

# Earnings Call Presentation

## Q1 2020



May 6, 2020

 **BorgWarner**

# Forward-Looking Statements

This communication may contain forward-looking statements as contemplated by the 1995 Private Securities Litigation Reform Act that reflect, when made, Delphi Technologies PLC's ("Delphi Technologies") or BorgWarner Inc.'s ("BorgWarner") respective current views with respect to future events, including the proposed transaction, and financial performance or that are based on their respective management's current outlook, expectations, estimates and projections, including with respect to the combined company following the proposed transaction, if completed. Such forward-looking statements are subject to many risks, uncertainties and factors relating to Delphi Technologies' or BorgWarner's respective operations and business environment, which may cause the actual results of Delphi Technologies or BorgWarner to be materially different from any future results. All statements that address future operating, financial or business performance or Delphi Technologies' or BorgWarner's respective strategies or expectations are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "could," "designed," "effect," "evaluates," "forecasts," "goal," "guidance," "initiative," "intends," "pursue," "seek," "target," "when," "will," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "projects," "potential," "outlook" or "continue," the negatives thereof and other comparable terminology. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the possibility that the proposed transaction will not be pursued; failure to obtain necessary shareholder approvals, regulatory approvals or required financing or to satisfy any of the other conditions to the proposed transaction; adverse effects on the market price of Delphi Technologies' ordinary shares or BorgWarner's shares of common stock and on Delphi's or BorgWarner's operating results because of a failure to complete the proposed transaction; failure to realize the expected benefits of the proposed transaction; failure to promptly and effectively integrate Delphi Technologies' businesses; negative effects relating to the announcement of the proposed transaction or any further announcements relating to the proposed transaction or the consummation of the proposed transaction on the market price of Delphi Technologies' ordinary shares or BorgWarner's shares of common stock; significant transaction costs and/or unknown or inestimable liabilities; potential litigation associated with the proposed transaction; general economic and business conditions that affect the combined company following the consummation of the proposed transaction; changes in global, political, economic, business, competitive, market and regulatory forces; changes in tax laws, regulations, rates and policies; future business acquisitions or disposals; competitive developments; and the timing and occurrence (or non-occurrence) of other events or circumstances that may be beyond Delphi's or BorgWarner's control.

For additional information about these and other factors, see the information under the caption "Risk Factors" in Delphi Technologies' most recent Annual Report on Form 10-K filed with the SEC and "Management's Discussion and Analysis of Financial Condition and Results of Operations" filed on February 13, 2020, and the information under the caption "Risk Factors" in BorgWarner's most recent Annual Report on Form 10-K filed with the SEC and "Management's Discussion and Analysis of Financial Condition and Results of Operations" on February 13, 2020.

Delphi Technologies' and BorgWarner's forward-looking statements speak only as of the date of this communication or as of the date they are made. Delphi Technologies and BorgWarner each disclaim any intent or obligation to update or revise any "forward looking statement" made in this communication to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, except as may be required by law. All subsequent written and oral forward-looking statements attributable to Delphi Technologies, BorgWarner or their respective directors, executive officers or any person acting on behalf of any of them are expressly qualified in their entirety by this paragraph.

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 communication. 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; the failure to complete our anticipated acquisition of Delphi Technologies, as a result of, by way of example, the failure to: satisfy the conditions to the completion of the transaction, obtain the regulatory approvals required for the transaction on the terms expected or on the anticipated schedule, or obtain Delphi Technologies stockholder approval in a timely manner or otherwise; 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 BorgWarner operates; and other risks noted in reports that BorgWarner files with the Securities and Exchange Commission, including the Risk Factors in BorgWarner's most recently filed Annual Report on Form 10-K. We do not undertake any obligation to update or announce publicly any updates to or revision to any of the forward-looking statements in this communication 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.

