

BORGWARNER

# Q2 2024 Earnings Call Presentation

July 31, 2024



# Forward-Looking Statements

This presentation contains 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 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 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 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, 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 original equipment manufacturer ("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 revenue growth; potential disruptions in the global economy caused by wars or other geopolitical conflicts; 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 2023 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, which is highly cyclical and subject to disruptions; our reliance on major OEM customers; impacts of any future strikes involving any of our OEM customers and any actions such OEM customers take in response; 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 and/or 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.

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# 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 in the context of guidance for 2024 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.

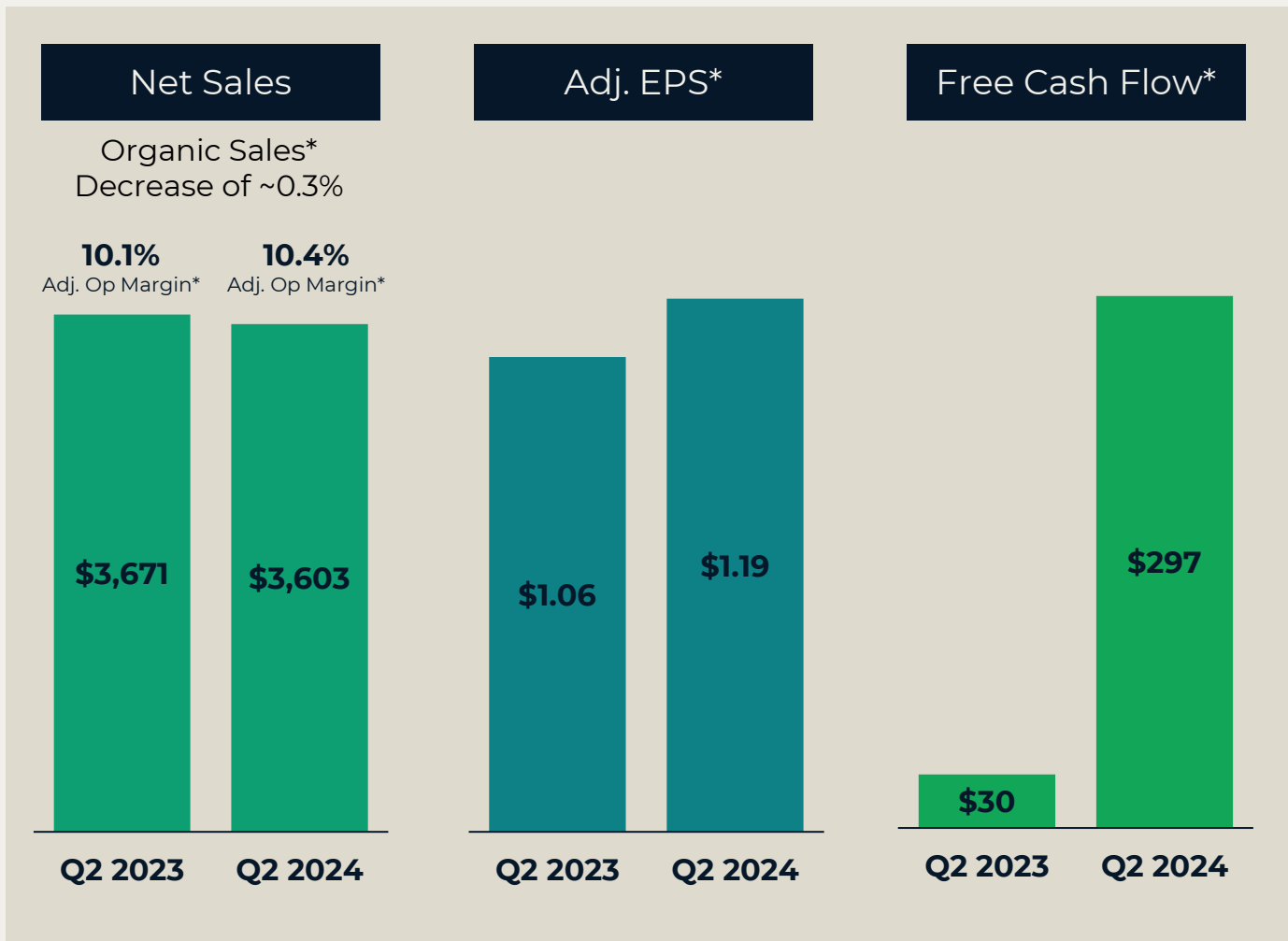
Non-GAAP financial measures are not and should not be considered a substitute for any GAAP measure. Additionally, because not all companies use identical calculations, the non-GAAP financial measures as presented by BorgWarner may not be comparable to similarly titled measures reported by other companies.

# Agenda

- ▶ Fred Lissalde  
*Chief Executive Officer*
- ▶ Craig Aaron  
*Chief Financial Officer*
- ▶ Q&A

# Strong Cost Performance in Second Quarter, Positioned for Long-term Success

\$ in millions, except EPS



- Flat organic sales despite lower production environment
- Additional program awards in both Foundational and eProducts
- Strong margin and EPS performance supported by cost controls
- Began ePropulsion segment restructuring and BU realignment actions to support profitable long-term growth
- Strong liquidity and free cash flow support intention to repurchase \$300M in shares during 2H 2024

\*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.

