

## **Clarios Global LP**

**Consolidated financial statements for the year ended September 30, 2020 and the five month period ended September 30, 2019 (Successor) and Combined financial statements for the seven month period ended April 30, 2019 and the year ended September 30, 2018 (Predecessor) and Independent Auditors' Report**

**Clarios Global LP**  
**Index to Consolidated & Combined Financial Statements**

	<u>Page</u>
Independent Auditors' Report	<a href="#"><u>3</u></a>
Consolidated & Combined Statements of Income (Loss)	<a href="#"><u>5</u></a>
Consolidated & Combined Statements of Comprehensive Income (Loss)	<a href="#"><u>6</u></a>
Consolidated Statements of Financial Position	<a href="#"><u>7</u></a>
Consolidated & Combined Statements of Cash Flows	<a href="#"><u>8</u></a>
Consolidated & Combined Statements of Equity	<a href="#"><u>9</u></a>
Notes to Consolidated & Combined Financial Statements	<a href="#"><u>10</u></a>
Management's Discussion and Analysis of Financial Condition and Results of Operations	<a href="#"><u>43</u></a>

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of Clarios Global LP:

We have audited the accompanying consolidated financial statements of Clarios Global LP and its subsidiaries (the "Successor Company"), which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of income (loss), comprehensive income (loss), cash flows, and equity for the year ended September 30, 2020 and for the five months ended September 30, 2019, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Successor Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Successor Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Successor Company as of September 30, 2020 and 2019 and the results of its operations and its cash flows for the year ended September 30, 2020 and the five months ended September 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-of-Matters**

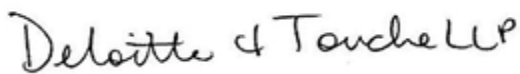
As discussed in Note 1 to the consolidated financial statements, effective April 30, 2019, the Successor Company was acquired in a business combination. As a result of the acquisition, the consolidated financial statements for the period after April 30, 2019 are presented on a different basis than before April 30, 2019 due to the application of purchase accounting, and, therefore, are not comparable to prior periods. The Successor Company consolidated financial statements are also not comparable as they are on a consolidated basis and the combined financial statements of the Power Solutions

Business of Johnson Controls International plc (Predecessor Company) are on a combined basis. Our opinion is not modified with respect to these matters.

**Predecessor Auditors' Opinions on April 30, 2019, and September 30, 2018 Combined Financial Statements**

The combined financial statements of the Predecessor Company for the period from October 1, 2018 to April 30, 2019 were audited by other auditors whose report, dated August 9, 2019, expressed an unmodified opinion on those statements and included an emphasis-of-matter paragraph that described a change in the manner in which the Predecessor Company accounts for revenue from contracts with customers and the manner in which it accounts for intra-entity asset transfers of assets other than inventory.

In addition, the combined financial statements of the Predecessor Company for the year ended September 30, 2018 were audited by other auditors whose report, dated December 14, 2018, except for the effects of the revision discussed in Note 14 to the September 30, 2018 combined financial statements, as to which the date was February 8, 2019, expressed an unmodified opinion on those statements.

A handwritten signature in dark ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 30, 2020

**Clarios Global LP**  
**Consolidated & Combined Statements of Income (Loss)**  
(in millions)

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Net sales	\$ 7,602	\$ 3,535	\$ 4,993	\$ 8,000
Cost of sales	6,405	3,214	4,059	6,293
Gross profit	1,197	321	934	1,707
Selling, general and administrative expenses	(936)	(459)	(359)	(474)
Restructuring and impairment costs	(11)	—	—	(11)
Net financing charges	(717)	(274)	(23)	(40)
Equity income	48	17	30	58
<b>Income (loss) before income taxes</b>	(419)	(395)	582	1,240
Income tax provision (benefit)	(17)	(31)	178	601
<b>Net income (loss)</b>	(402)	(364)	404	639
Income (loss) attributable to noncontrolling interests	(3)	(8)	23	47
<b>Net income (loss) attributable to the Company</b>	<u>\$ (399)</u>	<u>\$ (356)</u>	<u>\$ 381</u>	<u>\$ 592</u>

The accompanying notes are an integral part of the consolidated & combined financial statements.

**Clarios Global LP**  
**Consolidated & Combined Statements of Comprehensive Income (Loss)**  
(in millions)

	<b>Successor</b>		<b>Predecessor</b>	
	<b>Year Ended September 30, 2020</b>	<b>Five Months Ended September 30, 2019</b>	<b>Seven Months Ended April 30, 2019</b>	<b>Year Ended September 30, 2018</b>
Net income (loss)	\$ (402)	\$ (364)	\$ 404	\$ 639
Other comprehensive loss, net of tax:				
Foreign currency translation	(176)	(61)	(88)	(154)
Realized and unrealized gains (losses) on derivatives	(71)	(52)	4	(21)
Realized and unrealized losses on marketable securities	—	—	—	(4)
Other comprehensive loss, net of tax	(247)	(113)	(84)	(179)
Total comprehensive income (loss)	(649)	(477)	320	460
Comprehensive income (loss) attributable to noncontrolling interests	1	(20)	20	38
Comprehensive income (loss) attributable to the Company	<u>\$ (650)</u>	<u>\$ (457)</u>	<u>\$ 300</u>	<u>\$ 422</u>

The accompanying notes are an integral part of the consolidated & combined financial statements.

**Clarios Global LP**  
**Consolidated Statements of Financial Position**  
(in millions)

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 682	\$ 388
Accounts receivable - net of allowance for doubtful accounts of \$13 and \$12	1,110	1,282
Inventories	1,235	1,329
Other current assets	236	236
Current assets	<u>3,263</u>	<u>3,235</u>
Operating lease right-of-use assets	93	75
Property, plant and equipment - net	3,496	3,528
Goodwill	1,742	1,819
Other intangible assets - net	5,993	6,193
Investments in partially-owned affiliates	782	776
Noncurrent income tax assets	197	226
Other noncurrent assets	39	65
Total assets	<u>\$ 15,605</u>	<u>\$ 15,917</u>
<b>Liabilities and Equity</b>		
Current portion of long-term debt	\$ 51	\$ 61
Operating lease - current liabilities	30	26
Accounts payable	1,138	1,181
Accrued compensation and benefits	151	139
Other current liabilities	652	569
Current liabilities	<u>2,022</u>	<u>1,976</u>
Long-term debt	10,453	9,804
Operating lease - noncurrent liabilities	62	49
Pension and postretirement benefits	211	146
Noncurrent income tax liabilities	810	902
Other noncurrent liabilities	213	117
Long-term liabilities	<u>11,749</u>	<u>11,018</u>
Commitments and contingencies (Note 16)		
Parent company investment	2,172	2,576
Accumulated other comprehensive loss	(359)	(101)
Equity attributable to the Company	<u>1,813</u>	<u>2,475</u>
Noncontrolling interest	21	448
Total equity	<u>1,834</u>	<u>2,923</u>
Total liabilities and equity	<u>\$ 15,605</u>	<u>\$ 15,917</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Clarios Global LP**  
**Consolidated & Combined Statements of Cash Flows**  
(in millions)

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
<b>Operating Activities</b>				
Net income (loss) attributable to the Company	\$ (399)	\$ (356)	\$ 381	\$ 592
Income (loss) attributable to noncontrolling interests	(3)	(8)	23	47
Net income (loss)	(402)	(364)	404	639
Adjustments to reconcile net income (loss) to cash provided by operating activities:				
Depreciation	346	136	144	243
Amortization	394	161	4	8
Pension and postretirement benefit expense	67	51	2	14
Pension and postretirement contributions	(4)	—	(36)	(1)
Equity in earnings of partially-owned affiliates, net of dividends received	(23)	(9)	(26)	(38)
Deferred income taxes	(159)	(94)	46	(18)
Non-cash restructuring and impairment costs	10	—	—	6
Unrealized foreign currency remeasurement on debt	41	(44)	—	—
Other	58	22	7	(10)
Changes in assets and liabilities:				
Accounts receivable	180	(167)	273	(38)
Inventories	102	427	(190)	(2)
Other assets	14	(27)	(15)	206
Accounts payable and accrued liabilities	(60)	388	(410)	(405)
Accrued income taxes	53	30	14	141
Net cash provided by operating activities	617	510	217	745
<b>Investing Activities</b>				
Capital expenditures	(314)	(181)	(192)	(372)
Sale of property, plant and equipment	—	1	—	—
Acquisition of businesses, net of cash acquired	113	(12,759)	—	—
Changes in long-term investments	(1)	24	23	13
Net cash used by investing activities	(202)	(12,915)	(169)	(359)
<b>Financing Activities</b>				
Increase (decrease) in short-term debt - net	—	—	(5)	11
Increase in long-term debt	1,255	10,495	—	—
Repayment of long-term debt	(885)	(272)	(24)	(25)
Debt financing costs	(4)	(358)	—	—
Equity contribution	—	2,932	—	—
Change in noncontrolling interest share	(440)	—	—	15
Dividends paid to noncontrolling interests	—	—	—	(3)
Net transfers to parent	—	—	(19)	(387)
Other	—	(5)	(2)	—
Net cash provided (used) by financing activities	(74)	12,792	(50)	(389)
Effect of exchange rate changes on cash and cash equivalents	(47)	1	3	(2)
<b>Net increase (decrease) in cash and cash equivalents</b>	294	388	1	(5)
<b>Cash and cash equivalents at beginning of period</b>	388	—	15	20
<b>Cash and cash equivalents at end of period</b>	<u>\$ 682</u>	<u>\$ 388</u>	<u>\$ 16</u>	<u>\$ 15</u>

The accompanying notes are an integral part of the consolidated & combined financial statements.



**Clarios Global LP**  
**Consolidated & Combined Statements of Equity**  
(in millions)

	<b>Parent Company Investment</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Equity Attributable to the Company</b>	<b>Noncontrolling Interest</b>	<b>Total Equity</b>
<b>Predecessor:</b>					
<b>Balance as of September 30, 2017</b>	\$ 6,071	\$ (238)	\$ 5,833	\$ 16	\$ 5,849
Comprehensive income (loss):					
Net income	592	—	592	12	604
Other comprehensive income (loss), net of tax	—	(170)	(170)	1	(169)
Comprehensive income (loss)	592	(170)	422	13	435
Change in noncontrolling interests	—	—	—	15	15
Reclassification from redeemable noncontrolling interest	—	—	—	231	231
Change in parent company investment	(378)	—	(378)	—	(378)
<b>Balance as of September 30, 2018</b>	\$ 6,285	\$ (408)	\$ 5,877	\$ 275	\$ 6,152
Comprehensive income (loss):					
Net income	381	—	381	23	404
Other comprehensive loss, net of tax	—	(81)	(81)	(3)	(84)
Comprehensive income (loss)	381	(81)	300	20	320
Adoption of ASC 606 (see Note 1)	(33)	—	(33)	—	(33)
Adoption of ASU 2016-01 (see Note 1)	(8)	8	—	—	—
Adoption of ASU 2016-16 (see Note 1)	(273)	—	(273)	—	(273)
Change in parent company investment	(12)	—	(12)	—	(12)
<b>Balance as of April 30, 2019</b>	<u>\$ 6,340</u>	<u>\$ (481)</u>	<u>\$ 5,859</u>	<u>\$ 295</u>	<u>\$ 6,154</u>
<b>Successor:</b>					
<b>Balance as of May 1, 2019</b>	\$ 2,932	\$ —	\$ 2,932	\$ 468	\$ 3,400
Comprehensive loss:					
Net loss	(356)	—	(356)	(8)	(364)
Other comprehensive loss, net of tax	—	(101)	(101)	(12)	(113)
Comprehensive loss	(356)	(101)	(457)	(20)	(477)
<b>Balance as of September 30, 2019</b>	\$ 2,576	\$ (101)	\$ 2,475	\$ 448	\$ 2,923
Comprehensive income (loss):					
Net loss	(399)	—	(399)	(3)	(402)
Other comprehensive income (loss), net of tax	—	(251)	(251)	4	(247)
Comprehensive income (loss)	(399)	(251)	(650)	1	(649)
Change in noncontrolling interests	(5)	(7)	(12)	(428)	(440)
<b>Balance as of September 30, 2020</b>	<u>\$ 2,172</u>	<u>\$ (359)</u>	<u>\$ 1,813</u>	<u>\$ 21</u>	<u>\$ 1,834</u>

The accompanying notes are an integral part of the consolidated & combined financial statements.

**Clarios Global LP**  
**Notes to Consolidated & Combined Financial Statements**

**1. Financial Statements**

On March 12, 2018, Johnson Controls International plc ("JCI") announced it was exploring strategic alternatives for its Power Solutions business (the "Company" or "Power Solutions"). On November 13, 2018, JCI entered into a Stock and Asset Purchase Agreement ("Purchase Agreement") with BCP Acquisitions LLC, which subsequently assigned its rights under the Purchase Agreement to an affiliate (such entities being referred to as the "Purchaser," as the context requires). The Purchaser was a newly-formed entity controlled by investment funds managed by Brookfield Asset Management Inc. Pursuant to the Purchase Agreement, on the terms and subject to the conditions therein, JCI agreed to sell, and the Purchaser agreed to acquire, Power Solutions for a purchase price of \$13.2 billion. The transaction closed on April 30, 2019 (the "Acquisition Date").

In the following text, the terms "Company," "we," "us" and "our" may refer, as the context requires, to Clarios Global LP and its consolidated subsidiaries (after giving effect to the consummation of its acquisition on the Acquisition Date from Johnson Controls International Plc (the "Acquisition")) or to the Power Solutions business prior to the Acquisition Date. The term "Parent Company" refers to JCI as of and prior to the Acquisition Date, and refers to the Purchaser subsequent to the Acquisition Date.

As a result of the Acquisition, a new basis of accounting was created on May 1, 2019. In these consolidated & combined financial statements, the combined results of operations and cash flows of the Company for the periods ended on or prior to April 30, 2019 are referred to herein as "Predecessor" combined financial information, and the consolidated results of operations and cash flows of the Company beginning on May 1, 2019 and the consolidated financial position of the Company as of balance sheet dates subsequent to April 30, 2019 are referred to herein as "Successor" consolidated financial information. In the following text, "financial statements" refer to the Predecessor combined financial statements and the Successor consolidated financial statements for the respective periods presented.

The Predecessor and Successor financial information presented herein is not comparable primarily due to the fact that the Successor financial information reflects:

- the application of acquisition accounting as of May 1, 2019, as further described in Note 2, which requires the acquirer to reflect the fair value of the net assets acquired in a business combination as of the date of acquisition which often exceeds the net assets' carrying value on the acquired business's financial statements. As a result of applying acquisition accounting, the carrying value of the Successor's net assets exceeds the carrying value of the Predecessor's net assets on the consolidated statement of financial position. The most significant implications to the consolidated statements of income (loss) for the Successor periods due to the application of acquisition accounting are increased depreciation and amortization expense; and
- additional debt and interest expense associated with debt financing arrangements entered into in connection with the Acquisition, as further described in Note 8.

Certain amounts in the combined statement of cash flows for the Predecessor period have been reclassified to conform to the Successor period presentation.

These financial statements reflect the results of the operations, financial position and cash flows of the Company. JCI is a corporation organized under the laws of Ireland. Subsequent to the Acquisition, the Company is a limited partnership organized under the laws of Canada.

The separation from JCI was completed pursuant to various agreements related to the separation. These agreements include arrangements for transition services provided on a temporary basis by JCI.

**Basis of Presentation**

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

For the Predecessor periods, these financial statements were prepared on a combined basis derived from the consolidated financial statements and accounting records of JCI as if the Company had been operating as a stand-alone company. These financial statements have been prepared in accordance with U.S. GAAP. The statements of income include allocations for certain support functions that are provided on a centralized basis by the Parent Company and subsequently recorded at the business unit level, such as expenses related to employee benefits, finance, human resources, risk management, information technology, facilities, and legal, among others. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on a proportional basis of combined sales, headcount or other measures of the Company or the Parent Company. Management believes the assumptions underlying the financial statements, including the assumptions regarding allocating general corporate expenses from the Parent Company, are reasonable and applied consistently for the periods presented. Nevertheless, the financial statements may not include all actual expenses that would have been incurred by the Company and may not reflect the combined results of operations and cash flows had it been a stand-alone company during the Predecessor periods presented. Actual costs that would have been incurred if the Company had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

## **COVID-19**

In December 2019, a novel strain of coronavirus SARS-CoV-2, causing a disease referred to as COVID-19, was reported in Wuhan, China. The coronavirus has since spread to, and infections have been found in, the vast majority of countries around the world, including the United States and throughout Europe. In March 2020, the World Health Organization recognized the COVID-19 outbreak as a pandemic based on the global spread of the disease, the severity of illnesses it causes and its effects on society. In response to the COVID-19 outbreak, the governments of many countries, states and cities have taken preventative or protective actions, such as imposing restrictions on travel and business operations, and advising or requiring individuals to limit or forego their time outside of their homes. Accordingly, the COVID-19 outbreak has severely restricted the level of economic activity in many countries, and continues to adversely impact global economic activity and has contributed to significant volatility in financial markets.

The Company's operating performance is subject to global economic and market conditions, including their impacts on the global automotive industry. During the year ended September 30, 2020, the COVID-19 outbreak impacted the Company's operational and financial performance, primarily due to lower sales volumes to our OEM customers, many of whom have experienced temporary shut-downs, and to a lesser extent our aftermarket customers due to temporary store closures and a reduction in purchases due to stay at home orders. We also experienced operational inefficiencies as we adjusted production levels to align with changing market demand and, in response to regulatory requirements, implemented enhanced safety measures to protect the health of our employees.

Because of the impacts COVID-19 had on the Company's operations during the year ended September 30, 2020, the Company assessed certain accounting matters that require consideration of forecasted financial information, including, but not limited to, its allowance for doubtful accounts, the carrying value of the Company's goodwill, intangible assets, and other long-lived assets and valuation allowances on deferred tax assets, with the information reasonably available to the Company and the unknown future impacts of COVID-19. As a result of these assessments, there were no impairments or material increases in allowance for doubtful accounts or valuation allowances that impacted the Company's consolidated financial statements. Although the Company's operations have resumed, there is no guarantee that COVID-19 will not require additional assessments in the future and these assessments would not result in material impacts to the consolidated financial statements in future reporting periods. Events and changes in circumstances arising after this report date, including those resulting from the impacts of COVID-19, will be reflected in management's estimates for future periods.

## **Principles of Consolidation**

For the Successor periods, the financial statements include the accounts of the Company that are consolidated in conformity with U.S. GAAP. All intercompany transactions have been eliminated. Investments in partially-owned affiliates for which the Company exercises significant influence but does not have control are accounted for by the equity method.

Under certain criteria as provided for in Accounting Standards Codification ("ASC") 810, "Consolidation," the Company may consolidate a partially-owned affiliate. To determine whether to consolidate a partially-owned affiliate, the Company first determines if the entity is a variable interest entity ("VIE"). An entity is considered to be a VIE if it has one of the following characteristics: 1) the entity is thinly capitalized; 2) residual equity holders do not control the entity; 3) equity holders are shielded from economic losses or do not participate fully in the entity's residual economics; or 4) the entity was established with non-substantive voting. If the entity meets one of these characteristics, the Company then determines if it is the primary beneficiary of the VIE. The party with the power to direct activities of the VIE that most significantly impact the VIE's economic performance and the potential to absorb benefits or losses that could be significant to the VIE is considered the

primary beneficiary and consolidates the VIE. If the entity is not considered a VIE, then the Company applies the voting interest model to determine whether or not the Company shall consolidate the partially-owned affiliate.

In August 2019, the Company fully divested its interests in certain unconsolidated partially-owned affiliates identified as VIEs in exchange for \$42 million. As of September 30, 2019, the Company did not hold an equity interest in any VIEs.