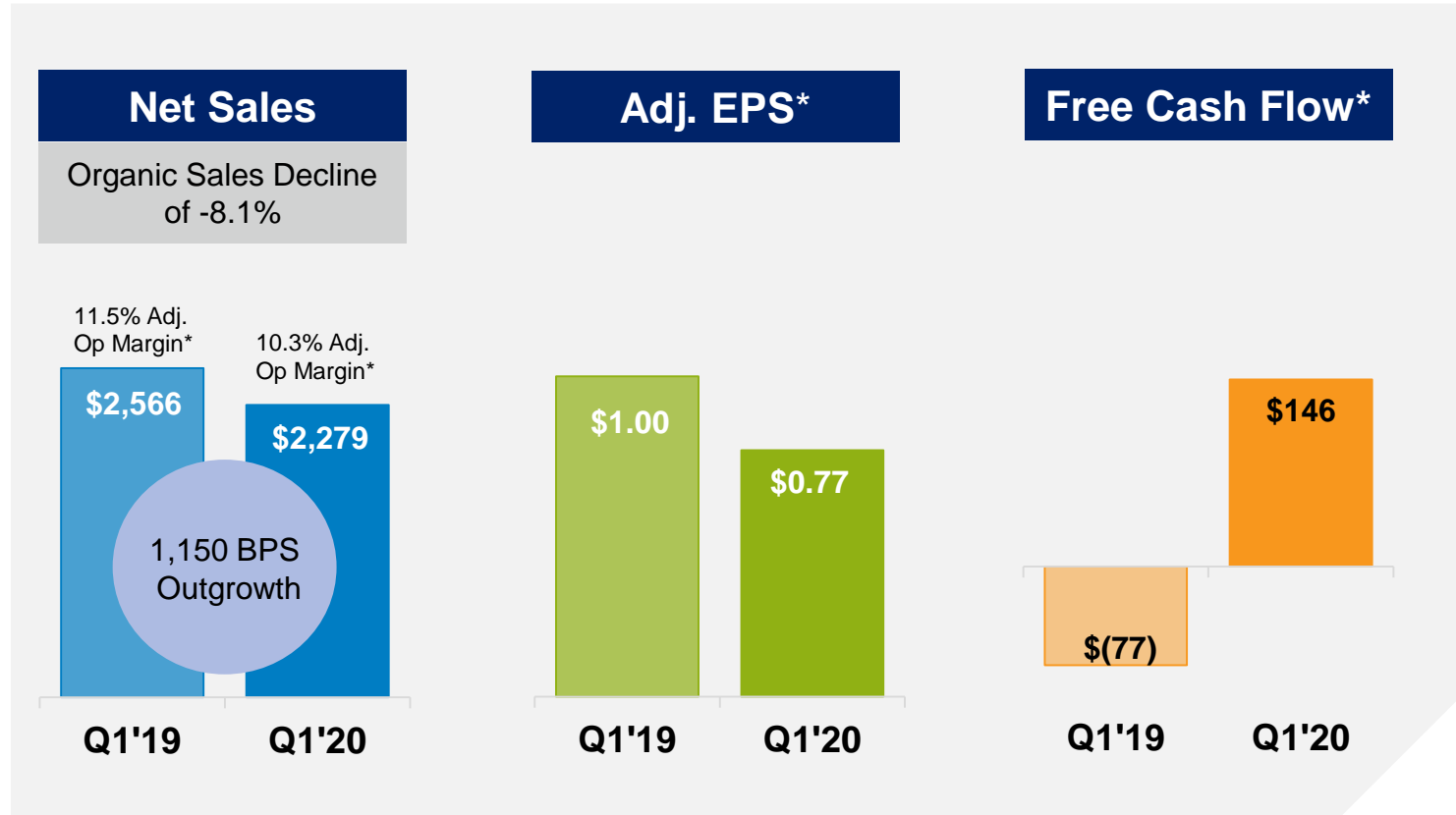
Non-GAAP financial measures are not and should not be considered a substitute for any GAAP measure. Additionally, because not all companies use identical calculations, the non-GAAP financial measures as presented by BorgWarner may not be comparable to similarly titled measures reported by other companies.



