

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

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From ____ To ____

Commission File Number: 001-13836

JOHNSON CONTROLS INTERNATIONAL PLC

(Exact name of registrant as specified in its charter)

Ireland

(Jurisdiction of Incorporation)

One Albert Quay, Cork, Ireland, T12 X8N6

(Address of Principal Executive Offices and Postal Code)

98-0390500

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

(353) 21-423-5000

(Registrant's Telephone Number)

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Ordinary Shares, Par Value \$0.01	JCI	New York Stock Exchange
1.000% Senior Notes due 2023	JCI23A	New York Stock Exchange
3.625% Senior Notes due 2024	JCI24A	New York Stock Exchange
1.375% Notes due 2025	JCI25A	New York Stock Exchange
3.900% Notes due 2026	JCI26A	New York Stock Exchange
0.375% Senior Notes due 2027	JCI27	New York Stock Exchange
3.000% Senior Notes due 2028	JCI28	New York Stock Exchange
1.750% Senior Notes due 2030	JCI30	New York Stock Exchange
2.000% Sustainability-Linked Senior Notes due 2031	JCI31	New York Stock Exchange
1.000% Senior Notes due 2032	JCI32	New York Stock Exchange
4.900% Senior Notes due 2032	JCI32A	New York Stock Exchange
6.000% Notes due 2036	JCI36A	New York Stock Exchange
5.70% Senior Notes due 2041	JCI41B	New York Stock Exchange
5.250% Senior Notes due 2041	JCI41C	New York Stock Exchange
4.625% Senior Notes due 2044	JCI44A	New York Stock Exchange
5.125% Notes due 2045	JCI45B	New York Stock Exchange
6.950% Debentures due December 1, 2045	JCI45A	New York Stock Exchange
4.500% Senior Notes due 2047	JCI47	New York Stock Exchange
4.950% Senior Notes due 2064	JCI64A	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>			Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Ordinary Shares Outstanding at December 31, 2022
Ordinary Shares, \$0.01 par value per share	687,231,016

JOHNSON CONTROLS INTERNATIONAL PLC

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Johnson Controls International plc
Consolidated Statements of Income
(in millions, except per share data; unaudited)

	Three Months Ended December 31,	
	2022	2021
Net sales		
Products and systems	\$ 4,556	\$ 4,420
Services	1,512	1,442
	<u>6,068</u>	<u>5,862</u>
Cost of sales		
Products and systems	3,113	3,153
Services	864	818
	<u>3,977</u>	<u>3,971</u>
Gross profit	2,091	1,891
Selling, general and administrative expenses	(1,571)	(1,369)
Restructuring and impairment costs	(345)	(49)
Net financing charges	(67)	(53)
Equity income	62	70
Income before income taxes	170	490
Income tax provision	14	71
Net income	156	419
Income attributable to noncontrolling interests	38	38
Net income attributable to Johnson Controls	<u>\$ 118</u>	<u>\$ 381</u>
Earnings per share attributable to Johnson Controls		
Basic	\$ 0.17	\$ 0.54
Diluted	\$ 0.17	\$ 0.54

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

Johnson Controls International plc
Consolidated Statements of Comprehensive Income
(in millions; unaudited)

	Three Months Ended December 31,	
	2022	2021
Net income	\$ 156	\$ 419
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	90	86
Realized and unrealized gains (losses) on derivatives	(17)	7
Pension and postretirement plans	(1)	(1)
Other comprehensive income	72	92
Total comprehensive income	228	511
Comprehensive income attributable to noncontrolling interests:		
Net income	38	38
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	31	2
Realized and unrealized gains (losses) on derivatives	(6)	3
Other comprehensive income	25	5
Comprehensive income attributable to noncontrolling interests	63	43
Comprehensive income attributable to Johnson Controls	<u>\$ 165</u>	<u>\$ 468</u>

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

Johnson Controls International plc
Consolidated Statements of Financial Position
(in millions, except par value; unaudited)

