

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2024

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 001-41708

PHINIA INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

3000 University Drive, Auburn Hills, Michigan

(Address of Principal Executive Offices)

92-2483604

(I.R.S. Employer Identification No.)

48326

(Zip Code)

Registrant's telephone number, including area code (248) 732-1900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	PHIN	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 July 26, 2024, the registrant had 43,677,801 shares of voting common stock outstanding.

PHINIA INC.
FORM 10-Q
THREE AND SIX MONTHS ENDED JUNE 30, 2024

INDEX

	<u>Page No.</u>
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2024 and December 31, 2023 (Unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2024 and 2023 (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2024 and 2023 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2024 and 2023 (Unaudited)</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
<u>Item 4. Controls and Procedures</u>	<u>35</u>
<u>PART II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>36</u>
<u>Item 1A. Risk Factors</u>	<u>36</u>
<u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	<u>36</u>
<u>Item 5. Other Information</u>	<u>36</u>
<u>Item 6. Exhibits</u>	<u>38</u>
<u>SIGNATURES</u>	<u>39</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PHINIA INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions)	June 30, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents	\$ 339	\$ 365
Receivables, net	964	1,017
Inventories	471	487
Prepayments and other current assets	84	58
Total current assets	1,858	1,927
Property, plant and equipment, net	870	921
Investments and long-term receivables	123	115
Goodwill	483	499
Other intangible assets, net	393	417
Other non-current assets	146	162
Total assets	\$ 3,873	\$ 4,041
LIABILITIES AND EQUITY		
Short-term borrowings and current portion of long-term debt	\$ 13	\$ 89
Accounts payable	572	639
Other current liabilities	420	420
Total current liabilities	1,005	1,148
Long-term debt	821	709
Retirement-related liabilities	132	132
Other non-current liabilities	168	165
Total liabilities	2,126	2,154
Commitments and contingencies (Note 15)		
Common stock	1	1
Additional paid-in capital	2,019	2,031
Retained earnings	29	9
Accumulated other comprehensive loss	(172)	(131)
Treasury stock	(130)	(23)
Total equity	1,747	1,887
Total liabilities and equity	\$ 3,873	\$ 4,041

See accompanying Notes to Condensed Consolidated Financial Statements.

PHINIA INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net sales	\$ 868	\$ 887	\$ 1,731	\$ 1,722
Cost of sales	680	698	1,351	1,361
Gross profit	188	189	380	361
Selling, general and administrative expenses	112	103	216	202
Other operating expense, net	5	30	22	45
Operating income	71	56	142	114
Equity in affiliates' earnings, net of tax	(2)	(3)	(5)	(6)
Interest expense	39	6	61	12
Interest income	(4)	(2)	(8)	(5)
Other postretirement expense (income), net	1	(1)	1	(1)
Earnings before income taxes	37	56	93	114
Provision for income taxes	23	21	50	44
Net earnings	\$ 14	\$ 35	\$ 43	\$ 70
Earnings per share — basic	\$ 0.31	\$ 0.74	\$ 0.95	\$ 1.49
Earnings per share— diluted	\$ 0.31	\$ 0.74	\$ 0.93	\$ 1.49
Weighted average shares outstanding:				
Basic	44.8	47.0	45.5	47.0
Diluted	45.7	47.0	46.1	47.0

See accompanying Notes to Condensed Consolidated Financial Statements.

PHINIA INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net earnings	\$ 14	\$ 35	\$ 43	\$ 70
Other comprehensive (loss) income				
Foreign currency translation adjustments ⁽¹⁾	(18)	10	(39)	30
Defined benefit pension plans ⁽¹⁾	(1)	—	(2)	(1)
Hedge instruments ⁽¹⁾	—	(4)	—	(2)
Total other comprehensive (loss) income	(19)	6	(41)	27
Comprehensive (loss) income	<u>\$ (5)</u>	<u>\$ 41</u>	<u>\$ 2</u>	<u>\$ 97</u>

⁽¹⁾ Net of income taxes.

See accompanying Notes to Condensed Consolidated Financial Statements.

PHINIA INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Six Months Ended June 30,	
	2024	2023
OPERATING		
Net earnings	\$ 43	\$ 70
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and tooling amortization	67	70
Intangible asset amortization	14	14
Restructuring expense, net of cash paid	5	2
Loss on extinguishment of debt	20	—
Stock-based compensation expense	8	4
Deferred income tax expense	7	8
Other non-cash adjustments, net	(2)	4
Changes in assets and liabilities, excluding foreign currency translation adjustments:		
Receivables	19	(64)
Inventories	4	(52)
Prepayments and other current assets	(11)	(10)
Accounts payable and other current liabilities	(23)	(16)
Prepaid taxes and income taxes payable	6	29
Other assets and liabilities	(16)	(26)
Retirement benefit plan contributions	(1)	—
Net cash provided by operating activities	140	33
INVESTING		
Capital expenditures, including tooling outlays	(60)	(80)
Payments for investment in equity securities	—	(2)
Proceeds from asset disposals and other, net	1	2
Net cash used in investing activities	(59)	(80)
FINANCING		
Net decrease in notes payable	(75)	—
Proceeds from issuance of long-term debt	525	—
Payments for debt issuance costs	(9)	—
Repayments of debt, including current portion	(428)	—
Dividends paid to PHINIA stockholders	(23)	—
Payments for purchase of treasury stock	(113)	—
Payments for stock-based compensation items	(3)	—
Cash outflows related to debt due to former parent	—	(94)
Cash inflows related to debt due from former parent	—	36
Net transfers to former parent	—	58
Net cash used in financing activities	(126)	—
Effect of exchange rate changes on cash	19	9
Net decrease in cash and cash equivalents	(26)	(38)
Cash and cash equivalents at beginning of year	365	251
Cash and cash equivalents at end of period	\$ 339	\$ 213
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest, net	\$ 17	\$ (1)
Income taxes, net of refunds	\$ 27	\$ 18

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

INTRODUCTION

The accompanying Condensed Consolidated Financial Statements and notes present the condensed consolidated statements of operations, balance sheets, and cash flows of PHINIA Inc. (PHINIA or the Company). PHINIA is a leader in the development, design and manufacture of integrated components and systems that are designed to optimize performance, increase efficiency and reduce emissions for combustion and hybrid propulsion systems for commercial vehicles and industrial applications (medium-duty and heavy-duty trucks, off-highway construction, marine, aviation, and agricultural) and light vehicles (passenger cars, trucks, vans and sport-utility). The Company is a global supplier to most major original equipment manufacturers (OEMs) seeking to meet evolving and increasingly stringent global regulatory requirements and satisfy consumer demands for an enhanced user experience. Additionally, the Company offers a wide range of original equipment service (OES) solutions and remanufactured products as well as an expanded range of products for the independent (non-OEM) aftermarket.

Transition to Standalone Company

On December 6, 2022, BorgWarner Inc., a manufacturer and supplier of automotive industry components and parts (BorgWarner, or Former Parent) announced plans for the complete legal and structural separation of its Fuel Systems and Aftermarket businesses by the spin-off of its wholly-owned subsidiary, PHINIA, which was formed on February 9, 2023 (the Spin-Off).

On July 3, 2023, BorgWarner completed the Spin-Off 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 the outstanding common stock of PHINIA to holders of record of common stock of BorgWarner on a pro rata basis. Each holder of record of BorgWarner common stock received one share of PHINIA common stock for every five shares of BorgWarner common stock held on June 23, 2023, the record date. In lieu of fractional shares of PHINIA, BorgWarner stockholders received cash. As a result of these transactions, all of the assets, liabilities, and legal entities comprising BorgWarner's Fuel Systems and Aftermarket businesses are now owned directly, or indirectly through its subsidiaries, by PHINIA. PHINIA is an independent public company trading under the symbol "PHIN" on the New York Stock Exchange.

NOTE 1 BASIS OF PRESENTATION

Prior to the Spin-Off on July 3, 2023, the historical financial statements of PHINIA were prepared on a standalone combined basis and were derived from BorgWarner's consolidated financial statements and accounting records as if the Fuel Systems and Aftermarket businesses of BorgWarner had been part of PHINIA for all periods presented. Accordingly, for periods prior to July 3, 2023, our financial statements are presented on a combined basis and for the periods subsequent to July 3, 2023 are presented on a consolidated basis (all periods hereinafter are referred to as "consolidated financial statements"). The Company's Condensed Consolidated Financial Statements were prepared in accordance with accounting principles in the United States of America (U.S. GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Certain information and footnote disclosures normally included in annual financial statements were condensed or omitted as permitted by such rules and regulations. In the opinion of management, all normal recurring adjustments necessary for a fair statement of results have been included. Operating results for the three and six months ended June 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. The balance sheet as of December 31, 2023 was derived from the audited financial statements as of that date. Certain amounts for the prior periods presented were reclassified to conform to the current period presentation. The Company has also corrected for certain immaterial errors that impacted balance sheet footnote disclosures as of December 31, 2023.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and

accompanying notes, as well as amounts of revenues and expenses reported during the periods covered by those financial statements and accompanying notes. The Condensed Consolidated Financial Statements may not be indicative of the Company's future performance and do not necessarily reflect what the financial position, results of operations, and cash flows would have been had it operated as a standalone company during the periods presented prior to the Spin-Off.

The Condensed Consolidated Statements of Operations include all revenues and costs directly attributable to the Company, including costs for facilities, functions, and services utilized. Costs for certain centralized functions and programs provided and administered by BorgWarner were charged directly to the Company prior to Spin-Off. These centralized functions and programs included, but were not limited to, research and development and information technology.

A portion of BorgWarner's total corporate expenses were allocated to the Company for services rendered by BorgWarner prior to the Spin-Off. These expenses included the cost of corporate functions and resources, including, but not limited to, executive management, finance, accounting, legal, human resources, research and development and sales. Additionally, a portion of the Company's corporate expenses were allocated to BorgWarner for charges incurred related to subsidiaries of BorgWarner historically supported by the Company, primarily related to information technology. These expenses were allocated based on direct usage when identifiable or, when not directly identifiable, on the basis of proportional net revenues, legal entities, headcount or weighted-square footage, as applicable. The Company considers the basis on which the expenses have been allocated to reasonably reflect the utilization of services provided to, or the benefit received by, both the Company and BorgWarner during the periods presented. However, the allocations may not reflect the expenses the Company would have incurred if the Company had been a standalone company for the periods presented prior to July 3, 2023. For the three and six months ended June 30, 2023, net corporate allocation expenses totaled \$54 million and \$89 million, respectively. Corporate allocation expenses were primarily included in Selling, general and administrative expenses.

New Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." It requires incremental disclosures related to an entity's reportable segments, primarily through enhanced disclosures about significant segment expenses. This guidance is effective for annual reporting periods beginning after December 15, 2023, and interim reporting periods beginning after December 15, 2024. The Company is currently evaluating the impact of this ASU on its financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This guidance requires entities to disaggregate information related to the effective tax rate reconciliation and income taxes paid. This guidance is effective for annual reporting periods beginning after December 15, 2024. The Company is currently evaluating the impact of this ASU on its financial statements.

NOTE 2 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company manufactures and sells products and solutions, primarily to OEMs of commercial vehicle, industrial applications and light vehicles, to certain Tier One vehicle systems suppliers and into the aftermarket. The Company's payment terms are based on customary business practices and vary by customer type and products offered. The Company has evaluated the terms of its arrangements and determined that they do not contain significant financing components.

Generally, revenue is recognized upon shipment or delivery; however, a limited number of the Company's customer arrangements for its highly customized products with no alternative use provide the Company with the right to payment during the production process. As a result, for these limited arrangements, revenue is recognized as goods are produced and control transfers to the customer using the input cost-

to-cost method. The Company recorded a contract asset of \$1 million at June 30, 2024 and December 31, 2023 for these arrangements. These amounts are reflected in Prepayments and other current assets in the Company's Condensed Consolidated Balance Sheets.

In limited instances, certain customers have provided payments in advance of receiving related products, typically at the onset of an arrangement prior to the beginning of production. As of June 30, 2024, the balance of contract liabilities was \$7 million, of which \$1 million was reflected in Other current liabilities and \$6 million was reflected in Other non-current liabilities. As of December 31, 2023, the balance of contract liabilities was \$7 million, of which \$6 million was reflected in Other current liabilities and \$1 million was reflected as Other non-current liabilities. These amounts are reflected as revenue over the term of the arrangement (typically three to seven years) as the underlying products are shipped and represent the Company's remaining performance obligations as of the end of the period.

The following table represents a disaggregation of revenue from contracts with customers by reportable segment and region for the three and six months ended June 30, 2024 and 2023. Refer to Note 18, "Reportable Segments And Related Information" to the Condensed Consolidated Financial Statements, for more information.

		Three Months Ended June 30, 2024		
		Fuel Systems	Aftermarket	Total
(In millions)				
Americas		\$ 177	\$ 192	\$ 369
Europe		227	137	364
Asia		114	21	135
Total		\$ 518	\$ 350	\$ 868
		Three Months Ended June 30, 2023		
		Fuel Systems	Aftermarket	Total
(In millions)				
Americas		\$ 171	\$ 200	\$ 371
Europe		256	116	372
Asia		124	20	144
Total		\$ 551	\$ 336	\$ 887
		Six Months Ended June 30, 2024		
		Fuel Systems	Aftermarket	Total
(In millions)				
Americas		\$ 364	\$ 384	\$ 748
Europe		454	262	716
Asia		227	40	267
Total		\$ 1,045	\$ 686	\$ 1,731
		Six Months Ended June 30, 2023		
		Fuel Systems	Aftermarket	Total
(In millions)				
Americas		\$ 338	\$ 398	\$ 736
Europe		479	228	707
Asia		243	36	279
Total		\$ 1,060	\$ 662	\$ 1,722

NOTE 3 RESEARCH AND DEVELOPMENT COSTS

The Company's net Research & Development (R&D) expenditures are primarily included in Selling, general and administrative expenses of the Condensed Consolidated Statements of Operations. Customer reimbursements are netted against gross R&D expenditures as they are considered a recovery of cost. Customer reimbursements for prototypes are recorded net of prototype costs based on customer contracts, typically either when the prototype is shipped or when it is accepted by the customer. Customer reimbursements for engineering services are recorded when performance obligations are satisfied in accordance with the contract. Financial risks and rewards transfer upon shipment, acceptance of a prototype component by the customer or upon completion of the performance obligation as stated in the respective customer agreement. The Company has various customer arrangements relating to R&D activities that it performs at its various R&D locations.

The following table presents the Company's gross and net expenditures on R&D activities:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Gross R&D expenditures	\$ 52	\$ 49	\$ 104	\$ 98
Customer reimbursements	(22)	(21)	(47)	(41)
Net R&D expenditures	\$ 30	\$ 28	\$ 57	\$ 57

NOTE 4 OTHER OPERATING EXPENSE, NET

Items included in Other operating expense, net consist of:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Separation and transaction costs	\$ 3	\$ 41	\$ 20	\$ 59
Restructuring	3	2	5	6
Royalty income from Former Parent	—	(12)	—	(17)
R&D income from Former Parent	—	(1)	—	(2)
Other operating income, net	(1)	—	(3)	(1)
Other operating expense, net	\$ 5	\$ 30	\$ 22	\$ 45

Separation and transaction costs: During the three and six months ended June 30, 2024, the Company recorded separation and transaction costs of \$3 million and \$20 million, respectively. Separation and transaction costs primarily relate to professional fees and other costs associated with the separation of the Company, including the management of certain historical liabilities allocated to the Company in connection with the Spin-Off. During the three and six months ended June 30, 2023, the Company recorded separation and transaction costs of \$41 million and \$59 million, respectively, primarily related to professional fees and other costs associated with the separation of the Company.

Restructuring: During the three and six months ended June 30, 2024, the Company recorded \$3 million and \$5 million, respectively, of restructuring costs for individually approved restructuring actions that primarily related to reductions in headcount in the Fuel Systems segment. During the three and six months ended June 30, 2023, the Company recorded \$2 million and \$6 million, respectively, of restructuring costs for individually approved restructuring actions that primarily related to reductions in headcount in the Fuel Systems segment.

Royalty income from Former Parent: The Company participated in royalty arrangements with BorgWarner businesses prior to the Spin-Off, which involved the licensing of the Delphi Technologies trade name and product-related intellectual properties.

R&D income from Former Parent: The Company provided application testing and other R&D services for other BorgWarner businesses prior to the Spin-Off.

NOTE 5 INCOME TAXES

The Company's provision for income taxes is based upon an estimated annual effective tax rate for the year applied to domestic and foreign income. On a quarterly basis, the annual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

The Company's effective tax rate for the three months ended June 30, 2024 and 2023 was 62% and 38%, respectively. The effective tax rate for the three months ended June 30, 2024 increased as compared to the prior year as a result of a change and reduction in the jurisdictional mix of pre-tax earnings, most notably an increase in pre-tax losses where no benefit is recognized.

The Company's effective tax rate for the six months ended June 30, 2024 and 2023 was 54% and 39%, respectively. The effective tax rate for the six months ended June 30, 2024 increased as compared to the prior year as a result of a change and reduction in the jurisdictional mix of pre-tax earnings, most notably an increase in pre-tax losses where no benefit is recognized.

The annual effective tax rates differ from the U.S. statutory rate primarily due to foreign rates which vary from those in the U.S., jurisdictions with pretax losses for which no tax benefit could be realized, U.S. taxes on foreign earnings, and permanent differences between book and tax treatment for certain items including enhanced deduction of research and development expenses in certain jurisdictions.

For periods ended on or prior to July 3, 2023, the Company's operations have been included in Former Parent's U.S. federal consolidated tax return, certain foreign tax returns, and certain state tax returns. For the purposes of these financial statements, the Company's income tax provision was computed as if the Company filed separate tax returns (i.e., as if the Company had not been included in the consolidated income tax return group with the Former Parent). The separate return method applies ASC 740 to the Condensed Consolidated Financial Statements of each member of a consolidated tax group as if the group member were a separate taxpayer. As a result, actual tax transactions included in the consolidated financial statements of the Former Parent may not be included in these Condensed Consolidated Financial Statements. Further, the Company's tax results as presented in the Condensed Consolidated Financial Statements may not be reflective of the results that the Company expects to generate in the future. Also, the tax treatment of certain items reflected in the Condensed Consolidated Financial Statements may not be reflected in the Consolidated Financial Statements and tax returns of the Former Parent. Items such as net operating losses, other deferred taxes, income taxes payable, liabilities for uncertain tax positions and valuation allowances may exist in the Consolidated Financial Statements that may or may not exist in the Former Parent's Consolidated Financial Statements.

For periods subsequent to July 3, 2023, these items are reported based on tax filings and tax attributes of the Company's legal entities. Indemnification assets and liabilities have been reported for amounts payable to or recoverable from the Former Parent under the Tax Matters Agreement for taxes associated with the period prior to the Spin-Off. The Tax Matters Agreement generally governs the Company's and the Former Parent's respective rights, responsibilities and obligations after the distribution with respect to taxes for any tax period ending on or before the distribution date, as well as tax periods beginning before and ending after the distribution date. Generally, the Former Parent is liable for all pre-distribution U.S. income taxes, foreign income taxes, certain non-income taxes attributable to the company's business, and liabilities for taxes that were incurred as a result of restructuring activities undertaken to effectuate the separation. The Company is generally liable for all other taxes attributable to its business.

The Organization for Economic Co-operation and Development (OECD) has a framework to implement a global minimum corporate tax of 15% for companies with global revenues and profits above certain thresholds (referred to as Pillar Two), with certain aspects of Pillar Two effective January 1, 2024 and other aspects effective January 1, 2025. While it is uncertain whether the U.S. will enact legislation to

adopt Pillar Two, certain countries in which the Company operates have adopted legislation, and other countries are in the process of introducing legislation to implement Pillar Two. The Company does not expect Pillar Two to have a material impact on its effective tax rate or its consolidated results of operation, financial position or cash flows.