# Agenda

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

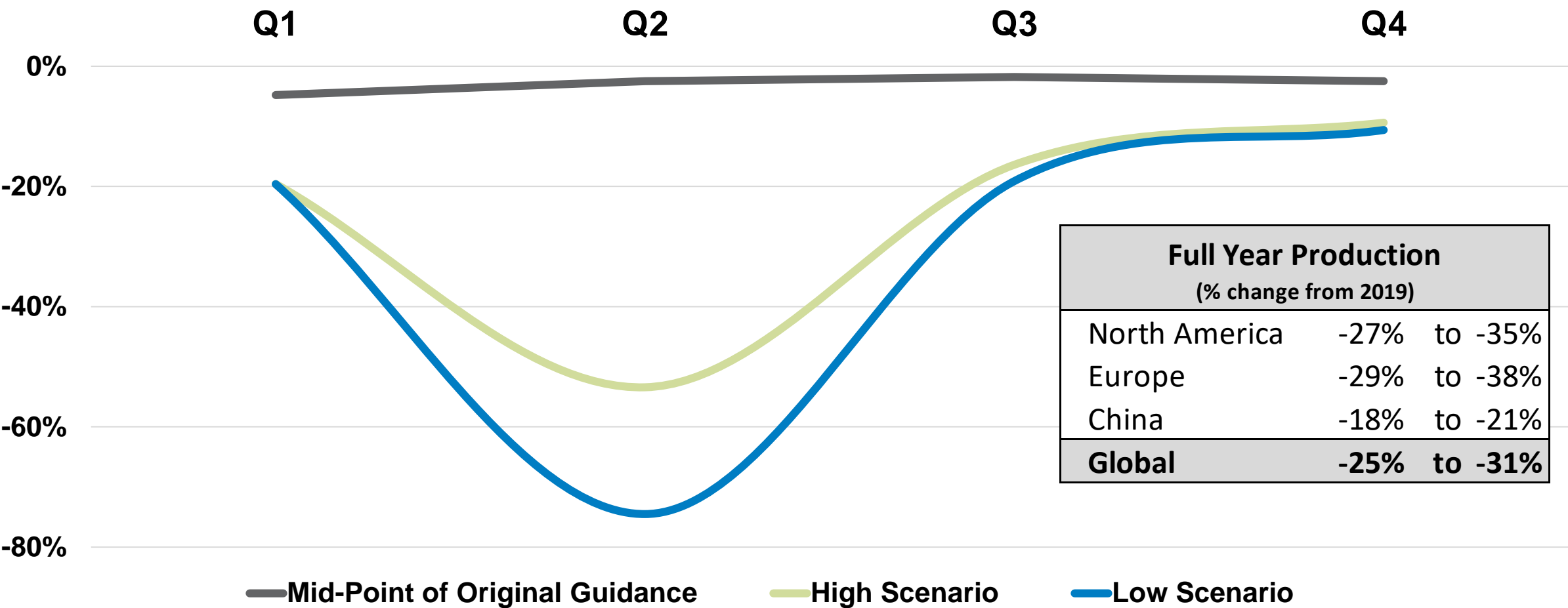
# Q1 2020 Financial Highlights



- COVID-19 drives lower sales, partially offset by outgrowth in all major regions
- Decremental margin of 26%, as cost actions partially offset sales decline
- Strong FCF driven by earnings and working capital management
- Orderly production shutdowns in Europe and N. America, while ramping up in China