# 2024 Sustainability Report Highlights

## Innovating Products for Cleaner Mobility



- **87% of 2023 revenue** from EV and emissions-reducing hybrid and combustion products
- **~\$2B in eProduct sales** in 2023

## Acting on Our Commitments



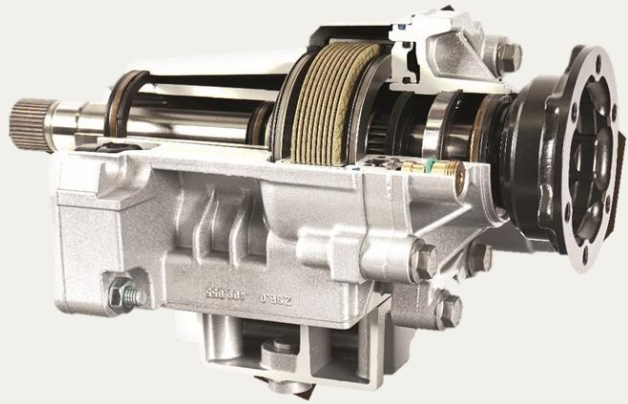
- **32% reduction** in scope 1 and 2 since 2021
- **25% reduction goal of Scope 3** by 2030 versus 2021 baseline
- **Performed above all employee inclusion benchmarks**

## Investing in People



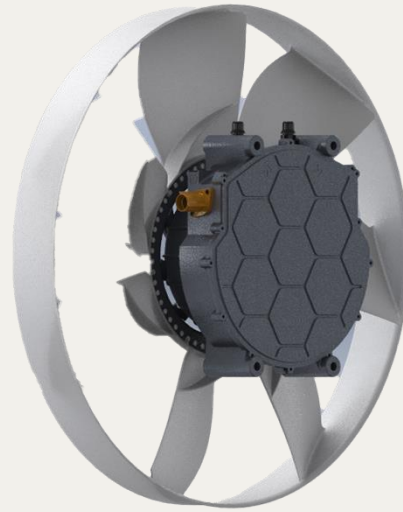
- **Expanded trainings to help our ICE engineers transition to eProducts**
- **64%** of leadership positions were filled by internal candidates

# Awards Across Technology-Focused Portfolio



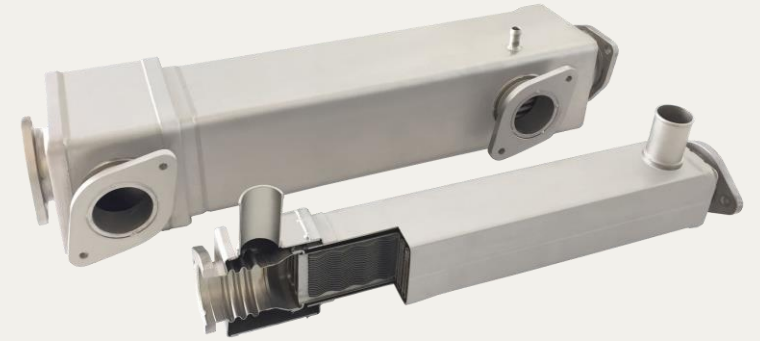
## Electric Cross Differentials (eXD)

- Award with three OEMs, including GAC Motor, an East Asian OEM and a major global OEM based in Europe for electric vehicles
- Production for GAC Motor is currently underway and production for the other OEMs is expected to begin in 2026