NOTE 6 INVENTORIES

A summary of Inventories is presented below:

(in millions)	June 30, 2024	December 31, 2023
Raw material and supplies	\$ 256	\$ 286
Work-in-progress	47	46
Finished goods	168	155
Inventories	<u>\$ 471</u>	<u>\$ 487</u>

NOTE 7 OTHER CURRENT AND NON-CURRENT ASSETS

(in millions)	June 30, 2024	December 31, 2023
Prepayments and other current assets:		
Prepaid taxes	\$ 42	\$ 26
Prepaid software	9	5
Prepaid engineering	9	3
Customer return assets	7	8
Prepaid customer tooling	5	3
Deposits	2	3
Prepaid insurance	2	3
Other	8	7
Total prepayments and other current assets	<u>\$ 84</u>	<u>\$ 58</u>
Investments and long-term receivables:		
Investment in equity affiliates	\$ 52	\$ 48
Long-term receivables	50	46
Due from Former Parent	17	17
Investment in equity securities	4	4
Total investments and long-term receivables	<u>\$ 123</u>	<u>\$ 115</u>
Other non-current assets:		
Operating leases	\$ 57	\$ 63
Deferred income taxes	56	61
Customer incentive payments	10	10
Other	23	28
Total other non-current assets	<u>\$ 146</u>	<u>\$ 162</u>

NOTE 8 GOODWILL AND OTHER INTANGIBLES

During the fourth quarter of each year, the Company assesses its goodwill and indefinite-lived intangibles assigned to each of its reporting units for impairment by either performing a qualitative assessment or a quantitative analysis. No events or circumstances were noted in the first six months of 2024 requiring additional assessment or testing.

A summary of the components in the carrying amount of goodwill as of June 30, 2024 and December 31, 2023 is as follows:

(in millions)	Fuel Systems	Aftermarket	Total
Gross goodwill balance, December 31, 2023	\$ 61	\$ 551	\$ 612
Accumulated impairment losses	—	(113)	(113)
Net goodwill balance, December 31, 2023	\$ 61	\$ 438	\$ 499
Goodwill during the period:			
Translation adjustment	(2)	(14)	(16)
Net goodwill balance, June 30, 2024	\$ 59	\$ 424	\$ 483

The Company's other intangible assets, primarily from acquisitions, consist of the following:

		June 30, 2024			December 31, 2023		
(in millions.)	Estimated useful lives (years)	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:							
Patented and unpatented technology	14 - 15	\$ 145	\$ 46	\$ 99	\$ 149	\$ 41	\$ 108
Customer relationships	14 - 15	262	110	152	268	104	164
Total amortized intangible assets		407	156	251	417	145	272
Unamortized trade names		142	—	142	145	—	145
Total other intangible assets		\$ 549	\$ 156	\$ 393	\$ 562	\$ 145	\$ 417

NOTE 9 PRODUCT WARRANTY

The Company provides warranties on some, but not all, of its products. The warranty terms are typically from one to three years. Provisions for estimated expenses related to product warranty are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and industry developments and recoveries from third parties. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty claims. Costs of product recalls, which may include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the recalled part, are accrued as part of the Company's warranty accrual at the time an obligation becomes probable and can be reasonably estimated. Management believes that the warranty accrual is appropriate; however, in certain cases, initial customer claims exceed the amount accrued. Facts may become known related to these claims that may result in additional losses that could be material to the Company's results of operations or cash flows. The Company's warranty provisions are primarily included in Cost of sales in the Condensed Consolidated Statements of Operations. The product warranty accrual is allocated to current and non-current liabilities in the Condensed Consolidated Balance Sheets.

The following table summarizes the activity in the product warranty accrual accounts:

(in millions)	2024	2023
Beginning balance, January 1	\$ 56	\$ 60
Provisions for current period sales	18	20
Payments	(20)	(23)
Other, primarily translation adjustment	(1)	(1)
Ending balance, June 30,	<u>\$ 53</u>	<u>\$ 56</u>

The product warranty liability is classified in the Condensed Consolidated Balance Sheets as follows:

(in millions)	June 30, 2024	December 31, 2023
Other current liabilities	\$ 30	\$ 30
Other non-current liabilities	23	26
Total product warranty liability	<u>\$ 53</u>	<u>\$ 56</u>

NOTE 10 NOTES PAYABLE AND DEBT

As of June 30, 2024 and December 31, 2023, the Company had debt outstanding as follows:

(in millions)	June 30, 2024	December 31, 2023
Short-term debt		
Short-term borrowings	\$ —	\$ 75
Long-term debt		
5.000% Senior Notes due 10/01/25 (\$24 million par value)	\$ 24	\$ 25
6.750% Senior Secured Notes due 04/15/29 (\$525 million par value)	517	—
Term Loan A Facility (\$294 million and \$298 million par value, respectively)	292	295
Term Loan B Facility (\$424 million par value)	—	403
Finance leases	1	—
Total long-term debt	\$ 834	\$ 723
Less: current portion	13	14
Long-term debt, net of current portion	<u>\$ 821</u>	<u>\$ 709</u>

As of June 30, 2024, the estimated fair values of the Company's long-term debt totaled \$853 million, which is \$20 million higher than carrying value for the same period. As of December 31, 2023, the estimated fair value of the Company's long-term debt totaled \$758 million, which is \$35 million higher than carrying value for the same period. Fair market values of the long-term debt are developed using observable values for similar debt instruments, which are considered Level 2 inputs as defined by ASC Topic 820. The carrying values of the Company's other debt facilities approximate fair value. The fair value estimates do not necessarily reflect the values the Company could realize in the current markets.

Credit Agreement

On July 3, 2023, the Company entered into a \$1.225 billion Credit Agreement (the Credit Agreement) consisting of a \$500 million revolving credit facility (the Revolving Facility), a \$300 million Term Loan A Facility (the Term Loan A Facility) and a \$425 million Term Loan B Facility (the Term Loan B Facility; together with the Revolving Facility and the Term Loan A Facility, collectively, the Facilities) in connection with the Spin-Off that occurred on the same date. As of June 30, 2024, the Company had no outstanding

borrowings under the Revolving Facility, and availability of \$499 million. The Term Loan B Facility was fully repaid in connection with the issuance of the 6.75% Senior Secured Notes due 2029 on April 4, 2024, as discussed below. The Company was in compliance with all covenants as of June 30, 2024.

On April 4, 2024, the Company, as borrower, and certain subsidiaries of the Company, each acting as guarantors, entered into Amendment No. 1 to the Credit Agreement (the Credit Agreement Amendment). The Credit Agreement Amendment, among other things, modifies certain covenants in the Credit Agreement to be more favorable to the Company, and increases the total net leverage ratio required to be satisfied under the Company's financial covenant from 3.00:1.00 to 3.25:1.00 (subject to a step-up to 3.75:1.00 in connection with a qualifying acquisition for the fiscal quarter when such qualifying acquisition is consummated and the following three fiscal quarters).

Senior Secured Notes due 2029

On April 4, 2024, the Company issued \$525 million aggregate principal amount of 6.75% Senior Secured Notes due 2029 (the "2029 Notes") pursuant to an indenture among the Company, as issuer, certain subsidiaries of the Company named as guarantors, and U.S. Bank Trust Company, National Association, as trustee and collateral agent. The 2029 Notes were sold to investors at 100% plus accrued interest, if any, from April 4, 2024 in a private transaction exempt from the registration requirements of the Securities Act of 1933, as amended. The net proceeds of the offering of the 2029 Notes were used to repay all of the Company's outstanding borrowings and accrued interest under the Term Loan B Facility and the Revolving Facility and to pay fees and expenses in connection with the offering. During the second quarter of 2024, the Company recorded a non-cash pre-tax loss on extinguishment of \$20 million related to the difference between the repayment amount and net carrying amount of the Term Loan B Facility, which is included in the Interest expense line item on the Condensed Consolidated Statements of Operations.

The 2029 Notes bear interest at a rate of 6.75% per annum. Interest on the 2029 Notes is payable semiannually on April 15 and October 15 of each year, commencing on October 15, 2024. The 2029 Notes will mature on April 15, 2029.

The 2029 Notes are senior secured obligations of the Company and are jointly and severally, fully and unconditionally, guaranteed on a senior secured basis by each of the Company's existing and future direct and indirect domestic subsidiaries that incurs or guarantees indebtedness under the Facilities. The 2029 Notes and the guarantees are secured by a first-priority security interest in substantially all of the Company's and the guarantors' assets, subject to certain excluded assets, exceptions and permitted liens, which security interest ranks equally with the first-priority security interest securing the Facilities.

Senior Notes due 2025

In 2020, the Former Parent completed its acquisition of Delphi Technologies PLC (Delphi Technologies). In connection therewith, the Former Parent completed its offer to exchange Delphi Technologies' outstanding 5.0% Senior Notes due 2025 (the 2025 Notes). Approximately 97% of the \$800 million total outstanding principal amount of the 2025 Notes, were validly exchanged and cancelled for new BorgWarner notes. In connection with the Spin-Off, the obligations under the remaining \$24 million in aggregate principal amount of the 2025 Notes were assumed by the Company.

NOTE 11 OTHER CURRENT AND NON-CURRENT LIABILITIES

Additional detail related to liabilities is presented in the table below:

(in millions)	June 30, 2024	December 31, 2023
Other current liabilities:		
Customer related	\$ 108	\$ 109
Payroll and employee related	87	92
Income taxes payable	61	39
Product warranties (Note 9)	30	30
Accrued freight	20	21
Operating leases	17	17
Supplier related	13	14
Accrued interest	9	1
Employee termination benefits	5	9
Other non-income taxes	4	8
Legal and professional fees	3	6
Other	63	74
Total other current liabilities	<u>\$ 420</u>	<u>\$ 420</u>
Other non-current liabilities:		
Deferred income taxes	\$ 63	\$ 56
Operating leases	43	49
Product warranties (Note 9)	23	26
Uncertain tax positions	14	15
Deferred income	11	7
Other	14	12
Total other non-current liabilities	<u>\$ 168</u>	<u>\$ 165</u>

NOTE 12 RETIREMENT BENEFIT PLANS

PHINIA sponsors various defined contribution savings plans, primarily in the U.S., that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. The Company also has a number of defined benefit pension plans, and in connection with the completion of the Spin-Off was required to assume additional defined benefit plan liabilities, along with the associated deferred costs in Accumulated other comprehensive income (loss). Under specified conditions, the Company will make contributions to the plans and/or match a percentage of the employee contributions up to certain limits. The estimated contributions to the defined benefit pension plans for 2024 range from \$4 million to \$8 million, of which \$1 million has been contributed through the first six months of the year.