\* 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 LV Production Scenarios



# Cost Actions in Current Environment

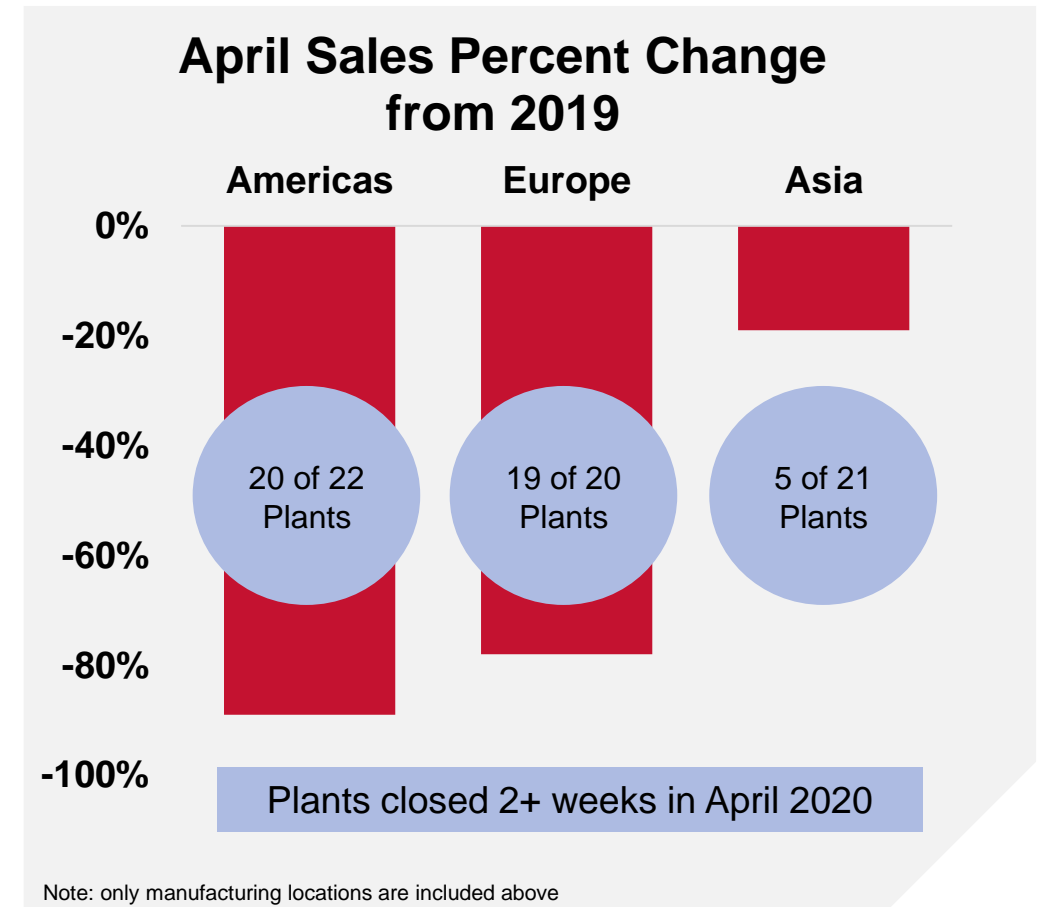
- 20% temporary salary reduction for senior executive leadership team and Board of Directors
- Up to 10% temporary base pay reductions for other salaried employees
- Plant closures, temporary layoffs and/or other reductions in staff due to lower production
- Adjusted relationships with 3<sup>rd</sup> party consultants and contractors
  - Where applicable, suspended work or agreed to temporary reduction in billing rates



# Production Restart Considerations

**Our Vision:** Achieve best-in-class restart of our facilities from a health and safety perspective

- Task force established to roll out our Safe-Restart Program for all global locations
- Program includes set of 17 minimum standards and 9 additional recommended best practices
- Leveraging our decentralized operating model to drive additional safety innovation
- Focus areas include local leadership, employee communication, sanitation, symptom monitoring, social distancing, and PPE





# Seneca, SC Tornado Impact

- On 4/13, tornado struck manufacturing facility in Seneca, SC causing significant damage
  - Plant was not in operation at the time
  - Manufactures T-cases, primarily for Ford, FCA, and Toyota
- Machining area damage more limited; assembly area damage more extensive
- Resumed limited production on May 4
- Insurance policies expected to cover property losses, reconstruction costs, and lost profits



# Update on Delphi Technologies Acquisition

## Resolution of Asserted Breach

- On 5/6, companies resolved the dispute over BorgWarner's assertion that Delphi materially breached the debt covenant
- Resolution provides for a new closing condition:
  - Gross revolver balance outstanding cannot exceed \$225 million
  - Revolver balance outstanding less cash balances cannot exceed \$115 million
  - Net debt to Adj. EBITDA threshold
- Equity exchange ratio has been reduced to 0.4307, which is a 5% reduction

## Integration Work Continues

- Integration teams continue to work diligently toward transaction closing
- Ongoing regulatory filings in process in several geographies
- Closed on \$750 million delayed-draw term loan to support potential financing needs at closing
- Expected transaction closing remains in second half of 2020