## High-Voltage eFans

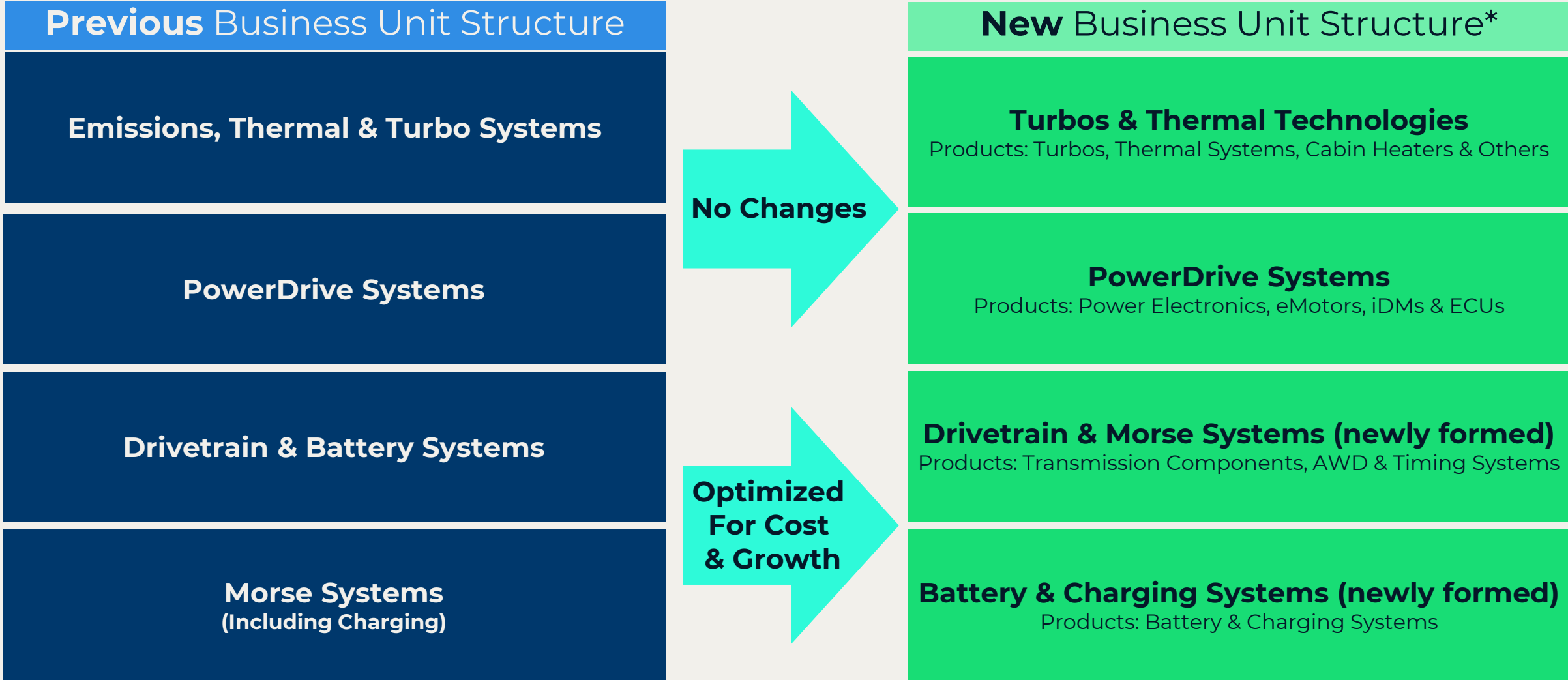
- Award with major global commercial vehicle OEM within the North American electric vehicle market
- Production expected to begin in Q4 2027



## Commercial Vehicle Exhaust Gas Recirculation (EGR) Coolers

- Award with a North America-based CV customer for various medium-duty trucks
- Production expected to begin in Q4 2027

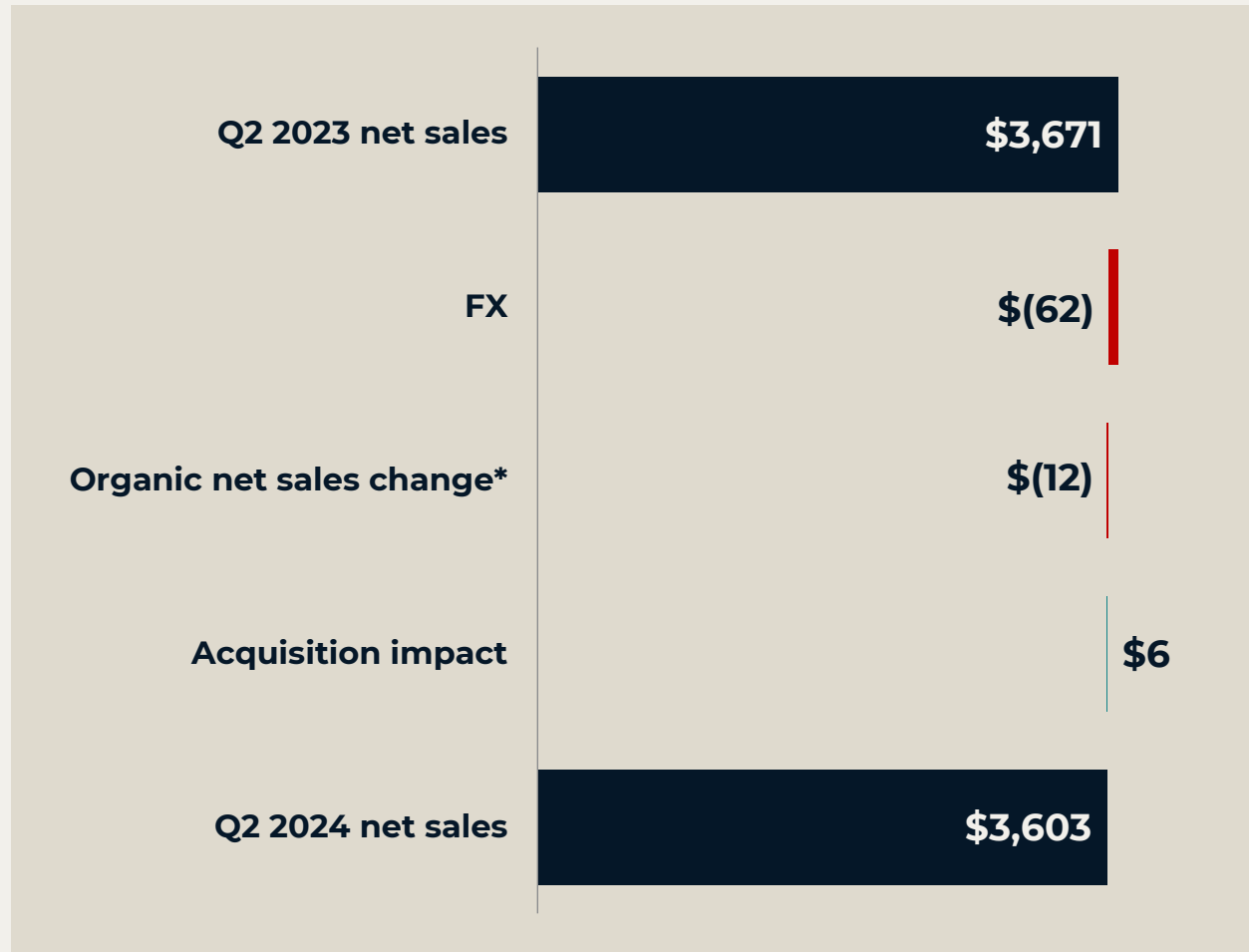
# New Structure Drives Synergies, Increases Go To Market Strategy and Reporting Transparency