The components of net periodic benefit income recorded in the Condensed Consolidated Statements of Operations are as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Service cost	\$ 1	\$ 1	\$ 2	\$ 1
Interest cost	12	11	23	21
Expected return on plan assets	(11)	(11)	(21)	(21)
Amortization of unrecognized loss	—	(1)	(1)	(1)
Net periodic benefit cost	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ —</u>

The non-service cost components of net periodic benefit cost are included in Other postretirement expense (income), net in the Condensed Consolidated Statements of Operations.

NOTE 13 STOCKHOLDERS' EQUITY

The changes of the Stockholders' Equity items during the three and six months ended June 30, 2024 and 2023, are as follows:

(in millions)	Issued common stock	Additional paid-in-capital	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total equity
Balance, March 31, 2024	\$ 1	\$ 2,018	\$ (42)	\$ 26	(153)	\$ 1,850
Dividends declared (0.25 per share)	—	—	—	(11)	—	(11)
Spin-Off related adjustments	—	(1)	—	—	—	(1)
Share-based compensation expense	—	4	—	—	—	4
Purchase of treasury stock	—	—	(90)	—	—	(90)
Net issuance of executive stock plan	—	(2)	2	—	—	—
Net earnings	—	—	—	14	—	14
Other comprehensive loss	—	—	—	—	(19)	(19)
Balance, June 30, 2024	<u>\$ 1</u>	<u>\$ 2,019</u>	<u>\$ (130)</u>	<u>\$ 29</u>	<u>\$ (172)</u>	<u>\$ 1,747</u>

(in millions)	Former Parent investment	Accumulated other comprehensive income (loss)	Total equity
Balance, March 31, 2023	\$ 1,859	\$ (67)	\$ 1,792
Net earnings	35	—	35
Other comprehensive income	—	6	6
Net transfers from Former Parent	159	—	159
Balance, June 30, 2023	<u>\$ 2,053</u>	<u>\$ (61)</u>	<u>\$ 1,992</u>

(in millions)	Issued common stock	Additional paid-in-capital	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total equity
Balance, December 31, 2023	\$ 1	\$ 2,031	\$ (23)	\$ 9	\$ (131)	\$ 1,887
Dividends declared (0.50 per share)	\$ —	\$ —	\$ —	\$ (23)	\$ —	\$ (23)
Spin-Off related adjustments	—	(11)	—	—	—	(11)
Share-based compensation expense	—	8	—	—	—	8
Purchase of treasury stock	—	—	(113)	—	—	(113)
Net issuance of executive stock plan	—	(9)	6	—	—	(3)
Net earnings	—	—	—	43	—	43
Other comprehensive loss	—	—	—	—	(41)	(41)
Balance, June 30, 2024	<u>\$ 1</u>	<u>\$ 2,019</u>	<u>\$ (130)</u>	<u>\$ 29</u>	<u>\$ (172)</u>	<u>\$ 1,747</u>

(in millions)	Former parent investment	Accumulated other comprehensive income (loss)	Total equity
Balance, December 31, 2022	\$ 1,731	\$ (88)	\$ 1,643
Net earnings	70	—	70
Other comprehensive income	—	27	27
Net transfers from former parent	252	—	252
Balance, June 30, 2023	<u>\$ 2,053</u>	<u>\$ (61)</u>	<u>\$ 1,992</u>

NOTE 14 ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables summarize the activity within accumulated other comprehensive loss during the three and six months ended June 30, 2024 and 2023:

(in millions)	Foreign currency translation adjustments	Defined benefit pension plans	Hedge instruments	Total
Beginning balance, March 31, 2024	\$ (119)	\$ (34)	\$ —	\$ (153)
Comprehensive loss before reclassifications	(18)	(1)	—	(19)
Ending Balance, June 30, 2024	<u>\$ (137)</u>	<u>\$ (35)</u>	<u>\$ —</u>	<u>\$ (172)</u>

(in millions)	Foreign currency translation adjustments	Defined benefit pension plans	Hedge instruments	Total
Beginning balance, March 31, 2023	\$ (65)	\$ (7)	\$ 5	\$ (67)
Comprehensive income (loss)	10	—	(4)	6
Ending Balance, June 30, 2023	<u>\$ (55)</u>	<u>\$ (7)</u>	<u>\$ 1</u>	<u>\$ (61)</u>

(in millions)	Foreign currency translation adjustments	Defined benefit pension plans	Hedge instruments	Total
Beginning Balance, December 31, 2023	\$ (98)	\$ (33)	\$ —	\$ (131)
Comprehensive loss	(39)	(3)	—	(42)
Reclassification from accumulated other comprehensive loss	—	1	—	1
Ending Balance, June 30, 2024	<u>\$ (137)</u>	<u>\$ (35)</u>	<u>\$ —</u>	<u>\$ (172)</u>

(in millions)	Foreign currency translation adjustments	Defined benefit pension plans	Hedge instruments	Total
Beginning Balance, December 31, 2022	\$ (85)	\$ (6)	\$ 3	\$ (88)
Comprehensive income (loss)	30	(1)	(2)	27
Ending Balance, June 30, 2023	<u>\$ (55)</u>	<u>\$ (7)</u>	<u>\$ 1</u>	<u>\$ (61)</u>

NOTE 15 CONTINGENCIES

In the normal course of business, the Company is party to various commercial and legal claims, actions and complaints, including matters involving warranty claims, intellectual property claims, governmental investigations and related proceedings, including relating to alleged or actual violations of vehicle emissions standards, general liability and various other risks. It is not possible to predict with certainty whether or not the Company will ultimately be successful in any of these commercial and legal matters or, if not, what the impact might be. The Company's management does not expect that an adverse outcome in any of these commercial and legal claims, actions and complaints that are currently pending will have a material adverse effect on the Company's results of operations, financial position or cash flows. An adverse outcome could, nonetheless, be material to the results of operations, financial position or cash flows.

BorgWarner Dispute

In July 2024, the Former Parent made a legal demand under the Tax Matters Agreement that the Company remit to the Former Parent monies received, or to be received, by the Company from tax authorities that relate to certain indirect tax payments made prior to the Spin-Off arising from the Company's business. The Company is contesting this demand. Nevertheless, an adverse outcome is reasonably possible, but not probable, and this matter could have a material effect on the Company's financial position or cash flows. Due to the uncertainty inherent in this matter, an estimate of the loss is not currently determinable.

NOTE 16 RELATED-PARTY TRANSACTIONS

Pursuant to the Spin-Off, the Former Parent ceased to be a related party to PHINIA and accordingly, no related party transactions or balances have been reported subsequent to July 3, 2023. In connection with the Spin-Off, we entered into a number of agreements with the Former Parent to govern the Spin-Off and provide a framework for the relationship between the parties going forward, including a Transition Services Agreement, Tax Matters Agreement, and certain Contract Manufacturing Agreements.

The following discussion summarizes activity between the Company and the Former Parent that occurred prior to the completion of the Spin-Off.

Allocation of General Corporate and Other Expenses

The Condensed Consolidated Statements of Operations include expenses for certain centralized functions and other programs provided and administered by the Former Parent that were charged directly to the Company prior to the Spin-Off. In addition, for purposes of preparing the financial statements on a carve-out basis, a portion of the Former Parent's total corporate expenses was allocated to the Company. Similarly, certain centralized expenses incurred by the Company prior to the Spin-Off on behalf of subsidiaries of the Former Parent had been allocated to the Former Parent. See Note 1, "Basis Of Presentation," for a discussion of the methodology used to allocate corporate expenses for purposes of preparing these financial statements on a carve-out basis for periods prior to July 3, 2023.

Net corporate allocation expenses, primarily related to separation and transaction costs, in the three and six months ended June 30, 2023 totaled \$54 million and \$89 million, respectively. These expenses were primarily included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

Royalty Income and R&D Income from Former Parent

The Company participated in royalty arrangements and provided applications testing and other R&D services to the Former Parent prior to the Spin-Off. See Note 4, "Other operating expense, net" for additional information.

Net Transfers from (to) Former Parent

Net transfers from (to) Former Parent are included within Former Parent investment in the Condensed Consolidated Statements of Changes in Equity. The components of the transfers from (to) Former Parent are as follows:

		Six Months Ended June 30,
(in millions)		2023
General financing activities	\$	(63)
Cash pooling and other equity settled balances with Former Parent		(32)
Related-party notes converted to equity		260
Corporate allocations		89
Research and development income from Former Parent		(2)
Total net transfers from Former Parent	\$	252
Exclude non-cash items:		
Stock-based compensation	\$	(4)
Other non-cash activities with Former Parent, net		15
Related-party notes converted to equity		(260)
Cash pooling and intercompany financing activities with Former Parent, net		55
Total net transfers to Former Parent per Condensed Consolidated Statements of Cash Flow	\$	58

NOTE 17 EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share of common stock (EPS) amounts. Basic EPS is calculated by dividing net earnings by the weighted average shares of common stock outstanding during the reporting period. Diluted EPS is calculated by dividing net earnings by the weighted average shares of common stock and common stock equivalents outstanding during the reporting period.

For periods prior to July 3, 2023, the denominator for basic and diluted earnings per share was calculated using the 47.0 million PHINIA ordinary shares outstanding immediately following the Spin-Off. The same number of shares was used to calculate basic and diluted earnings per share in those periods since no PHINIA equity awards were outstanding prior to the Spin-Off.

The dilutive impact of stock-based compensation is calculated using the treasury stock method. The treasury stock method assumes that the Company uses the assumed proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future and compensation cost for future service that the Company has not yet recognized.

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share of common stock:

(in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Basic earnings per share:				
Net earnings	\$ 14	\$ 35	\$ 43	\$ 70
Weighted average shares of common stock outstanding	44.8	47.0	45.5	47.0
Basic earnings per share of common stock	<u>\$ 0.31</u>	<u>\$ 0.74</u>	<u>\$ 0.95</u>	<u>\$ 1.49</u>
Diluted earnings per share:				
Net earnings	\$ 14	\$ 35	\$ 43	\$ 70
Weighted average shares of common stock outstanding	44.8	47.0	45.5	47.0
Effect of stock-based compensation	0.9	—	0.6	—
Weighted average shares of common stock outstanding including dilutive shares	45.7	47.0	46.1	47.0
Diluted earnings per share of common stock	<u>\$ 0.31</u>	<u>\$ 0.74</u>	<u>\$ 0.93</u>	<u>\$ 1.49</u>

NOTE 18 REPORTABLE SEGMENTS AND RELATED INFORMATION

The Company's business is comprised of two reportable segments, which are further described below. These segments are strategic business groups, which are managed separately as each represents a specific grouping of related automotive components and systems.