# Summary of Q1 Results and 2020 Outlook

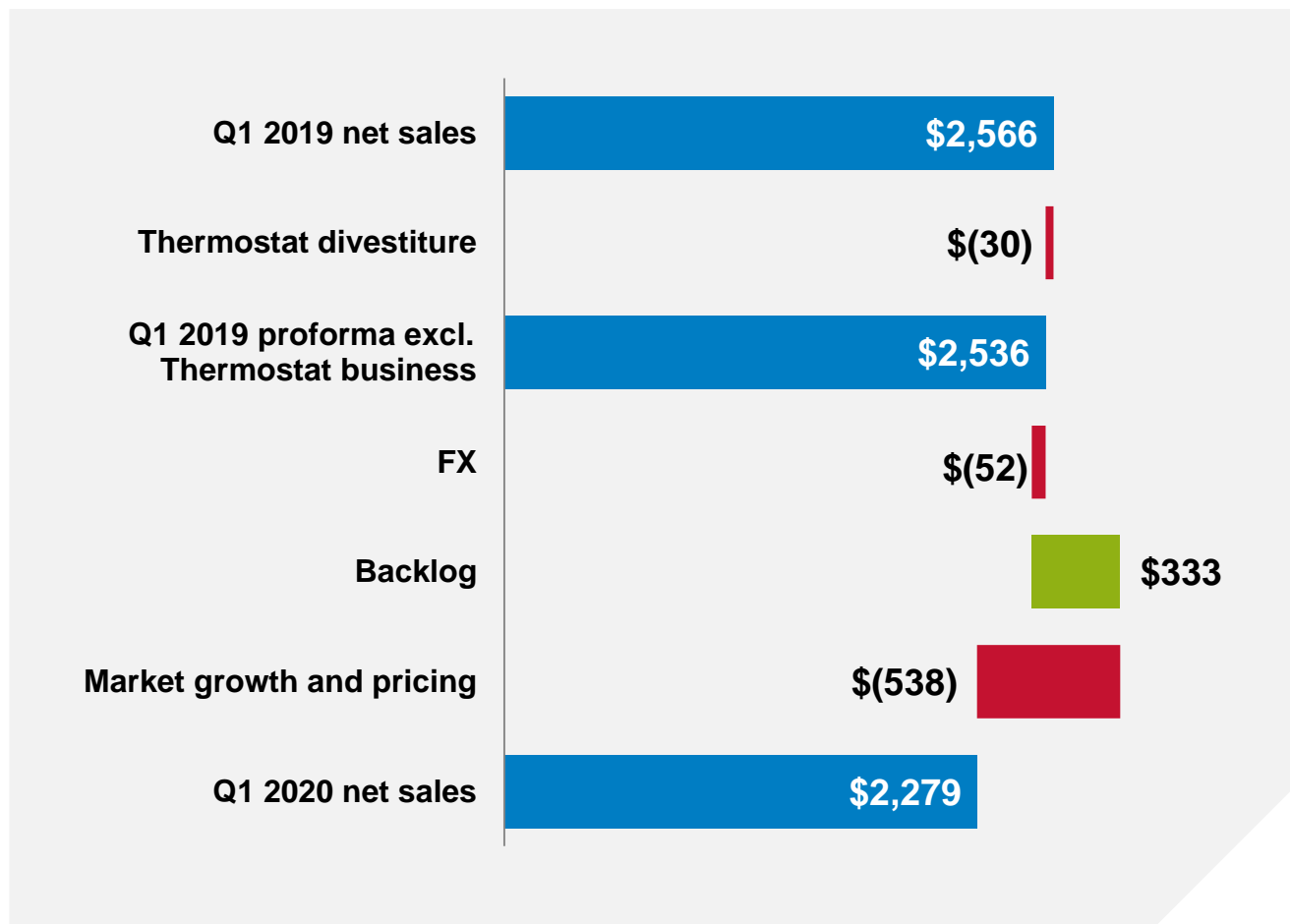


- Achieved first quarter outgrowth in all major regions
- Expecting positive free cash flow for 2020
- Maintaining robust liquidity position
- Remain strongly positioned to capitalize on long-term industry trends



# BorgWarner Q1 2020 Net Sales Walk

\$ in millions



- Global light vehicle market down ~19.6% year over year
- Organic sales declined only ~8.1%, with strong double-digit outgrowth in all major regions
  - **Europe.** Strong diesel demand; new small gas engine business
  - **North America.** New turbo programs; other net new business
  - **China.** Dual clutch transmission modules (DCT); emissions business