# Q2 2024 Net Sales Walk

\$ in millions

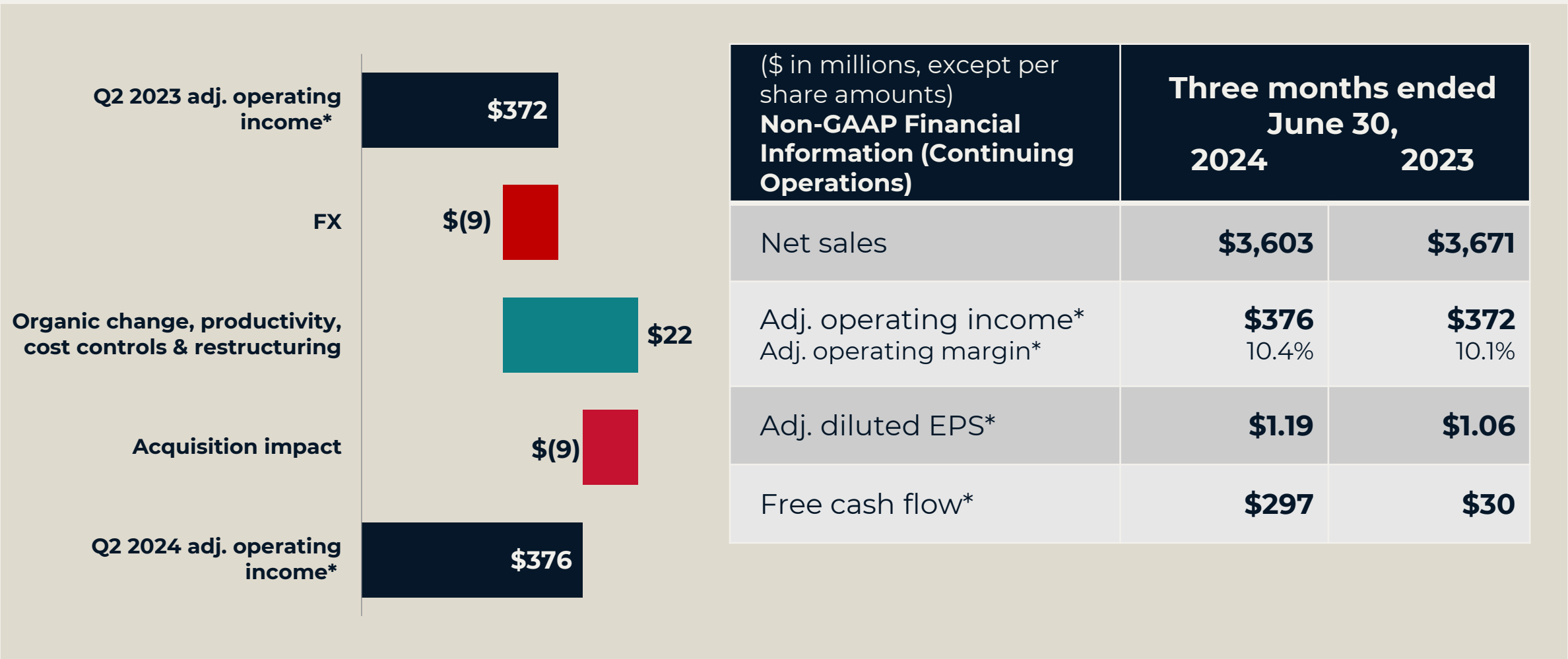


- **Organic sales\* relatively flat** driven by:
  - **Europe** – Outperformance due to growth in battery systems and other eProducts
  - **China** – Lower volumes on existing EV program and declining Foundational sales
  - **North America** – Battery systems growth offset by lower customer volumes on a North American EV program

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

# Financial Results & Adj. Operating Income

\$ in millions



(\$ in millions, except per share amounts) Non-GAAP Financial Information (Continuing Operations)	Three months ended June 30,	
	2024	2023
Net sales	\$3,603	\$3,671
Adj. operating income*	\$376	\$372
Adj. operating margin*	10.4%	10.1%
Adj. diluted EPS*	\$1.19	\$1.06
Free cash flow*	\$297	\$30

\*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.