- **Fuel Systems.** This segment provides advanced fuel injection systems, fuel delivery modules, canisters, sensors, electronic control modules and associated software. Our highly engineered fuel injection systems portfolio includes pumps, injectors, fuel rail assemblies, engine control modules, and complete systems, including software and calibration services, that are designed to reduce emissions and improve fuel economy for traditional and hybrid applications.
- **Aftermarket.** Through this segment, the Company sells products to independent aftermarket customers and OES customers. Its product portfolio includes a wide range of products as well as maintenance, test equipment and vehicle diagnostics solutions. The Aftermarket segment also includes sales of starters and alternators to OEMs.

Segment Adjusted Operating Income (AOI) is the measure of segment income or loss used by the Company. Segment AOI is comprised of segment operating income adjusted for restructuring, separation and transaction costs, intangible asset amortization expense, impairment charges, other net expenses and other items not reflective of ongoing operating income or loss. The Company believes Segment AOI is most reflective of the operational profitability or loss of its reportable segments. Segment AOI excludes certain corporate costs, which primarily represent corporate expenses not directly attributable to the individual segments.

The following tables show segment information and Segment AOI for the Company's reportable segments:

Net Sales by Reportable Segment

(in millions)	Three Months Ended June 30, 2024			Six Months Ended June 30, 2024		
	Customers	Inter-segment	Net	Customers	Inter-segment	Net
Fuel Systems	\$ 518	\$ 69	\$ 587	\$ 1,045	\$ 118	\$ 1,163
Aftermarket	350	5	355	686	7	693
Inter-segment eliminations	—	(74)	(74)	—	(125)	(125)
Total	\$ 868	\$ —	\$ 868	\$ 1,731	\$ —	\$ 1,731

(in millions)	Three Months Ended June 30, 2023			Six Months Ended June 30, 2023		
	Customers	Inter-segment	Net	Customers	Inter-segment	Net
Fuel Systems	\$ 551	\$ 56	\$ 607	\$ 1,060	\$ 114	\$ 1,174
Aftermarket	336	3	339	662	7	669
Inter-segment eliminations	—	(59)	(59)	—	(121)	(121)
Total	\$ 887	\$ —	\$ 887	\$ 1,722	\$ —	\$ 1,722

Segment Adjusted Operating Income

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Fuel Systems	\$ 52	\$ 62	\$ 107	\$ 105
Aftermarket	53	49	113	97
Segment AOI	105	111	220	202
Corporate, including stock-based compensation	21	5	39	9
Separation and transaction costs	3	41	20	59
Intangible asset amortization expense	7	7	14	14
Restructuring expense	3	2	5	6
Equity in affiliates' earnings, net of tax	(2)	(3)	(5)	(6)
Interest expense	39	6	61	12
Interest income	(4)	(2)	(8)	(5)
Other postretirement expense (income), net	1	(1)	1	(1)
Earnings before income taxes	37	56	93	114
Provision for income taxes	23	21	50	44
Net earnings	\$ 14	\$ 35	\$ 43	\$ 70

Cautionary Statements For Forward-Looking Information

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements other than historical fact that provide current expectations or forecasts of future events based on certain assumptions and are not guarantees of future performance. Forward-looking statements use words such as “anticipate,” “believe,” “continue,” “could,” “designed,” “effect,” “estimate,” “evaluate,” “expect,” “forecast,” “goal,” “initiative,” “intend,” “likely,” “may,” “outlook,” “plan,” “potential,” “predict,” “project,” “pursue,” “seek,” “should,” “target,” “when,” “will,” “would,” or other words of similar meaning.

Forward-looking statements are subject to risks, uncertainties, and factors relating to our business and operations, all of which are difficult to predict and which could cause our actual results to differ materially from the expectations expressed in or implied by such forward-looking statements. Risks, uncertainties, and factors that could cause actual results to differ materially from those implied by these forward-looking statements include, but are not limited to: adverse changes in general business and economic conditions, including recessions, adverse market conditions or downturns impacting the vehicle and industrial equipment industries; our ability to deliver new products, services and technologies in response to changing consumer preferences, increased regulation of greenhouse gas emissions, and acceleration of the market for electric vehicles; competitive industry conditions; failure to identify, consummate, effectively integrate or realize the expected benefits from acquisitions or partnerships; pricing pressures from original equipment manufacturers (OEMs); inflation rates and volatility in the costs of commodities used in the production of our products; changes in U.S. administrative policy, including changes to existing trade agreements and any resulting changes in international trade relations; our ability to protect our intellectual property; failure of or disruption in our information technology infrastructure, including a disruption related to cybersecurity; our ability to identify, attract, retain and develop a qualified global workforce; difficulties launching new vehicle programs; failure to achieve the anticipated savings and benefits from restructuring and product portfolio optimization actions; extraordinary events (including natural disasters or extreme weather events), political disruptions, terrorist attacks, pandemics or other public health crises, and acts of war; risks related to our international operations; the impact of economic, political, and market conditions on our business in China; our reliance on a limited number of OEM customers; supply chain disruptions; work stoppages, production shutdowns and similar events or conditions; governmental investigations and related proceedings regarding vehicle emissions standards, including the ongoing investigation into diesel defeat devices; current and future environmental and health and safety laws and regulations; the impact of climate change and regulations related to climate change, including new and evolving greenhouse gas emissions regulations in California, the U.S. and European Union; liabilities related to product warranties, litigation and other claims; compliance with legislation, regulations, and policies, investigations and legal proceedings, and new interpretations of existing rules and regulations; tax audits and changes in tax laws or tax rates taken by taxing authorities; volatility in the credit market environment; impairment charges on goodwill and indefinite-lived intangible assets; the impact of changes in interest rates and asset returns on our pension funding obligations; the impact of restrictive covenants and requirements in the agreements governing our indebtedness on our financial and operating flexibility; our ability to achieve some or all of the benefits that we expect to achieve from the Spin-off; other risks relating to the Spin-off, including a determination that the Spin-off does not qualify as tax-free for U.S. federal income tax purposes, restrictions and obligations under the Tax Matters Agreement, and our or BorgWarner Inc.’s failure to perform under, and any dispute relating to, the various transaction agreements; and other risks and uncertainties described in our reports filed from time to time with the Securities and Exchange Commission (SEC).

We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Use of Non-GAAP Financial Measures

This Form 10-Q contains information about PHINIA'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 most directly comparable GAAP financial measures in this Form 10-Q. The provision of these comparable GAAP financial measures is not intended to indicate that PHINIA 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 Form 10-Q 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 PHINIA may not be comparable to similarly titled measures reported by other companies.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

PHINIA is a leader in the development, design and manufacture of integrated components and systems that are designed to optimize performance, increase efficiency and reduce emissions for combustion and hybrid propulsion systems for commercial vehicles and industrial applications (medium-duty and heavy-duty trucks, off-highway construction, marine, aviation, and agricultural) and light vehicles (passenger cars, trucks, vans and sport-utility). We are a global supplier to most major OEMs seeking to meet evolving and increasingly stringent global regulatory requirements and satisfy consumer demands for an enhanced user experience. Additionally, we offer a wide range of OES solutions and remanufactured products as well as an expanded range of products for the independent (non-OEM) aftermarket.

Transition to Standalone Company

On December 6, 2022, BorgWarner Inc., a manufacturer and supplier of automotive industry components and parts (BorgWarner, or Former Parent) announced plans for the complete legal and structural separation of its Fuel Systems and Aftermarket businesses by the spin-off of its wholly-owned subsidiary, PHINIA, which was formed on February 9, 2023 (the Spin-Off).

On July 3, 2023, BorgWarner completed the Spin-Off 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 the outstanding common stock of PHINIA to holders of record of common stock of BorgWarner on a pro rata basis. Each holder of record of BorgWarner common stock received one share of PHINIA common stock for every five shares of common stock of BorgWarner held on June 23, 2023, the Record Date. In lieu of fractional shares of PHINIA, stockholders of the Company received cash. As a result of these transactions, all of the assets, liabilities, and legal entities comprising BorgWarner's Fuel Systems and Aftermarket businesses are now owned directly, or indirectly through its subsidiaries, by PHINIA. PHINIA is an independent public company trading under the symbol "PHIN" on the New York Stock Exchange.

Key Trends and Economic Factors

Commodities and Other Inflationary Impacts. Prices for commodities remain volatile, and since the beginning of 2021, the Company has experienced price increases for base metals (e.g., steel, aluminum and nickel) and precious metals (e.g., palladium). In addition, many global economies are experiencing elevated levels of inflation more generally, which is driving an increase in other input costs. As a result, the Company has experienced, and is continuing to experience, higher costs.

Outlook

We expect strong earnings and cash generation in 2024 as we expect to continue to drive operational efficiencies, exit agreements with our Former Parent and grow our Aftermarket sales. On the original equipment (OE) side, industry-wide commercial vehicle (CV) volumes in 2024 are expected to decline by low double digit percentages in North America and Europe, while global light vehicle (LV) volumes are expected to have a modest decline in 2024. Assuming constant foreign exchange rates, we expect a modest year-over-year decline in sales despite strong growth in our Aftermarket segment.

The Company maintains a positive long-term outlook for its global business and is committed to new product development and strategic investments to enhance its product leadership strategy. There are several trends that are driving the Company's long-term growth that management expects to continue, including market share expansion in the CV market, growth in overall vehicle parc that supports aftermarket demand, increased consumer interest in hybrid and plug-in vehicles, and adoption of additional product offerings enabling zero- and lower-carbon fuel solutions for combustion vehicles. In addition, we believe we are well positioned to continue to expand our differentiated offerings and capabilities across electronics, software and complete systems.

