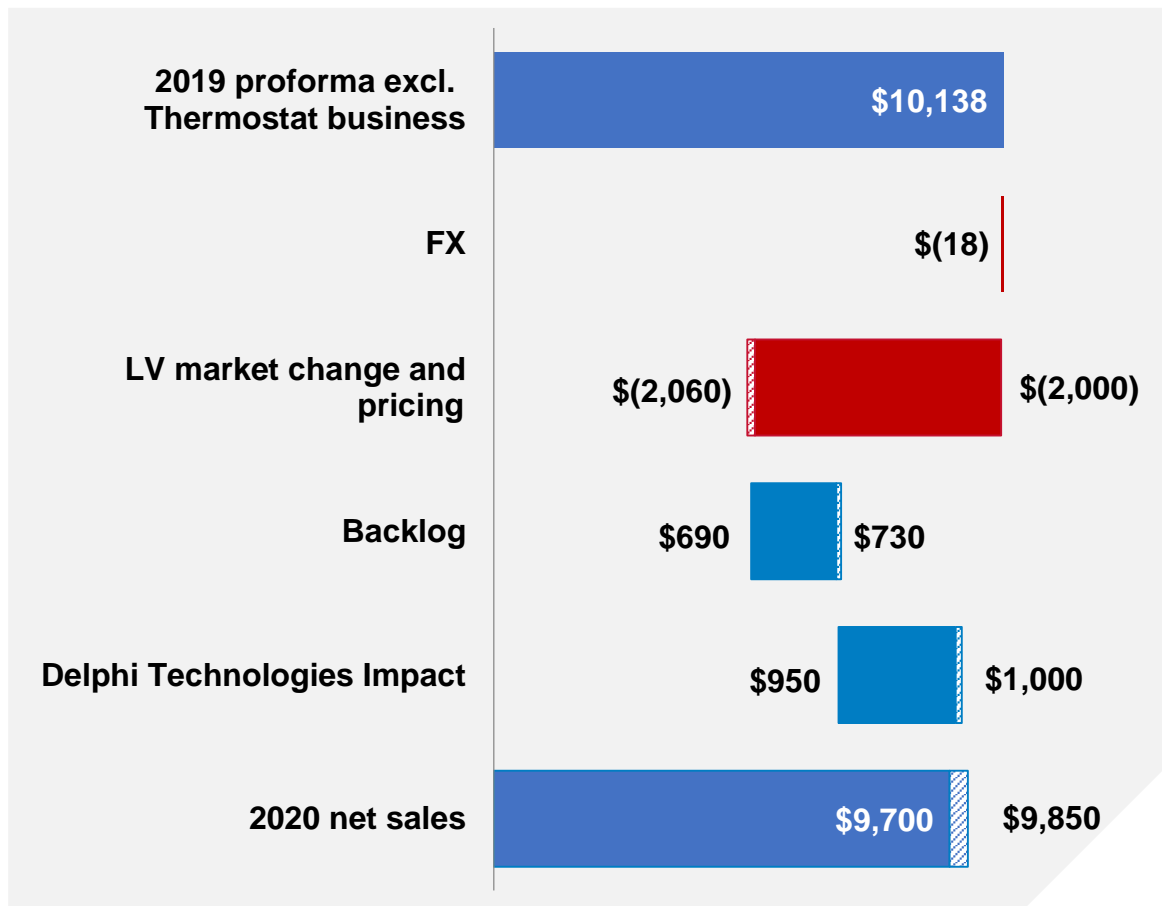
* Impact to operating income excludes restructuring expense.

Purchase price amortization impact is based on preliminary estimates and could change upon completion of the Company's accounting for the acquisition.

2020 Expected Sales Walk and Guidance

\$ in millions

Full-year Net Sales Outlook



Net Sales Highlights

- Global BWA LV market down ~18.5% to ~19.0%
- ~550 to ~600 basis points of outgrowth

Adj. Operating Margin* Highlights

- BorgWarner standalone decremental margins expected to remain in the ~30% range for full year
 - Q4 decremental margin impacted by strong comparable margin from 2019 and planned increase in R&D in 2020
- Delphi Technologies standalone decremental margins impacted by mix in Q4
- Full year adj. operating margin of ~8.7% to 9.0%
 - Q4 total adj. operating margin of ~8.8% to ~9.6%

* Adj. operating income is a non-US GAAP measure. See reconciliation to US GAAP in Appendix.