	December 31, 2022	September 30, 2022
Assets		
Cash and cash equivalents	\$ 1,509	\$ 2,031
Accounts receivable, less allowance for expected credit losses of \$74 and \$62, respectively	5,722	5,528
Inventories	2,895	2,510
Current assets held for sale	418	387
Other current assets	1,293	1,229
Current assets	<u>11,837</u>	<u>11,685</u>
Property, plant and equipment - net	3,098	3,042
Goodwill	17,684	17,328
Other intangible assets - net	4,673	4,641
Investments in partially-owned affiliates	1,053	963
Noncurrent assets held for sale	588	751
Other noncurrent assets	3,864	3,748
Total assets	<u>\$ 42,797</u>	<u>\$ 42,158</u>
Liabilities and Equity		
Short-term debt	\$ 1,026	\$ 669
Current portion of long-term debt	937	865
Accounts payable	4,138	4,241
Accrued compensation and benefits	912	978
Deferred revenue	1,774	1,768
Current liabilities held for sale	310	236
Other current liabilities	2,466	2,482
Current liabilities	<u>11,563</u>	<u>11,239</u>
Long-term debt	7,784	7,426
Pension and postretirement benefits	354	358
Noncurrent liabilities held for sale	62	62
Other noncurrent liabilities	5,791	5,671
Long-term liabilities	<u>13,991</u>	<u>13,517</u>
Commitments and contingencies (Note 21)		
Ordinary shares, \$0.01 par value	7	7
Ordinary A shares, €1.00 par value	—	—
Preferred shares, \$0.01 par value	—	—
Ordinary shares held in treasury, at cost	(1,233)	(1,203)
Capital in excess of par value	17,262	17,224
Retained earnings	874	1,151
Accumulated other comprehensive loss	(864)	(911)
Shareholders' equity attributable to Johnson Controls	<u>16,046</u>	<u>16,268</u>
Noncontrolling interests	1,197	1,134
Total equity	<u>17,243</u>	<u>17,402</u>
Total liabilities and equity	<u>\$ 42,797</u>	<u>\$ 42,158</u>

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

Johnson Controls International plc
Consolidated Statements of Cash Flows
(in millions; unaudited)

	Three Months Ended December 31,	
	2022	2021
Operating Activities of Continuing Operations		
Net income attributable to Johnson Controls	\$ 118	\$ 381
Income attributable to noncontrolling interests	38	38
Net income	156	419
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation and amortization	203	224
Pension and postretirement benefit income	(6)	(82)
Pension and postretirement contributions	(9)	(41)
Equity in earnings of partially-owned affiliates, net of dividends received	(56)	(18)
Deferred income taxes	(92)	(32)
Noncash restructuring and impairment charges	294	—
Equity-based compensation	30	29
Other - net	(27)	(28)
Changes in assets and liabilities, excluding acquisitions and divestitures:		
Accounts receivable	(88)	(75)
Inventories	(348)	(376)
Other assets	(68)	(63)
Restructuring reserves	14	19
Accounts payable and accrued liabilities	(338)	333
Accrued income taxes	39	83
Cash provided (used) by operating activities from continuing operations	(296)	392
Investing Activities of Continuing Operations		
Capital expenditures	(134)	(135)
Sale of property, plant and equipment	27	7
Acquisition of businesses, net of cash acquired	(79)	(108)
Business divestitures, net of cash divested	—	16
Changes in long-term investments	(3)	2
Cash used by investing activities from continuing operations	(189)	(218)
Financing Activities of Continuing Operations		
Increase in short-term debt - net	267	394
Increase in long-term debt	154	—
Stock repurchases and retirements	(154)	(526)
Payment of cash dividends	(241)	(191)
Employee equity-based compensation withholding taxes	(30)	(47)
Other - net	13	13
Cash provided (used) by financing activities from continuing operations	9	(357)
Discontinued Operations		
Cash used by operating activities	—	(4)
Cash used by discontinued operations	—	(4)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(14)	67
Decrease in cash, cash equivalents and restricted cash	(490)	(120)
Cash, cash equivalents and restricted cash at beginning of period	2,066	1,342
Cash, cash equivalents and restricted cash at end of period	1,576	1,222
Less: Restricted cash	67	15
Cash and cash equivalents at end of period	\$ 1,509	\$ 1,207

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

Johnson Controls International plc
Consolidated Statements of Shareholders' Equity
(in millions, except per share data; unaudited)