# BorgWarner Financial Results & Adj. Operating Income

\$ in millions

Q1 2019 adj. operating income\*

**\$295**

Thermostat divestiture

**\$(2)**

Q1 2019 proforma excl.  
Thermostat business\*

**\$293**

FX

**\$(5)**

Market growth, pricing,  
backlog and other

**\$(54)**

Q1 2020 adj. operating income\*

**\$234**

(in millions, except per share amounts)  
**GAAP & Non GAAP Financials**

**Three months ended  
March 31,  
2019 2020**

Sales

**\$2,566**

**\$2,279**

Adj. operating margin\*  
*Adj. Operating Margin %*

**\$295**  
11.5%

**\$234**  
10.3%

Adj. diluted EPS from  
continuing operations\*

**\$1.00**

**\$0.77**

Free cash flow\*

**\$(77)**

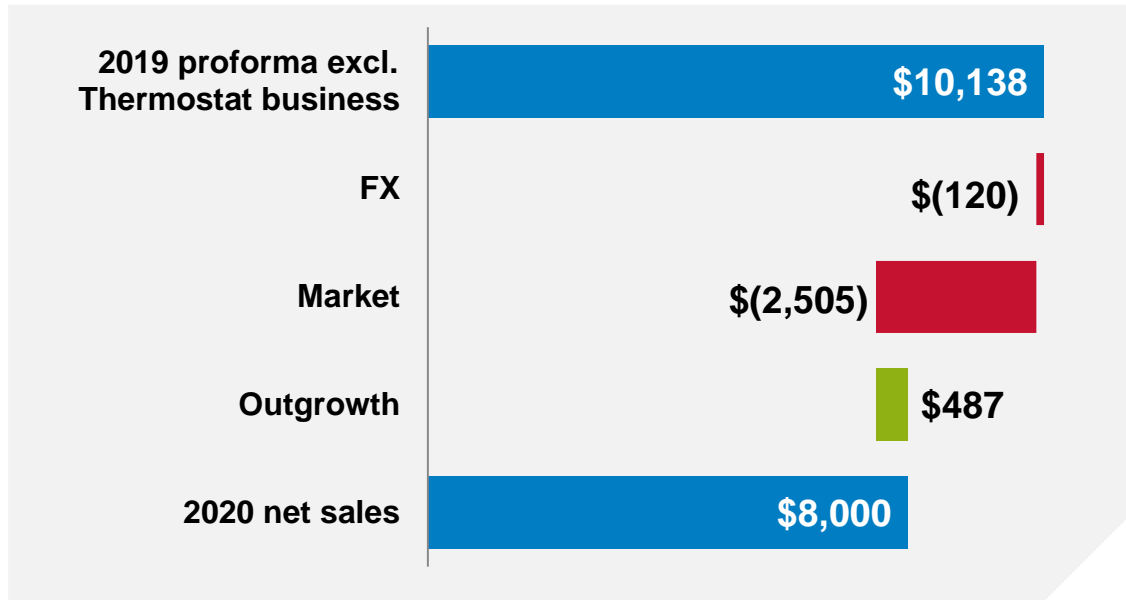
**\$146**

\* Adj. operating margin, 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

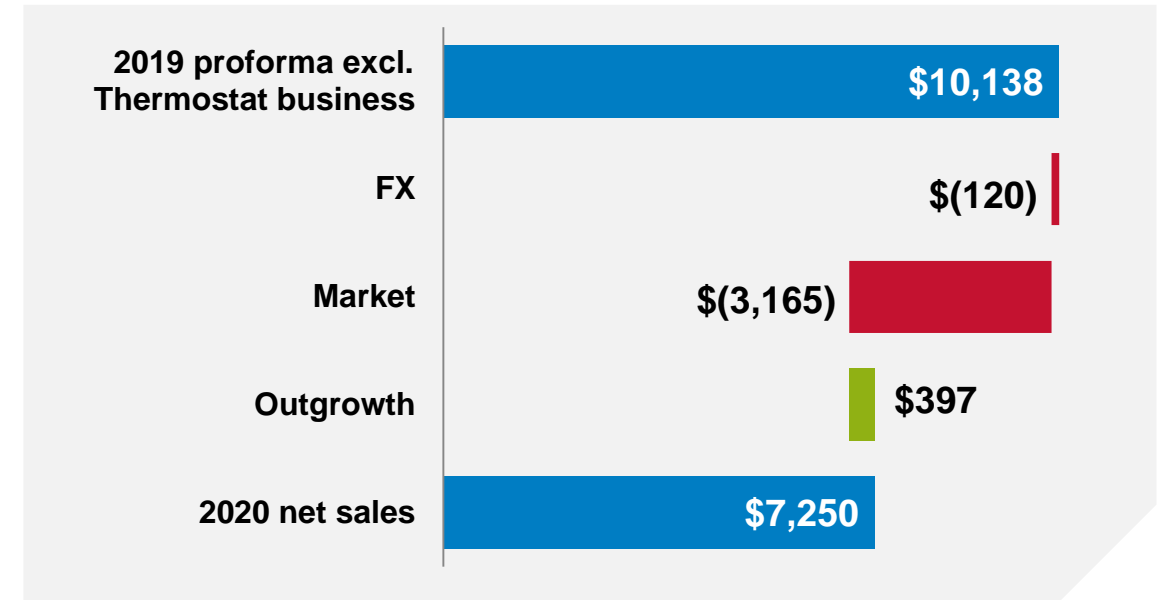
\$ in millions

## Full-Year Net Sales Outlook High-End



- Global BWA LV market down ~25%
- Organic revenue decline of ~20%, as market decline is offset by 500 basis points of outgrowth