Expected Free Cash Flow and Other Considerations

2020 Free Cash Flow* Outlook

\$ in millions

YTD 2020

FY 2020

\$546

\$575 to
\$625

\$475 to
\$525

BorgWarner

Excl. Delphi
Technologies Cash
Costs

Total

* Free cash flow is a non-US GAAP measure. See reconciliation to US GAAP in Appendix.

- **Strong free cash flow** expected for 2020
 - Good conversion of earnings to cash flow and working capital management
 - Excluding impact of Delphi Technologies' transaction-related costs and cost of synergies, free cash flow expected to be positive in Q4

Thank you!



Combustion



Hybrid



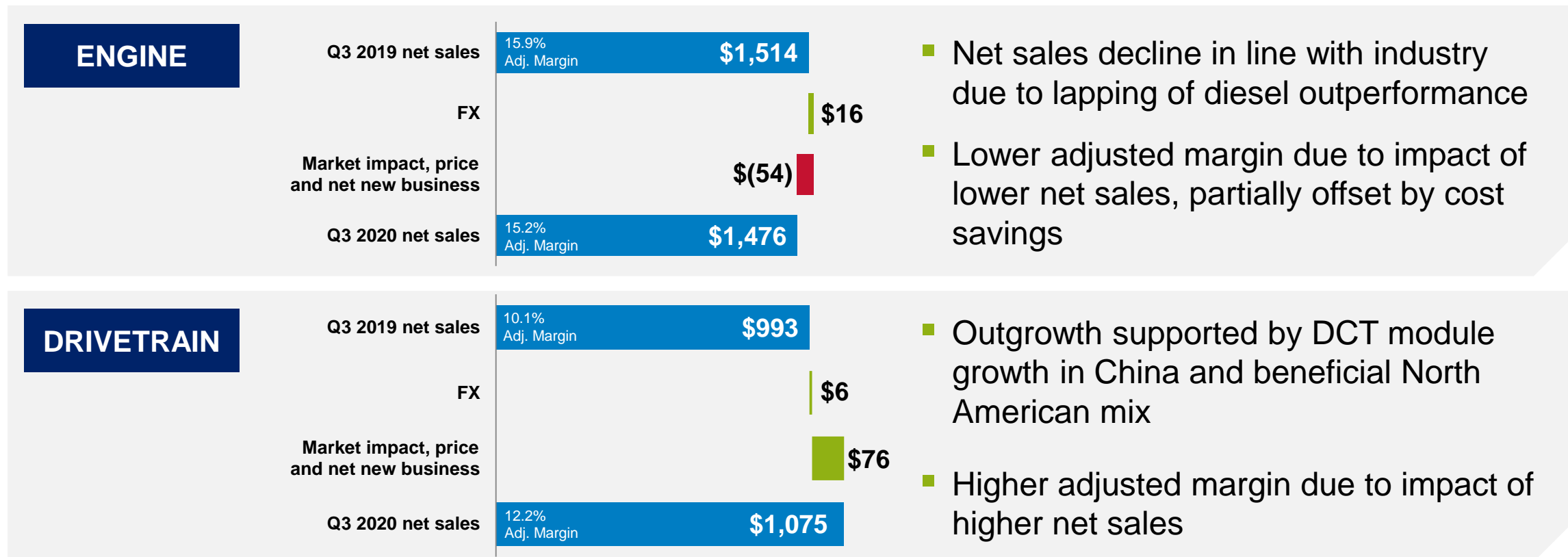
Electric

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.