Relationship with BorgWarner

Historically, we have relied on BorgWarner to provide various corporate functions. Following the Spin-Off, BorgWarner has not provided us with assistance other than the limited transition and other services described under the heading “Certain Relationships and Related Party Transactions” in the Company’s proxy statement for its 2024 Annual Meeting of Stockholders filed on March 27, 2024. The Company entered into several agreements with BorgWarner that govern the relationship between the parties following the Spin-Off that are described in our Form 8-K filed on July 7, 2023. BorgWarner was only obligated to provide the transition services for limited periods following the completion of the Spin-Off. As of June 30, 2024, the Company has successfully exited all transition services agreements. We have installed and implemented information technology infrastructure to support certain of our business functions, including accounting and financial reporting, human resources, legal and compliance, communications, engineering, manufacturing and distribution, and sourcing.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2024 vs. Three Months Ended June 30, 2023

The following table presents a summary of the Company’s operating results:

(in millions)	Three Months Ended June 30,			
	2024		2023	
		% of net sales		% of net sales
Net sales				
Fuel Systems	\$ 587	67.6 %	\$ 607	68.4 %
Aftermarket	355	40.9 %	339	38.2 %
Inter-segment eliminations	(74)	(8.5)%	(59)	(6.6)%
Total net sales	868	100.0 %	887	100.0 %
Cost of sales	680	78.3 %	698	78.7 %
Gross profit	188	21.7 %	189	21.3 %
Selling, general and administrative expenses	112	12.9 %	103	11.6 %
Other operating expense, net	5	0.6 %	30	3.4 %
Operating income	71	8.2 %	56	6.3 %
Equity in affiliates’ earnings, net of tax	(2)	(0.2)%	(3)	(0.3)%
Interest expense	39	4.5 %	6	0.7 %
Interest income	(4)	(0.5)%	(2)	(0.2)%
Other postretirement expense (income), net	1	0.1 %	(1)	(0.1)%
Earnings before income taxes	37	4.3 %	56	6.2 %
Provision for income taxes	23	2.6 %	21	2.4 %
Net earnings	\$ 14	1.7 %	\$ 35	3.8 %

Net sales

Net sales for the three months ended June 30, 2024 totaled \$868 million, a decrease of \$19 million, or 2%, compared to the three months ended June 30, 2023. The change in net sales for the three months ended June 30, 2024 was primarily driven by the following:

- Unfavorable volume and mix decreased sales by approximately \$18 million, or 2%. This decrease was primarily driven by lower commercial vehicle sales in Europe and lower light vehicle sales in China within the Fuel Systems segment, partially offset by favorable mix in Europe within the Aftermarket segment.

- Fluctuations in foreign currencies resulted in a period-over-period decrease in sales of approximately \$6 million, primarily due to the weakening of the Chinese Renminbi, Euro, and Brazilian Real relative to the U.S. Dollar.
- Customer pricing was flat period over period, primarily due to current period commodity pass-through increases in the Aftermarket segment, offset by a one-time commodity recovery payment in the second quarter of 2023.
- Sales increased \$5 million related to certain contract manufacturing agreements with Former Parent that were entered into in connection with the Spin-Off. Sales from these agreements are not expected to continue beyond 2024.

Cost of sales and gross profit

Cost of sales and cost of sales as a percentage of net sales were \$680 million and 78%, respectively, during the three months ended June 30, 2024, compared to \$698 million and 79%, respectively, during the three months ended June 30, 2023. The decrease of \$18 million in cost of sales for the three months ended June 30, 2024 was primarily driven by the following:

- Lower sales volume and mix decreased cost of sales by approximately \$14 million. This decrease was primarily driven by lower commercial vehicle sales in Europe and lower light vehicles sales in China in the Fuel Systems segment, as well as favorable mix in Europe within the Aftermarket segment.
- Cost of sales decreased by approximately \$13 million due to lower supplier-related and inflationary costs.
- Fluctuations in foreign currencies resulted in a period-over-period decrease in cost of sales of approximately \$6 million primarily due to the weakening of the Chinese Renminbi, Euro, and Brazilian Real relative to the U.S. Dollar.
- Employee costs increased cost of sales by \$3 million compared to the three months ended June 30, 2023, primarily related to inflation and incentive compensation.
- Cost of sales increased \$5 million related to certain contract manufacturing agreements with Former Parent that were entered into in connection with the Spin-Off.
- Other manufacturing costs increased cost of sales by \$7 million compared to the three months ended June 30, 2023.

Gross profit and gross margin were \$188 million and 22%, respectively, during the three months ended June 30, 2024 compared to \$189 million and 21%, respectively, during the three months ended June 30, 2023. The increase in gross margin was primarily due to the factors discussed above.

Selling, general and administrative expenses ("SG&A")

SG&A for the three months ended June 30, 2024 was \$112 million as compared to \$103 million for the three months ended June 30, 2023. SG&A as a percentage of net sales was 13% and 12% for the three months ended June 30, 2024 and 2023, respectively. SG&A was comprised of the following:

- Employee-related costs were \$42 million for the three months ended June 30, 2024, an increase of \$11 million compared to the three months ended June 30, 2023, primarily due to inflation, incentive compensation, and increases in headcount associated with the transition to a standalone company.
- R&D costs were \$30 million for the three months ended June 30, 2024, an increase of \$2 million compared to the three months ended June 30, 2023. R&D costs, net of customer

reimbursements, were 3.5% of net sales in the three months ended June 30, 2024, compared to 3.2% of net sales in the three months ended June 30, 2023. The Company will continue to invest in R&D programs, which are necessary to support short- and long-term growth. The Company's current long-term expectation for R&D spending is 3% of net sales.

- Intangible amortization expense was \$7 million for the three months ended June 30, 2024, flat compared to the three months ended June 30, 2023.
- IT costs incurred directly by the Company were \$6 million for the three months ended June 30, 2024, a decrease of \$1 million compared to the three months ended June 30, 2023.
- Other SG&A costs were \$27 million for the three months ended June 30, 2024, a decrease of \$3 million compared to the three months ended June 30, 2023.

Other operating expense, net

Other operating expense, net was \$5 million and \$30 million for the three months ended June 30, 2024 and 2023, respectively. Refer to Note 4, "Other operating expense, net," for more information. Other operating expense, net was comprised of the following:

- For the three months ended June 30, 2024 and 2023, separation and transaction costs were \$3 million and \$41 million, respectively, primarily related to professional fees associated with the Spin-Off.
- Restructuring expense was \$3 million and \$2 million for the three months ended June 30, 2024 and 2023, respectively, related to individually approved restructuring actions that primarily related to reductions in headcount. The Company continues to evaluate different options across its operations to reduce existing structural costs. As we continue to assess our performance and the needs of our business, additional restructuring could be required and may have a significant cost.
- For the three months ended June 30, 2023, the Company recognized income related to application testing and other R&D services for other BorgWarner businesses of \$1 million. The services stopped after the Spin-Off was completed.
- For the three months ended June 30, 2023, the Company recognized royalty income related to licensing of the Delphi Technologies trade name and product-related intellectual properties to other BorgWarner businesses in the amount of \$12 million. The royalty arrangements stopped after the Spin-Off was completed.

Equity in affiliates' earnings, net of tax

Equity in affiliates' earnings, net of tax was \$2 million and \$3 million in the three months ended June 30, 2024 and 2023, respectively. This line item is driven by the results of the Company's unconsolidated joint venture.

Interest expense

Interest expense was \$39 million and \$6 million in the three months ended June 30, 2024 and 2023, respectively. The increase was primarily related to the issuance of debt in connection with the Spin-Off, as well as the loss on extinguishment of debt of \$20 million during the quarter ended June 30, 2024. See Note 10, "Notes Payable and Debt", for further discussion of the extinguishment of debt.

Interest income

Interest income was \$4 million and \$2 million in the three months ended June 30, 2024 and 2023. The increase is primarily due to higher interest rates on higher cash and cash equivalents balances.

Other postretirement expense (income), net

Other postretirement expense (income), net was expense of \$1 million and income of \$1 million in the three months ended June 30, 2024 and 2023, respectively. The increase in other postretirement expense for the three months ended June 30, 2024 was primarily due to higher interest costs in 2024.

Provision for income taxes

Provision for income taxes was \$23 million for the three months ended June 30, 2024 resulting in an effective tax rate of 62%. This compared to \$21 million, or 38%, for the three months ended June 30, 2023. The increase was primarily the result of a change in the jurisdictional mix of pre-tax earnings, most notably an increase in pre-tax losses where no benefit is recognized.

For further details, see Note 5, "Income Taxes," to the Condensed Consolidated Financial Statements for the three months ended June 30, 2024 and 2023.

Adjusted net earnings per diluted share

The Company defines adjusted net earnings per diluted share as net earnings per share adjusted to exclude the tax-effected impact of restructuring expense, separation and transaction costs, intangible asset amortization, impairment charges, other net expenses, and other gains, losses and tax amounts not reflective of the Company's ongoing operations.

	Three Months Ended June 30,	
	2024	2023
Net earnings per diluted share	\$ 0.31	\$ 0.74
Loss on extinguishment of debt	0.33	—
Intangible asset amortization expense	0.13	0.12
Separation and transaction costs	0.05	0.86
Restructuring expense	0.05	0.03
Royalty income from Former Parent	—	(0.19)
Tax adjustments	0.01	0.05
Adjusted net earnings per diluted share	<u>\$ 0.88</u>	<u>\$ 1.61</u>

Results by Reportable Segment for the three months ended June 30, 2024 and 2023

The Company's business is aggregated into two reportable segments: Fuel Systems and Aftermarket.

Segment Adjusted Operating Income (AOI) is the measure of segment income or loss used by the Company. Segment AOI is comprised of segment operating income adjusted for restructuring, separation and transaction costs, intangible asset amortization expense, impairment charges and other items not reflective of ongoing operating income or loss. The Company believes Segment AOI is most reflective of the operational profitability or loss of its reportable segments.

Segment AOI excludes certain corporate costs, which primarily represent corporate expenses not directly attributable to the individual segments. Corporate expenses not allocated to Segment AOI were \$21 million and \$5 million for the three months ended June 30, 2024 and 2023, respectively. The increase in corporate expenses in 2024 was primarily related to a decrease in related-party royalty and R&D income from BorgWarner, which did not continue after completion of the Spin-Off, as well as additional costs resulting from operating as a standalone company.