# 2024 Outlook and Other Items

\$ in millions, except EPS

## Full-year Net Sales Outlook (\$M)



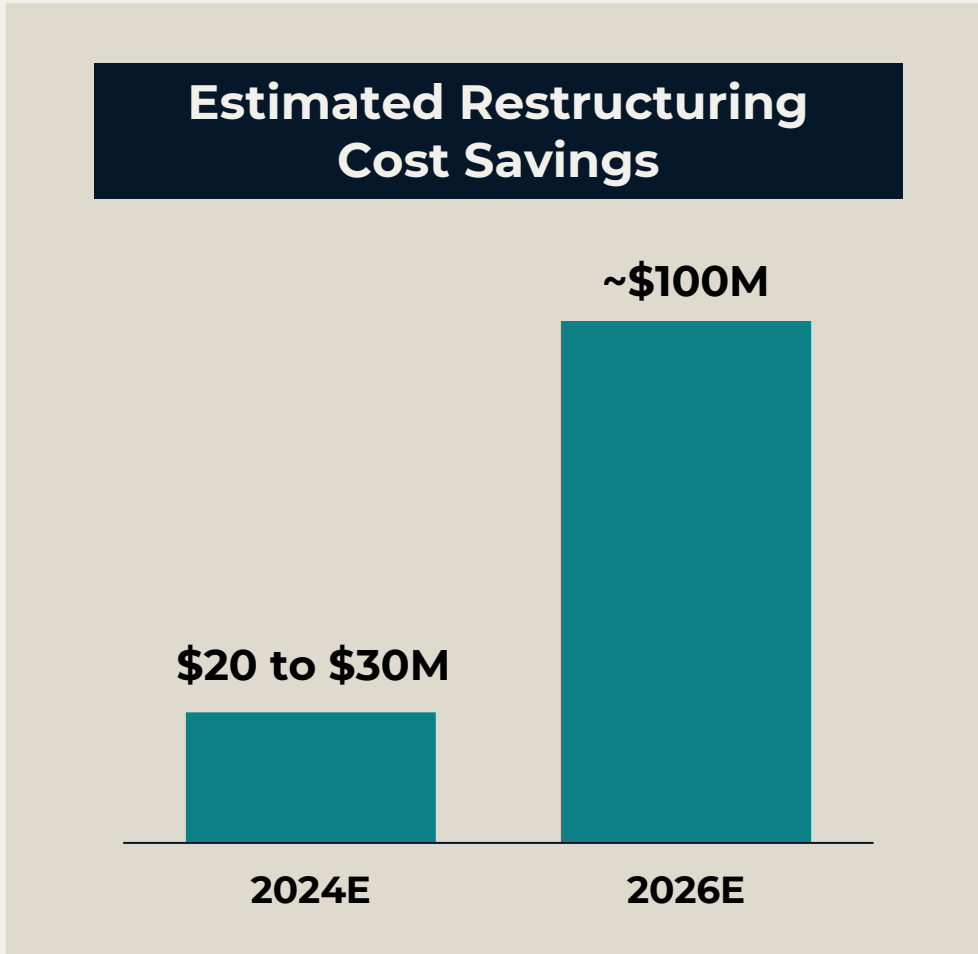
## Market & Earnings Outlook

	Prior Guidance	Current 2024 Outlook
Organic growth*	2% to 5%	0.5% to 2.5%
Adj. operating margin*	9.2% to 9.6%	9.6% to 9.8%
eProduct sales**	\$2.5B to \$2.8B	~\$2.5B
Adj. diluted EPS*	\$3.80 to \$4.15	\$3.95 to \$4.15
Free cash flow*	\$475M to \$575M	\$475M to \$575M
Share repurchases	\$100M	\$400M

\*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 or for EVs.

# ePropulsion Restructuring Actions Underway



- Restructuring actions began in June 2024
  - Focused within North America and China
  - Includes headcount and non-headcount savings
  - Estimated cumulative cash restructuring costs of ~\$75M from 2024-2026
  - Expect to generate annual run-rate cost savings of ~\$100M by 2026