	Three Months Ended December 31,	
	2022	2021
Shareholders' Equity Attributable to Johnson Controls		
Beginning Balance	\$ 16,268	\$ 17,562
Ordinary Shares		
Beginning balance	7	7
Ending balance	7	7
Ordinary Shares Held in Treasury, at Cost		
Beginning balance	(1,203)	(1,152)
Employee equity-based compensation withholding taxes	(30)	(47)
Ending balance	(1,233)	(1,199)
Capital in Excess of Par Value		
Beginning balance	17,224	17,116
Share-based compensation expense	19	—
Other, including options exercised	19	34
Ending balance	17,262	17,150
Retained Earnings		
Beginning balance	1,151	2,025
Net income attributable to Johnson Controls	118	381
Cash dividends declared	(241)	(242)
Repurchases and retirements of ordinary shares	(154)	(526)
Ending balance	874	1,638
Accumulated Other Comprehensive Income (Loss)		
Beginning balance	(911)	(434)
Other comprehensive income	47	87
Ending balance	(864)	(347)
Ending Balance	16,046	17,249
Shareholders' Equity Attributable to Noncontrolling Interests		
Beginning Balance	1,134	1,191
Comprehensive income attributable to noncontrolling interests	63	43
Change in noncontrolling interest share	—	7
Ending Balance	1,197	1,241
Total Shareholders' Equity	<u>\$ 17,243</u>	<u>\$ 18,490</u>
Cash Dividends Declared per Ordinary Share	<u>\$ 0.35</u>	<u>\$ 0.34</u>

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

Johnson Controls International plc
Notes to Consolidated Financial Statements
December 31, 2022
(unaudited)

1. Basis of Presentation

The consolidated financial statements include the consolidated accounts of Johnson Controls International plc, a public limited company organized under the laws of Ireland, and its subsidiaries (Johnson Controls International plc and all its subsidiaries, hereinafter collectively referred to as the "Company," or "Johnson Controls"). In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include normal recurring adjustments) necessary to state fairly the financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2022 filed with the SEC on November 15, 2022. The results of operations for the three month period ended December 31, 2022 are not necessarily indicative of results for the Company's 2023 fiscal year because of seasonal and other factors.

Nature of Operations

Johnson Controls International plc, headquartered in Cork, Ireland, is a global leader in smart, healthy and sustainable buildings, serving a wide range of customers in more than 150 countries. The Company's products, services, systems and solutions advance the safety, comfort and intelligence of spaces to serve people, places and the planet. The Company is committed to helping its customers win and creating greater value for all of its stakeholders through its strategic focus on buildings.

The Company is a global leader in engineering, manufacturing, commissioning and retrofitting building products and systems, including residential and commercial heating, ventilating, air-conditioning ("HVAC") equipment, industrial refrigeration systems, controls, security systems, fire-detection systems and fire-suppression solutions. The Company further serves customers by providing technical services, including maintenance, management, repair, retrofit and replacement of equipment (in the HVAC, industrial refrigeration, controls, security and fire-protection space), energy-management consulting and data-driven "smart building" services and solutions powered by its OpenBlue software platform and capabilities. The Company partners with customers by leveraging its broad product portfolio and digital capabilities powered by OpenBlue, together with its direct channel service and solutions capabilities, to deliver outcome-based solutions across the lifecycle of a building that address customers' needs to improve energy efficiency, enhance security, create healthy environments and reduce greenhouse gas emissions.

Principles of Consolidation

The consolidated financial statements include the consolidated accounts of Johnson Controls International plc and its subsidiaries that are consolidated in conformity with U.S. GAAP. All significant intercompany transactions have been eliminated. The results of companies acquired or disposed of during the reporting period are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. Investments in partially-owned affiliates are accounted for by the equity method when the Company exercises significant influence, which typically occurs when its ownership interest exceeds 20%, and the Company does not have a controlling interest.

The Company consolidates variable interest entities ("VIE") when it has the power to direct the significant activities of the entity and the obligation to absorb losses or receive benefits from the entity that may be significant. The Company did not have any material consolidated or nonconsolidated VIE's for the presented reporting periods.

Restricted Cash

Restricted cash relates to amounts restricted for payment of asbestos liabilities and certain litigation and environmental matters. Restricted cash is recorded within other current assets in the consolidated statements of financial position and totaled \$67 million and \$35 million at December 31, 2022 and September 30, 2022, respectively.

Johnson Controls International plc
Notes to Consolidated Financial Statements
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(unaudited)

2. New Accounting Standards

Recently Issued Accounting Pronouncements

In September 2022, the FASB issued ASU 2022-04, "Disclosure of Supplier Finance Program Obligations", which is intended to enhance the transparency surrounding the use of supplier finance programs. Supplier finance programs may also be referred to as reverse factoring, payables finance, or structured payables arrangements. The amendments require a buyer that uses supplier finance programs to make annual disclosures about the program's key terms, the balance sheet presentation of related amounts, the confirmed amount outstanding at the end of the period, and associated rollforward information. Only the amount outstanding at the end of the period must be disclosed in interim periods. The Company expects to adopt the new disclosures, other than the rollforward disclosure, as required at the beginning of fiscal 2024. The rollforward disclosures will be adopted as required at the beginning of fiscal 2025.

