

BORGWARNER INC
Form 10-Q
October 29, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q
QUARTERLY REPORT
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

OR
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 1-12162
BORGWARNER INC.

(Exact name of registrant as specified in its charter)

Delaware 13-3404508
State or other jurisdiction of (I.R.S. Employer
Incorporation or organization Identification No.)

3850 Hamlin Road, Auburn Hills, Michigan 48326
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (248) 754-9200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of October 23, 2015, the registrant had 224,145,181 shares of voting common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (in millions) | September 30, 2015 | December 31, 2014 |
|---------------------------------------------|-----------------------|----------------------|
| ASSETS | | |
| Cash | \$1,033.3 | \$797.8 |
| Receivables, net | 1,551.5 | 1,443.5 |
| Inventories, net | 523.1 | 505.7 |
| Deferred income taxes | 56.0 | 93.6 |
| Prepayments and other current assets | 137.1 | 130.2 |
| Total current assets | 3,301.0 | 2,970.8 |
| Property, plant and equipment, net | 2,185.2 | 2,093.9 |
| Investments and other long-term receivables | 438.5 | 403.3 |
| Goodwill | 1,183.7 | 1,205.7 |
| Other non-current assets | 578.7 | 554.3 |
| Total assets | \$7,687.1 | \$7,228.0 |
| LIABILITIES AND EQUITY | | |
| Notes payable and other short-term debt | \$74.6 | \$623.7 |
| Accounts payable and accrued expenses | 1,436.6 | 1,530.3 |
| Income taxes payable | 28.6 | 14.2 |
| Total current liabilities | 1,539.8 | 2,168.2 |
| Long-term debt | 1,734.5 | 716.3 |
| Other non-current liabilities: | | |
| Retirement-related liabilities | 306.7 | 326.6 |
| Other | 318.2 | 326.0 |
| Total other non-current liabilities | 624.9 | 652.6 |
| Common stock | 2.5 | 2.5 |
| Capital in excess of par value | 1,108.8 | 1,112.4 |
| Retained earnings | 4,113.6 | 3,717.1 |
| Accumulated other comprehensive loss | (576.7 |) (383.6 |
| Common stock held in treasury | (931.2 |) (832.2 |
| Total BorgWarner Inc. stockholders' equity | 3,717.0 | 3,616.2 |
| Noncontrolling interest | 70.9 | 74.7 |
| Total equity | 3,787.9 | 3,690.9 |
| Total liabilities and equity | \$7,687.1 | \$7,228.0 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| (in millions, except share and per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$1,884.0 | \$2,032.1 | \$5,900.1 | \$6,313.2 |
| Cost of sales | 1,485.8 | 1,607.6 | 4,643.9 | 4,970.1 |
| Gross profit | 398.2 | 424.5 | 1,256.2 | 1,343.1 |
| Selling, general and administrative expenses | 148.0 | 174.5 | 483.6 | 529.5 |
| Other expense, net | 13.1 | 12.3 | 33.4 | 62.1 |
| Operating income | 237.1 | 237.7 | 739.2 | 751.5 |
| Equity in affiliates' earnings, net of tax | (8.7) | (14.8) | (28.3) | (35.8) |
| Interest income | (2.0) | (1.4) | (5.3) | (4.3) |
| Interest expense and finance charges | 15.0 | 9.0 | 42.6 | 26.2 |
| Earnings before income taxes and noncontrolling interest | 232.8 | 244.9 | 730.2 | 765.4 |
| Provision for income taxes | 66.9 | 71.9 | 219.2 | 225.3 |
| Net earnings | 165.9 | 173.0 | 511.0 | 540.1 |
| Net earnings attributable to the noncontrolling interest, net of tax | 8.5 | 6.4 | 26.6 | 24.2 |
| Net earnings attributable to BorgWarner Inc. | \$157.4 | \$166.6 | \$484.4 | \$515.9 |
| Earnings per share — basic | \$0.70 | \$0.73 | \$2.15 | \$2.27 |
| Earnings per share — diluted | \$0.70 | \$0.73 | \$2.14 | \$2.25 |
| Weighted average shares outstanding (thousands): | | | | |
| Basic | 224,837 | 227,077 | 225,329 | 227,395 |
| Diluted | 225,991 | 228,668 | 226,565 | 229,222 |
| Dividends declared per share | \$0.13 | \$0.13 | \$0.39 | \$0.38 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (UNAUDITED)