**Actions expected to improve near-term results and position ePropulsion for mid-teens incrementals on future growth**

July 31, 2024

**BORGWARNER**

Q2 2024

Earnings Call Presentation

**THANK YOU**

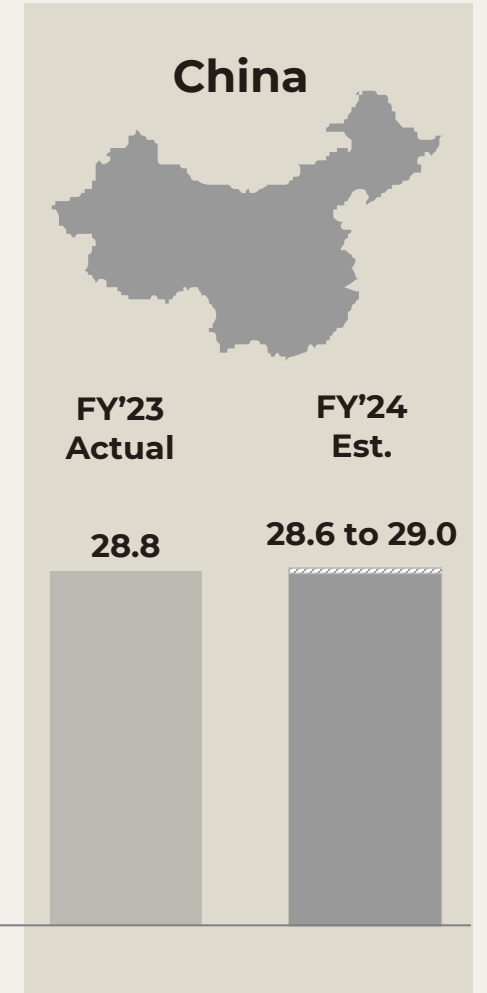
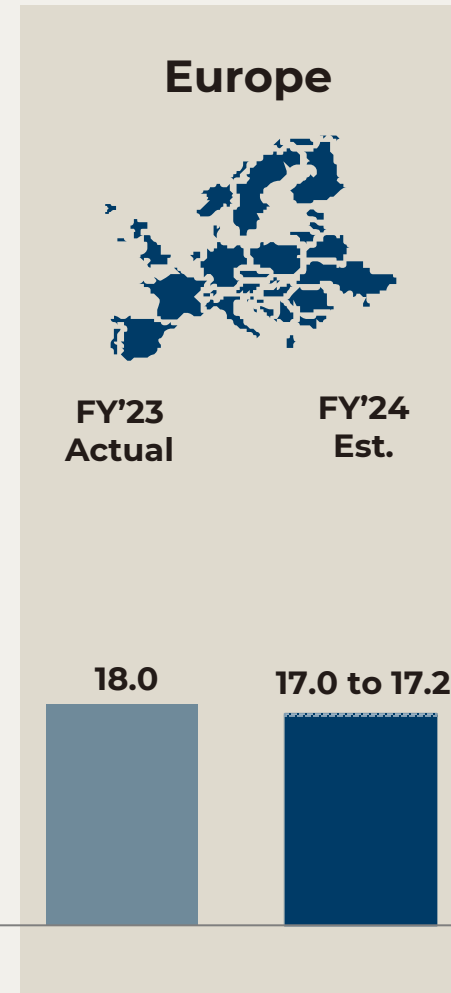
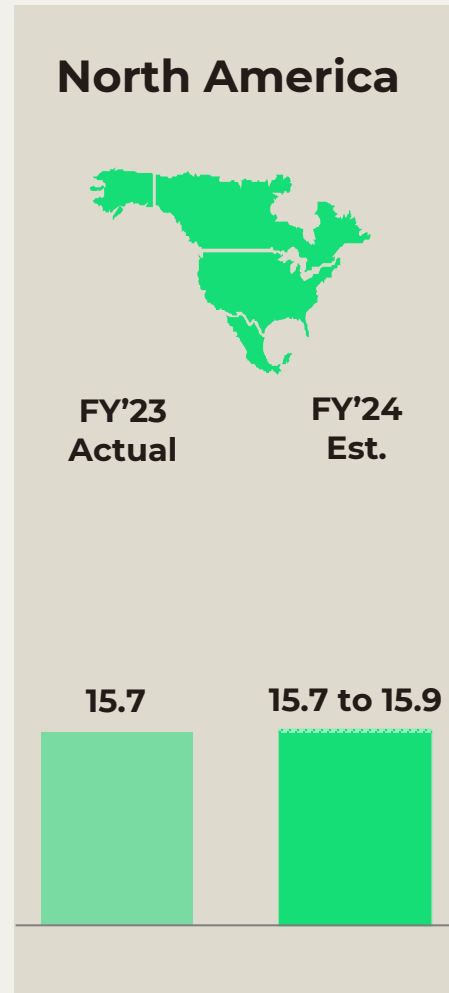
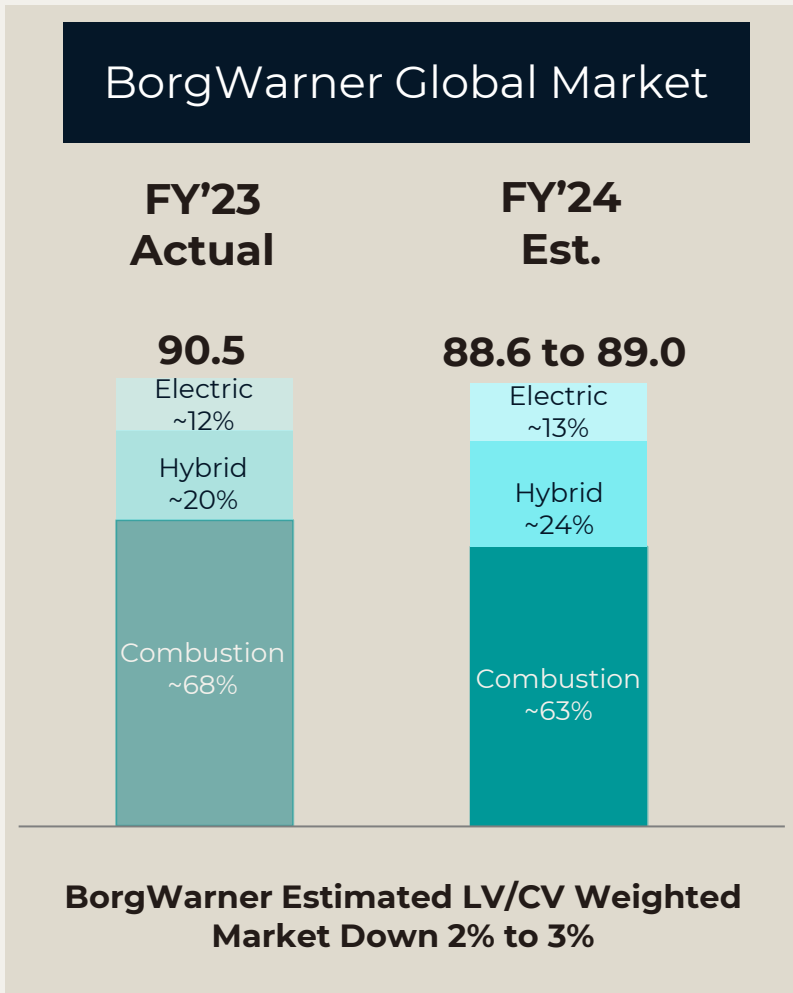
# APPENDIX