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

3. Acquisitions and Divestitures

During the first quarter of fiscal 2023, the Company completed certain acquisitions for a combined purchase price, net of cash acquired, of \$105 million, of which \$79 million was paid as of December 31, 2022. In connection with the acquisitions, the Company recorded goodwill of \$53 million within the Global Products segment and \$2 million within the Building Solutions EMEA/LA segment.

The Company completed no divestitures during the first quarter of fiscal 2023.

During the first quarter of fiscal 2022, the Company completed certain acquisitions for a combined purchase price, net of cash acquired, of \$142 million, of which \$108 million was paid as of December 31, 2021. In connection with the acquisitions, the Company recorded goodwill of \$45 million within the Building Solutions Asia Pacific segment, \$20 million within the Building Solutions North America segment, \$19 million within the Building Solutions EMEA/LA segment and \$10 million within the Global Products segment.

During the first quarter of fiscal 2022, the Company completed a divestiture within the Buildings Solutions EMEA/LA segment. The selling price, net of cash divested, was \$18 million, of which \$16 million was received as of December 31, 2021. In connection with the divestiture, the Company reduced goodwill by \$5 million.

Acquisitions and divestitures were not material individually or in the aggregate in the first quarter of fiscal 2023 or 2022.

4. Assets and Liabilities Held for Sale

During fiscal 2022, the Company determined that its Global Retail business within its Building Solutions North America, Building Solutions Asia Pacific and Building Solutions EMEA/LA segments and a business within the Building Solutions Asia Pacific segment both met the criteria to be classified as held for sale. The assets and liabilities of both businesses are presented as held for sale in the consolidated statements of financial position as of December 31, 2022 and September 30, 2022. Assets and liabilities held for sale are recorded at the lower of carrying value or fair value, less costs to sell in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets". The carrying amount of any assets, including goodwill, that are part of the disposal group, but not in the scope of ASC 360-10, are tested for impairment under the relevant guidance prior to measuring the disposal group at fair value, less cost to sell.

During the three months ended December 31, 2022, the Company recorded impairment charges primarily due to reductions in the estimated fair values for the Global Retail business of \$228 million and for the business in the Building Solutions Asia Pacific of \$60 million. All of the impairments were recorded within restructuring and impairment costs in the consolidated statements of income.

Johnson Controls International plc
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(unaudited)

The divestiture of the businesses held for sale could result in a gain or loss on sale to the extent the ultimate selling prices differ from the current carrying value of the net assets recorded, which could be material. The businesses did not meet the criteria to be classified as discontinued operations as neither divestiture represents a strategic shift that will have a major effect on the Company's operations and financial results. Both divestitures are expected to be finalized in fiscal 2023.

The following table summarizes the carrying value of the Global Retail assets and liabilities held for sale (in millions):

	December 31, 2022	September 30, 2022
Accounts receivable - net	\$ 220	\$ 199
Inventories	157	155
Other current assets	28	21
Current assets held for sale	<u>\$ 405</u>	<u>\$ 375</u>
Property, plant and equipment - net	\$ 191	\$ 89
Goodwill	—	22
Other intangible assets - net	322	514
Other noncurrent assets	72	72
Noncurrent assets held for sale	<u>\$ 585</u>	<u>\$ 697</u>
Accounts payable	\$ 129	\$ 127
Accrued compensation and benefits	16	25
Deferred revenue	38	36
Other current liabilities	116	33
Current liabilities held for sale	<u>\$ 299</u>	<u>\$ 221</u>
Other noncurrent liabilities	\$ 61	\$ 61
Noncurrent liabilities held for sale	<u>\$ 61</u>	<u>\$ 61</u>

5. Revenue Recognition

Disaggregated Revenue

The following tables present the Company's revenues disaggregated by segment and by Products & Systems and Services revenue (in millions):

	Three Months Ended December 31,					
	2022			2021		
	Products & Systems	Services	Total	Products & Systems	Services	Total
Building Solutions North America	\$ 1,451	\$ 916	\$ 2,367	\$ 1,299	\$ 853	\$ 2,152
Building Solutions EMEA/LA	552	423	975	544	415	959
Building Solutions Asia Pacific	473	173	646	501	174	675
Global Products	2,080	—	2,080	2,076	—	2,076
Total	<u>\$ 4,556</u>	<u>\$ 1,512</u>	<u>\$ 6,068</u>	<u>\$ 4,420</u>	<u>\$ 1,442</u>	<u>\$ 5,862</u>