Effective January 2020, the Company entered into certain distribution and technology agreements with a partially-owned affiliate that resulted in the Company's counterparty in the partially-owned affiliate to no longer participate fully in the residual economics of the partially-owned affiliate, and as such, the partially-owned affiliate has been identified as a VIE. As of September 30, 2020, the Company was not considered to be the primary beneficiary of the VIE as the Company cannot make key operating decisions considered to be most significant to the VIE. Therefore, the VIE is accounted for under the equity method of accounting as the Company owns 50% or less of the VIE and the Company does not have a controlling interest. Equity income related to the partially-owned affiliate for the year ended September 30, 2020 was not material. Concurrent with the distribution and technology agreements and to increase the Company's investment in developing markets, the Company entered into a definitive purchase agreement to acquire from the counterparty a majority interest in the VIE and create additional shareholder rights giving the Company key operating decision making rights considered most significant to the VIE in exchange for nominal cash value. The transaction closed in October 2020 resulting in the Company being identified as the primary beneficiary of the VIE upon closing of the agreement; the Company will consolidate the VIE prospectively. In October 2020, the Company will account for the closing of the transaction as a step-acquisition of a business, which will require the Company to recognize in its financial statements the fair value of acquired net assets and consideration transferred to effect the acquisition. The Company is in process of finalizing its fair value measurements.

In July 2020, the Company received notification that its bid to acquire its counterparty's equity interests in a consolidated partially-owned affiliate and a non-consolidated partially-owned affiliate was successful. In order to increase the Company's investment in developing markets, the Company has entered into an agreement to acquire the equity interests for approximately \$32 million and to refinance the non-consolidated partially-owned affiliate's debt at acquisition for approximately \$44 million. The price paid to acquire the equity interest is subject to further adjustment based upon the collection of certain outstanding receivables acquired from the non-consolidated partially-owned affiliate. Upon closing, which is expected in the quarter ending December 31, 2020 upon receiving customary regulatory approvals, both entities will be wholly-owned and consolidated by the Company. The Company will account for the acquisition of the counterparty's equity interest in the non-consolidated partially-owned affiliate as a step-acquisition of a business, which will require the Company to recognize in its financial statements the fair value of acquired net assets and consideration transferred to effect the acquisition. The Company is in process of preparing its fair value measurements.

### **Principles of Combination**

For the Predecessor periods, the financial statements included certain assets and liabilities that were historically held at the Parent Company level but are specifically identifiable or otherwise attributable to the Company. All significant intercompany transactions and accounts within the Company's combined businesses have been eliminated. All intercompany transactions between the Company and the Parent Company have been included in these combined statements of equity as parent company investment. Expenses related to corporate allocations from the Parent Company to the Company were considered to be effectively settled for cash in the financial statements at the time the transaction was recorded. See Note 17, "Related Party Transactions and Parent Company Investment," of the notes to financial statements for further details.

### **Description of Business**

The Company is a leading global supplier of lead-acid automotive batteries for virtually every type of passenger car, light truck and utility vehicle. The Company serves both automotive original equipment manufacturers ("OEM") and the general vehicle battery aftermarket. The Company also supplies advanced battery technologies to power start-stop, hybrid and electric vehicles.

### **Fair Value of Financial Instruments**

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. See Note 10, "Fair Value Measurements," of the notes to financial statements for fair value of financial instruments, including derivative instruments, hedging activities and long-term debt.

### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents in the consolidated statements of financial position represent cash legally owned by

the Company, and negative cash balances are reclassified to short term debt. Cash is managed by legal entity with cash pooling agreements in place for participating businesses within each cash pool master.

In the Predecessor periods, transfers of cash to and from the Parent Company's cash management system are reflected as a component of parent company investment in the combined financial statements. Accordingly, the cash and cash equivalents held by the Parent Company were not attributed to the Company for the Predecessor periods presented, as legal ownership remained with the Parent Company.

### **Receivables**

Receivables consist of amounts billed and currently due from customers and revenues that have been recognized for accounting purposes but not yet billed to customers. The Company extends credit to customers in the normal course of business and maintains an allowance for doubtful accounts resulting from the inability or unwillingness of customers to make required payments. The allowance for doubtful accounts is based on historical experience, existing economic conditions and any specific customer collection issues the Company has identified. The Company enters into supply chain financing programs to sell certain accounts receivable without recourse to third-party financial institutions. Sales of accounts receivable are reflected as a reduction of accounts receivable on the consolidated statements of financial position and the proceeds are included in cash flows from operating activities in the consolidated & combined statements of cash flows. Supply chain financing fees are included within net financing charges in the consolidated & combined statements of income (loss). Refer to Note 8, "Debt and Financing Arrangements," of the notes to financial statements for further details.

### **Inventories**

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

### **Property, Plant and Equipment**

Property, plant and equipment are initially recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives generally range from 3 to 40 years for buildings and improvements, and from 3 to 15 years for machinery and equipment.

### **Goodwill and Indefinite-Lived Intangible Assets**

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company reviews goodwill for impairment during the fourth fiscal quarter or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment reviews for its reporting units using a fair value method based on management's judgments and assumptions or third party valuations. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Successor Company uses a present value technique based on discounted cash flows to estimate the fair value of our reporting units. In estimating the fair value, the Predecessor Company used a multiples of earnings based on the average of published multiples of earnings of comparable entities with similar operations and economic characteristics and applies to the Company's average of historical and future financial results. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement." The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. Refer to Note 6, "Goodwill and Other Intangible Assets," of the notes to financial statements for information regarding the goodwill impairment testing performed.

Indefinite-lived intangible assets are subject to at least annual impairment testing. Indefinite-lived intangible assets primarily consist of trademarks and are tested for impairment using a relief-from-royalty method. A significant amount of management judgment and assumptions are required in performing the impairment tests.

### **Impairment of Long-Lived Assets**

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which

identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals. Refer to Note 15, "Restructuring and Impairment Costs," of the notes to consolidated financial statements for information regarding impairments recorded in the year ended September 30, 2020.

### **Revenue Recognition**

Net sales consist of gross sales less sales adjustments related to provisions for customer returns, allowances and rebates. The Company's revenue is generated through the manufacture and sale of automotive battery products to OEM and aftermarket customers globally, of which the delivery of goods ordered typically represents the Company's sole performance obligation with respect to distinct goods and services offered to customers. The Company recognizes revenue typically at the point in time when control over the goods transfers to the customer as specified by the shipping terms agreed upon with the customer.

### **Research and Development Costs**

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses in the consolidated & combined statements of income (loss). Such expenditures for the year ended September 30, 2020, the five months ended September 30, 2019, seven months ended April 30, 2019 and year ended September 30, 2018 were \$51 million, \$23 million, \$31 million and \$57 million, respectively.

### **Foreign Currency Translation**

The Company's reporting currency is the U.S. dollar. Substantially all of the Company's international operations use the respective local currency as the functional currency, with the exception of Mexico which is U.S. dollar functional. Monetary assets and liabilities of the company's operations denominated in foreign currencies other than their functional currency are translated into their respective functional currencies using period end foreign currency exchange rates and expenses are translated using the exchange rate approximating those in effect on the date of the transactions during the reporting periods in which the expenses were transacted. Non-monetary assets and liabilities are translated at their historical foreign currency exchange rates. Gains and losses resulting from foreign exchange transactions are included in the determination of net income or loss for the period. The aggregate transaction losses (gains), net of the impact of foreign currency hedges, included in net income for the year ended September 30, 2020, the five months ended September 30, 2019, seven months ended April 30, 2019 and year ended September 30, 2018 were \$112 million, \$(24) million, \$(11) million and \$5 million, respectively.

Foreign currency financial statements are translated from their functional currency to the U.S. dollar at the rate of exchange in effect on the balance sheet date for all assets and liabilities. The resulting translation adjustments are accumulated as a component of accumulated other comprehensive income ("AOCI"). Revenue and expenses are translated at the exchange rate approximating those in effect on the date of the transactions, and exchange gains and losses arising from translation are included in other comprehensive income.

### **Derivative Financial Instruments**

The Company has written policies and procedures that place all financial instruments under the direction of the Company and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for speculative purposes is strictly prohibited. The Company has historically used financial instruments to manage the Company's market risk from changes in interest rates, foreign exchange rates and commodity prices.

The fair values of all derivatives are recorded in the consolidated & combined statements of financial position. The change in a derivative's fair value is recorded each period in current earnings or AOCI, depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction. See Note 9, "Derivative Instruments and Hedging Activities," of the notes to financial statements for disclosure of the Company's derivative instruments and hedging activities.

### **Investments**

The Company invests in equity securities which are classified as available for sale and are marked to market at the end of each accounting period. Unrealized gains and losses on these securities are recognized in selling, general and administrative expenses within the consolidated & combined statements of income (loss). Refer to Note 10, "Fair Value Measurements," of the notes to financial statements for further details.

## **Short-Term and Long-Term Debt**

In connection to the Acquisition, the Company entered into variable and fixed rate indebtedness. Refer to Note 8, "Debt and Financing Arrangements," of the notes to financial statements for further information on short-term and long-term debt.

## **Pension and Postretirement Benefits**

Various defined benefit plans that relate solely to the Company are included in these financial statements. The Company utilizes a mark-to-market approach for recognizing pension and postretirement benefit expenses, including measuring the market related value of plan assets at fair value and recognizing actuarial gains and losses in the fourth quarter of each fiscal year or at the date of a remeasurement event. Refer to Note 12, "Retirement Plans," of the notes to financial statements for disclosure of the Company's pension and postretirement benefit plans.

In the Predecessor periods, the defined benefit plans in which the Company participates relate primarily to U.S. plans sponsored by the Parent Company and for which other wholly-owned subsidiaries (other than the Company) of the Parent Company participate (the "Shared Plans"). Under the guidance in ASC 715, "Compensation—Retirement Benefits," the Company accounts for the Shared Plans as multiemployer plans, recording contributions to the pension plans as an allocation of net periodic benefit costs associated with the Company's employees. Expenses related to the employees' participation in the Shared Plans were calculated using a proportional allocation based on headcount and payroll expense for the Company's employees. The pension expense allocation related to the Shared Plans under the multiemployer approach contains all components of the periodic benefit cost, including interest and service costs and was recorded primarily as a component of selling, general and administrative expenses in the financial statements.

## **Loss Contingencies**

Accruals are recorded for various contingencies including legal proceedings, environmental matters, self-insurance and other claims that arise in the normal course of business. The accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of internal and/or external legal counsel and actuarially determined estimates.

The Company is subject to laws and regulations relating to protecting the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Refer to Note 16, "Commitments and Contingencies," of the notes to financial statements.

The Company recorded liabilities for its workers' compensation, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience.

## **Income Taxes**

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been reflected in the financial statements. Deferred tax liabilities and assets are determined based on the differences between the book and tax basis of particular assets and liabilities and tax attributes carryforwards, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset deferred tax assets if, based upon the available evidence, including consideration of tax planning strategies, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. Refer to Note 13, "Income Taxes," of the notes to financial statements for the Company's income tax disclosures.

## **Parent Company Investment**

Parent company investment includes capital contributions and/or dividends as well as the results of operations and other comprehensive income (loss). Refer to Note 17, "Related Party Transactions and Parent Company Investment," of the notes to financial statements.

## **Date of Management's Review**

Management has evaluated subsequent events through November 30, 2020 the date the financial statements were issued.

## **New Accounting Pronouncements**

### *Recently Issued and Effective Accounting Pronouncements*

In October 2016, the FASB issued ASU No. 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory." The ASU requires the tax effects of all intra-entity sales of assets other than inventory to be recognized in the period in which the transaction occurs. The guidance was early adopted by the Company for the quarter ending December 31, 2018. The changes were applied by means of a cumulative-effect adjustment which resulted in a reduction to parent company investment and noncurrent income tax assets of \$273 million.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including marketable securities. Additionally, in February 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which provides additional clarification on certain topics addressed in ASU No. 2016-01. ASU No. 2016-01 and ASU No. 2018-03 were early adopted by the Company for the quarter ending December 31, 2018. The changes were applied by means of a cumulative-effect adjustment which resulted in a decrease to parent company investment of \$8 million. The new standard requires the mark-to-market of marketable securities investments previously recorded within accumulated other comprehensive income on the combined statements of financial position be recorded in the consolidated & combined statements of income (loss) on a prospective basis beginning as of the adoption date. The adoption of this guidance did not have a material impact to the consolidated and combined statements of income (loss) in the periods presented.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 and its related amendments (collectively, the "New Revenue Standard") clarify the principles for recognizing revenue when an entity either enters into a contract with customers to transfer goods or services or enters into a contract for the transfer of non-financial assets. The Company early adopted the New Revenue Standard on October 1, 2018 using a modified retrospective approach. Under the New Revenue Standard, revenue recognition is impacted as certain customers return battery cores which are now included in the transaction price as noncash consideration. As of October 1, 2018, the Company applied the New Revenue Standard to contracts that were not completed as of this date and recognized a cumulative-effect adjustment of a reduction to parent company investment of \$33 million, which relates primarily to deferred revenue recorded for certain battery core returns that represent a material right provided to customers.

The impact of adoption of the New Revenue Standard to the Company's consolidated & combined statements of income (loss) for the year ended September 30, 2020, five months ended September 30, 2019 and seven months ended April 30, 2019 was an increase to net sales of approximately \$803 million, \$378 million and \$659 million, respectively. The impact to both gross profit and net income for the year ended September 30, 2020 and five months ended September 30, 2019 was immaterial. For the seven months ended April 30, 2019, the impact to gross profit and net income was \$35 million and \$26 million, respectively.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" and in July 2018, ASU No. 2018-10, "Codification Improvements to Topic 842, Leases," and ASU 2018-11, "Leases (Topic 842) - Targeted Improvements" (collectively, "the new lease standard"). The impact of adopting the new lease standard primarily relates to the recognition of a lease right-of-use ("ROU") asset and current and non-current lease liabilities for the Company's operating leases on the consolidated statement of financial position. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

The Company early adopted the new lease standard as of the Acquisition Date in accounting for the lease ROU assets and liabilities arising from the business combination in the Company's acquisition accounting (see Note 2). The Company elected the practical expedient to exclude short-term leases from recognition in the Company's consolidated statement of financial position. The result of adopting the new lease standard resulted in the recognition of additional lease ROU assets and liabilities of approximately \$83 million for the Company's operating leases on the consolidated statement of financial position as of the Acquisition Date. The adoption of the new lease standard did not have a material impact on the Company's consolidated statement of income (loss), equity or cash flows as of the adoption date.



## *Recently Issued But Not Effective Accounting Pronouncements*

In June 2016, the FASB issued Accounting Standards Update ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), and related amendments ("ASU 2016-03"), which replaces the incurred loss impairment methodology under prior U.S. GAAP with an expected credit loss model. ASU 2016-13 affects trade receivables, loans, contract assets, certain beneficial interests, off-balance sheet credit exposures not accounted for as insurance and other financial assets that are not subject to fair value through net income, as defined by the standard. Under the expected credit loss model, the Company is required to consider future economic trends to estimate expected credit losses over the lifetime of the asset. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align our credit loss methodology with the new standard. The amendments will be effective for the Company's annual and interim periods beginning October 1, 2021, with early adoption permitted. The Company is currently evaluating the impact of this pronouncement on the Company's consolidated financial statements and disclosures.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform ("ASU 2020-04"). ASU 2020-04 provides optional guidance for a limited period of time to ease potential accounting impact associated with transitioning away from reference rates that are expected to be discontinued, such as the London Interbank Offered Rate ("LIBOR"). The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The amendments in ASU 2020-04 can be adopted as of March 12, 2020 and are effective through December 31, 2022. The Company is currently evaluating the whether it will adopt this pronouncement and the resulting impacts, if any, of adoption on the Company's consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15"). ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the non-cancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. The standard can be adopted either using the prospective or retrospective transition approach, and is effective for the Company's annual and interim periods beginning October 1, 2020. The Company is currently evaluating which transition approach it will elect and the impact of this pronouncement on the Company's consolidated financial statements and disclosures.

Other recently issued accounting pronouncements are not expected to have a material impact on the Company's financial statements.

## **2. Acquisitions**

### *Power Solutions Transaction*

As disclosed in Note 1, JCI agreed to sell, and the Purchaser agreed to acquire, the Company for a gross purchase price of \$13.2 billion. The transaction closed on April 30, 2019. As of April 30, 2020, the Company completed the analysis to assign fair values to all assets acquired and liabilities assumed, finalizing the purchase price allocation. The Company accounted for the Acquisition as a business combination using the acquisition method of accounting. At closing, the Company issued its equity interest valued at \$2.9 billion, and utilized \$9.9 billion of the proceeds from the Company's issuance of \$10.3 billion of debt (see Note 8) to finance the net purchase price of \$12.8 billion as defined by the Purchase Agreement. For the five months ended September 30, 2019 and seven months ended April 30, 2019, selling, general and administrative expenses included transaction costs of \$79 million and \$58 million, respectively. There were no transaction costs incurred for the years ended September 30, 2020 and 2018.

The assets acquired and liabilities assumed were recorded at their respective fair values as of the Acquisition Date. The Company engaged independent valuation specialists to assist with the determination of the fair value of assets acquired, liabilities assumed, noncontrolling interest, and goodwill, based on business valuation methodologies and utilized income, market, and cost valuation methods to estimate fair value. The income valuation method represents the present value of future cash flows over the life of the asset or asset group using: (i) discrete financial forecasts, which rely on management's estimate of the results of future revenues and operating expenses; (ii) long-term growth rates; (iii) appropriate discount rates; and (iv) expected future capital requirements. The market valuation method uses prices paid for a similar asset by other purchasers in the market, normalized for any differences between the assets. The cost valuation method is based on the replacement cost of a comparable asset at the time of the acquisition adjusted for depreciation and economic and functional obsolescence of the asset.

The purchase price allocation of the Acquisition is as follows (in millions):

	Purchase Price Allocation
Purchase price (a)	\$ 12,657
Cash	11
Accounts receivable	1,130
Inventories (b)	1,765
Other current assets	341
Property, plant and equipment (c)	3,494
Operating lease right-of-use assets	83
Other intangible assets (d)	6,550
Investments in partially-owned affiliates (e)	833
Noncurrent income tax assets (f)	17
Other noncurrent assets	25
Assets acquired	14,249
Finance lease liabilities	38
Operating lease liabilities	83
Accounts payable	1,034
Accrued compensation and benefits	103
Other current liabilities	536
Pension and postretirement benefits	96
Noncurrent income tax liabilities (f)	867
Other noncurrent liabilities	84
Liabilities assumed	2,841
Net identifiable assets acquired	11,408
Noncontrolling interest (g)	(468)
Goodwill acquired	\$ 1,717

(a) Subsequent to September 30, 2019 and prior to closing the measurement period, the Company recorded a reduction of the purchase price due to certain working capital adjustments in accordance with the Purchase Agreement in the amount of \$113 million. Any future agreements with JCI to reconcile working capital and other accounts in accordance with the Purchase Agreement will be recognized in the income statement in the period in which agreement is reached between the parties, which could result in a material impact to the financial statements.

(b) The fair value of finished goods and work-in-process inventory is based on the income valuation method, which relies on estimates of inventory selling prices, cost-to-dispose of inventory, and cost-to-convert work-in-process to finished goods inventory. The fair value of raw materials inventory is based on the cost valuation method.

(c) The fair value of property, plant and equipment is based on applying the cost valuation method, which relies on published market cost data for comparable assets and estimates of the remaining useful life of subject assets.

(d) The fair value of other intangible assets was determined by applying the income valuation method. The fair value of customer relationships, technology and trademarks relies on projected financial results with the fair value of customer relationships relying upon estimated customer attrition rates, and the fair value of both technology and trademarks relying upon published royalty rate market data. Subsequent to September 30, 2019 and prior to closing the measurement period, adjustments were made to increase the fair value of customer relationships, trademarks - definite-life, and trademarks - indefinite-life, by \$40 million, \$20 million, and \$70 million, respectively, and the weighted average life of trademarks - definite-life was decreased from 14 years to 11 years. These adjustments reflect the measurement of acquired other intangible assets using finalized discount rates and did not have a material impact on the consolidated statement of income (loss) and consolidated statement of cash flows.