# 2024 Planning Assumptions

- **CapEx** **\$800-\$850 million**
- **Adjusted tax rate for ongoing operations** **~24%**

# 2024 Light Vehicle Market Expectations

LV Units in millions





# BorgWarner Global Production Outlook (2024 vs. 2023)

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

	North America		Europe		China		Total	
	2023	2024	2023	2024	2023	2024	2023	2024
<b>Light Vehicle</b>	15.7	15.7 to 15.9	18.0	17.0 to 17.2	28.8	28.6 to 29.0	90.5	88.6 to 89.0
<b>Commercial Vehicle</b>	0.7	~0.6	0.7	~0.6	1.1	1.1 to 1.2	3.5	3.4 to 3.5

## Estimated Year-over-Year Change in Production (Low to High)

	North America	Europe	China	Total
<b>Light Vehicle</b>	0% to 1%	(5%) to (4%)	(0.5)% to 0.5%	(2%) to (1.5%)
<b>Commercial Vehicle</b>	(6%) to (2.5%)	(13.5%) to (10%)	~4%	(1.5)% to 0%
<b>BorgWarner-Weighted</b>	<b>(0.5%) to 0.5%</b>	<b>(6.5%) to (5%)</b>	<b>0% to 1%</b>	<b>(3%) to (2%)</b>

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

# 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,	
	2024	2023	2024	2023
<b>Net sales</b>	\$ 3,603	\$ 3,671	\$ 7,198	\$ 7,054
<b>Operating income</b>	\$ 297	\$ 333	\$ 592	\$ 607
<b>Operating margin</b>	8.2 %	9.1 %	8.2 %	8.6 %
<b>Non-comparable items:</b>				
Restructuring expense	\$ 25	\$ 9	\$ 44	\$ 12
Intangible asset amortization expense	17	17	34	34
Commercial contract settlement	15	—	15	—
Adjustments associated with Spin-Off related balances	11	—	11	—
Accelerated depreciation	8	—	8	3
Merger and acquisition expense	—	8	5	16
Gain on sale of businesses	—	(5)	(3)	(5)
Corporate synergy from spin-off	—	5	—	10
Service and lease agreement termination	—	9	—	9
Gain on sale of assets	—	(6)	—	(6)
Other non-comparable items	3	2	9	(3)
<b>Adjusted operating income</b>	<b>\$ 376</b>	<b>\$ 372</b>	<b>\$ 715</b>	<b>\$ 677</b>
<b>Adjusted operating margin</b>	<b>10.4 %</b>	<b>10.1 %</b>	<b>9.9 %</b>	<b>9.6 %</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,	
	2024	2023	2024	2023
<b>Earnings per diluted share</b>	<b>\$ 1.39</b>	<b>\$ 0.97</b>	<b>\$ 2.32</b>	<b>\$ 1.69</b>
<b>Non-comparable items:</b>				
Restructuring expense	0.08	0.03	0.14	0.04
Commercial contract settlement	0.05	—	0.05	—
Adjustments associated with Spin-Off related balances	0.05	—	0.05	—
Accelerated depreciation	0.03	—	0.03	0.01
Merger and acquisition expense	—	0.03	0.02	0.07
Gain on sale of businesses	—	(0.02)	(0.01)	(0.02)
Service and lease agreement termination	—	0.03	—	0.03
Gain on sale of assets	—	(0.02)	—	(0.02)
Unrealized loss on equity and debt securities	—	0.18	0.01	0.23
Corporate synergy from spin-off	—	0.02	—	0.03
Tax adjustments	(0.42)	(0.17)	(0.42)	(0.18)
Other non-comparable items	0.01	0.01	0.03	(0.01)
<b>Adjusted earnings per diluted share</b>	<b>\$ 1.19</b>	<b>\$ 1.06</b>	<b>\$ 2.22</b>	<b>\$ 1.87</b>

# Second Quarter & YTD Organic Net Sales Change

## Organic Net Sales Change

The Company defines organic net sales changes as net sales change year over year excluding the estimated impact of foreign exchange (FX) and the acquisitions of the smart grid and smart energy businesses of Hubei Surpass Sun Electric and the Electric Hybrid Systems business segment of Eldor Corporation.