## Full-year Net Sales Outlook Low-End



- Global BWA LV market down ~31%
- Organic revenue decline of ~27%, as market decline is offset by 400 basis points of outgrowth

# Cash Flow and Liquidity Considerations

\$ millions as of March 31, 2020\*

Sources of Liquidity		Working Capital	
Cash	\$901	Accounts Receivable	\$1,735
Revolver	\$1,500	Accts. Payable & Accr. Expenses**	\$(1,793)
Term Loan*	\$750	Inventory	\$847

\* Term Loan did not close until April 29, 2020

\*\* Accounts payable comprises \$(1,331) of this amount

- **March 31st.** \$2.4B of liquidity, or 24% of 2019 sales
  - In Q1, increased revolver from \$1.2B to \$1.5B
  - Gross debt-to-EBITDA of 1.2x, which is well below 3.5x covenant
  - Expect to maintain covenant compliance and full access to revolver throughout 2020
- **April 29th.** Entered into \$750 million delayed draw term loan (364-day facility)
- **Full Year 2020.** Expect to generate positive FCF of \$100M to \$300M

# Thank you!



Combustion



Hybrid



Electric



# Appendix

# Segment Net Sales & Adj. EBIT Margin\*

\$ in millions

## Net Sales

<b>ENGINE</b>	Q1 2019 proforma excl. Thermostat business*	15.1% Adj. Margin	\$1,568	<ul style="list-style-type: none"> <li>■ Outgrowth driven by diesel and new gas programs in Europe and turbochargers in North America</li> <li>■ Lower adjusted margin due to impact of lower revenue</li> </ul>
	FX		\$(34)	
	Market growth, price and net new business		\$(100)	
	Q1 2020 net sales	14.5% Adj. Margin	\$1,434	
<b>DRIVETRAIN</b>	Q1 2019 net sales	10.7% Adj. Margin	\$982	<ul style="list-style-type: none"> <li>■ Outgrowth supported by Dual Clutch Transmission module growth in China</li> <li>■ Lower adjusted margin due to impact of lower revenue and higher net R&amp;D</li> </ul>
	FX		\$(18)	
	Market growth, price and net new business		\$(104)	
	Q1 2020 net sales	7.3% Adj. Margin	\$860	

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

# First Quarter 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 March 31,	
	2020	2019
Sales	\$ 2,279	\$ 2,566
Operating income	\$ 189	\$ 264
Operating margin %	8.3%	10.3%
<b>Non-comparable items:</b>		
Merger, acquisition and divestiture expense	21	1
Restructuring expense	15	14
Asset impairment	9	-
Unfavorable arbitration loss	-	14
Officer stock awards modification	-	2
Adjusted operating income	\$ 234	\$ 295
Adjusted operating income margin %	10.3%	11.5%

# First Quarter Segment Reconciliation to US GAAP

## Adjusted EBIT

The Company defines adjusted EBIT as EBIT adjusted to eliminate the impact of merger, acquisition and divestiture expense.

\$ in millions	Three Months Ended March 31,	
	2020	2019
<b>Engine</b>		
Net sales	\$ 1,434	\$ 1,598
Thermostat divestiture	-	(30)
Proforma net sales excl. Thermostat business	<u>\$ 1,434</u>	<u>\$ 1,568</u>
Adjusted EBIT	\$ 208	\$ 241
Thermostat divestiture	-	(2)
Proforma adjusted EBIT excl. Thermostat business	<u>\$ 208</u>	<u>\$ 239</u>
Adjusted EBIT margin %	14.5%	15.2%
<b>Drivetrain</b>		
Net sales	<u>\$ 860</u>	<u>\$ 982</u>
Adjusted EBIT	<u>\$ 63</u>	<u>\$ 105</u>
Adjusted EBIT margin %	7.3%	10.7%