(e) The fair value of the Company's significant investments in partially-owned affiliates was primarily determined by applying the income valuation method, which relies on projected financial results and discount rates based on the capital structures for similar market participants and included various risk premiums that account for risks associated with the specific investments. The remainder of the fair value of the Company's significant investments in partially-owned affiliates was determined by applying the market valuation method which considers the price that would be paid to acquire a similar asset in an orderly transaction between market participants. This includes equity method goodwill of \$222 million due to the excess estimated fair value over the book value of the investments.

(f) Deferred income tax assets and liabilities represent the future tax benefit or tax expense associated with the differences between the fair value allocated to assets (excluding goodwill) and liabilities and the historical carryover tax basis of these

assets and liabilities, where applicable. A deferred tax liability has not been recognized for the basis difference inherent in the fair value allocated to goodwill. Subsequent to September 30, 2019 and prior to closing the measurement period, adjustments were made to decrease noncurrent income tax assets by \$154 million and noncurrent income tax liabilities by \$94 million. These adjustments reflect the measurement of deferred taxes taking into account the reduction of the purchase price, increase in other intangible assets, and other matters, and did not have a material impact on the consolidated statement of income (loss) and consolidated statement of cash flows.

(g) The fair value of noncontrolling interest was determined by applying the income valuation method, which relies on projected financial results, long-term growth rates, and discount rates associated with the noncontrolling interest's lack of control.

The excess of the purchase price over the estimated fair values of the assets acquired and the liabilities assumed was recognized as goodwill at the Acquisition Date. The goodwill reflects the value paid primarily for future customer growth, the development of future technology, and the assembled workforce.

The purchase price allocation to identifiable other intangible assets acquired is as follows (in millions):

	Fair Value	Weighted Average Life (in years)
Definite-lived intangible assets		
Customer relationships	\$ 5,010	16
Technology	940	14
Trademarks - definite-life	30	11
Total definite-lived intangible assets	5,980	
Trademarks - indefinite-life	570	
Total other intangible assets	<u>\$ 6,550</u>	

#### *Bosch Transaction*

On August 9, 2019, the Company entered into an agreement with Robert Bosch GmbH ("Bosch"), pursuant to which the Company agreed to acquire from Bosch the 20% interests held by Bosch in the joint venture in which the Company holds the remaining interests. The transaction closed on December 12, 2019, the purchase price being funded through the Company's available liquidity. The effect of the change in the Company's ownership interest in the joint venture with Bosch is as follows (in millions):

	Equity Attributable to the Company	Noncontrolling Interest	Total Equity
Balance as of September 30, 2019	\$ 2,475	\$ 448	\$ 2,923
Net loss	(399)	(3)	(402)
Other comprehensive income (loss), net of tax	(251)	4	(247)
Change in noncontrolling interests	(12)	(428)	(440)
Balance as of September 30, 2020	<u>\$ 1,813</u>	<u>\$ 21</u>	<u>\$ 1,834</u>

### **3. Revenue**

The Company services both automotive OEM and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The majority of the Company's revenue is generated through the manufacture and sale of automotive battery products, of which the delivery of goods ordered typically represents the Company's sole performance obligation with respect to distinct goods and services offered to customers. The Company recognizes revenue typically at the point in time when control over the goods transfers to the customer as specified by the shipping terms agreed upon with the customer.

The transaction price includes the total consideration expected to be received under the contract which may include both cash and noncash components. The calculation of the transaction price for contracts containing noncash consideration includes the fair value of the noncash consideration to be received as of the contract's inception date. Noncash consideration received from customers consists of spent battery cores for which the Company estimates fair value based on the lead content to be obtained from their reclamation and the market price of the relevant lead index as of the contract's inception date; this is considered to be a level 2 fair value measurement. Certain agreements contain price arrangements that represent material rights to customers for

battery core returns. Material rights are accounted for as separate performance obligations and recognized as a deferred revenue within other current liabilities in the consolidated statements of financial position. Material rights are recognized as revenue as the option is exercised or expires.

The Company considers the contractual consideration payable by the customer and assesses variable consideration that may affect the total transaction price, including discounts, rebates, refunds, credits or other similar sources of variable consideration, when determining the transaction price of each contract. The Company includes variable consideration in the estimated transaction price when it is probable that significant reversal of revenue recognized would not occur when the uncertainty associated with variable consideration is subsequently resolved. These estimates are based on the amount of consideration that the Company expects to be entitled to.

Shipping and handling costs billed to customers are included in sales and the related costs are included in cost of sales when control transfers to the customer. The Company has elected to present amounts collected from customers for sales and other taxes net of the related amounts remitted.

### ***Disaggregated Revenue***

The following tables presents disaggregation of revenues by geography (in millions):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018 (unaudited)
Americas	\$ 4,710	\$ 2,230	\$ 3,090	\$ 4,349
Europe	2,036	946	1,281	2,478
Asia	856	359	622	1,173
Total revenue	<u>\$ 7,602</u>	<u>\$ 3,535</u>	<u>\$ 4,993</u>	<u>\$ 8,000</u>

### ***Contract Balances***

Contract assets relate to the Company's right to consideration for performance obligations satisfied but not billed and consist primarily of unbilled receivables. Contract liabilities relate to customer payments received in advance of satisfaction of performance obligations under the contract and consist of deferred revenue. Contract balances are classified as assets or liabilities on a contract-by-contract basis at the end of each reporting period.

The following table presents the location and amount of contract balances in the Company's consolidated statements of financial position (in millions):

	Location of contract balances	September 30, 2020	September 30, 2019
Contract assets - current	Accounts receivable - net	\$ 3	\$ 22
Contract assets - current	Other current assets	11	23
Contract liabilities - current	Other current liabilities	(16)	(12)

For the year ended September 30, 2020 and seven months ended April 30, 2019, the Company recognized revenue of \$12 million and \$64 million, respectively, that was included in the beginning contract liability balance for the respective periods.

### ***Remaining Performance Obligations***

A performance obligation is a distinct good, service, or a bundle of goods and services promised in a contract. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For product sales, each product sold to a customer typically represents a distinct performance obligation. The Company satisfies performance obligations at a point in time. The Company has applied the practical expedient to exclude the value of remaining performance obligations for contracts with an original expected duration of one year or less.

#### 4. Inventories

Inventories consisted of the following (in millions):

	September 30, 2020	September 30, 2019
Raw materials and supplies	\$ 396	\$ 336
Work-in-process	377	448
Finished goods	462	545
Inventories	<u>\$ 1,235</u>	<u>\$ 1,329</u>

#### 5. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in millions):

	September 30, 2020	September 30, 2019
Buildings and improvements	\$ 877	\$ 808
Machinery and equipment	2,362	2,024
Construction in progress	520	623
Land	197	193
Total property, plant and equipment	<u>3,956</u>	<u>3,648</u>
Less: accumulated depreciation	<u>(460)</u>	<u>(120)</u>
Property, plant and equipment - net	<u>\$ 3,496</u>	<u>\$ 3,528</u>

Fixed asset acquisitions in accounts payable at September 30, 2020 and 2019 were \$95 million and \$123 million, respectively.

#### 6. Goodwill and Other Intangible Assets

At September 30, 2020 and 2019 the carrying amount of goodwill was \$1,742 million and \$1,819 million, respectively. The decrease in the carrying amount of goodwill for the year ended September 30, 2020 was the result of \$113 million of net activity related to the Acquisition, including a purchase price reduction and various allocation adjustments, partially offset by \$36 million of foreign currency translation. There were no goodwill impairments resulting from the annual impairment tests performed in the Successor and Predecessor periods presented. At September 30, 2020 there were no accumulated impairment charges. The Company continuously monitors for events and circumstances that could negatively impact the key assumptions in determining fair value, including long-term revenue growth projections, profitability, discount rates, recent market valuations from transactions by comparable companies, and general industry, market and macro-economic conditions. It is possible that future changes in such circumstances, or in the variables associated with the judgments, assumptions and estimates used in assessing the fair value of the reporting unit, would require the Company to record a non-cash impairment charge.

The assumptions included in the impairment tests require judgment, and changes to these inputs could impact the results of the calculations. The primary assumptions used in the impairment tests were the business growth rates and discount rates. Although the Company's forecasts are based on assumptions that are considered reasonable by management and consistent with the plans and estimates management is using to operate the underlying businesses, there are significant judgments in determining the expected future growth rates of a reporting unit.

The Company's other intangible assets, primarily from business acquisitions valued based on independent valuations, consisted of (in millions):

	September 30, 2020			September 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Definite-lived intangible assets						
Customer relationships	\$ 5,001	\$ (459)	\$ 4,542	\$ 4,921	\$ (130)	\$ 4,791
Technology	945	(96)	849	927	(29)	898
Trademarks and miscellaneous	30	(4)	26	13	—	13
Total definite-lived intangible assets	5,976	(559)	5,417	5,861	(159)	5,702
Trademarks - indefinite-life	576	—	576	491	—	491
Total other intangible assets	<u>\$ 6,552</u>	<u>\$ (559)</u>	<u>\$ 5,993</u>	<u>\$ 6,352</u>	<u>\$ (159)</u>	<u>\$ 6,193</u>

The amortization of other intangible assets for the periods presented were as follows (in millions):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Amortization expense	<u>\$ 394</u>	<u>\$ 161</u>	<u>\$ 4</u>	<u>\$ 8</u>

Excluding the impact of any future acquisitions, the Company anticipates amortization for the years ending September 30, 2021, 2022, 2023, 2024 and 2025 will be approximately \$386 million per year.

## 7. Leases

The Company leases certain warehouses, office space, equipment and vehicles.

Some leases include one or more options to renew with renewal terms that can extend the lease term, and or options to purchase leased assets. The exercise of either a lease renewal or a purchase option is at the Company's sole discretion. The Company's lease agreements do not contain restrictions or covenants. The depreciable life of assets and leasehold improvements are limited by the expected lease term. The amounts disclosed in our consolidated statements of financial position as of September 30, 2020 and September 30, 2019 pertaining to the ROU assets and lease liabilities were measured based on current expectations of exercising available renewal options.

We utilize our incremental borrowing rate ("IBR") as the basis to calculate the present value of future lease payments, which includes residual value guarantees, purchase options and variable lease payments, where applicable, at lease commencement. Our IBR represents the rate that we would have to pay to borrow funds on a collateralized basis over a similar term and in a similar economic environment.

Leases with an initial term of 12 months or less are not recorded on our consolidated statements of financial position; we recognize lease expense for these leases on a straight-line basis over the lease term.

As of September 30, 2020, we have not entered into any leases, which have not yet commenced, that would entitle us to significant rights or create additional obligations.

The following table presents the components of the Company's lease expense and the classification in the consolidated & combined statements of income (loss) for the periods presented (in millions):

	Classification	Successor		Predecessor	
		Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Operating lease cost <sup>(1)</sup>	Cost of sales / Selling, general and administrative expenses	\$ 41	\$ 18	\$ 33	\$ 48
Finance lease cost <sup>(2)</sup>					
Amortization	Cost of sales / Selling, general and administrative expenses	8	2	6	2
Interest	Net financing charges	2	1	1	1
Net lease cost		<u>\$ 51</u>	<u>\$ 21</u>	<u>\$ 40</u>	<u>\$ 51</u>

<sup>(1)</sup> Includes short-term leases and variable lease costs, which are immaterial.

<sup>(2)</sup> Predecessor period amounts are unaudited.

The following table presents the balance and classifications of our ROU assets and lease liabilities included in our consolidated statements of financial position for the periods presented (in millions):

	Classification	September 30, 2020	September 30, 2019
Assets			
Operating lease assets	Operating lease right-of-use assets	\$ 93	\$ 75
Finance lease assets <sup>(1)</sup>	Property, plant and equipment - net	50	43
Total leased assets		<u>\$ 143</u>	<u>\$ 118</u>
Liabilities			
Current			
Operating lease liabilities	Operating lease - current liabilities	\$ 30	\$ 26
Finance lease liabilities	Current portion of long-term debt	9	19
Noncurrent			
Operating lease liabilities	Operating lease - noncurrent liabilities	62	49
Finance lease liabilities	Long-term debt	43	27
Total lease liabilities		<u>\$ 144</u>	<u>\$ 121</u>

<sup>(1)</sup> Finance lease assets are recorded net of accumulated amortization of \$10 million and \$2 million as of September 30, 2020 and 2019, respectively.

The following table presents our weighted-average remaining lease terms and weighted-average IBR for our operating and financing leases for the periods presented:

	September 30, 2020	September 30, 2019
Weighted-average remaining lease term (years)		
Operating leases	3.93	3.39
Finance leases	3.23	2.91
Weighted-average IBR		
Operating leases	6.63 %	6.67 %
Finance leases	6.76 %	5.02 %

The following table presents additional information related to cash paid for amounts included in the measurement of lease liabilities included in our consolidated statement of cash flows for the periods presented (in millions):

	Year Ended September 30, 2020	Five Months Ended September 30, 2019
Operating cash flows for operating leases	\$ (41)	\$ (18)
Operating cash flows for finance leases	(2)	(1)
Financing cash flows for finance leases	(8)	(2)

The following table presents the future undiscounted maturities of our operating and financing leases at September 30, 2020 and for each of the next five fiscal years and thereafter (in millions):

	Operating Leases	Finance Leases	Total
2021	\$ 35	\$ 12	\$ 47
2022	25	20	45
2023	20	20	40
2024	13	3	16
2025	5	3	8
After 2025	7	2	9
Total lease payments	\$ 105	\$ 60	\$ 165
Less: interest	(13)	(8)	(21)
Present value of lease liabilities	<u>\$ 92</u>	<u>\$ 52</u>	<u>\$ 144</u>

## 8. Debt and Financing Arrangements

Long-term debt consisted of the following (in millions):

	September 30, 2020	September 30, 2019
2026 USD Secured notes (a)	\$ 1,000	\$ 1,000
2025 Secured notes (a)	500	—
Euro Secured notes (a)	821	765
Unsecured notes (a)	1,950	1,950
USD term loan (b)	4,158	4,200
Euro term loan (b)	2,294	2,138
ABL facility (b)	—	75
Deferred financing cost	(271)	(309)
Finance lease liabilities (Note 7)	<u>52</u>	<u>46</u>
Gross long-term debt	10,504	9,865
Less: current portion		
USD term loan	42	42
Finance lease liabilities (Note 7)	<u>9</u>	<u>19</u>
Net long-term debt	<u>\$ 10,453</u>	<u>\$ 9,804</u>

(a) In connection with the Acquisition, we issued \$1,000 million aggregate principal amount of 6.250% Senior Secured Notes due 2026 (the “2026 USD Secured Notes”), €700 million aggregate principal amount of 4.375% Senior Secured Notes due 2026 (the “Euro Secured Notes” and, together with the 2026 USD Secured Notes, the “2026 Secured Notes”) and \$1,950 million aggregate principal amount of 8.500% Senior Notes due 2027 (the “Unsecured Notes” and, together with the Secured Notes, the “Acquisition Financing Notes”). The Company used the net proceeds from the issuance of the Acquisition Financing Notes to finance the Acquisition.

In addition, on May 20, 2020, we issued \$500 million aggregate principal amount of 6.750% Senior Secured Notes due 2025 (the “2025 Secured Notes”). The Company used the net proceeds from the issuance of the 2025 Secured Notes for general corporate purposes.



(b) In connection with the Acquisition, the Company also entered into (i) senior secured credit facilities, initially consisting of (x) a 7-year \$6,409 million equivalent principal amount first lien term loan facility (the "Term Loan Facility") consisting of (1) a \$4,200 million US Dollar denominated tranche (the "USD Term Loan") with effective interest rate of 3.648% and 5.516% as of September 30, 2020 and September 30, 2019, respectively, and (2) a €1,955 million euro-denominated tranche (the "Euro Term Loan") with effective interest rate of 3.750% as of September 30, 2020 and September 30, 2019, and (y) a 5-year \$750 million first lien revolving credit facility (the "Revolving Facility"), and (ii) a 5-year \$500 million asset-based revolving credit facility (the "ABL Facility"). The Company used the proceeds of the borrowings under the Term Loan Facility and the ABL Facility to pay the cash consideration for the Acquisition and pay related fees and expenses. On March 5, 2020, the Company entered into an incremental amendment to the ABL Facility pursuant to which the aggregate commitments were increased by \$250 million to \$750 million in the aggregate. There were no outstanding borrowings under the Revolving Facility as of September 30, 2020 and as of September 30, 2019. There were no outstanding borrowings under the ABL facility as of September 30, 2020 and \$75 million of outstanding borrowings as of September 30, 2019. During the year ended September 30, 2020, the Company made \$42 million in scheduled principal payments on the USD Term Loan.

The installments of long-term debt, excluding lease obligations and deferred financing costs, maturing in the years ending September 30, 2021 - \$42 million; 2022 - \$42 million; 2023 - \$42 million; 2024 - \$42 million; 2025 - \$542 million; 2026 and thereafter - \$10.0 billion.

Total cash paid for interest on debt for the year ended September 30, 2020 was \$596 million. Total cash paid for interest on debt for the five months ended September 30, 2019, seven months ended April 30, 2019 and year ended September 30, 2018 was \$144 million, \$5 million and \$14 million, respectively.

The Company's net financing charges line item in the consolidated & combined statements of income (loss) for the periods presented contained the following components (in millions):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Interest expense	\$ 578	\$ 283	\$ 5	\$ 14
Supply chain financing fees	26	19	16	27
Banking fees and bond cost amortization	58	22	1	1
Interest income	(1)	(12)	(1)	(3)
Net foreign exchange results for financing activities	56	(38)	2	1
Net financing charges	<u>\$ 717</u>	<u>\$ 274</u>	<u>\$ 23</u>	<u>\$ 40</u>

## 9. Derivative Instruments and Hedging Activities

The Company selectively uses derivative instruments to reduce the Company's market risk associated with changes in interest rates, foreign currency and commodities. Under the Company's policy, the use of derivatives is restricted to those intended for hedging purposes; the use of any derivative instrument for speculative purposes is strictly prohibited. A description of each type of derivative utilized by the Company to manage the Company's risk is included in the following paragraphs.

### *Cash Flow Hedges*

Subsequent to the Acquisition, the Company has USD denominated variable-rate debt obligations and selectively enters into variable to fixed interest rate swaps to minimize variability in cash flows for interest payments associated with the designated proportion of the hedged debt. As cash flow hedges under ASC 815, "Derivatives and Hedging," the hedge gains or losses due to changes in fair value are initially recorded as a component of accumulated other comprehensive income ("AOCI") and are subsequently reclassified into earnings when the hedged transactions occur and affect earnings. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in interest rates during the year ended September 30, 2020 and the five months ended September 30, 2019. The Company entered into nine interest rate swaps to hedge the variability in future cash flows associated with a portion of the Company's variable-rate term loans. Four interest rate swaps, which became effective in May 2019 (the "May 2019 Interest Rate Swaps"), convert \$1,000 million of the Company's variable-rate USD term loans to a weighted average fixed interest rate of 2.153% plus the applicable margin. Four interest rate swaps, which became effective in July 2019 (the "July 2019 Interest Rate Swaps"), convert \$1,000 million of the Company's variable-rate USD term loans to a weighted average fixed interest rate of 1.653% plus the applicable margin. One interest rate swap, which became effective in June 2020 (the "June 2020 Interest Rate Swap"), converts \$250 million of the Company's

variable-rate USD term loans to a weighted average fixed interest rate 0.519% plus the applicable margin (inclusive of a 0.0% LIBOR floor). The May 2019 Interest Rate Swaps and July 2019 Interest Rate Swaps mature on May 31, 2024. The June 2020 Interest Rate Swap matures on April 30, 2025.