The following table presents Net sales and Segment AOI for the Company's reportable segments:

(in millions)	Three Months Ended June 30,					
	2024			2023		
	Net Sales to Customers	Segment AOI	% margin	Net Sales to Customers	Segment AOI	% margin
Fuel Systems	\$ 518	\$ 52	10.0 %	\$ 551	\$ 62	11.3 %
Aftermarket	350	53	15.1 %	336	49	14.6 %
Totals	<u>\$ 868</u>	<u>\$ 105</u>		<u>\$ 887</u>	<u>\$ 111</u>	

The Fuel Systems segment's net sales to customers for the three months ended June 30, 2024 decreased \$33 million, or 6%, and Segment Adjusted Operating Income decreased \$10 million, or 16%, compared to the three months ended June 30, 2023. Foreign currencies resulted in a year-over-year decrease in sales of approximately \$6 million primarily due to the weakening of the Chinese Renminbi, Euro, and Brazilian Real relative to the U.S. Dollar. The decrease in net sales excluding the impact of foreign currencies was primarily due to approximately \$24 million of unfavorable volume, mix and net new business driven by decreased demand for the Company's products compared to the prior year, primarily from lower commercial vehicle sales in Europe and lower light vehicle sales in China. The decrease in net sales was also driven by \$8 million of pricing, primarily related to non-contractual commercial negotiations with the Company's customers which did not recur. These were offset by approximately \$5 million related to certain contract manufacturing agreements with BorgWarner. Segment Adjusted Operating margin was 10.0% in the three months ended June 30, 2024, compared to 11.3% in the three months ended June 30, 2023. The Segment Adjusted Operating margin decrease was primarily due to non-contractual commercial negotiations with the Company's customers which did not recur.

The Aftermarket segment's net sales to customers for the three months ended June 30, 2024 increased \$14 million, or 4%, and Segment Adjusted Operating Income increased \$4 million, or 8%, from the three months ended June 30, 2023. The increase in net sales was primarily due to \$8 million of customer pricing and approximately \$6 million of favorable volume, mix, and net new business driven by increased demand for the Company's products compared to the prior year, primarily in Europe. Segment Adjusted Operating margin was 15.1% in the three months ended June 30, 2024, comparable to 14.6% in the three months ended June 30, 2023. The Segment Adjusted Operating margin increase was primarily driven by favorable mix and customer pricing.

Six Months Ended June 30, 2024 vs. Six Months Ended June 30, 2023

The following table presents a summary of the Company's operating results:

(in millions)	Six Months Ended June 30,			
	2024		2023	
Net sales		% of net sales		% of net sales
Fuel Systems	\$ 1,163	67.2 %	\$ 1,174	68.1 %
Aftermarket	693	40.0	669	38.9
Inter-segment eliminations	(125)	(7.2)	(121)	(7.0)
Total net sales	1,731	100.0	1,722	100.0
Cost of sales	1,351	78.0	1,361	79.0
Gross profit	380	22.0	361	21.0
Selling, general and administrative expenses	216	12.5	202	11.7
Other operating expense, net	22	1.3	45	2.6
Operating income	142	8.2	114	6.7
Equity in affiliates' earnings, net of tax	(5)	(0.3)	(6)	(0.3)
Interest expense	61	3.5	12	0.7
Interest income	(8)	(0.5)	(5)	(0.3)
Other postretirement expense (income), net	1	0.1	(1)	(0.1)
Earnings before income taxes	93	5.4	114	6.7
Provision for income taxes	50	2.9	44	2.6
Net earnings	\$ 43	2.5 %	\$ 70	4.1 %

Net sales

Net sales for the six months ended June 30, 2024 totaled \$1,731 million, an increase of \$9 million, or 1%, compared to the six months ended June 30, 2023. The change in net sales for the six months ended June 30, 2024 was primarily driven by the following:

- Sales increased \$22 million related to certain contract manufacturing agreements with Former Parent that were entered into in connection with the Spin-Off. Sales from these agreements are not expected to continue beyond 2024.
- Customer pricing increased net sales by approximately \$12 million. This is primarily related to an increase in recoveries of cost inflation from the Company's customers due to non-contractual commercial negotiations with those customers and normal contractual customer commodity pass-through arrangements.
- Unfavorable volume and mix decreased sales by approximately \$25 million, or 1%. This decrease was primarily driven by lower commercial vehicle sales in Europe and lower light vehicle sales in China within the FS segment.

Cost of sales and gross profit

Cost of sales and cost of sales as a percentage of net sales were \$1,351 million and 78%, respectively, during the six months ended June 30, 2024, compared to \$1,361 million and 79%, respectively, during the

six months ended June 30, 2023. The decrease of \$10 million in cost of sales for the six months ended June 30, 2024 was primarily driven by the following:

- Cost of sales was impacted by lower supplier-related and inflationary costs of approximately \$32 million arising primarily from supplier savings and a lump sum supplier settlement of \$7 million.
- Lower sales volume, mix and net new business decreased cost of sales by approximately \$28 million. This decrease was primarily driven by lower commercial vehicle sales in Europe and lower light vehicle sales in China in the Fuel Systems segment, as well as favorable mix in Europe within the Aftermarket segment.
- Other manufacturing costs increased cost of sales by \$14 million compared to the six months ended June 30, 2023.
- Employee costs increased cost of sales by \$14 million, primarily related to inflation and incentive compensation.
- Cost of sales increased \$22 million related to certain contract manufacturing agreements with Former Parent that were entered into in connection with the Spin-Off.

Gross profit and gross margin were \$380 million and 22%, respectively, during the six months ended June 30, 2024 compared to \$361 million and 21%, respectively, during the six months ended June 30, 2023. The increase in gross margin was primarily due to the factors discussed above.

Selling, general and administrative expenses

SG&A for the six months ended June 30, 2024 was \$216 million as compared to \$202 million for the six months ended June 30, 2023. SG&A as a percentage of net sales was 13% and 12% for the six months ended June 30, 2024 and 2023, respectively. SG&A was comprised of the following:

- Employee-related costs were \$77 million for the six months ended June 30, 2024, an increase of \$14 million, primarily due to inflation, incentive compensation, and increases in headcount associated with the transition to a standalone company.
- R&D costs were \$57 million for the six months ended June 30, 2024. This includes gross R&D expenditures of \$104 million, comprised primarily of employee costs, offset by customer reimbursements of \$47 million, which represent recovery of costs incurred. R&D costs remained flat compared to the six months ended June 30, 2023. R&D costs, net of customer reimbursements, were 3.3% of net sales in both the six months ended June 30, 2024 and 2023. The Company's current long-term expectation for R&D spending is approximately 3% of net sales.
- IT costs incurred directly by the Company were \$14 million for the six months ended June 30, 2024 and 2023.
- Intangible amortization expense was \$14 million for the six months ended June 30, 2024 and 2023.
- Other SG&A costs were \$54 million for the six months ended June 30, 2024, flat compared to the six months ended June 30, 2023.

Other operating expense, net

Other operating expense, net was \$22 million and \$45 million for the six months ended June 30, 2024 and 2023, respectively. Refer to Note 4, "Other operating expense, net," for more information. Other operating expense, net was comprised of the following:

- For the six months ended June 30, 2024 and 2023, separation and transaction costs were \$20 million and \$59 million, respectively, primarily related to professional fees associated with the Spin-Off.
- Restructuring expense was \$5 million and \$6 million for the six months ended June 30, 2024 and 2023, respectively, related to individually approved restructuring actions that primarily related to reductions in headcount. The Company continues to evaluate different options across its operations to reduce existing structural costs. As we continue to assess our performance and the needs of our business, additional restructuring could be required and may have a significant cost.
- For the six months ended June 30, 2023, the Company recognized income related to application testing and other R&D services for other BorgWarner businesses of \$2 million. The R&D services stopped after the Spin-Off was completed.
- For the six months ended June 30, 2023, the Company recognized royalty income related to licensing of the Delphi Technologies trade name and product-related intellectual properties to other BorgWarner businesses in the amount of \$17 million. These royalty arrangements have not continued subsequent to the completion of the Spin-Off.

Equity in affiliates' earnings, net of tax

Equity in affiliates' earnings, net of tax was \$5 million and \$6 million in the six months ended June 30, 2024 and 2023, respectively. This line item is driven by the results of the Company's unconsolidated joint venture.

Interest expense

Interest expense was \$61 million and \$12 million in the six months ended June 30, 2024 and 2023, respectively. The increase from 2023 to 2024 was primarily related to the issuance of debt in connection with the Spin-Off as well as the loss on extinguishment of debt of \$20 million during the quarter ended June 30, 2024. See Note 10, "Notes Payable and Debt", for further discussion of the extinguishment of debt.

Interest income

Interest income was \$8 million and \$5 million in the six months ended June 30, 2024 and 2023, respectively. The increase is primarily due to higher interest rates on higher cash and cash equivalents balances.

Other postretirement expense (income), net

Other postretirement expense (income), net was expense of \$1 million and income of \$1 million in the six months ended June 30, 2024 and 2023, respectively. The increase in other postretirement expense for the six months ended June 30, 2024 was primarily due to higher interest costs in 2024.

Provision for income taxes

Provision for income taxes was \$50 million for the six months ended June 30, 2024 resulting in an effective tax rate of 54%. This compared to \$44 million, or 39%, for the six months ended June 30, 2023. The increase was primarily the result of a change in the jurisdictional mix of pre-tax earnings, most notably an increase in pre-tax losses where no benefit is recognized.

For further details, see Note 5, "Income Taxes," to the Condensed Consolidated Financial Statements for the six months ended June 30, 2024 and 2023.

Adjusted net earnings per diluted share

The Company defines adjusted net earnings per diluted share as net earnings per share adjusted to exclude the tax-effected impact of restructuring expense, separation and transaction costs, intangible asset amortization, impairment charges, other net expenses, and other gains, losses and tax amounts not reflective of the Company's ongoing operations.