(in millions)	Q2 2023 Net Sales	FX	Acquisition Impact	Organic Net Sales Change	Q2 2024 Net Sales	Organic Net Sales Change %
Air Management	\$ 2,027	\$ (33)	\$ —	\$ (20)	\$ 1,974	(1.0)%
Drivetrain & Battery Systems	1,117	(20)	—	99	1,196	8.9%
ePropulsion	566	(9)	6	(99)	464	(17.5)%
Inter-segment eliminations	(39)	—	—	8	(31)	(20.5)%
<b>Net sales</b>	<b>\$ 3,671</b>	<b>\$ (62)</b>	<b>\$ 6</b>	<b>\$ (12)</b>	<b>\$ 3,603</b>	<b>(0.3)%</b>

(in millions)	Q2 2023 YTD Net Sales	FX	Acquisition Impact	Organic Net Sales Change	Q2 2024 YTD Net Sales	Organic Net Sales Change %
Air Management	\$ 4,006	\$ (42)	\$ 5	\$ 35	\$ 4,004	0.9%
Drivetrain & Battery Systems	2,073	(33)	—	315	2,355	15.2%
ePropulsion	1,053	(19)	12	(146)	900	(13.9)%
Inter-segment eliminations	(78)	—	—	17	(61)	(21.8)%
<b>Net sales</b>	<b>\$ 7,054</b>	<b>\$ (94)</b>	<b>\$ 17</b>	<b>\$ 221</b>	<b>\$ 7,198</b>	<b>3.1%</b>

# Full Year 2024 Adj. Operating Income and Adj. Operating Margin Guidance Reconciliation to US GAAP

\$ in millions	Full-Year 2024 Guidance	
	Low	High
<b>Net sales</b>	<b>\$ 14,100</b>	<b>\$ 14,400</b>
<b>Operating income</b>	<b>\$ 1,150</b>	<b>\$ 1,195</b>
<b>Operating margin</b>	<b>8.2 %</b>	<b>8.3 %</b>
<b>Non-comparable items:</b>		
Restructuring expense	\$ 90	\$ 100
Intangible asset amortization expense	70	70
Commercial contract settlement	15	15
Adjustments associated with Spin-Off related balances	11	11
Accelerated depreciation	8	8
Merger and acquisition expense	5	5
Gain on sale of business	(3)	(3)
Other non-comparable items	9	9
<b>Adjusted operating income</b>	<b>\$ 1,355</b>	<b>\$ 1,410</b>
<b>Adjusted operating margin</b>	<b>9.6 %</b>	<b>9.8 %</b>

# Full Year 2024 Adj. Earnings per Diluted Share Guidance Reconciliation to US GAAP

	Full-Year 2024 Guidance	
	Low	High
<b>Earnings per Diluted Share from Continuing Operations</b>	<b>\$ 3.88</b>	<b>\$ 4.05</b>
<b>Non-comparable items:</b>		
Restructuring expense	0.30	0.33
Commercial contract settlement	0.05	0.05
Adjustments associated with Spin-Off related balances	0.05	0.05
Accelerated depreciation	0.03	0.03
Merger and acquisition expense	0.02	0.02
Unrealized loss on equity and debt securities	0.01	0.01
Gain on sale of business	(0.01)	(0.01)
Tax adjustments	(0.42)	(0.42)
Other non-comparable items	0.04	0.04
<b>Adjusted Earnings per Diluted Share from Continuing Operations</b>	<b>\$ 3.95</b>	<b>\$ 4.15</b>

# Full Year 2024 Estimated Organic Net Sales Change Guidance and Outgrowth Reconciliation

## Organic Net Sales Change

BorgWarner net sales change year over year excluding the estimated impact of foreign exchange (FX) and the acquisitions of the electric vehicle solution, smart grid and smart energy businesses of Hubei Surpass Sun Electric and the Electric Hybrid Systems business segment of Eldor Corporation.

(in millions)	FY 2023 Net Sales	FX	FY 2024 Acquisition Impact	Organic Net Sales Change	FY 2024 Net Sales	Organic Net Sales Change %	LV/CV Weighted Market	Outgrowth
Low	\$ 14,198	\$ (175)	\$ 30	\$ 47	\$ 14,100	0.3%	(3.0)%	3.3%
High	\$ 14,198	\$ (175)	\$ 30	\$ 347	\$ 14,400	2.4%	(2.0)%	4.4%

# Q2 & YTD 2024, Q2 & YTD 2023 & Full Year 2024 Free Cash Flow Reconciliations 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.

\$ in millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net cash provided by operating activities from continuing operations	\$ 462	\$ 230	\$ 344	\$ 289
Capital expenditures, including tooling outlays	(165)	(200)	(355)	(439)
<b>Free cash flow</b>	<b>\$ 297</b>	<b>\$ 30</b>	<b>\$ (11)</b>	<b>\$ (150)</b>

\$ in millions	Full-Year 2024 Guidance	
	Low	High
Net cash provided by operating activities	\$ 1,325	\$ 1,375
Capital expenditures, including tooling outlays	(850)	(800)
<b>Free cash flow</b>	<b>\$ 475</b>	<b>\$ 575</b>



# Key Definitions

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

**Organic Net Sales Change.** The Company defines organic net sales changes as net sales change year over year excluding the estimated impact of foreign exchange (FX) and the acquisitions of the smart grid and smart energy businesses of Hubei Surpass Sun Electric and the Electric Hybrid Systems business segment of Eldor Corporation.

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

**Outgrowth.** "Organic Net Sales Change" vs. year-over-year change in "Market".