| (in millions) | Three Months Ended | | Nine Months Ended | |
|----------------------------------------------------------------|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net earnings attributable to BorgWarner Inc. | \$157.4 | \$166.6 | \$484.4 | \$515.9 |
| Other comprehensive loss | | | | |
| Foreign currency translation adjustments | (37.0 |) (196.1 |) (202.6 |) (199.9 |
| Hedge instruments* | (3.0 |) 11.9 | (1.5 |) 11.3 |
| Defined benefit postretirement plans* | 2.8 | 2.9 | 10.8 | 2.8 |
| Other* | — | — | 0.2 | (0.1 |
| Total other comprehensive loss attributable to BorgWarner Inc. | (37.2 |) (181.3 |) (193.1 |) (185.9 |
| Comprehensive income (loss) attributable to BorgWarner Inc. | 120.2 | (14.7 |) 291.3 | 330.0 |
| Comprehensive loss attributable to the noncontrolling interest | (3.8 |) (1.8 |) (4.4 |) (0.6 |
| Comprehensive income (loss) | \$116.4 | \$(16.5 |) \$286.9 | \$329.4 |

*Net of income taxes.

See accompanying Notes to Condensed Consolidated Financial Statements.

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BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| (in millions) | Nine Months Ended | |
|--------------------------------------------------------------------------|-------------------|----------|
| | September 30, | |
| | 2015 | 2014 |
| OPERATING | | |
| Net earnings | \$511.0 | \$540.1 |
| Adjustments to reconcile net earnings to net cash flows from operations: | | |
| Non-cash charges (credits) to operations: | | |
| Depreciation and tooling amortization | 223.3 | 226.3 |
| Amortization of intangible assets and other | 13.0 | 20.7 |
| Restructuring expense, net of cash paid | 19.9 | 44.2 |
| Gain on previously held equity interest | (10.8 |) — |
| Stock-based compensation expense | 30.5 | 24.1 |
| Deferred income tax provision | 26.8 | 44.8 |
| Equity in affiliates' earnings, net of dividends received, and other | (8.8 |) (10.3 |
| Net earnings adjusted for non-cash charges to operations | 804.9 | 889.9 |
| Changes in assets and liabilities: | | |
| Receivables | (169.5 |) (225.7 |
| Inventories | (44.7 |) (50.8 |
| Prepayments and other current assets | (10.3 |) (30.5 |
| Accounts payable and accrued expenses | (53.3 |) 74.4 |
| Income taxes payable | 13.9 | (30.6 |
| Other non-current assets and liabilities | (70.8 |) (80.5 |
| Net cash provided by operating activities | 470.2 | 546.2 |
| INVESTING | | |
| Capital expenditures, including tooling outlays | (418.8 |) (397.9 |
| Payments for businesses acquired, net of cash acquired | (12.6 |) (106.4 |
| Proceeds from asset disposals and other | 3.4 | 3.2 |
| Net cash used in investing activities | (428.0 |) (501.1 |
| FINANCING | | |
| Net (decrease) increase in notes payable | (531.0 |) 369.9 |
| Additions to long-term debt, net of debt issuance costs | 1,027.5 | 107.8 |
| Repayments of long-term debt, including current portion | (22.4 |) (422.7 |
| Payments for purchase of treasury stock | (130.3 |) (90.0 |
| Proceeds from stock options exercised, including the tax benefit | 15.1 | 16.2 |
| Taxes paid on employees' restricted stock award vestings | (13.1 |) (23.5 |
| Dividends paid to BorgWarner stockholders | (87.9 |) (86.8 |
| Dividends paid to noncontrolling stockholders | (18.4 |) (20.4 |
| Net cash provided by (used in) financing activities | 239.5 | (149.5 |
| Effect of exchange rate changes on cash | (46.2 |) (52.3 |
| Net increase (decrease) in cash | 235.5 | (156.7 |
| Cash at beginning of year | 797.8 | 939.5 |
| Cash at end of period | | |