Subsequent to the Acquisition, the Company has Euro denominated variable-rate debt obligations and selectively enters into interest rate caps to minimize extreme adverse variability in cash flows for interest payments associated with the designated proportion of the hedged debt. As cash flow hedges, the hedge gains or losses due to changes in fair value are initially recorded as a component of AOCI and are subsequently reclassified into earnings when the hedged transactions occur and affect earnings. The option premiums paid for the caps are recorded to interest expense over the life of the cap on a straight-line basis. The foreign currency transaction gains and losses on the Euro caps are recognized in earnings each period. The hedged interest rate was below the strike price on the caps during the year ended September 30, 2020 and the five months ended September 30, 2019. The Company entered into four interest rate caps to further mitigate the Company's exposure to increasing interest rates on its variable-rate Euro term loans. Two interest rate caps were effective beginning in May 2019 with a maturity of May 31, 2024, and they cap the interest on €500 million of the Company's variable-rate term loans at 0.5%, plus the applicable margin. In executing these interest rate caps, the Company paid a premium of \$3.7 million. Two interest rate caps were effective beginning in July 2019 with a maturity of May 31, 2024, and they cap the interest on €500 million of the Company's variable-rate term loans at 0.0%, plus the applicable margin. In executing these interest rate caps, the Company paid a premium of \$3.6 million.

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in foreign currency exchange rates. The Company selectively hedges the Company's anticipated transactions that are subject to foreign exchange rate risk primarily using foreign currency exchange hedge contracts. Prior to the Acquisition, the Parent Company hedged 70% to 90% of the nominal amount of each of the Company's known foreign exchange transactional exposures. As cash flow hedges under ASC 815, "Derivatives and Hedging," the hedge gains or losses due to changes in fair value were initially recorded as a component of AOCI and were subsequently reclassified into earnings when the hedged transactions occurred and affected earnings. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates during the Predecessor periods presented. As of September 30, 2020, the Company does not have any outstanding foreign currency exchange hedge contracts designated as hedging instruments.

Prior and subsequent to the Acquisition, the Company selectively hedged anticipated transactions that were subject to commodity price risk, primarily using commodity hedge contracts, to minimize overall price risk associated with the Company's purchases of lead, tin and polypropylene in cases where commodity price risk cannot be naturally offset or hedged through supply base fixed price contracts. Commodity risks were systematically managed pursuant to policy guidelines. As cash flow hedges, the hedge gains or losses due to changes in fair value were initially recorded as a component of AOCI and were subsequently reclassified into earnings when the hedged transactions, typically sales, occurred and affected earnings. The maturities of the commodity hedge contracts coincided with the expected purchase of the commodities. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in commodity prices during the periods presented.

The Company had the following outstanding contracts to hedge forecasted commodity purchases (in metric tons):

Commodity	Volume Outstanding as of	
	September 30, 2020	September 30, 2019
Polypropylene	39,017	21,365
Lead	67,578	21,241
Tin	2,517	3,190

#### *Net Investment Hedges*

The Company enters into foreign currency denominated debt obligations to selectively hedge portions of its net investment in non-U.S. subsidiaries. The currency effects of the debt obligations are reflected in the AOCI account within equity where they offset currency gains and losses recorded on the Company's net investments in Europe. At September 30, 2020 and September 30, 2019, the Company had €2.1 billion and €1.9 billion, respectively, of debt designated as a net investment hedge in the Company's net investment in Europe.

### Derivatives Not Designated as Hedging Instruments

The Company also holds certain foreign currency forward contracts which do not qualify for hedge accounting treatment. The change in fair value of foreign currency exchange derivatives not designated as hedging instruments under ASC 815 are recorded in the consolidated & combined statements of income (loss).

### Fair Value of Derivative Instruments

The following table presents the location and fair values of derivative instruments and hedging activities included in the Company's consolidated statements of financial position (in millions):

	Derivatives and Hedging Activities Designated as Hedging Instruments under ASC 815		Derivatives and Hedging Activities Not Designated as Hedging Instruments under ASC 815	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Other current assets				
Foreign currency exchange derivatives	\$ —	\$ —	\$ 1	\$ 1
Commodity derivatives	4	2	—	—
Other noncurrent assets				
Interest rate caps	1	2	—	—
Total assets	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 1</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ —	\$ —	\$ 4	\$ 3
Commodity derivatives	6	6	—	—
Other noncurrent liabilities				
Interest rate swaps	119	44	—	—
Total liabilities	<u>\$ 125</u>	<u>\$ 50</u>	<u>\$ 4</u>	<u>\$ 3</u>

### Counterparty Credit Risk

The use of derivative financial instruments exposes the Company to counterparty credit risk. The Company has established policies and procedures to limit the potential for counterparty credit risk, including establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. As a matter of practice, the Company deals with major banks worldwide having strong investment grade long-term credit ratings. To further reduce the risk of loss, the Company generally enters into International Swaps and Derivatives Association master netting agreements with substantially all of its counterparties. The Company's derivative contracts do not contain any credit risk related contingent features and do not require collateral or other security to be furnished by the Company or the counterparties. The Company's exposure to credit risk associated with its derivative instruments is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. The Company does not anticipate any non-performance by any of its counterparties, and the concentration of risk with financial institutions does not present significant credit risk to the Company.

### Derivatives Impact on the Consolidated & Combined Statements of Income (Loss) and Statements of Comprehensive Income (Loss)

The following table presents the pre-tax gains (losses) recorded in other comprehensive income (loss) related to cash flow hedges for the periods presented (in millions):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Derivatives in ASC 815 Cash Flow Hedging Relationships				
Foreign currency exchange derivatives	\$ —	\$ —	\$ (2)	\$ 5
Commodity derivatives	(12)	(4)	—	(15)
Interest rate swaps	(93)	(44)	—	—
Interest rate caps	(1)	(4)	—	—
Total	<u>\$ (106)</u>	<u>\$ (52)</u>	<u>\$ (2)</u>	<u>\$ (10)</u>

The following table presents the location and amount of the pre-tax gains (losses) on cash flow hedges reclassified from AOCI into the Company's consolidated & combined statements of income (loss) for the periods presented (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Successor		Predecessor	
		Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Commodity derivatives	Cost of sales	\$ (15)	\$ —	\$ (10)	\$ 7
Foreign currency exchange derivatives	Cost of sales	—	—	—	2
Interest rate swaps	Net financing charges	(18)	—	—	—
Interest rate caps	Net financing charges	(1)	—	—	—
Total		<u>\$ (34)</u>	<u>\$ —</u>	<u>\$ (10)</u>	<u>\$ 9</u>

The following table presents the location and amount of pre-tax gains (losses) on derivatives not designated as hedging instruments recognized in the Company's consolidated & combined statements of income (loss) for the periods presented (in millions):

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain (Loss) Recognized in Income on Derivative	Successor		Predecessor	
		Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Foreign currency exchange derivatives	Cost of sales	\$ (10)	\$ —	\$ (1)	\$ 1
Foreign currency exchange derivatives	Net financing charges	(2)	(1)	53	(9)
Foreign currency exchange derivatives	Income tax provision	—	—	—	1
Total		<u>\$ (12)</u>	<u>\$ (1)</u>	<u>\$ 52</u>	<u>\$ (7)</u>

## 10. Fair Value Measurements

ASC 820, "Fair Value Measurement," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

*Level 1:* Observable inputs such as quoted prices in active markets for identical assets or liabilities;

*Level 2:* Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

*Level 3:* Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

## Recurring Fair Value Measurements

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value as of September 30, 2020 and September 30, 2019 (in millions):

Fair Value Measurements Using:				
	Total as of September 30, 2020	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 1	\$ —	\$ 1	\$ —
Commodity derivatives	4	—	4	—
Other noncurrent assets				
Investments in marketable common stock	2	2	—	—
Interest rate caps	1	—	1	—
Total assets	<u>\$ 8</u>	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 4	\$ —	\$ 4	\$ —
Commodity derivatives	6	—	6	—
Other noncurrent liabilities				
Interest rate swaps	119	—	119	—
Total liabilities	<u>\$ 129</u>	<u>\$ —</u>	<u>\$ 129</u>	<u>\$ —</u>

Fair Value Measurements Using:				
	Total as of September 30, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 1	\$ —	\$ 1	\$ —
Commodity derivatives	2	—	2	—
Other noncurrent assets				
Investments in marketable common stock	3	3	—	—
Interest rate caps	2	—	2	—
Total assets	<u>\$ 8</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 3	\$ —	\$ 3	\$ —
Commodity derivatives	6	—	6	—
Other noncurrent liabilities				
Interest rate swaps	44	—	44	—
Total liabilities	<u>\$ 53</u>	<u>\$ —</u>	<u>\$ 53</u>	<u>\$ —</u>

## Valuation Methods

*Foreign currency exchange derivatives:* The foreign currency exchange derivatives are valued under a market approach using publicized spot and forward prices.

*Commodity derivatives:* The commodity derivatives are valued under a market approach using publicized prices, where available, or dealer quotes.

**Investments in marketable common stock:** Investments in marketable common stock are valued using a market approach based on the quoted market prices. During the year ended September 30, 2020, the unrealized gains (losses) recognized in the consolidated statements of income (loss) on these investments that were still held as of September 30, 2020 were approximately (\$1 million). During the five months ended September 30, 2019 and seven months ended April 30, 2019, the Company recognized minimal unrealized gains or losses in the consolidated & combined statements of of income (loss) on these investments that were still held as of those dates.

**Interest rate caps:** The interest rate caps are valued under a market approach based on pricing models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves and interest rates.

**Interest rate swaps:** The interest rate swaps are valued under a market approach based on pricing models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves and interest rates.

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values. The fair value of the Acquisitions Financing Notes, 2025 Secured Notes, and term loans were \$10.8 billion at September 30, 2020, which was determined based on quoted market prices for similar instruments classified as Level 2 inputs within the ASC 820 fair value hierarchy. The carrying value of other long-term debt approximates fair value.

## 11. Accumulated Other Comprehensive Loss

The following schedules present changes in AOCI attributable to the Company (in millions, net of tax):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
<b>Foreign currency translation adjustments</b>				
Balance at beginning of period	\$ (49)	\$ —	\$ (391)	\$ (237)
Aggregate adjustment for the period (net of tax effect of \$(3), \$0, \$0 and \$0)	(180)	(49)	(85)	(154)
Change in noncontrolling interests (net of tax effect of \$0, \$0, \$0 and \$0)	(7)	—	—	—
Balance at end of period	(236)	(49)	(476)	(391)
<b>Realized and unrealized gains (losses) on derivatives</b>				
Balance at beginning of period	(52)	—	(7)	5
Current period changes in fair value (net of tax effect of \$(3), \$0, \$0 and \$(4))	(103)	(52)	(2)	(6)
Reclassification to income (net of tax effect of \$2, \$0, \$4 and \$(3)) *	32	—	6	(6)
Balance at end of period	(123)	(52)	(3)	(7)
<b>Realized and unrealized losses on marketable securities</b>				
Balance at beginning of period	—	—	(8)	(4)
Adoption of ASU 2016-01 **	—	—	8	—
Current period changes in fair value (net of tax effect of \$0)	—	—	—	(4)
Balance at end of period	—	—	—	(8)
<b>Pension and postretirement plans</b>				
Balance at beginning of period	—	—	(2)	(2)
Other changes	—	—	—	—
Balance at end of period	—	—	(2)	(2)
Accumulated other comprehensive loss, end of period	\$ (359)	\$ (101)	\$ (481)	\$ (408)

\* Refer to Note 9, "Derivative Instruments and Hedging Activities," of the notes to financial statements for disclosure of the line items on the consolidated & combined statements of income (loss) affected by reclassifications from AOCI into income related to derivatives.

\*\* As previously disclosed, during the quarter ended December 31, 2018, the Company adopted ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." As a

result, the Company reclassified \$8 million of unrealized losses on marketable securities to parent company investment as of October 1, 2018.

## **12. Retirement Plans**

### **Participation in JCI Defined Benefit Pension Plans**

Certain retired U.S. employees of the Company receive defined benefit pension benefits through various JCI pension plans. Eligible active employees will also receive defined benefit pension benefits through various JCI pension plans in the United States upon retirement. These assets or liabilities are not reflected in the consolidated statements of financial position. Allocated income in connection with these plans was immaterial for the seven months ended April 30, 2019 and \$7 million for the year ended September 30, 2018. There is no impact to the Successor financial statements related to JCI pension plans.

### **Pension Benefits**

The Company has non-contributory defined benefit pension plans covering certain U.S. and non-U.S. employees. The benefits provided are primarily based on years of service and average compensation or a monthly retirement benefit amount. Funding for U.S. pension plans equals or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974. Funding for non-U.S. plans observes the local legal and regulatory limits.

For pension plans with accumulated benefit obligations ("ABO") that exceed plan assets, the projected benefit obligation ("PBO"), ABO and fair value of plan assets of those plans were \$590 million, \$536 million and \$384 million, respectively, as of September 30, 2020 and \$546 million, \$496 million and \$405 million, respectively, as of September 30, 2019.

In the year ended September 30, 2020 total contributions to the defined benefit pension plans were \$4 million, of which \$3 million were voluntary contributions made by the Company. The Company expects to contribute approximately \$5 million in cash to its defined benefit pension plans in the year ending September 30, 2021. Projected benefit payments from the plans as of September 30, 2020 are estimated as follows (in millions):

2021	\$	39
2022		36
2023		36
2024		35
2025		35
2026 - 2030		175

### **Postretirement Benefits**

The Company provides certain health care and life insurance benefits for eligible retirees and their dependents primarily in the U.S. Most non-U.S. employees are covered by government sponsored programs. The cost to the Company is immaterial.

Eligibility for coverage is based on meeting certain years of service and retirement age qualifications. These benefits may be subject to deductibles, co-payment provisions and other limitations, and the Company has reserved the right to modify these benefits.

The health care cost trend assumption does not have a material impact on the amounts reported.

For the year ended September 30, 2020, total employer contributions to the postretirement plans were not material. The Company does not expect to make any material contributions to its postretirement plans in the year ending September 30, 2021. Projected benefit payments from the plans as of September 30, 2020 are not expected to be material.

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act") for employers sponsoring postretirement care plans that provide prescription drug benefits. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D.1. Under the Act, the Medicare subsidy amount is received directly by the plan sponsor and not the related plan. Further, the plan sponsor is not required to use the subsidy amount to fund postretirement benefits and may use the subsidy for any valid business purpose. Projected subsidy receipts for each of the next ten years are not expected to be material.

As a result of the Acquisition (see Note 1 and Note 2), postretirement benefit plans were separated between participants with active status and retiree status. JCI retained participants with retiree status and the Company retained participants with active status. As such, the Company's postretirement PBO and fair value of plan assets as of April 30, 2019 was reduced from September 30, 2018 by \$31 million and \$51 million, respectively. Remaining PBO and fair value of plan assets are immaterial as of September 30, 2020 and September 30, 2019.

## Plan Assets

The Company's investment policies employ an approach whereby a mix of equities, fixed income and alternative investments are used to maximize the long-term return of plan assets for a prudent level of risk. The investment portfolio primarily contains a diversified blend of equity, fixed income and real estate investments. Equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small to large capitalization. Fixed income investments include corporate and government issues, with short-, mid- and long-term maturities, with a focus on investment grade when purchased and a target duration close to that of the plan liability. Investment and market risks are measured and monitored on an ongoing basis through regular investment portfolio reviews, annual liability measurements and periodic asset/liability studies. The majority of the real estate component of the portfolio is invested in a diversified portfolio of high-quality, operating properties with cash yields greater than the targeted appreciation. As a result of the Company's diversification strategies, there are no significant concentrations of risk within the portfolio of investments.

The Company's actual asset allocations are generally in line with target allocations, which targets approximately 50% equity securities 35% governmental, investment grade and other bonds, and 15% real estate. The Company re-balances asset allocations as appropriate, in order to stay within a range of allocation for each asset category. The expected return on plan assets is based on the Company's expectation of the long-term average rate of return of the capital markets in which the plans invest. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

The Company's plan assets at September 30, 2020 and 2019 by asset category are as follows (in millions):

Asset Category	Fair Value Measurements Using:			
	Total as of September 30, 2020	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b><u>U.S. Pension</u></b>				
Cash and Cash Equivalents	\$ 9	\$ —	\$ 9	\$ —
Total Investments in the Fair Value Hierarchy	\$ 9	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ —</u>
Investments Measured at Net Asset Value, as Practical Expedient:				
Common Collective Trusts*	<u>329</u>			
Total Plan Assets	<u>\$ 338</u>			
<b><u>Non-U.S. Pension</u></b>				
Investments Measured at Net Asset Value, as Practical Expedient:				
Common Collective Trusts*	<u>46</u>			
Total Plan Assets	<u>\$ 46</u>			



Asset Category	Fair Value Measurements Using:			
	Total as of September 30, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b><u>U.S. Pension</u></b>				
<b>Cash and Cash Equivalents</b>	\$ 9	\$ —	\$ 9	\$ —
Total Investments in the Fair Value Hierarchy	\$ 9	\$ —	\$ 9	\$ —
Investments Measured at Net Asset Value, as Practical Expedient:				
<b>Common Collective Trusts*</b>	352			
Total Plan Assets	\$ 361			
<b><u>Non-U.S. Pension</u></b>				
Investments Measured at Net Asset Value, as Practical Expedient:				
<b>Common Collective Trusts*</b>	44			
Total Plan Assets	\$ 44			

\* The fair value of certain investments do not have a readily determinable fair value and requires the fund managers to independently arrive at fair value by calculating net asset value ("NAV") per share. Due to the fact that the fund managers calculate NAV per share, the Company utilizes a practical expedient for measuring the fair value of certain investments, as provided for under ASC 820, "Fair Value Measurement." In applying the practical expedient, the Company is not required to further adjust the NAV provided by the fund manager in order to determine the fair value of its investment as the NAV per share is calculated in a manner consistent with the measurement principles of ASC 946, "Financial Services - Investment Companies," and as of the Company's measurement date. The Company believes this is an appropriate methodology to obtain the fair value of these assets. In accordance with ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," investments for which fair value is measured using the net asset value per share practical expedient should be disclosed separate from the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of total plan assets to the amounts presented in the notes to financial statements. For real estate, in order to calculate NAV per share, the fund managers value the real estate investments using any one, or a combination of, the following methods: independent third party appraisals, discounted cash flow analysis of net cash flows projected to be generated by the investment and recent sales of comparable investments. Assumptions used to revalue the properties are updated every quarter. For the component of the real estate portfolio under development, the investments are carried at cost until they are completed and valued by a third party appraiser. Certain prior year investments have been revised when the investments are valued using the NAV practical expedient. The investments were revised from Level 1 or Level 2 within the fair value hierarchy to the NAV disclosure that is separate from the fair value hierarchy.

The following is a description of the valuation methodologies used for assets measured at fair value. Certain assets are held within commingled funds which are valued at the unitized NAV or percentage of the net asset value as determined by the manager of the fund. These values are based on the fair value of the underlying net assets owned by the fund.

*Cash and Cash Equivalents:* The fair value of cash is valued at cost.

*Common collective trusts:* Fair value represents the net asset value of the fund shares. The NAV is based on the value of the underlying assets owned by the funds. The common collective trusts can be purchased or sold continuously.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There were no Level 3 assets as of September 30, 2020 or 2019 or any Level 3 asset activity for the Successor and Predecessor periods presented.