Johnson Controls International plc
Notes to Consolidated Financial Statements
December 31, 2022
(unaudited)

The following table presents further disaggregation of Global Products segment revenues by product type (in millions):

	Three Months Ended December 31,	
	2022	2021
HVAC	\$ 1,440	\$ 1,483
Fire & Security	570	544
Industrial Refrigeration	70	49
Total	<u>\$ 2,080</u>	<u>\$ 2,076</u>

Contract Balances

Contract assets relate to the Company's right to consideration for performance obligations satisfied but not billed and consist of unbilled receivables and costs in excess of billings. Contract liabilities relate to customer payments received in advance of satisfaction of performance obligations under the contract. 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	December 31, 2022	September 30, 2022
Contract assets - current	Accounts receivable - net	\$ 2,019	\$ 2,020
Contract assets - noncurrent	Other noncurrent assets	83	79
Contract liabilities - current	Deferred revenue	(1,774)	(1,768)
Contract liabilities - noncurrent	Other noncurrent liabilities	(293)	(282)

For the three months ended December 31, 2022 and 2021, the Company recognized revenue of \$846 million and \$751 million, respectively, that was included in the beginning of period contract liability balance.

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. When contracts with customers require significant and complex integration, contain goods or services which are highly interdependent or interrelated, or are goods or services which significantly modify or customize other promises in the contracts and, therefore, are not distinct, then the entire contract is accounted for as a single performance obligation. For any contracts with multiple performance obligations, the contract's transaction price is allocated to each performance obligation based on the estimated relative standalone selling price of each distinct good or service in the contract. For product sales, each product sold to a customer typically represents a distinct performance obligation.

Performance obligations are satisfied at a point in time or over time. The timing of satisfying the performance obligation is typically stipulated by the terms of the contract. As of December 31, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$18.4 billion, of which approximately 65% is expected to be recognized as revenue over the next two years. The remaining performance obligations expected to be recognized in revenue beyond two years primarily relate to large, multi-purpose contracts to construct hospitals, schools and other governmental buildings, which include services to be performed over the building's lifetime, with initial contract terms of 25 to 35 years. Future contract modifications could affect both the timing and the amount of the remaining performance obligations. The Company excludes the value of remaining performance obligations for contracts with an original expected duration of one year or less.

Johnson Controls International plc
Notes to Consolidated Financial Statements
December 31, 2022
(unaudited)

Costs to Obtain or Fulfill a Contract

The Company recognizes the incremental costs incurred to obtain or fulfill a contract with a customer as an asset when these costs are recoverable. These costs consist primarily of sales commissions and design costs that relate to a contract or an anticipated contract that we expect to recover. Costs to obtain or fulfill a contract are capitalized and amortized over the period of contract performance.

The following table presents the location and amount of costs to obtain or fulfill a contract recorded in the Company's consolidated statements of financial position (in millions):

	December 31, 2022	September 30, 2022
Other current assets	\$ 148	\$ 139
Other noncurrent assets	191	174
Total	<u>\$ 339</u>	<u>\$ 313</u>

For the three months ended December 31, 2022 and 2021, the Company recognized amortization expense of \$61 million, and \$50 million related to costs to obtain or fulfill a contract. There were no impairment losses recognized in the three months ended December 31, 2022 and 2021.

6. Accounts Receivable

The Company enters into various factoring agreements to sell certain accounts receivable to third-party financial institutions. For the majority of these agreements, for ease of administration, the Company collects customer payments related to the factored receivables on behalf of the financial institutions but otherwise maintains no continuing involvement with respect to the factored receivables. Sales of accounts receivable are reflected as a reduction of accounts receivable in the consolidated statements of financial position and the proceeds are included in cash flows from operating activities in the consolidated statements of cash flows. The Company sold \$409 million and \$134 million of accounts receivable under these factoring agreements during the three months ended December 31, 2022 and 2021, respectively. The cost of factoring such receivables was not material. Previously sold receivables still outstanding were \$384 million and \$476 million as of December 31, 2022 and September 30, 2022, respectively.