# First Quarter 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 March 31,	
	2020	2019
<b>Earnings per diluted share</b>	<u>\$ 0.63</u>	<u>\$ 0.77</u>
Non-comparable items:		
Merger, acquisition and divestiture expense	0.10	0.01
Restructuring expense	0.06	0.05
Asset impairment	0.04	-
Unfavorable arbitration loss	-	0.07
Officer stock awards modification	-	0.01
Tax adjustments	(0.06)	0.09
<b>Adjusted earnings per diluted share</b>	<u>\$ 0.77</u>	<u>\$ 1.00</u>

# First 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 March 31,	
	2020	2019
Engine	\$ 208	\$ 241
Drivetrain	63	105
Adjusted EBIT	271	346
Merger, acquisition and divestiture expense	21	1
Restructuring expense	15	14
Asset impairment	9	-
Unfavorable arbitration loss	-	14
Officer stock awards modification	-	2
Corporate, including stock-based compensation	37	51
Equity in affiliates earnings, net of tax	(5)	(9)
Interest income	(2)	(3)
Interest expense	12	14
Other postretirement income	(2)	-
Earnings before income taxes and noncontrolling interest	186	262
Provision for income taxes	49	91
Net earnings	137	171
Net earnings attributable to the noncontrolling interest, net of tax	8	11
Net earnings attributable to BorgWarner Inc.	\$ 129	\$ 160

# Free Cash Flow to US GAAP

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

Cash provided by operating activities  
Capital expenditures  
Free cash flow

Three Months Ended March 31,	
2020	2019
\$ 263	\$ 40
(117)	(117)
<u>\$ 146</u>	<u>\$ (77)</u>

Cash provided by operating activities  
Capital expenditures  
Free cash flow

Full Year 2020 Outlook	
Low	High
\$ 530	\$ 780
(430)	(480)
<u>\$ 100</u>	<u>\$ 300</u>

# 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"



## No Offer or Solicitation

This communication is being made in respect of the proposed acquisition (the “proposed transaction”) of Delphi Technologies by BorgWarner Inc. This communication is not intended to and does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the proposed transaction or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. In particular, this communication is not an offer of securities for sale into the United States. No offer of securities shall be made in the United States absent registration under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or pursuant to an exemption from, or in a transaction not subject to, such registration requirements. Any securities issued in the proposed transaction are anticipated to be issued in reliance upon available exemptions from such registration requirements pursuant to Section 3(a)(10) of the Securities Act.

## Participants in the Solicitation

Delphi Technologies, BorgWarner and certain of their respective directors, executive officers and employees may be deemed “participants” in the solicitation of proxies from Delphi Technologies shareholders in respect of the proposed transaction. Information regarding the foregoing persons, including a description of their direct or indirect interests, by security holdings or otherwise, is set forth in the preliminary proxy statement filed on Schedule 14A with the Securities and Exchange Commission (the “SEC”) on March 11, 2020 (the “preliminary proxy statement”) and will be set forth in a definitive proxy statement and any other relevant documents to be filed with the SEC. You can find information about Delphi Technologies’ directors and executive officers in its Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and its definitive proxy statement filed with the SEC on Schedule 14A on March 15, 2019. You can find information about BorgWarner’s directors and executive officers in its Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and its definitive proxy statement filed with the SEC on Schedule 14A on March 15, 2020.

## Additional Information and Where to Find It

This communication may be deemed solicitation material in respect of the proposed transaction. In connection with the proposed transaction, Delphi Technologies filed with the SEC the preliminary proxy statement, and Delphi Technologies will file with the SEC and furnish to its shareholders a definitive proxy statement on Schedule 14A and other relevant documents. This communication does not constitute a solicitation of any vote or approval. Before making any voting decision, Delphi Technologies' shareholders are urged to read the proxy statement and any other relevant documents filed or to be filed with the SEC in connection with the proposed transaction or incorporated by reference in the proxy statement carefully and in their entirety when they become available because they contain or will contain important information about the proposed transaction and the parties to the proposed transaction.

Investors are able to obtain free of charge the preliminary proxy statement, the definitive proxy statement and other documents filed with the SEC (when available) at the SEC's website at <http://www.sec.gov>. In addition, the preliminary proxy statement, the definitive proxy statement and Delphi Technologies' and BorgWarner's respective annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, are available free of charge through Delphi Technologies' and BorgWarner's websites at [www.delphi.com](http://www.delphi.com) and [www.borgwarner.com](http://www.borgwarner.com), respectively, as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

## 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.