## Funded Status

The table that follows contains the ABO and reconciliation of the changes in the PBO, the changes in plan assets and the funded status (in millions):

	U.S. Plans			Non-U.S. Plans		
	Successor		Predecessor	Successor		Predecessor
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019
<b>Accumulated Benefit Obligation</b>	\$ 443	\$ 407	\$ 353	\$ 93	\$ 89	\$ 80
<b>Change in Projected Benefit Obligation</b>						
Projected benefit obligation at beginning of period (1)	449	400	395	96	90	89
Transfers in	—	—	—	—	—	1
Service cost	15	5	8	1	1	1
Interest cost	11	5	8	1	1	1
Actuarial loss	49	52	—	3	9	—
Benefits and settlements paid	(35)	(13)	(21)	(4)	(2)	(3)
Currency translation adjustment	—	—	—	4	(3)	(2)
Projected benefit obligation at end of period	<u>\$ 489</u>	<u>\$ 449</u>	<u>\$ 390</u>	<u>\$ 101</u>	<u>\$ 96</u>	<u>\$ 87</u>
<b>Change in Plan Assets</b>						
Fair value of plan assets at beginning of period (1)	\$ 361	\$ 351	\$ 343	\$ 44	\$ 47	\$ 46
Actual return on plan assets	12	23	14	—	1	2
Employer and employee contributions	—	—	35	4	(1)	1
Benefits paid	(35)	(13)	(21)	(4)	(2)	(3)
Settlement payments	—	—	—	—	—	—
Currency translation adjustment	—	—	—	2	(1)	(1)
Fair value of plan assets at end of period	<u>\$ 338</u>	<u>\$ 361</u>	<u>\$ 371</u>	<u>\$ 46</u>	<u>\$ 44</u>	<u>\$ 45</u>
Funded status	<u>\$ (151)</u>	<u>\$ (88)</u>	<u>\$ (19)</u>	<u>\$ (55)</u>	<u>\$ (52)</u>	<u>\$ (42)</u>
Amounts recognized in the consolidated & combined statements of financial position consist of:						
Accrued compensation and benefits	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ —
Pension and postretirement benefits	(150)	(88)	(19)	(55)	(52)	(42)
Net amount recognized	<u>\$ (151)</u>	<u>\$ (88)</u>	<u>\$ (19)</u>	<u>\$ (55)</u>	<u>\$ (52)</u>	<u>\$ (42)</u>
<b>Weighted Average Assumptions (2)</b>						
Discount rate (3)	2.50 %	3.09 %	4.15 %	1.81 %	1.77 %	2.75 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %	4.13 %	4.05 %	4.20 %

(1) The beginning balances for the five months ended September 30, 2019 reflect the respective fair values as of the Acquisition Date. Refer to Note 2, "Acquisition," of the notes to financial statements for further information.

(2) Plan assets and obligations are determined based on a September 30 measurement date at September 30, 2020 and 2019.

(3) The Company considers the expected benefit payments on a plan-by-plan basis when setting assumed discount rates. As a result, the Company uses different discount rates for each plan depending on the plan jurisdiction, the demographics of participants and the expected timing of benefit payments. For the U.S. pension plans, the Company

uses a discount rate provided by an independent third party calculated based on an appropriate mix of high quality bonds. For the non-U.S. pension plans, the Company consistently uses the relevant country specific benchmark indices for determining the various discount rates. The Company has elected to utilize a full yield curve approach in the estimation of service and interest components of net periodic benefit cost (credit) for pension plans that utilize a yield curve approach. The full yield curve approach applies the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

### Accumulated Other Comprehensive Income

The amounts in AOCI on the consolidated and combined statements of financial position, exclusive of tax impacts, that have not yet been recognized as components of net periodic benefit cost at September 30, 2020 and 2019 related to pension and postretirement benefits are not material.

The amounts in AOCI expected to be recognized as components of net periodic benefit cost (credit) over the year ending September 30, 2021 related to pension and postretirement benefits are not material.

### Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs are shown in the table below in accordance with ASC 715, "Compensation – Retirement Benefits," (in millions):

	U.S. Plans				Non-U.S. Plans			
	Successor		Predecessor		Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
<b>Components of Net Periodic Benefit Cost (Credit):</b>								
Service cost	\$ 15	\$ 5	\$ 8	\$ 13	\$ 1	\$ 1	\$ 1	\$ 2
Interest cost	11	5	8	13	1	1	1	2
Expected return on plan assets	(24)	(9)	(14)	(26)	(3)	(1)	(2)	(2)
Net actuarial loss	60	39	—	5	6	9	—	5
Net periodic benefit cost	<u>\$ 62</u>	<u>\$ 40</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 7</u>
<b>Weighted Average Expense Assumptions:</b>								
Discount rate	3.09 %	3.86 %	4.15 %	3.85 %	1.77 %	2.48 %	2.75 %	2.80 %
Expected return on plan assets	7.00 %	7.00 %	7.10 %	7.50 %	5.73 %	5.82 %	5.76 %	4.45 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %	3.20 %	4.05 %	4.03 %	4.20 %	4.45 %

### 13. Income Taxes

As disclosed in Note 1, as a result of the Acquisition, a new basis of accounting was created on May 1, 2019. The Predecessor and Successor income tax information presented herein is not comparable due to the fact that the Successor information reflects the application of acquisition accounting as of May 1, 2019, which requires recognition of deferred taxes for assets acquired or liabilities assumed, net of necessary valuation allowances, as well as accounting for the potential tax effects of temporary differences, carryforwards and any income tax uncertainties that exist at the Acquisition Date. Further, the Successor Company includes certain pass through entities for purposes of Canadian and U.S. income taxation and, therefore, no income taxes are reflected in the Successor financial statements for those entities.

The significant components of income (loss) before income taxes and the income tax provision (benefit) were as follows (in millions):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
<b>Income (loss) before income taxes and noncontrolling interests:</b>				
U.S.	\$ (443)	\$ (269)	\$ 167	\$ 489
Non-U.S.	24	(126)	415	751
	<u>\$ (419)</u>	<u>\$ (395)</u>	<u>\$ 582</u>	<u>\$ 1,240</u>
<b>Income tax provision (benefit):</b>				
Current provision (benefit)				
U.S. federal	\$ 6	\$ —	\$ 16	\$ 123
U.S. state	2	—	1	9
Non-U.S.	134	63	115	487
	<u>142</u>	<u>63</u>	<u>132</u>	<u>619</u>
Deferred provision (benefit)				
U.S. federal	—	—	110	129
U.S. state	—	—	3	2
Non-U.S.	(159)	(94)	(67)	(149)
	<u>(159)</u>	<u>(94)</u>	<u>46</u>	<u>(18)</u>
Income tax provision (benefit)	<u>\$ (17)</u>	<u>\$ (31)</u>	<u>\$ 178</u>	<u>\$ 601</u>

The reconciliation between the Canadian statutory income tax rate of 26.5% and the Clarios effective tax rate is as follows (in millions):

	Successor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019
Income tax provision (benefit) at Canadian statutory rate	\$ (111)	\$ (105)
Reversal of tax impacts on pass through earnings	64	103
Foreign tax rate differential and unbenefited losses	61	(43)
Foreign exchange	(42)	(4)
Basis difference in subsidiaries	13	13
Other	(2)	5
Income tax provision (benefit)	<u>\$ (17)</u>	<u>\$ (31)</u>

The income tax provision in the Predecessor combined statements of income has been calculated as if the Company filed separate income tax returns and was operating as a stand-alone business. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the actual tax balances of the Company as part of consolidated JCI. The Company's operations have historically been included in the Parent Company's U.S. federal and state tax returns or non-U.S. jurisdiction tax returns.

The reconciliation between the U.S. federal income tax rate and the Clarios effective tax rate is as follow (in millions):

	Predecessor	
	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Tax expense at federal statutory rate	\$ 122	\$ 304
U.S. state income taxes, net of federal benefit	4	9
Non-U.S. income tax expense at different rates	(42)	8
U.S. tax on non-U.S. income	6	(49)
Valuation allowance adjustments	—	39
U.S. Tax Reform discrete items	—	161
Legal entity restructuring	—	129
Change in assertion for reinvestment	88	—
Income tax provision	<u>\$ 178</u>	<u>\$ 601</u>

The U.S. federal statutory tax rate (21% for the seven months ended April 30, 2019 and 24.5% for the year ended September 30, 2018) is being used as a comparison for the Predecessor periods due to the Company's legal entity structure prior to the Acquisition.

In the seven months ended April 30, 2019, the Company recorded a discrete non-cash tax charge of \$88 million related to a change in the deferred tax liability related to the outside basis of certain subsidiaries.

In the fourth quarter of the year ended September 30, 2018, the Company recorded a tax charge of \$129 million due to legal entity restructuring.

Income taxes paid for the year ended September 30, 2020 and five months ended September 30, 2019 were \$89 million and \$34 million, respectively. For the Predecessor periods, as portions of the Company's operations were included in the Parent Company's tax returns, payments to certain tax authorities were made by the Parent Company, and not by the Company. The Company did not maintain taxes payable to/from JCI and the Company's subsidiaries were deemed to settle the annual current tax balances immediately with the legal tax-paying entities in the respective jurisdictions. For the seven months ended April 30, 2019 and year ended September 30, 2018 these settlements were \$118 million and \$478 million, respectively, and are reflected as changes in the parent company investment.

Deferred taxes were classified in the consolidated statements of financial position as follows (in millions):

	September 30, 2020	September 30, 2019
Noncurrent income tax assets	\$ 197	\$ 226
Noncurrent income tax liabilities	<u>(806)</u>	<u>(902)</u>
Net deferred tax asset (liability)	<u>\$ (609)</u>	<u>\$ (676)</u>

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities included (in millions):

	September 30, 2020	September 30, 2019
Deferred tax assets:		
Accrued expenses and reserves	\$ 48	\$ 47
Employee and retiree benefits	20	18
Net operating loss and other credit carryforwards	367	188
Other	5	10
	<u>440</u>	<u>263</u>
Valuation allowances	(214)	(148)
	<u>226</u>	<u>115</u>
Deferred tax liabilities:		
Intangible assets	626	530
Property, plant and equipment	115	143
Subsidiaries, joint ventures and partnerships	94	118
	<u>835</u>	<u>791</u>
Net deferred tax asset (liability)	<u>\$ (609)</u>	<u>\$ (676)</u>

The income tax provision considers net operating loss carryback and carryforward rules under applicable federal, state and foreign tax laws. At September 30, 2020, the Company had available foreign tax attribute carryforwards of approximately \$1.1 billion. Net operating and capital loss carryforwards of \$771 million will expire between 2021 and 2037. Net operating loss carryforwards of \$282 million have an unlimited carryforward period. Foreign tax credit carryforwards of \$11 million will expire between 2020 and 2025.

The valuation allowances cover tax loss carryforwards and other assets where there is uncertainty as to the ultimate realization of a benefit given the lack of sustained profitability or limited carryforward periods in certain countries. The Company reviews the realizability of its deferred tax assets quarterly. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or combined group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

At September 30, 2020 and 2019, the Company analyzed the realizability of its worldwide deferred tax assets. As a result, and after considering feasible tax planning initiatives and other positive and negative evidence, the Company determined that no material changes were needed to its valuation allowances.

At May 1, 2019, the Company analyzed the realizability of the established deferred tax assets and recorded the appropriate valuation allowances as part of its acquisition accounting.

At April 30, 2019 and September 30, 2018, the Company analyzed the realizability of its worldwide deferred tax assets. As a result, and after considering feasible tax planning initiatives and other positive and negative evidence, the Company determined that it was more likely than not that certain deferred tax assets primarily within Germany and Mexico would not be realized. Therefore, the Company recorded \$39 million of valuation allowances as income tax expense in the year ended September 30, 2018.

As of September 30, 2020, the Company has \$3.4 billion of undistributed earnings on investments in foreign subsidiaries and corporate joint ventures. The Company asserts permanent reinvestment on less than \$0.1 billion of the undistributed earnings.

### ***Uncertain Tax Positions***

The Company is subject to income taxes in numerous jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities.

At September 30, 2020, the Company had gross tax effected unrecognized tax benefits of \$25 million which, if recognized, would impact the effective tax rate.

At September 30, 2019, the Company had gross tax effected unrecognized tax benefits of \$26 million which, if recognized, would impact the effective tax rate. JCI has retained the majority of the unrecognized tax benefits reported in the Predecessor financials as they are legally and directly liable for these tax positions.

At September 30, 2018, the Company had gross tax effected unrecognized tax benefits of \$211 million which, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2018 was approximately \$6 million (net of tax benefit).

#### ***Impacts of Tax Legislation and Change in Statutory Tax Rates***

On March 27, 2020, in response to the COVID-19 pandemic, the “Coronavirus Aid, Relief and Economic Security Act” (“CARES”) was signed into law by the President of the United States. As the Successor Company includes certain pass through entities, no specific U.S. income tax impacts are reflected in the Successor financial statements.

On December 9, 2019 the “2020 Mexican Tax Reform” was published in the official gazette, with an effective date of January 1, 2020, unless an article expressly states a different effective date. In general, the legislation is meant to incorporate fundamentals of the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) initiative with respect to cross-border payments and interest deductibility. Currently no guidance or specific interpretations have been issued with respect to these major provisions, which provides areas that are subject to different interpretations. Upon issuance of future guidance it could have a material impact on Clarios' financial statements.

On December 22, 2017, the “Tax Cuts and Jobs Act” (H.R. 1) was enacted and significantly revises U.S. corporate income tax by, among other things, lowering corporate income tax rates, imposing a one-time transition tax on deemed repatriated earnings of non-U.S. subsidiaries, and implementing a territorial tax system and various base erosion minimum tax provisions.

In connection with the Company’s analysis of the impact of the U.S. tax law changes, the Company recorded a provisional net tax charge of \$161 million during the year ended September 30, 2018 consistent with guidance prescribed by Staff Accounting Bulletin 118. This provisional net tax charge arises from expense of \$50 million due to the remeasurement of U.S. deferred tax assets and liabilities as well as the one-time transition tax on deemed repatriated earnings, inclusive of all relevant taxes, of \$111 million. In the seven months ended April 30, 2019, the Company completed its analysis of all enactment-date income tax effects of the U.S. tax law change with no further adjustment to the provisional amounts recorded as of September 30, 2018.

During the periods ended September 30, 2020, 2019 and 2018, other tax legislation was adopted in various jurisdictions. These law changes did not have a material impact on the Company's financial statements.

#### **14. Product Warranties**

The Company offers assurance warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates and other known factors. Based on analysis of return rates and other factors, the Company’s warranty provisions are adjusted as necessary. The Company monitors its warranty activity and adjusts its reserve estimates when it is probable that future warranty costs will be different than those estimates.

The Company’s product warranty liability is recorded in the consolidated statements of financial position in other current liabilities if the warranty is less than one year and in other noncurrent liabilities if the warranty extends longer than one year.

The changes in the carrying amount of the Company's total product warranty liability for the periods presented were as follows (in millions):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Balance at beginning of period (1)	\$ 133	\$ 108	\$ 74	\$ 86
Accruals for warranties issued during the period	184	78	98	180
Accruals related to pre-existing warranties (including changes in estimates)	(3)	(1)	(3)	(12)
Settlements made (in cash or in kind) during the period	(181)	(65)	(100)	(179)
Currency translation	1	—	—	(1)
Balance at end of period	<u>\$ 134</u>	<u>\$ 120</u>	<u>\$ 69</u>	<u>\$ 74</u>

(1) The beginning balances for the year ended September 30, 2020 and the five months ended September 30, 2019 reflect adjustments to record product warranty liabilities at their respective fair values as of the Acquisition Date. Refer to Note 2, "Acquisition," of the notes to financial statements for further information.

## 15. Restructuring and Impairment Costs

As part the Company's ongoing focus on providing best-in-class service to customers, while optimizing and modernizing its operations and addressing market dynamics, the Company announced on May 4, 2020 that it will be streamlining its U.S. manufacturing network through the discontinuation of assembly operations at one of its plants in November 2020. As a result, the Company recorded \$11 million of restructuring and impairment costs in the consolidated statements of income (loss) for the year ended September 30, 2020. These costs included approximately \$10 million of non-cash asset impairment costs related to certain assets identified as having no alternative use and \$1 million of costs primarily related to workforce reductions. Liabilities for workforce reduction costs incurred but not yet paid are included in other current liabilities on the consolidated statement of financial position as of September 30, 2020.

## 16. Commitments and Contingencies

### *Environmental Matters*

The Company accrues for potential environmental liabilities when it is probable a liability has been incurred and the amount of the liability is reasonably estimable. As of September 30, 2020 and 2019, reserves for environmental liabilities totaled \$4 million. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company does not currently believe that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities. At September 30, 2020 and 2019, the Company recorded conditional asset retirement obligations within other noncurrent liabilities of \$30 million and \$26 million, respectively.

### *Insurable Liabilities*

The Company records liabilities for its workers' compensation, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience. Claims incurred prior to the Acquisition Date remain the obligation of the Parent Company. At September 30, 2020 and 2019, the insurable liabilities recorded by the Company were \$3 million.



The Company is involved in various lawsuits, claims and proceedings incident to the operation of its businesses, including those pertaining to product liability, environmental, safety and health, intellectual property, employment, commercial and contractual matters, and various other casualty matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, it is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

## 17. Related Party Transactions and Parent Company Investment

### Related Party Transactions

In the ordinary course of business, the Company enters into transactions with related parties, such as equity affiliates. Such transactions consist of the sale or purchase of goods and other arrangements.

The following table presents the net sales to and purchases from related parties included in the consolidated & combined statements of income (loss) for the periods presented (in millions):

	Successor		Predecessor	
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2018
Net sales	\$ 658	\$ 316	\$ 373	\$ 737
Purchases	34	54	85	140

The following table sets forth the amount of accounts receivable due from and payable to related parties in the consolidated statements of financial position (in millions):

	September 30, 2020	September 30, 2019
Receivable from related parties	\$ 65	\$ 97
Payable to related parties	2	16

### Corporate Allocations and Parent's Net Investment

For the Predecessor periods, the combined statements of income include allocations for certain support functions that were provided on a centralized basis by the Parent Company and subsequently recorded at the business unit level, such as expenses related to employee benefits, finance, human resources, risk management, information technology, facilities, and legal, among others. These expenses have been allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on a proportional basis of combined sales, headcount or other measures of the Company or the Parent Company. Management believes the assumptions underlying the Predecessor financial statements, including the assumptions regarding allocating general corporate expenses from the Parent Company, are reasonable. Nevertheless, the Predecessor financial statements may not include all actual expenses that would have been incurred by the Company and may not reflect the combined results of operations, financial position and cash flows had it been a stand-alone company during the Predecessor periods presented. Actual costs that would have been incurred if the Company had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

In addition to the transactions discussed above, certain intercompany transactions in the Predecessor periods between the Company and the Parent Company have not been reflected as related party transactions. These transactions are considered to be effectively settled for cash at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected in the combined statement of cash flows as a financing activity and in the combined statements of equity as parent company investment.

## 18. Redeemable Noncontrolling Interests

Prior to September 30, 2018, the Company consolidated certain subsidiaries in which the noncontrolling interest party had within their control the right to require the Company to redeem all or a portion of its interest in the subsidiary. The redeemable noncontrolling interests were reported at their estimated redemption value. Any adjustment to the redemption value impacted parent company investment but did not impact net income. Redeemable noncontrolling interests which were redeemable only upon future events, the occurrence of which was not currently probable, were recorded at carrying value. As of September 30,

2020 and September 30, 2019, the Company does not have any subsidiaries for which the noncontrolling interest party has within their control the right to require the Company to redeem any portion of its interests.

Changes in the redeemable noncontrolling interests for the year ended September 30, 2018 were as follows (in millions):

	Year Ended September 30, 2018
<b>Predecessor:</b>	
Beginning balance, September 30	\$ 209
Net income	35
Foreign currency translation adjustments	(1)
Realized and unrealized losses on derivatives	(9)
Dividends	(3)
Reclassification to noncontrolling interest	(231)
Ending balance, September 30	<u>\$ —</u>

**Clarios Global LP**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**as of and for the Period Ended September 30, 2020**

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements. The following discussion and analysis of our financial condition and results of operations contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those set forth in "Material Trends Affecting Our Results of Operations - COVID-19" and in the Offering Circulars dated March 18, 2019 and May 13, 2020 under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements." Actual results may differ materially from those contained in any forward-looking statement. A copy of the Offering Circular will be made available without charge to you in response to a written request to us. The terms "Clarios Global LP" and "Power Solutions" have been defined in the notes to our financial statements. In the following text, the terms "Company," "we," "us" and "our" may refer, as the context requires, to Clarios Global LP and its consolidated subsidiaries (after giving effect to the consummation of its acquisition from Johnson Controls International PLC (the "Acquisition")) or to the Power Solutions business.*

In order to provide a more meaningful basis for comparing the results of operations for the year ended September 30, 2020 to the corresponding prior year periods, we have presented financial information for the five months ended September 30, 2019 and seven months ended April 30, 2019 that reflects the combination of the results for the Predecessor and Successor Periods. We believe that describing certain year-over-year variances and trends for the year ended September 30, 2020 as compared to the corresponding prior year periods without regard to the concept of Successor and Predecessor (i.e., on a combined basis) facilitates a meaningful analysis of our results of operations and is useful in identifying current business trends. The combined results represent the sum of the reported amounts for the Predecessor period for the seven months ended April 30, 2019 and the Successor period for the five months ended September 30, 2019. These combined results are not considered to be prepared in accordance with U.S. GAAP and have not been prepared as pro forma results under applicable regulations. The combined operating results may not reflect the actual results we would have achieved absent the Acquisition and may not be indicative of future results.