Third 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Sales	\$ 2,534	\$ 2,492	\$ 6,239	\$ 7,609
Operating income	\$ 284	\$ 276	\$ 395	\$ 825
<i>Operating margin %</i>	11.2%	11.1%	6.3%	10.8%
Non-comparable items:				
Restructuring expense	20	14	72	41
Merger, acquisition and divestiture expense	16	4	58	10
Asset impairments	-	-	26	-
Net gain on insurance recovery for property damage	(3)	-	(9)	-
Unfavorable arbitration loss	-	-	-	14
Officer stock awards modification	-	-	-	2
Adjusted operating income	<u>\$ 317</u>	<u>\$ 294</u>	<u>\$ 542</u>	<u>\$ 892</u>
Adjusted operating income margin %	12.5%	11.8%	8.7%	11.7%

Third 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Earnings per diluted share	<u>\$ 0.53</u>	<u>\$ 0.94</u>	<u>\$ 0.69</u>	<u>\$ 2.54</u>
Non-comparable items:				
Restructuring expense	0.07	0.04	0.29	0.15
Merger, acquisition and divestiture expense	0.04	0.02	0.24	0.04
Asset impairments	-	-	0.11	-
Net gain on insurance recovery for property damage	(0.01)	-	(0.04)	-
Delayed-draw term loan cancellation	-	-	0.01	-
Unfavorable arbitration loss	-	-	-	0.07
Officer stock awards modification	-	-	-	0.01
Pension settlement loss	-	-	-	0.10
Tax adjustments	0.25	(0.04)	0.21	0.04
Adjusted earnings per diluted share	<u>\$ 0.88</u>	<u>\$ 0.96</u>	<u>\$ 1.51</u>	<u>\$ 2.95</u>

Third 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 September 30,	
	2020	2019
Engine	\$ 225	\$ 241
Drivetrain	131	100
Adjusted EBIT	<u>356</u>	<u>341</u>
Restructuring expense	20	14
Merger, acquisition and divestiture expense	16	4
Net gain on insurance recovery for property damage	(3)	-
Corporate, including stock-based compensation	39	47
Equity in affiliates earnings, net of tax	(3)	(7)
Interest income	(3)	(4)
Interest expense	20	15
Other postretirement (income) expense	(2)	(1)
Earnings before income taxes and noncontrolling interest	<u>272</u>	<u>273</u>
Provision for income taxes	<u>143</u>	<u>66</u>
Net earnings	129	207
Net earnings attributable to the noncontrolling interest, net of tax	18	13
Net earnings attributable to BorgWarner Inc.	<u>\$ 111</u>	<u>\$ 194</u>

Q4'20 and FY'20 Adj. Operating Income to US GAAP Reconciliation

	Q4 2020 Guidance		Full Year 2020 Guidance	
	Low	High	Low	High
Net Sales	\$ 3,461	\$ 3,611	\$ 9,700	\$ 9,850
Operating income	\$ 90	\$ 170	\$ 485	\$ 565
Operating margin	2.6%	4.7%	5.0%	5.7%
Non-comparable items				
Restructuring expense	\$ 100	\$ 75	\$ 172	\$ 147
Merger, acquisition and divestiture expense	50	45	108	103
Inventory Step-up	65	55	65	55
Asset impairment	-	-	26	26
Net gain on insurance recovery for property damage	-	-	(9)	(9)
Adjusted operating income	\$ 305	\$ 345	\$ 847	\$ 887
Adjusted operating income margin	8.8%	9.6%	8.7%	9.0%

Operating income includes purchase price accounting estimates

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net cash provided by operating activities	\$ 481	\$ 357	\$ 808	\$ 824
Capital expenditures, including tooling outlays	(91)	(102)	(262)	(346)
Free cash flow	\$ 390	\$ 255	\$ 546	\$ 478

	Q4 2020 Outlook		Full Year 2020 Outlook	
	Low	High	Low	High
Net cash provided by operating activities	\$ 92	\$ 167	\$ 900	\$ 975
Capital expenditures, including tooling outlays	(163)	(188)	(425)	(450)
Free cash flow	\$ (71)	\$ (21)	\$ 475	\$ 525

Q4 and Full Year Outlook includes Delphi Technologies outlook for three months ended December 31, 2020.

Key Definitions

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 FX and net M&A
- **Market.** Light vehicle production weighted for BorgWarner's geographic exposure as estimated by BorgWarner
- **Outgrowth.** "Organic Net Sales Change" vs. change in "Market"

General

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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.