7. Inventories

Inventories consisted of the following (in millions):

	December 31, 2022	September 30, 2022
Raw materials and supplies	\$ 1,162	\$ 1,009
Work-in-process	215	196
Finished goods	1,518	1,305
Inventories	<u>\$ 2,895</u>	<u>\$ 2,510</u>

8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill in each of the Company's reportable segments were as follows (in millions):

	Three Months Ended December 31, 2022				
	Building Solutions North America	Building Solutions EMEA/LA	Building Solutions Asia Pacific	Global Products	Total
Goodwill	\$ 9,630	\$ 1,772	\$ 1,116	\$ 5,591	18,109
Accumulated impairment loss	(659)	(47)	—	(75)	(781)
Balance at beginning of period	8,971	1,725	1,116	5,516	17,328
Acquisitions	—	2	—	53	55
Foreign currency translation and other	8	139	62	92	301
Balance at end of period	<u>\$ 8,979</u>	<u>\$ 1,866</u>	<u>\$ 1,178</u>	<u>\$ 5,661</u>	<u>\$ 17,684</u>

The Company tests goodwill for impairment annually as of July 31 or more frequently if events or changes in circumstances indicate the asset might be impaired. There were no triggering events requiring an impairment assessment be conducted in the three months ended December 31, 2022. However, it is possible that future changes in circumstances would require the Company to record additional non-cash impairment charges.

The Company's other intangible assets, primarily from business acquisitions, consisted of (in millions):

	December 31, 2022			September 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Definite-lived intangible assets						
Technology	\$ 1,415	\$ (699)	\$ 716	\$ 1,353	\$ (658)	\$ 695
Customer relationships	2,793	(1,330)	1,463	2,742	(1,254)	1,488
Miscellaneous	780	(407)	373	756	(386)	370
	<u>4,988</u>	<u>(2,436)</u>	<u>2,552</u>	<u>4,851</u>	<u>(2,298)</u>	<u>2,553</u>
Indefinite-lived intangible assets						
Trademarks/trade names	2,121	—	2,121	2,088	—	2,088
	<u>2,121</u>	<u>—</u>	<u>2,121</u>	<u>2,088</u>	<u>—</u>	<u>2,088</u>
Total intangible assets	<u>\$ 7,109</u>	<u>\$ (2,436)</u>	<u>\$ 4,673</u>	<u>\$ 6,939</u>	<u>\$ (2,298)</u>	<u>\$ 4,641</u>

Amortization of other intangible assets included within continuing operations for the three-month periods ended December 31, 2022 and 2021 was \$104 million and \$118 million, respectively.

The Company tests indefinite-lived intangible assets for impairment annually as of July 31 or more frequently if events or changes in circumstances indicate the asset might be impaired. There were no triggering events requiring that an impairment assessment be conducted in the three months ended December 31, 2022. However, it is possible that future changes in circumstances would require the Company to record additional non-cash impairment charges.

9. Leases

The following table presents supplemental consolidated statement of financial position information (in millions):

	Location of lease balances	December 31, 2022	September 30, 2022
Operating lease right-of-use assets	Other noncurrent assets	\$ 1,311	\$ 1,271
Operating lease liabilities - current	Other current liabilities	290	280
Operating lease liabilities - noncurrent	Other noncurrent liabilities	1,018	987

The following table presents supplemental noncash operating lease activity, excluding leases acquired in business combinations (in millions):

	Three Months Ended December 31,	
	2022	2021
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 110	\$ 55

10. Debt and Financing Arrangements

As of December 31, 2022, the Company had a syndicated \$2.5 billion committed revolving credit facility, which is scheduled to expire in December 2024, and a syndicated \$500 million committed revolving credit facility, which is scheduled to expire in November 2023. As of December 31, 2022, there were no draws on the facilities.

In October 2022, the Company repaid a €200 million (\$196 million as of September 30, 2022) term loan with an interest rate of EURIBOR plus 0.5% and entered into a €150 million (\$161 million as of December 31, 2022) term loan with an interest rate of EURIBOR plus 0.7% which is due in April 2024.

The Company had \$715 million and \$172 million of commercial paper outstanding as of December 31, 2022 and September 30, 2022, respectively.

Net Financing Charges

Net financing charges consisted of the following (in millions):

	Three Months Ended December 31,	
	2022	2021
Interest expense, net of capitalized interest costs	\$ 69	\$ 55
Other financing charges	10	5
Interest income	(4)	(2)
Net foreign exchange results for financing activities	(8)	(5)
Net financing charges	<u>\$ 67</u>	<u>\$ 53</u>

11. Derivative Instruments and Hedging Activities

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities and interest rates. Under Company 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 risk is included in the following paragraphs. In addition, refer to Note 12, "Fair Value Measurements," of the notes to the consolidated financial statements for information related to the fair value measurements and valuation methods utilized by the Company for each derivative type.