## **Overview**

The Company is one of the largest manufacturers and distributors of low voltage, advanced automotive battery technologies in the world. We provide one in every three automotive lead-acid batteries globally, servicing cars, heavy duty trucks, motorcycles, marine and power sports vehicles. Our scale allows us to operate at an industry-leading cost structure. We manufactured more than 135 million lead-acid batteries in the year ended September 30, 2020 and distributed our batteries to customers in over 130 countries, offering best-in-class electrical performance, cycling and functional safety.

Our batteries power both internal combustion engine and electric vehicles and include the world's most recognized battery brands based on aided brand awareness studies in regions where we operate. For the year ended September 30, 2020, 81% of our unit volume was generated by sales of starting, lighting and ignition lead-acid batteries ("SLI") which are used primarily for initial engine ignition of traditional vehicles. We have recently made significant investments to develop advanced battery technologies, including enhanced flooded batteries ("EFB") and absorbent glass mat batteries ("AGM"), which provide the energy density necessary for next-generation vehicles to comply with increased regulatory requirements and support increased electrical loads such as start-stop functionality and autonomous features. Sales of advanced batteries have grown from 10% to 19% of our total unit volume over the past four fiscal years. According to our estimates, we have more installed capacity of AGM than the rest of our competitors combined, giving us the largest installed capacity of AGM globally.

We distribute our products primarily to original equipment manufacturers ("OEM") and aftermarket retailers ("Aftermarket"). For the year ended September 30, 2020, 20% of our unit volume was generated through the OEM channel, which is comprised of sales to major car manufacturers globally and is driven by global demand for new vehicles. We have also developed long-standing relationships with large aftermarket customers such as Interstate, AutoZone and Walmart, serving as a critical partner in one of their largest sales categories. For the year ended September 30, 2020, 80% of our unit volume was generated through the Aftermarket channel, which services the existing car parc and represents a stable and recurring revenue base as end users replace car batteries on average 2–4 times over the life of each vehicle.

The strength of our business model is reflected in our financial performance. For the year ended September 30, 2020, we generated revenue of \$7,602 million and Adjusted EBITDA of \$1,522 million, which represented a margin of 20.0%. See "How We Assess Our Performance—EBITDA and Adjusted EBITDA" for a definition of Adjusted EBITDA and a reconciliation to net income.

Key metrics we use to measure and evaluate our operating performance are net sales, Adjusted EBITDA and Free Cash Flow. The following table sets forth these metrics for the periods presented (in millions; unaudited).

	Year Ended September 30, 2020	Year Ended September 30, 2019	Year Ended September 30, 2018
Net Sales	\$ 7,602	\$ 8,528	\$ 8,000
Adjusted EBITDA(1)	\$ 1,522	\$ 1,567	\$ 1,620
Free Cash Flow(2)	\$ 1,208	\$ 1,194	\$ 1,248

(1) A reconciliation of net income, the most directly comparable U.S. GAAP measure, to EBITDA and from EBITDA to Adjusted EBITDA for the Company on a combined basis for each of the periods indicated is set forth in “How We Assess Our Performance — EBITDA and Adjusted EBITDA.”

(2) A reconciliation of Adjusted EBITDA to Free Cash Flow for the Company on a combined basis for each of the periods indicated is set forth in “How We Assess Our Performance — Free Cash Flow.”

## Material Trends Affecting Our Results of Operations

### *Technological Changes*

Our business is impacted by technological changes in the battery and automotive markets in the geographic segments in which we operate. Increasing electrical loads in new vehicles have led to a shift from conventional flooded batteries to advanced lead-acid batteries. In turn, we have invested in new product and process technologies and have expanded product offerings to AGM and EFB technologies that power start-stop vehicles, as well as lithium-ion battery technology for certain hybrid and electric vehicles. Advanced lead-acid batteries have represented an increasing portion of our product mix over time (particularly in Europe, China and APAC, where demand for advanced batteries has increased) with two primary effects to our results: (i) net sales and margins have improved faster than volume growth as these batteries offer both price and margin advantages compared to conventional flooded batteries, and (ii) our capital expenditures have increased in order to increase production capacity for AGM and EFB batteries to meet increased demand. Between September 30, 2014 and September 30, 2020, our capital expenditures related to AGM and EFB batteries totaled approximately \$472 million. As a result, we have experienced increasing depreciation costs. We currently expect elevated capital expenditures related to AGM and EFB batteries to continue.

### *Growth in China and APAC*

Over 2 billion people in China and APAC are expected to enter the middle class by 2030 according to the Brookings Institution. For the year ended September 30, 2020, approximately 11% of our net sales were from China and APAC. We expect this business to grow as more customers in China and APAC enter the middle class, as growth in our business has historically been driven by increasing volume in these markets. In response to this trend, we have invested approximately \$277 million between September 30, 2016 and September 30, 2020 in an effort to expand our capacity in the region.

### *Seasonality*

Our business is impacted by seasonal factors, as aftermarket replacements are highest in the winter months. Our net sales reflect our channel partners’ stocking patterns to meet this increased demand, and have historically been greatest between our fourth and first fiscal quarters (late summer through early winter). Global climate change may impact the seasonality of our business, as the demand for our products and services, such as automotive replacement batteries, may be affected by unseasonable weather conditions.

### *Lead Price Volatility*

The price volatility of lead as traded on the London Metal Exchange has several impacts on our business:

- In the North American aftermarket, our largest revenue and highest margin channel, we operate a closed-loop system through which we typically collect one spent battery core for every new battery we sell. This effectively minimizes the impact of lead pricing on our margins.
- In other geographic segments and channels, we typically treat lead as a pass-through cost to our customers with a lag between the price we charge our customers and the market price of lead to match the cost of lead reflected in our cost of goods sold. This practice minimizes, but does not eliminate, the impact of lead price volatility on our profits in these geographic segments and channels. When lead prices are particularly volatile, we experience volatility in our net sales and margins.

- In addition, during periods of high lead price volatility, some customers may shift buying patterns, pulling ahead purchases in anticipation of higher lead prices in the future or delaying purchases in anticipation of lower lead prices in the future. If lead prices continue to be volatile and our customers shift buying patterns in this manner, our quarterly results may be volatile and, consequently, it may be difficult to compare results on a quarter-to-quarter basis.

## **COVID-19**

In December 2019, a novel strain of coronavirus SARS-CoV-2, causing a disease referred to as COVID-19, was reported in Wuhan, China. The coronavirus has since spread to, and infections have been found in, the vast majority of countries around the world, including the United States and throughout Europe. In March 2020, the World Health Organization recognized the COVID-19 outbreak as a pandemic based on the global spread of the disease, the severity of illnesses it causes and its effects on society. In response to the COVID-19 outbreak, the governments of many countries, states and cities have taken preventative or protective actions, such as imposing restrictions on travel and business operations, and advising or requiring individuals to limit or forego their time outside of their homes. Accordingly, the COVID-19 outbreak has severely restricted the level of economic activity in many countries, and continues to adversely impact global economic activity and has contributed to significant volatility in financial markets.

The Company's operating performance is subject to global economic and market conditions, including their impacts on the global automotive industry. During the year ended September 30, 2020, the COVID-19 outbreak impacted the Company's operational and financial performance, primarily due to lower sales volumes to our OEM customers, many of whom have experienced temporary shut-downs, and to a lesser extent our aftermarket customers due to temporary store closures and a reduction in purchases due to stay at home orders. We also experienced operational inefficiencies as we adjusted production levels to align with changing market demand and, in response to regulatory requirements, implemented enhanced safety measures to protect the health of our employees.

The extent of the future impact of the COVID-19 outbreak on the Company's operational and financial performance will depend on certain developments, including the duration, intensity and continued spread of the outbreak, regulatory and private sector responses, which may be precautionary, and the impact to the Company's customers, workforce and vendors, all of which are uncertain and cannot be predicted. The Company's financial condition and results could also be impacted by significant changes in commodity prices, foreign currency exchange rates and interest rates that may result from volatility in the economic and financial markets as a result of the COVID-19 pandemic. We currently expect that the COVID-19 pandemic will negatively impact our financial condition and results of operations for the quarter ending December 31, 2020, and potentially in future periods. While we have seen positive trends of recovery in the Aftermarket as the easing of mobility restrictions progresses across our geographies, such trends could reverse as COVID-19 outbreaks recur in certain areas, and we currently expect OEM market disruption to affect OEM volumes for the year ending September 30, 2021. Changing market conditions may also affect the estimates and assumptions made by management. Such estimates and assumptions affect, among other things, the Company's goodwill, long-lived asset and indefinite-lived intangible asset valuations; equity investment valuations; valuation of deferred income taxes and income tax contingencies; measurement of compensation cost for certain cash bonus plans; and pension plan assumptions. Events and changes in circumstances arising after this report date, including those resulting from the impacts of COVID-19, will be reflected in management's estimates for future periods.

## **How We Assess Our Performance**

We use various U.S. GAAP and non-GAAP financial metrics to analyze and evaluate the performance of our business and to provide a greater understanding with respect to our results of operations. These include EBITDA, Adjusted EBITDA and Free Cash Flow, which may not be comparable to similar measures used by other companies. EBITDA, Adjusted EBITDA and Free Cash Flow have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our financial performance as reported under U.S. GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance or as alternatives to cash flow from operating activities as measures of our liquidity.

Because of these limitations, EBITDA, Adjusted EBITDA and Free Cash Flow should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using EBITDA, Adjusted EBITDA and Free Cash Flow only for supplemental purposes.

### ***EBITDA and Adjusted EBITDA***

EBITDA is defined as net income before income tax provision, net financing charges, restructuring and impairment costs, allocation for support functions and other costs and intangible asset amortization and depreciation. Adjusted EBITDA is defined as EBITDA adjusted to exclude certain items which we believe are not reflective of ongoing performance. We believe that Adjusted EBITDA is an important measure that excludes many of the costs associated with our existing capital structure and excludes costs that management believes do not reflect our ongoing operating performance. Accordingly, Adjusted EBITDA is a key metric that management uses to assess the period-to-period performance of our core business operations. Adjusted EBITDA helps to identify trends in the performance of our core ongoing operations by excluding the effects related to (i) non-cash items, (ii) non-recurring costs and charges that do not relate to our ongoing operations, and (iii) certain other adjustments. We believe that presenting Adjusted EBITDA enables investors to assess our performance from period to period using the same metric utilized by management and to evaluate our performance relative to other companies that are not subject to such factors. Adjusted EBITDA is also calculated in a manner consistent with the terms of the instruments governing our indebtedness.

*A reconciliation of net income, the most directly comparable U.S. GAAP measure, to EBITDA and from EBITDA to Adjusted EBITDA on a combined basis for the periods indicated is as follows (in millions; unaudited):*

	Year Ended September 30,		
	2020	2019	2018
<b>Net income (loss) attributable to the Company</b>	\$ (399)	\$ 25	\$ 592
Income (loss) attributable to noncontrolling interests	(3)	15	47
<b>Net income (loss)</b>	(402)	40	639
Income tax provision (benefit)	(17)	147	601
<b>Income (loss) before income taxes</b>	(419)	187	1,240
Net financing charges	717	297	40
Restructuring and impairment costs	11	—	11
Allocation for support functions and other (a)	—	62	94
Intangible asset amortization	394	165	8
Depreciation	346	280	243
<b>EBITDA</b>	\$ 1,049	\$ 991	\$ 1,636
Deal and stand up costs (b)	29	142	—
Impacts of purchase accounting (c)	13	302	—
Pension mark-to-market adjustment (d)	66	50	14
Core valuation change (e)	49	(14)	—
Supply chain financing fees (f)	(26)	(34)	(27)
Other non-recurring items (g)	80	18	(38)
<b>EBITDA excluding transaction costs and other non-recurring items</b>	\$ 1,260	\$ 1,455	\$ 1,585
Partial reversal of external reporting adjustments (h)	—	6	(3)
Non-cash compensation (i)	—	16	28
Net contribution from non-controlling interests and partially-owned affiliates (j)	28	(24)	(24)
Pension service cost (k)	(15)	(15)	(15)
Transportation and launch costs (l)	26	37	58
Unrestricted subsidiary earnings (m)	(18)	(19)	(19)
Lithium-ion EBITDA losses (n)	39	40	38
Cost savings already realized and new pricing impact (o)	65	82	—
Other adjusting items (p)	2	10	7
Incremental standalone costs (q)	—	(21)	(35)
Exceptional expenses related to COVID-19 (r)	135	—	—
<b>Adjusted EBITDA</b>	\$ 1,522	\$ 1,567	\$ 1,620
Foreign currency exchange (s)	21	—	—
<b>Adjusted EBITDA excluding year-over-year foreign currency impact</b>	\$ 1,543	\$ 1,567	\$ 1,620

- (a) Adjustments to exclude certain general corporate expenses and other allocations for certain support functions provided by JCI.
- (b) Adjustments to exclude expenses related to the Acquisition and non-recurring costs to establish standalone business functions. Acquisition related expenses were \$128 million for the year ended September 30, 2019. Non-recurring costs to establish standalone business functions were \$29 million for the year ended September 30, 2020 and \$14 million for the year ended September 30, 2019.
- (c) Impacts of purchase accounting adjustments related to the Acquisition. The sell through of inventory at fair value resulted in increased cost of sales of \$296 million for the year ended September 30, 2019. The amortization of the step-up in value of our non-consolidated joint ventures resulted in a reduction in equity income of \$13 million for the year ended September 30, 2020 and \$6 million for the year ended September 30, 2019.
- (d) Adjustment for non-cash accounting impact of net mark-to-market losses related to pension and other postretirement

benefit plans.

- (e) Represents the non-cash change in value of battery cores primarily due to the change in the value of lead.
- (f) Includes costs associated with ongoing supply chain financing programs. To mitigate long collection terms for accounts receivable from certain aftermarket customers, the Company actively engages in supply chain financing programs, through which accounts receivable are sold to third-party intermediaries in exchange for a fee based on LIBOR plus a spread.
- (g) Consists of non-recurring items including, among others: (i) restructuring costs and discontinued operation losses at certain partially-owned affiliates (\$3 million for the year ended September 30, 2019 and \$7 million for the year ended September 30, 2018), (ii) non-recurring consulting costs related to operational improvement initiatives (\$44 million for the year ended September 30, 2020 and \$14 million for the year ended September 30, 2019), (iii) transaction costs associated with the Bosch Transaction (\$9 million for the year ended September 30, 2020), (iv) severance costs (\$19 million for the year ended September 30, 2020), (v) mark-to-market adjustments for investments in marketable common stock (\$1 million loss for the year ended September 30, 2020), (vi) loss on disposal of certain assets (\$1 million for the year ended September 30, 2020), (vii) equipment moving and installation costs related to discontinuing assembly operations of one of the Company's U.S. plants (\$6 million for the year ended September 30, 2020), (viii) adjustment to asset retirement obligations due to a modification in the underlying calculation assumptions ((\$13) million for the year ended September 30, 2018), (ix) gain on deconsolidation of a subsidiary ((\$15) million for the year ended September 30, 2018), (x) gain on partial divestiture of equity interests in a non-consolidated subsidiary ((\$7) million for the year ended September 30, 2018) and (xi) reversal of a non-recurring license fee received in connection with the renegotiation of an existing IP agreement ((\$10) million for the year ended September 30, 2018).
- (h) Reversal of non-recurring and non-operating external reporting adjustments.
- (i) Adjustments to remove non-cash compensation expense related to stock incentive and long-term incentive plans.
- (j) Reflects net adjustments relating to (i) the exclusion of the portion of earnings that are attributable to non-controlling interests from consolidated investments that are not 100% owned by the Company and (ii) the inclusion of the proportionate share of EBITDA from significant non-consolidated partially-owned affiliates. For the year ended September 30, 2020, includes a \$10 million reversal relating to earnings attributable to non-controlling interests, offset by a \$10 million pro forma adjustment to reverse the annualized impact on non-controlling interest of the Bosch Transaction, and a \$28 million gain from the proportionate share of earnings from partially-owned affiliates. For the year ended September 30, 2019, includes a \$57 million reversal relating to earnings attributable to non-controlling interests, partially offset by a \$33 million gain from the proportionate share of earnings from partially owned affiliates. For the year ended September 30, 2018, includes a \$69 million reversal relating to earnings attributable to non-controlling interests, partially offset by a \$45 million gain from the proportionate share of earnings from partially-owned affiliates.
- (k) Adjustment for non-cash accounting impact of interest, settlement losses and expected return on assets related to pension and other postretirement benefits.
- (l) Adjustments for (i) the reversal of non-recurring launch costs incurred primarily in connection with capacity improvements in the US and China and other inefficiencies, and (ii) transportation costs relating to one-time intracompany inventory transfers.
- (m) Removal of earnings from a partially-owned affiliate that is an unrestricted subsidiary following the consummation of the Acquisition.
- (n) Reversal of non-recurring losses from the lithium-ion division of the Company.
- (o) Adjustments to reflect (i) cost savings initiatives (\$44 million pro forma for the year ended September 30, 2020 and \$65 million pro forma for the year ended September 30, 2019) and (ii) the impact of new pricing (\$21 million pro forma for the year ended September 30, 2020 and \$17 million pro forma for the year ended September 30, 2019).
- (p) Consists of additional adjusting items, including, among others: (i) adjustments to reflect insurance proceeds relating to hurricane damage (\$10 million and \$9 million for the years ended September 30, 2019 and 2018, respectively).
- (q) Represents adjustments to reflect estimated incremental costs related to operating as a stand-alone company.
- (r) Represents exceptional expenses resulting from the COVID-19 pandemic, including stranded fixed costs as we adjusted production levels to align with changing market demand - including the temporary complete closure of select facilities - and, in response to regulatory requirements, implemented enhanced safety and cleaning measures to protect the health of our employees. See "Material Trends Affecting Our Results of Operations - COVID-19."
- (s) Represents the non-cash impact of foreign currency translation.

### ***Free Cash Flow***

Free Cash Flow is defined as Adjusted EBITDA less capital expenditures. We use Free Cash Flow to evaluate our ability to generate cash that can be used for working capital requirements, interest expense, repayment of indebtedness, financing new acquisitions and for continued re-investment in our business.



A reconciliation of Adjusted EBITDA to Free Cash Flow on a combined basis for the periods indicated is as follows (in millions; unaudited):

	Year Ended September 30,		
	2020	2019	2018
<b>Adjusted EBITDA</b>	\$ 1,522	\$ 1,567	\$ 1,620
Less: Capital expenditures	314	373	372
<b>Free Cash Flow</b>	<u>\$ 1,208</u>	<u>\$ 1,194</u>	<u>\$ 1,248</u>

## Components of Results of Operations

### *Net Sales*

Net sales consist of gross sales less sales adjustments related to provisions for customer returns, allowances and rebates. Net sales are derived from sales of lead-acid and lithium-ion batteries to OEMs and aftermarket customers globally. Our net sales are dependent on volume and price. We have generally been able to increase the average prices of our products in the low single digit percentages on an annual basis. During economic downturns, the annual increase in such prices has generally been in the mid-single digit percentages.