	Six Months Ended June 30,	
	2024	2023
Net earnings per diluted share	\$ 0.93	\$ 1.49
Separation and transaction costs	0.40	1.24
Loss on extinguishment of debt	0.33	—
Intangible asset amortization expense	0.26	0.27
Restructuring expense	0.09	0.09
Royalty income from Former Parent	—	(0.30)
Tax adjustments	(0.03)	0.01
Adjusted net earnings per diluted share	\$ 1.98	\$ 2.80

Results by Reportable Segment for the six months ended June 30, 2024 and 2023

The following table presents Net sales and Segment AOI for the Company's reportable segments:

(in millions)	Six Months Ended June 30,					
	2024			2023		
	Net Sales to Customers	Segment AOI	% margin	Net Sales to Customers	Segment AOI	% margin
Fuel Systems	\$ 1,045	\$ 107	10.2 %	\$ 1,060	\$ 105	9.9 %
Aftermarket	686	113	16.5 %	662	97	14.7 %
Totals	\$ 1,731	\$ 220		\$ 1,722	\$ 202	

The Fuel Systems segment's net sales to customers for the six months ended June 30, 2024 decreased \$15 million, or 1%, and Segment Adjusted Operating Income increased \$2 million, or 2%, compared to the six months ended June 30, 2023. Foreign currencies resulted in a period-over-period decrease in sales of approximately \$6 million primarily due to the weakening of the Chinese Renminbi, partially offset by the strengthening of the British Pound relative to the U.S. Dollar. The decrease excluding the impact of foreign currencies was primarily due to approximately \$30 million of unfavorable volume, mix and net new business driven by lower commercial vehicle sales in Europe and \$1 million of customer pricing. This was offset by \$22 million related to certain contract manufacturing agreements with BorgWarner. Segment Adjusted Operating margin was 10.2% in the six months ended June 30, 2024, compared to 9.9% in the six months ended June 30, 2023. The Segment Adjusted Operating margin increase was primarily due to a lump sum supplier settlement offset by product volume and mix.

The Aftermarket segment's net sales to customers for the six months ended June 30, 2024 increased \$24 million, or 4%, and Segment Adjusted Operating Income increased \$16 million, or 16%, from the six months ended June 30, 2023. Foreign currencies resulted in a year-over-year increase in sales of approximately \$6 million primarily due to the strengthening of the British Pound relative to the U.S. Dollar. The increase excluding the impact of foreign currencies was primarily due to approximately \$13 million of pricing and approximately \$5 million of favorable volume, mix and net new business driven by increased demand for the Company's products, primarily in the Americas. Segment Adjusted Operating margin was

16.5% in the six months ended June 30, 2024, comparable to the 14.7% in the six months ended June 30, 2023. The Segment Adjusted Operating margin increase was primarily due to customer pricing.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We utilize certain arrangements with various financial institutions to sell eligible trade receivables from certain customers in North America and Europe. We may terminate any or all of these arrangements at any time subject to prior written notice. While we do not depend on these arrangements for our liquidity, if we elected to terminate these arrangements, there would be a one-time unfavorable timing impact on the collection of the outstanding receivables.

At June 30, 2024 and December 31, 2023, the Company had \$339 million and \$365 million of cash and cash equivalents, respectively, of which \$329 million and \$347 million, respectively, was held by our subsidiaries outside of the United States. We believe our existing cash and cash flows generated from operations and indebtedness incurred in conjunction with the Spin-Off discussed below will be responsive to the needs of our current and planned operations for at least the next 12 months and the foreseeable future thereafter.

Credit Agreement

On July 3, 2023, the Company entered into a \$1.225 billion Credit Agreement (the Credit Agreement) consisting of a \$500 million revolving credit facility (the Revolving Facility), a \$300 million Term Loan A Facility (the Term Loan A Facility) and a \$425 million Term Loan B Facility (the Term Loan B Facility; together with the Revolving Facility and the Term Loan A Facility, collectively, the Facilities) in connection with the Spin-Off that occurred on the same date. As of June 30, 2024, the outstanding principal balance of the Term Loan A Facility was \$296 million, and the Company had no outstanding borrowings under the Revolving Facility. As of June 30, 2024, the Company had availability under the Revolving Facility of \$499 million. The Term Loan B Facility was fully repaid in connection with the issuance of the 6.75% Senior Secured Notes due 2029 on April 4, 2024, as discussed below.

Issuance of Senior Notes

On April 4, 2024, the Company issued \$525 million aggregate principal amount of 6.75% Senior Secured Notes due 2029 (the 2029 Notes) pursuant to an indenture among the Company, as issuer, certain subsidiaries of the Company named as guarantors, and U.S. Bank Trust Company, National Association, as trustee and as collateral agent. The 2029 Notes were sold to investors at 100% plus accrued interest, if any, from April 4, 2024 in a private transaction exempt from the registration requirements of the Securities Act of 1933, as amended. The net proceeds of the offering of the 2029 Notes were used to repay all of the Company's outstanding borrowings and accrued interest under the Term Loan B Facility and the Revolving Facility, and to pay fees and expenses in connection with the offering. During the second quarter of 2024, the Company recorded a non-cash pre-tax loss on extinguishment of \$20 million related to the difference between the repayment amount and net carrying amount of the Term Loan B Facility.

Refer to Note 10. "Notes Payable And Debt" for further information on the Credit Agreement and the 2029 Notes.

Cash Flows

Operating Activities

Net cash provided by operating activities was \$140 million and \$33 million in the six months ended June 30, 2024 and 2023, respectively. The change in cash from operating activities for the six months ended

June 30, 2024 compared with the six months ended June 30, 2023, was primarily due to working capital changes.

Investing Activities

Net cash used in investing activities was \$59 million and \$80 million in the six months ended June 30, 2024 and 2023, respectively, primarily related to capital expenditures. As a percentage of sales, capital expenditures were 3.5% and 4.6% for the six months ended June 30, 2024 and 2023, respectively.

Financing Activities

Net cash used in financing activities was \$126 million in the six months ended June 30, 2024 primarily related to the repayment of Term Loan B Facility, stock repurchases, dividend payments to PHINIA stockholders and issuance of the 2029 Notes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates disclosures appear in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies And Estimates,” in the Company’s Form 10-K for the fiscal year ended December 31, 2023 (Form 10-K), filed on February 28, 2024. There were no material changes to this information during the quarter ended June 30, 2024.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk appear in “Item 7A - Quantitative and Qualitative Disclosures About Market Risk” and “Risk Factors” in the Company’s Form 10-K filed on February 28, 2024. There were no material changes to this information during the quarter ended June 30, 2024.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There have been no changes in internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of its business, the Company is involved in a number of lawsuits and claims, both actual and potential. Proceedings that were previously disclosed may no longer be reported because, as a result of rulings in the case, settlements, changes in our business, or other developments, in our judgment, they are no longer material to the Company's business, financial position or results of operations. Refer to Note 15, "Contingencies," to the Condensed Consolidated Financial Statements of this Form 10-Q for additional information.

SEC regulations require disclosure of certain environmental matters when a governmental authority is a party to the proceedings and such proceedings involve potential monetary sanctions that the Company reasonably believes will exceed a specified threshold. Pursuant to these regulations, the Company uses a threshold of \$1 million for purposes of determining whether disclosure of any such proceedings is required.

Item 1A. Risk Factors

We face a number of risks and uncertainties that could materially and adversely affect our business, financial condition or results of operations. A discussion of our risk factors can be found in Part I, Item 1A. Risk Factors in the Company's Form 10-K filed on February 28, 2024. Readers should not interpret the disclosure of any risk factor to imply that the risk has not already materialized. During the three months ended June 30, 2024, there were no material changes to our previously disclosed risk factors.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

In August 2023, the Company's Board of Directors authorized a \$150 million share repurchase program. As of June 30, 2024, the Company repurchased \$137 million of common stock under its repurchase program. Under the repurchase program, shares may be repurchased in open market transactions, privately negotiated transactions, or pursuant to one or more accelerated stock repurchase programs or Rule 10b5-1 plans in compliance with SEC requirements. The exact amount and timing of any purchases will depend on a number of factors, including trading price, trading volume, and general market conditions. The repurchase program has no expiration date and may be suspended, discontinued, or resumed at any time. Repurchased shares will be deemed common stock held in treasury and may subsequently be reissued.

The following table provides information about the Company's purchases of its equity securities that are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") during the quarter ended June 30, 2024:

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under plans or programs (in millions)
April 1, 2024 - April 30, 2024				
Common Stock Repurchase Program	—	—	—	\$ 103
Employee transactions	463	\$ 39.57	—	
May 1, 2024 - May 31, 2024				
Common Stock Repurchase Program	1,596,924	\$ 43.01	1,596,924	\$ 34
June 1, 2024 - June 30, 2024				
Common Stock Repurchase Program	487,921	\$ 43.68	487,921	\$ 13

Item 5. Other Information

Trading Arrangements

During the six months ended June 30, 2024, none of the individuals serving as the Company's directors or "officers," as defined in Rule 16a-1(f) of the Exchange Act, at that time adopted, modified, or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

4.1	<u>Indenture, dated as of April 4, 2024, by and among the Company, the guarantors named therein and U.S. Bank Trust Company, National Association, as trustee and collateral agent (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on April 4, 2024).</u>
10.1	<u>Amendment No. 1 to Credit Agreement, dated as of April 4, 2024, by and among the Company, the guarantors listed on the signature pages thereof, the lenders party thereto and Bank of America, N.A. as administrative agent (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 4, 2024).</u>
31.1	<u>Rule 13a-(14a)/15d-(14a) Certification of Chief Executive Officer.*</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.*</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer.**</u>
32.2	<u>Section 1350 Certification of Chief Financial Officer.**</u>
101.INS	Inline XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.*
104.1	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).*

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHINIA Inc.

By: /s/ Samantha M. Pombier
(Signature)

Samantha M. Pombier
Vice President and Controller (Principal Accounting Officer)

Date: July 30, 2024

Certification

I, Brady D. Ericson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PHINIA Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2024

By: /s/ Brady D. Ericson

Brady D. Ericson

President and Chief Executive Officer

Certification

I, Chris P. Gropp, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PHINIA Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2024

By: /s/ Chris P. Gropp

Chris P. Gropp

Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brady D. Ericson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, PHINIA Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of PHINIA Inc.

Date: July 30, 2024

By: /s/ Brady D. Ericson

Brady D. Ericson

President and Chief Executive Officer

This certification accompanies the Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that PHINIA Inc. specifically incorporates it by reference.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chris P. Gropp, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, PHINIA Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of PHINIA Inc.

Date: July 30, 2024

By: /s/ Chris P. Gropp
Chris P. Gropp
Vice President and Chief Financial Officer

This certification accompanies the Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that PHINIA Inc. specifically incorporates it by reference.