Cash Flow Hedges

The Company has global operations and participates in foreign exchange markets to minimize its risk of loss from fluctuations in foreign currency exchange rates. The Company selectively hedges anticipated transactions that are subject to foreign exchange rate risk primarily using foreign currency exchange forward contracts. The Company hedges 70% to 90% of the notional amount of each of its known foreign exchange transactional exposures.

The Company selectively hedges anticipated transactions that are subject to commodity price risk, primarily using commodity hedge contracts, to minimize overall price risk associated with the Company's purchases of copper and aluminum in cases where commodity price risk cannot be naturally offset or hedged through supply base fixed price contracts. Commodity risks are systematically managed pursuant to policy guidelines. The maturities of the commodity hedge contracts coincide with the expected purchase of the commodities.

As cash flow hedges under ASC 815, "Derivatives and Hedging," hedge gains or losses due to changes in fair value are initially recorded as a component of accumulated other comprehensive income (loss) ("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 currency exchange rates during the three months ended December 31, 2022 and 2021.

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

Commodity	Volume Outstanding as of	
	December 31, 2022	September 30, 2022
Copper	4,218	3,629
Aluminum	10,362	6,758

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 AOCI attributable to Johnson Controls ordinary shareholders where they offset currency gains and losses recorded on the Company's net investments globally.

The following table summarizes net investment hedges (in billions):

	December 31, 2022	September 30, 2022
Euro-denominated bonds designated as net investment hedges in Europe	€ 2.9	€ 2.9
Yen-denominated debt designated as a net investment hedge in Japan	¥ 30	¥ 30

Derivatives Not Designated as Hedging Instruments

The Company holds certain foreign currency forward contracts not designated as hedging instruments under ASC 815 to hedge foreign currency exposure resulting from monetary assets and liabilities denominated in nonfunctional currencies. The changes in fair value of these foreign currency forward exchange derivatives are recorded in the consolidated statements of income where they offset foreign currency transactional gains and losses on the nonfunctional currency denominated assets and liabilities being hedged.

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	
	December 31, 2022	September 30, 2022	December 31, 2022	September 30, 2022
Other current assets				
Foreign currency exchange derivatives	\$ 26	\$ 30	\$ —	\$ 24
Commodity derivatives	2	—	—	—
Total assets	<u>\$ 28</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 24</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 50	\$ 24	\$ 14	\$ 27
Commodity derivatives	2	10	—	—
Long-term debt				
Foreign currency denominated debt	3,346	3,077	—	—
Total liabilities	<u>\$ 3,398</u>	<u>\$ 3,111</u>	<u>\$ 14</u>	<u>\$ 27</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 ("ISDA") master netting agreements with substantially all of its counterparties. The Company enters into ISDA master netting agreements with counterparties that permit the net settlement of amounts owed under the derivative contracts. The master netting agreements generally provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event. The Company has not elected to offset the fair value positions of the derivative contracts recorded in the consolidated statements of financial position.

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.

The gross and net amounts of derivative assets and liabilities were as follows (in millions):

	Fair Value of Assets		Fair Value of Liabilities	
	December 31, 2022	September 30, 2022	December 31, 2022	September 30, 2022
Gross amount recognized	\$ 28	\$ 54	\$ 3,412	\$ 3,138
Gross amount eligible for offsetting	(17)	(42)	(17)	(42)
Net amount	<u>\$ 11</u>	<u>\$ 12</u>	<u>\$ 3,395</u>	<u>\$ 3,096</u>

Derivatives Impact on the Statements of Income and Statements of Comprehensive Income

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

Derivatives in ASC 815 Cash Flow Hedging Relationships	Three Months Ended December 31,	
	2022	2021
Foreign currency exchange derivatives	\$ (21)	\$ 13
Commodity derivatives	4	(2)
Total	<u>\$ (17)</u>	<u>\$ 11</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 statements of income (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from AOCI into Income	Three Months Ended December 31,	
		2022	2021
Foreign currency exchange derivatives	Cost of sales	\$ 9	\$ 5
Commodity derivatives	Cost of sales	(6)	(4)
Interest rate swaps	Net financing charges	—	(1)
Total		<u>\$ 3</u>	<u>\$ —</u>

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

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain Recognized in Income on Derivative	Three Months Ended December 31,	
		2022	2021
Foreign currency exchange derivatives	Cost of sales	\$ 2	\$ 10
Foreign currency exchange derivatives	Net financing charges	79	87
Equity swap	Selling, general and administrative	—	5
Total		<u>\$ 81</u>	<u>\$ 102</u>

Pre-tax gains (losses) on net investment hedges recorded as foreign currency translation adjustments ("CTA") within other comprehensive income (loss) were \$(269) and \$73 million for the three months ended December 31, 2022 and 2021, respectively. No gains or losses were reclassified from CTA into income during the three months ended December 31, 2022 and 2021.