The Company provides advanced battery technology, coupled with systems engineering, marketing and service expertise. The majority of the Company's revenue is generated through the manufacture and sale of automotive battery products, of which the delivery of goods ordered typically represents the Company's sole performance obligation with respect to distinct goods and services offered to customers. The Company recognizes revenue typically at the point in time when control over the goods transfers to the customer as specified by the shipping terms agreed upon with the customer.

### *Costs and Expenses*

Our costs and expenses are comprised primarily of our cost of sales, SG&A expenses, restructuring and impairment costs, net financing charges and income taxes.

#### *Cost of Sales*

Our cost of sales consists of costs relating to battery production, battery recycling and logistics. Battery production costs consist of the costs of (i) procuring raw materials (primarily lead, polypropylene, separators and sulfuric acid), (ii) component manufacturing and (iii) direct and indirect conversion costs. Battery recycling costs consist of costs associated with recycling used batteries, including those relating to collecting used batteries, tolling contracts with secondary lead smelting companies, breaking and separation, and smelting. Logistics costs consist of costs related to shipping (i) raw materials to component plants, assembly plants and smelters, (ii) components to assembly plants and dry unformed batteries to fill and form facilities (primarily in North America), and (iii) finished batteries to distribution centers and to aftermarket customers.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative ("SG&A") expenses include salaries and benefits of our commercial organizations and administrative functions, marketing and commission costs, engineering and product development costs, and administrative costs at the regional and global headquarter level.

#### *Restructuring and Impairment Costs*

To better align its resources with its growth strategies and reduce the cost structure of its global operations to address dynamics in certain underlying markets, the Company commits to restructuring plans as necessary, which may include workforce reductions, global plant closures and consolidations, asset impairments and other cost-reduction initiatives.

#### *Net Financing Charges*

Net financing charges primarily relate to net interest expense, banking and supply chain financing fees and net foreign exchange results for financing activities.

### ***Equity Income***

Equity income primarily relates to our share of non-consolidated, partially-owned affiliates. Investments in partially-owned affiliates for which the Company exercises significant influence but does not have control are accounted for by the equity method. We own portions of battery manufacturers in countries and regions where we do not own plants, and businesses engaged in the distribution of lead-acid batteries.

### ***Income Tax Provision***

The Predecessor income tax provision in the combined statements of income was calculated as if the Company filed separate income tax returns and was operating as a stand-alone business for the periods presented. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the actual tax balances of the Company as part of consolidated JCI. Prior to the consummation of the Acquisition, the Company's operations historically were included in JCI's U.S. federal and state tax returns or non-U.S. jurisdiction tax returns. JCI's global tax model was developed based upon its entire portfolio of businesses. Accordingly, the Company's tax results as presented for the periods prior to the consummation of the Acquisition are not necessarily indicative of future performance and do not necessarily reflect the results that would have been generated if the company had operated as an independent company for the periods presented. As portions of the Company's operations were included in JCI's tax returns for periods prior to the consummation of the Acquisition, payments to certain tax authorities were made by JCI, and not by the Company. For the periods prior to the consummation of the Acquisition, the Company did not maintain taxes payable to/from JCI and the Company's subsidiaries were deemed to settle the annual current tax balances immediately with the legal tax-paying entities in the respective jurisdictions.

Refer to Note 13, "Income Taxes," of the notes to the financial statements for further information.

## Results of Continuing Operations

*Year Ended September 30, 2020 Compared to Year Ended September 30, 2019 (in millions; unaudited)*

<i>Consolidated &amp; Combined Statements of Income (Loss)</i>	Successor		Predecessor	Combined	Change	% Change
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2019		
Net sales	\$ 7,602	\$ 3,535	\$ 4,993	\$ 8,528	\$ (926)	(11)%
Cost of sales	6,405	3,214	4,059	7,273	(868)	(12)%
Gross profit	1,197	321	934	1,255	(58)	(5)%
Selling, general and administrative expenses	(936)	(459)	(359)	(818)	(118)	14 %
Restructuring and impairment costs	(11)	—	—	—	(11)	*
Net financing charges	(717)	(274)	(23)	(297)	(420)	*
Equity income	48	17	30	47	1	2 %
<b>Income (loss) before income taxes</b>	<b>(419)</b>	<b>(395)</b>	<b>582</b>	<b>187</b>	<b>(606)</b>	<b>*</b>
Income tax provision (benefit)	(17)	(31)	178	147	(164)	*
<b>Net income (loss)</b>	<b>(402)</b>	<b>(364)</b>	<b>404</b>	<b>40</b>	<b>(442)</b>	<b>*</b>
Income (loss) attributable to noncontrolling interests	(3)	(8)	23	15	(18)	*
<b>Net income (loss) attributable to the Company</b>	<b>\$ (399)</b>	<b>\$ (356)</b>	<b>\$ 381</b>	<b>\$ 25</b>	<b>\$ (424)</b>	<b>*</b>

\* Metric not meaningful

### Net Sales

Net sales decreased \$926 million to \$7,602 million for the year ended September 30, 2020 from \$8,528 million for the year ended September 30, 2019, primarily due to a decrease in volumes, the impact of lower lead costs on pricing, and unfavorable foreign currency translation, partially offset by favorable pricing. The decrease in volumes was primarily due to the impact of the COVID-19 pandemic on the global economy, declines in macroeconomic conditions in China and global OEM production, as well as mild weather in the U.S. and Europe. The COVID-19 pandemic resulted in lower sales volumes to our OEM customers, many of whom experienced temporary shut-downs, and to a lesser extent our aftermarket customers due to temporary store closures and a reduction in purchases due to stay at home orders. These negative impacts were partially offset by higher start-stop volumes to our aftermarket customers, which contributed to favorable product mix.

For the year ended September 30, 2020, net sales decreased 6.1% removing effects of fluctuations in lead prices and foreign currency exchange rates.

### Gross Profit

Gross profit decreased \$58 million, or 5%, to \$1,197 million for the year ended September 30, 2020 from \$1,255 million for the year ended September 30, 2019. The negative impact to our cost structure from the COVID-19 pandemic was approximately \$130 million in the year ended September 30, 2020, which was primarily comprised of stranded fixed costs and exceptional expenses as we adjusted production levels to align with changing market demand and, in response to regulatory requirements, implemented enhanced safety measures to protect the health of our employees. See "Material Trends Affecting Our Results of Operations - COVID-19." The change in value of battery cores due to the change in the value of lead had a negative non-cash impact of \$49 million in the year ended September 30, 2020, compared to a positive non-cash impact of \$14 million in the year ended September 30, 2019. The decrease in gross profit was also partially due to increased depreciation expense of \$36 million in the year ended September 30, 2020 related to the purchase accounting impacts of the Acquisition. Net mark-to-market adjustments on pension and postretirement plans had a net unfavorable year-over-year impact on cost of sales of \$15 million primarily due to a decrease in discount rates. Other unfavorable impacts included higher operating costs across our global battery plants, lower overall volumes and the negative impact of foreign currency translation, partially offset by the favorable impact of pricing, lower transportation and purchasing costs, and an increase in start-stop battery volumes to our aftermarket customers. In addition, purchase accounting related to the Acquisition negatively impacted gross profit by \$296 million in the year ended September 30, 2019 due to inventory selling through at fair value.

Gross profit as a percentage of net sales increased to 15.7% for the year ended September 30, 2020 compared to 14.7% for the year ended September 30, 2019. Excluding the impact of foreign currency, lead, and the impacts of purchase accounting related to the Acquisition, gross profit as a percentage of net sales for the year ended September 30, 2020 was 17.3%.

### ***Selling, General and Administrative Expenses***

SG&A expenses increased \$118 million, or 14%, to \$936 million for the year ended September 30, 2020 from \$818 million for the year ended September 30, 2019, primarily due to \$234 million of increased depreciation and amortization expense in the year ended September 30, 2020 due to the purchase accounting impacts of the Acquisition; and \$89 million of non-recurring items in the year ended September 30, 2020, including, among others, incremental stand up costs, consulting costs related to operational improvement initiatives and severance costs. These items were partially offset by \$137 million of transaction costs, incremental stand-up costs and non-recurring consulting costs related to operational improvement initiatives in the year ended September 30, 2019; and general and administrative cost saving initiatives in the year ended September 30, 2020. Net mark-to-market adjustments on pension and postretirement plans had a net unfavorable year-over-year impact on SG&A of \$1 million primarily due to a decrease in discount rates.

### ***Restructuring and Impairment Costs***

The Company incurred \$11 million of restructuring and impairment costs in the year ended September 30, 2020 related to the announcement that it will discontinue assembly operations at one of its U.S. plants. These costs include approximately \$10 million of non-cash asset impairment costs related to certain assets identified as having no alternative use and \$1 million of costs primarily related to workforce reductions. Refer to Note 15, "Restructuring and Impairment Costs," of the notes to financial statements for further information. The Company did not incur any restructuring and impairment costs for the year ended September 30, 2019.

### ***Net Financing Charges***

Net financing charges increased \$420 million to \$717 million for the year ended September 30, 2020 from \$297 million for the year ended September 30, 2019. The change in net financing charges is primarily due to an increase in interest expense and deferred financing cost amortization in the year ended September 30, 2020 driven by the third party debt in connection with the Acquisition, and unfavorable net foreign exchange results for financing activities. Refer to Note 8, "Debt and Financing Arrangements," of the notes to financial statements for further information.

### ***Equity Income***

Equity income increased \$1 million to \$48 million for the year ended September 30, 2020 from \$47 million for the year ended September 30, 2019, primarily due to favorable operational results of certain non-consolidated partially-owned affiliates in the year ended September 30, 2020 net of the negative effects of the COVID-19 pandemic, partially offset by \$7 million of higher unfavorable purchase accounting impacts in the year ended September 30, 2020 related to the Acquisition.

### ***Income Tax Provision***

For the year ended September 30, 2020 the benefit from income taxes is \$(17) million compared to a provision for income taxes of \$147 million for the year ended September 30, 2019. The change in the provision for income taxes is primarily due to the fact that subsequent to the Acquisition, the structure of certain legal entities has been changed such that they are not subject to Canadian or U.S. income taxes at the Successor company level, unbenefited legal entity losses, and income tax impacts of foreign exchange fluctuations, and tax charges in the year ended September 30, 2019 related to pre-acquisition restructuring. Refer to Note 13, "Income Taxes," of the notes to financial statements for further information.

**Year Ended September 30, 2019 Compared to Year Ended September 30, 2018 (in millions; unaudited)**

	Successor	Predecessor	Combined	Predecessor		
	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2019	Year Ended September 30, 2018	Change	% Change
<i>Consolidated &amp; Combined Statements of Income (Loss)</i>						
Net sales	\$ 3,535	\$ 4,993	\$ 8,528	\$ 8,000	\$ 528	7 %
Cost of sales	3,214	4,059	7,273	6,293	980	16 %
Gross profit	321	934	1,255	1,707	(452)	(26)%
Selling, general and administrative expenses	(459)	(359)	(818)	(474)	(344)	73 %
Restructuring and impairment costs	—	—	—	(11)	11	(100)%
Net financing charges	(274)	(23)	(297)	(40)	(257)	*
Equity income	17	30	47	58	(11)	(19)%
<b>Income (loss) before income taxes</b>	<b>(395)</b>	<b>582</b>	<b>187</b>	<b>1,240</b>	<b>(1,053)</b>	<b>(85)%</b>
Income tax provision (benefit)	(31)	178	147	601	(454)	(76)%
<b>Net income (loss)</b>	<b>(364)</b>	<b>404</b>	<b>40</b>	<b>639</b>	<b>(599)</b>	<b>(94)%</b>
Income (loss) attributable to noncontrolling interests	(8)	23	15	47	(32)	(68)%
<b>Net income (loss) attributable to the Company</b>	<b>\$ (356)</b>	<b>\$ 381</b>	<b>\$ 25</b>	<b>\$ 592</b>	<b>\$ (567)</b>	<b>(96)%</b>

\* Metric not meaningful

**Net Sales**

Net sales increased \$528 million to \$8,528 million for the year ended September 30, 2019 from \$8,000 million for the year ended September 30, 2018, primarily due to an approximately \$1,037 million increase in net sales from the effects of the change in revenue recognition from the implementation of the New Revenue Standard, and the favorable impact of pricing and product mix developments, partially offset by a decrease in volume, impact of lower lead costs on pricing, and unfavorable foreign currency translation. The decrease in volumes was primarily due to declines in macroeconomic conditions in China and global OEM production. These negative impacts were partially offset by higher start-stop volumes, which also contributed to favorable product mix.

For the year ended September 30, 2019, net sales increased 0.5% removing effects of fluctuations in lead prices, foreign currency exchange rates and the effects of the change in revenue recognition from the implementation of ASC 606.

**Gross Profit**

Gross profit decreased \$452 million, or 26%, to \$1,255 million for the year ended September 30, 2019 from \$1,707 million for the year ended September 30, 2018, primarily due to \$321 million of purchase accounting impacts related to the Acquisition in the year ended September 30, 2019, which consisted of increased depreciation and amortization, and the sell through of inventory at fair value. Net mark-to-market adjustments on pension and postretirement plans had a net unfavorable year-over-year impact on cost of sales of \$22 million primarily due to a decrease in discount rates. Other unfavorable impacts included higher operating and transportation costs driven by inflation and efforts to satisfy customer demand, lower overall volumes and negative impact of foreign currency translation, partially offset by the favorable impact of pricing and an increase in start-stop battery volumes. Additionally, the change in value of battery cores had a positive non-cash impact of \$14 million in the five months ended September 30, 2019.

Gross profit as a percentage of net sales decreased to 14.7% for the year ended September 30, 2019 compared to 21.3% for the year ended September 30, 2018. Excluding the impact of foreign currency, lead, the effects of change in revenue recognition from the implementation of the New Revenue Standard and the impacts of purchase accounting related to the Acquisition, gross profit as a percentage of net sales for the year ended September 30, 2019 was 19.9%.

### ***Selling, General and Administrative Expenses***

SG&A expenses increased \$344 million, or 73%, to \$818 million for the year ended September 30, 2019 from \$474 million for the year ended September 30, 2018, primarily due to \$165 million of purchase accounting impacts related to the Acquisition (increased depreciation and amortization); \$137 million of transaction costs, incremental stand-up costs and non-recurring consulting costs related to operational improvement initiatives in the year ended September 30, 2019; and a prior year gain on business deconsolidation. Net mark-to-market adjustments on pension and postretirement plans had a net unfavorable year-over-year impact on SG&A of \$14 million primarily due to a decrease in discount rates.

### ***Restructuring and Impairment Costs***

We did not incur any restructuring and impairment costs for the year ended September 30, 2019, compared to \$11 million for the year ended September 30, 2018. Restructuring and impairment costs primarily consists of workforce reductions.

### ***Net Financing Charges***

Net financing charges increased \$257 million to \$297 million for the year ended September 30, 2019 from \$40 million for the year ended September 30, 2018. The change in net financing charges is primarily due to an increase in interest expense and bond cost amortization in the five months ended September 30, 2019 driven by an increase in third party debt in connection with the Acquisition, partially offset by favorable net foreign exchange results for financing activities. Refer to Note 8, "Debt and Financing Arrangements," of the notes to financial statements for further information.

### ***Equity Income***

Equity income decreased \$11 million to \$47 million for the year ended September 30, 2019 from \$58 million for the year ended September 30, 2018, primarily due to \$6 million of purchase accounting impacts related to the Acquisition in the five months ended September 30, 2019.

### ***Income Tax Provision***

For the year ended September 30, 2019 the provision for income taxes decreased to \$147 million from \$601 million for the year ended September 30, 2018. The change in the provision for income taxes is primarily due to the fact that subsequent to the Acquisition, the structure of certain legal entities has been changed such that they are not subject to U.S. income taxes at the Successor company level, unbenefited legal entity losses, and tax charges in the year ended September 30, 2018 related to pre-acquisition restructuring and tax impacts of the Tax Cuts and Jobs Act.

### ***Liquidity and Capital Resources***

Our primary sources of liquidity are cash flows from operations and bank borrowings. At September 30, 2020 we had cash and cash equivalents of \$682 million to fund our general working capital needs.

Managing our balance sheet prudently and maintaining appropriate liquidity are high priorities during the disruption caused by COVID-19. In order to best position the Company to navigate this uncertain period, we have taken a number of actions to preserve liquidity. As described more fully below, in March 2020 we entered into an incremental amendment to the ABL Facility to increase the aggregate commitments thereunder by \$250 million to \$750 million in the aggregate (subject to borrowing base availability). As of September 30, 2020, there were no outstanding borrowings under the Revolving Facility and the ABL Facility, and approximately \$750 million of additional borrowings would have been available under the Revolving Facility and \$551 million of additional borrowings would have been available under the ABL Facility (after giving effect to \$56 million of outstanding letters of credit). In addition, on May 20, 2020, we issued \$500 million aggregate principal amount of 6.750% Senior Secured Notes due 2025 (the "2025 Secured Notes"). We used the net proceeds from the issuance of the 2025 Secured Notes for general corporate purposes. In October 2020, we used our available liquidity to pay down approximately \$150 million of the outstanding principal balance of the Term Loan Facility.

Our primary cash needs are for working capital, capital expenditures, operating expenses, acquisitions, the repayment of principal and the payment of interest on our indebtedness. Our capital expenditures have been primarily related to investments in capacity for start-stop battery production, growth in China, environmental upgrades, continuous improvement and maintenance, and were \$314 million, \$373 million and \$372 million for the years ended September 30, 2020, 2019 and 2018, respectively.

## Cash Flows

The following table presents a summary of cash flows from operating, investing and financing activities for the periods presented:

### *For the Year Ended September 30, 2020 compared to the Year Ended September 30, 2019 (in millions; unaudited)*

	Successor		Predecessor	Combined		Change
	Year Ended September 30, 2020	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2019		
Net cash provided by (used by):						
Operating activities	\$ 617	\$ 510	\$ 217	\$ 727	\$	(110)
Investing activities	(202)	(12,915)	(169)	(13,084)		12,882
Financing activities	(74)	12,792	(50)	12,742		(12,816)
Capital expenditures	(314)	(181)	(192)	(373)		59

Cash provided by operating activities decreased by \$110 million to \$617 million for the year ended September 30, 2020 compared to \$727 million for the year ended September 30, 2019. The decrease in cash provided by operations for the year ended September 30, 2020 compared to the year ended September 30, 2019 was primarily due to fluctuations in working capital, including interest payments on the Company's debt, in the year ended September 30, 2020.

Cash used by investing activities decreased by \$12,882 million to a \$202 million outflow for the year ended September 30, 2020 compared to a \$13,084 million outflow for the year ended September 30, 2019. The decrease in cash used by investing activities primarily related to cash paid to JCI related to the Acquisition in the year ended September 30, 2019.

Cash used by financing activities changed by \$12,816 million to a \$74 million outflow for the year ended September 30, 2020 compared to a \$12,742 million inflow for the year ended September 30, 2019. The change in cash used by financing activities was primarily due to an increase in third party debt and an equity injection related to the Acquisition in the year ended September 30, 2019. In the year ended September 30, 2020, the cash used by financing activities was primarily due to a change in noncontrolling interest share related to the Bosch Transaction, partially offset by a net increase in long-term debt. See Note 2, "Acquisitions," and Note 8, "Debt and Financing Arrangements," of the notes to financial statements for further information.

### *For the Year Ended September 30, 2019 compared to the Year Ended September 30, 2018 (in millions; unaudited)*

	Successor	Predecessor	Combined	Predecessor	Change
	Five Months Ended September 30, 2019	Seven Months Ended April 30, 2019	Year Ended September 30, 2019	Year Ended September 30, 2018	
Net cash provided by (used by):					
Operating activities	\$ 510	\$ 217	\$ 727	\$ 745	\$ (18)
Investing activities	(12,915)	(169)	(13,084)	(359)	(12,725)
Financing activities	12,792	(50)	12,742	(389)	13,131
Capital expenditures	(181)	(192)	(373)	(372)	(1)

Cash provided by operating activities decreased by \$18 million to \$727 million for the year ended September 30, 2019 compared to \$745 million for the year ended September 30, 2018. The decrease in cash provided by operations for the year ended September 30, 2019 compared to the year ended September 30, 2018 was primarily due to fluctuations in working capital, including increased prepayments made in the Successor period, partially offset by decreases in accounts receivable due to timing of cash receipts.

Cash used by investing activities increased by \$12,725 million to \$13,084 million for the year ended September 30, 2019 compared to \$359 million for the year ended September 30, 2018. The increase in cash used by investing activities for the year ended September 30, 2019 related to cash paid to JCI related to the Acquisition, partially offset by the collection of a loan to an affiliate.

Cash provided by financing activities increased by \$13,131 million to \$12,742 million for the year ended September 30, 2019 compared to \$389 million outflow for the year ended September 30, 2018. The increase in cash provided by financing activities

in the year ended September 30, 2019 was primarily due to an increase in third party debt and an equity injection related to the Acquisition.

### ***Senior Notes***

In connection with the Acquisition, we issued \$1,000 million aggregate principal amount of 6.250% Senior Secured Notes due 2026 (the “2026 USD Secured Notes”), €700 million aggregate principal amount of 4.375% Senior Secured Notes due 2026 (the “Euro Secured Notes” and, together with the 2026 USD Secured Notes, the “2026 Secured Notes”) and \$1,950 million aggregate principal amount of 8.500% Senior Notes due 2027 (the “Unsecured Notes” and, together with the Secured Notes, the “Acquisition Financing Notes”). We used the net proceeds from the issuance of the Acquisition Financing Notes to finance the Acquisition.

In addition, on May 20, 2020, we issued \$500 million aggregate principal amount of 6.750% Senior Secured Notes due 2025. We used the net proceeds from the issuance of the 2025 Secured Notes for general corporate purposes.

### ***The 2026 Secured Notes***

The 2026 Secured Notes were issued pursuant to the indenture, dated as of April 1, 2019 (the “2026 Secured Notes Indenture”), among Clarios Power Solutions Holdings LP (“Holdings”), the Company, Clarios US Finance Company, Inc. (the “Co-Issuer” and together with the Company, the “Issuers”), the guarantors party thereto, Citibank, N.A. as trustee, dollar paying agent and collateral agent, and Citibank, N.A., London Branch as euro paying agent. The 2026 Secured Notes will mature on May 15, 2026. Interest on the 2026 Secured Notes will be payable semi-annually in arrears on each May 15 and November 15, beginning on November 15, 2019. Interest on the 2026 Secured Notes will accrue from and including April 1, 2019 or else the most recent interest payment date to which interest had been paid or duly provided for to, but excluding, the date on which such interest is paid.

The 2026 Secured Notes and the related guarantees are the Issuers’ and the guarantors’ senior secured obligations and rank (i) senior in priority as to certain fixed asset collateral under the ABL Facility, to the extent of the value of such collateral; (ii) junior in priority as to certain priority collateral under the ABL Facility, to the extent of the value of such collateral; (iii) pari passu in priority as to collateral under the term loan and cash flow revolver of the Senior Secured Credit Facilities and the 2025 Secured Notes; and (iv) senior in priority as to certain fixed asset collateral with respect to the Issuers’ and the guarantors’ future obligations secured by a junior priority lien on the fixed asset collateral, to the extent of the value of such collateral.

The 2026 Secured Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 15, 2022, at the redemption prices as set forth in the 2026 Secured Notes Indenture. In addition, the Company may redeem some or all of the 2026 Secured Notes prior to May 15, 2022 at a price equal to 100% of the principal amount thereof plus a “make-whole” premium. Prior to May 15, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2026 Secured Notes using the proceeds of certain equity offerings at the redemption prices set forth in the 2026 Secured Notes Indenture.

### ***The 2025 Secured Notes***

The 2025 Secured Notes were issued pursuant to the indenture, dated as of May 20, 2020 (the “2025 Secured Notes Indenture”), among Holdings, the Issuers, the guarantors party thereto, and Citibank, N.A. as trustee, paying agent and collateral agent. The 2025 Secured Notes will mature on May 15, 2025. Interest on the 2025 Secured Notes will be payable semi-annually in arrears on each May 15 and November 15, beginning on November 15, 2020. Interest on the 2025 Secured Notes will accrue from and including May 20, 2020 or else the most recent interest payment date to which interest had been paid or duly provided for to, but excluding, the date on which such interest is paid.

The 2025 Secured Notes and the related guarantees are the Issuers’ and the guarantors’ senior secured obligations and rank (i) senior in priority as to certain fixed asset collateral under the ABL Facility, to the extent of the value of such collateral; (ii) junior in priority as to certain priority collateral under the ABL Facility, to the extent of the value of such collateral; (iii) pari passu in priority as to collateral under the term loan and cash flow revolver of the Senior Secured Credit Facilities and the 2026 Secured Notes; and (iv) senior in priority as to certain fixed asset collateral with respect to the Issuers’ and the guarantors’ future obligations secured by a junior priority lien on the fixed asset collateral, to the extent of the value of such collateral.

The 2025 Secured Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 15, 2022, at the redemption prices as set forth in the 2025 Secured Notes Indenture. In addition, the Company may redeem some or all of the 2025 Secured Notes prior to May 15, 2022 at a price equal to 100% of the principal amount thereof plus a “make-whole” premium. Prior to May 15, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2025



Secured Notes using the proceeds of certain equity offerings at the redemption prices set forth in the 2025 Secured Notes Indenture.

### *The Unsecured Notes*

The Unsecured Notes were issued pursuant to the indenture, dated as of April 1, 2019 (the “Unsecured Notes Indenture”), among Holdings, the Issuers, the guarantors party thereto and Citibank, N.A., as trustee. The Unsecured Notes will mature on May 15, 2027. Interest on the Unsecured Notes will be payable semi-annually in arrears on each May 15 and November 15, beginning on November 15, 2019. Interest on the Unsecured Notes will accrue from and including April 1, 2019 or else the most recent interest payment date to which interest had been paid or duly provided for to, but excluding, the date on which such interest is paid.

The Unsecured Notes and the related guarantees are the Issuers’ and the guarantors’ senior unsecured obligations.

The Unsecured Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 15, 2022, at the redemption prices set forth in the Unsecured Notes Indenture. In addition, the Company may redeem some or all of the Unsecured Notes prior to May 15, 2022 at a price equal to 100% of the principal amount thereof plus a “make-whole” premium. Prior to May 15, 2022, the Company may redeem up to 40% of the aggregate principal amount of the Unsecured Notes using the proceeds of certain equity offerings at the redemption prices set forth in the Unsecured Notes Indenture.

### *Credit Facilities*

In connection with the Acquisition, we also entered into (i) senior secured credit facilities (the “Senior Secured Credit Facilities”), initially consisting of (x) a 7-year \$6,409 million equivalent principal amount first lien term loan facility (the “Term Loan Facility”) consisting of (1) a \$4,200 million US Dollar denominated tranche (the “USD Term Loan”) and (2) a €1,955 million Euro-denominated tranche (the “Euro Term Loan”) and (y) a 5-year \$750 million first lien revolving credit facility (the “Revolving Facility”) and (ii) a 5-year \$500 million asset-based revolving credit facility (the “ABL Facility”). We used the proceeds of the initial borrowings under the Term Loan Facility and the ABL Facility to pay the cash consideration for the Acquisition and pay related fees and expenses. On March 5, 2020, the Company entered into an incremental amendment to the ABL Facility pursuant to which the aggregate commitments were increased by \$250 million to \$750 million in the aggregate.

### *Senior Secured Credit Facilities*

Under the Senior Secured Credit Facilities, we have the ability to increase the amount of term loans or add a revolving facility, or incur equivalent debt, in an aggregate amount not to exceed (a) a “fixed” amount set at the greater of \$1,330 million and 80% of consolidated EBITDA on a trailing four quarter basis plus (b) an additional amount subject to (i) if such indebtedness is secured by a lien on the collateral that is pari passu with the lien on the collateral securing the Senior Secured Credit Facilities, the first lien net leverage ratio not exceeding the greater of (1) 5.00 to 1.00 and (2) if such indebtedness is incurred to finance a permitted acquisition or other permitted investment, the first lien net leverage ratio immediately prior to the incurrence of such indebtedness, (ii) if such indebtedness is secured by a lien on the collateral that is junior to the lien on the collateral securing the Senior Secured Credit Facilities, the secured net leverage ratio not exceeding the greater of (1) 5.50 to 1.00 and (2) if such indebtedness is incurred to finance a permitted acquisition or other permitted investment, the secured net leverage ratio immediately prior to the incurrence of such indebtedness or (iii) if such indebtedness is unsecured or secured by assets that do not secure the Senior Secured Credit Facilities, either (x) the total net leverage ratio not exceeding the greater of (1) 6.60 to 1.00 and (2) if such indebtedness is incurred to finance a permitted acquisition or other permitted investment, the total net leverage ratio immediately prior to the incurrence of such indebtedness or (y) the interest coverage ratio not being less than the lesser of (1) 2.00 to 1.00 and (2) if such indebtedness is incurred to finance a permitted acquisition or other permitted investment, the interest coverage ratio immediately prior to the incurrence of such indebtedness. The lenders under the Senior Secured Credit Facilities are not under any obligation to provide commitments in respect of any such increase or incurrence.

Amounts borrowed under the Senior Secured Credit Facilities are subject to interest at a rate per annum equal to an applicable margin plus, at our option, either (a) for base rate loans denominated in US Dollars, a base rate determined by reference to the highest of (i) the rate last quoted by The Wall Street Journal (or, if such rate is not quoted by The Wall Street Journal, another national publication selected by the administrative agent in consultation with the Borrower) as the U.S. “Prime Rate” in effect on such day, (ii) the Federal Funds Effective Rate plus 0.50% per annum and (iii) the one month US Dollar LIBOR rate (which shall not be less than 0.00%) plus 1.00% per annum or (b) for Eurodollar rate loans, a rate determined by reference to the highest of (i) the US Dollar LIBOR rate (in the case of the USD Term Loan) or the EURIBOR rate (in the case of the Euro Term Loan) based on the interest period of the applicable borrowing and (ii) 0.00%. We are required to pay an unused line fee to the lenders under the Revolving Facility on the committed but unutilized balance of the Revolving Facility at a rate of,

initially, 0.50% per annum, subject to stepdowns upon the achievement of certain first lien net leverage ratios. \$300 million is available for the issuance of letters of credit under the Revolving Facility.

The credit agreement governing the Senior Secured Credit Facilities contains customary representations and warranties, affirmative and negative covenants, and events of default. The covenants include a maximum first lien net leverage ratio. There were no outstanding borrowings under the Revolving Facility as of September 30, 2020.

#### *ABL Facility*

The ABL Facility allows us to draw up to \$750 million pursuant to an incremental amendment on March 5, 2020, subject to borrowing base availability, and will mature in 2024. \$273 million is available for the issuance of letters of credit.

Amounts borrowed under the ABL Facility are subject to interest at a rate per annum equal to an applicable margin plus, at our option, either (a) for base rate loans denominated in US Dollars, a base rate determined by reference to the highest of (i) the rate of interest announced publicly by Citibank, N.A. in New York, from time to time, as its prime rate, (ii) the Federal Funds Effective Rate plus 0.50% per annum and (iii) the one month US Dollar LIBOR rate (which shall not be less than 0.00%) plus 1.00% per annum or (b) for Eurodollar rate loans denominated in US Dollars or Euros, a rate determined by reference to the highest of (i) the US Dollar LIBOR rate (in the case of US Dollar denominated loans) or the EURIBOR rate (in the case of Euro denominated loans) based on the interest period of the applicable borrowing and (ii) 0.00%. Asset-based revolving loans denominated in other currencies are subject to interest at a rate per annum equal to an applicable margin plus the customary equivalent to the Eurodollar rate.

The applicable margin percentages with respect to borrowings under the ABL Facility are subject to adjustments based on historical excess availability as defined in the credit agreement for the ABL Facility. We also are required to pay an unused line fee to the lenders under the ABL Facility on the committed but unutilized balance of the ABL Facility at a rate of 0.375% or 0.250% per annum, which varies depending on utilization.

The credit agreement governing the ABL Facility contains customary representations and warranties, affirmative and negative covenants, and events of default. The covenants include a minimum fixed-charge coverage ratio. There were no outstanding borrowings under the ABL Facility as of September 30, 2020.

#### ***Liquidity Outlook***

We believe that our current cash and equivalents, along with cash flows from operations and unused availability under the ABL Facility and the Revolving Facility will be sufficient to fund our current operating requirements over the next twelve months. Our liquidity and our ability to meet our obligations and fund our capital and other requirements are also dependent on our future financial performance, which is subject to general economic and market conditions and other factors that are beyond our control. Accordingly, we cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings or equity financings will be available to meet our liquidity needs. If we were unable to generate new contracts with existing and new customers, if the level of contract cancellations increased, or if contract delays lengthen or increase, our cash flow from operations would be materially adversely affected. We anticipate that to the extent we need additional liquidity, it will be funded through the incurrence of additional indebtedness, equity financings or a combination thereof. We cannot assure you that we will be able to obtain this additional liquidity on reasonable terms or at all. If we decide to pursue one or more significant acquisitions or significant internal growth initiatives, we may incur additional debt or sell additional equity to finance such acquisitions or initiatives.

## Commitments and Contractual Obligations

A summary of our current contractual obligations and commercial commitments as of September 30, 2020 is as follows (in millions):

	Total amounts for all years	Less than 1 year	1-3 years	3-5 years	More than 5 years
	Contractual Obligations				
Long term debt obligations:					
Principal payments	\$ 10,723	\$ 42	\$ 84	\$ 584	\$ 10,013
Interest payments	3,166	534	1,066	1,077	489
Finance leases	60	12	40	6	2
Operating leases	105	35	45	18	7
Purchase obligations	2,002	1,149	664	169	20
Total obligations	<u>\$ 16,056</u>	<u>\$ 1,772</u>	<u>\$ 1,899</u>	<u>\$ 1,854</u>	<u>\$ 10,531</u>

In addition, as of September 30, 2020, there are various other liabilities recorded on the balance sheet for which the timing of the payments cannot be estimated due to the nature of the liabilities and are therefore excluded from the table above.

## Off-Balance Sheet Arrangements

As of September 30, 2020 and September 30, 2019, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

## Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon the financial statements of the Company, which have been prepared in conformity with U.S. GAAP. During the preparation of the financial statements of the Company in conformity with U.S. GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, fair value measures, goodwill and intangible assets and related disclosures of assets and liabilities. On an ongoing basis, we evaluate such estimates and assumptions. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Accounting estimates and assumptions discussed in this section do not reflect a comprehensive list of all of our accounting policies, but are those that we consider to be the most critical to an understanding of the financial statements of the Company because they involve significant judgments and uncertainties.

## Goodwill and Indefinite-Lived Intangible Assets

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company reviews goodwill for impairment during the fourth fiscal quarter or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment reviews for its reporting units using a fair value method based on management's judgments and assumptions or third party valuations. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Successor Company uses a present value technique based on discounted cash flows to estimate the fair value of our reporting units. In estimating the fair value, the Predecessor Company used a multiples of earnings based on the average of published multiples of earnings of comparable entities with similar operations and economic characteristics and applies to the Company's average of historical and future financial results. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement." The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. Refer to Note 6, "Goodwill and Other Intangible Assets," of the notes to financial statements for information regarding the goodwill impairment testing performed.

Indefinite-lived intangible assets are subject to at least annual impairment testing. Indefinite-lived intangible assets primarily consist of trademarks and are tested for impairment using a relief-from-royalty method. A significant amount of management judgment and assumptions are required in performing the impairment tests.

### **Impairment of Long-Lived Assets**

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals. Refer to Note 15, "Restructuring and Impairment Costs," of the notes to financial statements for information regarding impairments recorded in the year ended September 30, 2020.

### **Revenue Recognition**

Net sales consist of gross sales less sales adjustments related to provisions for customer returns, allowances and rebates. The Company's revenue is generated through the manufacture and sale of automotive battery products to OEM and aftermarket customers globally, of which the delivery of goods ordered typically represents the Company's sole performance obligation with respect to distinct goods and services offered to customers. The Company recognizes revenue typically at the point in time when control over the goods transfers to the customer as specified by the shipping terms agreed upon with the customer. Refer to Note 3, "Revenue," of the notes to financial statements for further information.

### **Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity price.

#### ***Interest Rate Exposure***

We will incur variable interest expense with respect to our Senior Secured Credit Facilities and any outstanding borrowings under our ABL Facility and Revolving Credit Facility. As of September 30, 2020, we had approximately \$10.7 billion aggregate principal amount of variable and fixed rate indebtedness, with a weighted-average interest rate of approximately 5.1% per year. Refer to Note 8, "Debt and Financing Arrangements," of the notes to financial statements for further information regarding the Company's outstanding debt. A change of 0.125% in the assumed weighted-average interest rate of such debt would increase or decrease our estimated annual interest expense by approximately \$13 million.

#### ***Derivative Instruments and Hedging Activity***

The Company selectively uses derivative instruments to reduce the Company's market risk associated with changes in interest rates, foreign currency and commodities. Refer to Note 9, "Derivative Instruments and Hedging Activities," of the notes to financial statements for further information.

Subsequent to the Acquisition, the Company has USD denominated variable-rate debt obligations and selectively enters into variable to fixed interest rate swaps to minimize variability in cash flows for interest payments associated with the designated proportion of the hedged debt. As cash flow hedges under ASC 815, "Derivatives and Hedging," the hedge gains or losses due to changes in fair value are initially recorded as a component of AOCI and are subsequently reclassified into earnings when the hedged transactions occur and affect earnings. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in interest rates during the year ended September 30, 2020.

Subsequent to the Acquisition, the Company has Euro denominated variable-rate debt obligations and selectively enters into interest rate caps to minimize extreme adverse variability in cash flows for interest payments associated with the designated proportion of the hedged debt. As cash flow hedges, the hedge gains or losses due to changes in fair value are initially recorded as a component of AOCI and are subsequently reclassified into earnings when the hedged transactions occur and affect earnings. The option premiums paid for the caps are recorded to interest expense over the life of the cap on a straight-line basis. The foreign currency transaction gains and losses on the Euro caps are recognized in earnings each period. The hedged interest rate was below the strike price on the caps during the year ended September 30, 2020.

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in foreign currency exchange rates. The Company selectively hedges the Company's anticipated transactions that are subject to foreign exchange rate risk primarily using foreign currency exchange hedge contracts. Prior to the Acquisition, the Parent Company hedged 70% to 90% of the nominal amount of each of the Company's known foreign exchange transactional exposures. As cash flow hedges under ASC 815, "Derivatives and Hedging," the hedge gains or losses due to changes in fair value were initially recorded as a component of AOCI and were subsequently reclassified into earnings when the hedged transactions occurred and affected earnings. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates during the Predecessor periods presented. As of September 30, 2020, the Company does not have any outstanding foreign currency exchange hedge contracts designated as hedging instruments.

Prior and subsequent to the Acquisition, the Company selectively hedged anticipated transactions that were subject to commodity price risk, primarily using commodity hedge contracts, to minimize overall price risk associated with the Company's purchases of lead, tin and polypropylene in cases where commodity price risk cannot be naturally offset or hedged through supply base fixed price contracts. Commodity risks were systematically managed pursuant to policy guidelines. As cash flow hedges, the hedge gains or losses due to changes in fair value were initially recorded as a component of AOCI and were subsequently reclassified into earnings when the hedged transactions, typically sales, occurred and affected earnings. The maturities of the commodity hedge contracts coincided with the expected purchase of the commodities. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in commodity prices during all periods presented.

### **Recently Adopted Accounting Pronouncements**

Refer to Note 1, "Financial Statements," of the notes to financial statements for discussion of recently adopted accounting pronouncements.