12. 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 (in millions):

	Fair Value Measurements Using:			
	Total as of December 31, 2022	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	\$ 26	\$ —	\$ 26	\$ —
Exchange traded funds (fixed income) ¹	23	23	—	—
Commodity derivatives	2	—	2	—
Other noncurrent assets				
Deferred compensation plan assets	49	49	—	—
Exchange traded funds (fixed income) ¹	82	82	—	—
Exchange traded funds (equity) ¹	139	139	—	—
Total assets	<u>\$ 321</u>	<u>\$ 293</u>	<u>\$ 28</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 64	\$ —	\$ 64	\$ —
Commodity derivatives	2	—	2	—
Contingent earn-out liabilities	49	—	—	49
Other noncurrent liabilities				
Contingent earn-out liabilities	34	—	—	34
Total liabilities	<u>\$ 149</u>	<u>\$ —</u>	<u>\$ 66</u>	<u>\$ 83</u>

	Fair Value Measurements Using:			
	Total as of September 30, 2022	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	\$ 54	\$ —	\$ 54	\$ —
Exchange traded funds (fixed income) ¹	22	22	—	—
Other noncurrent assets				
Deferred compensation plan assets	46	46	—	—
Exchange traded funds (fixed income) ¹	86	86	—	—
Exchange traded funds (equity) ¹	131	131	—	—
Total assets	<u>\$ 339</u>	<u>\$ 285</u>	<u>\$ 54</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 51	\$ —	\$ 51	\$ —
Commodity derivatives	10	—	10	—
Contingent earn-out liabilities	30	—	—	30
Other noncurrent liabilities				
Contingent earn-out liabilities	30	—	—	30
Total liabilities	<u>\$ 121</u>	<u>\$ —</u>	<u>\$ 61</u>	<u>\$ 60</u>

¹ Classified as restricted investments for payment of asbestos liabilities. See Note 21, "Commitments and Contingencies," of the notes to the consolidated financial statements for further details.

The following table summarizes the changes in contingent earn-out liabilities, which are valued using significant unobservable inputs (Level 3) (in millions):

Balance at September 30, 2022	\$ 60
Acquisitions	25
Payments	(3)
Currency translation	1
Balance at December 31, 2022	<u>\$ 83</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.

Deferred compensation plan assets: Assets held in the deferred compensation plans will be used to pay benefits under certain of the Company's non-qualified deferred compensation plans. The investments primarily consist of mutual funds which are publicly traded on stock exchanges and are valued using a market approach based on the quoted market prices. Unrealized gains (losses) on the deferred compensation plan assets are recognized in the consolidated statements of income where they offset unrealized gains and losses on the related deferred compensation plan liability.

Investments in exchange traded funds: Investments in exchange traded funds are valued using a market approach based on quoted market prices, where available, or broker/dealer quotes of identical or comparable instruments. Refer to Note 21, "Commitments and Contingencies," of the notes to the consolidated financial statements for further information.

Contingent earn-out liabilities: The contingent earn-out liabilities were established using a Monte Carlo simulation based on the forecasted operating results and the earn-out formula specified in the purchase agreements.

The following table presents the portion of unrealized gains recognized in the consolidated statements of income that relate to equity securities still held at December 31, 2022 and 2021 (in millions):

	Three Months Ended December 31,	
	2022	2021
Deferred compensation plan assets	\$ 3	\$ 3
Investments in exchange traded funds	11	14

All of the gains on investments in exchange traded funds related to restricted investments.

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. At December 31, 2022, the fair value of long-term debt was \$7.9 billion, including public debt of \$7.5 billion and other long-term debt of \$0.4 billion. At September 30, 2022, the fair value of long-term debt was \$7.3 billion, including public debt of \$7.1 billion and other long-term debt of \$0.2 billion. The fair value of public debt was determined primarily using market quotes which are classified as Level 1 inputs within the ASC 820 fair value hierarchy. The fair value of other long-term debt was determined using quoted market prices for similar instruments and are classified as Level 2 inputs within the ASC 820 fair value hierarchy.

13. Stock-Based Compensation

On March 10, 2021, the shareholders of the Company approved the Johnson Controls International plc 2021 Equity and Incentive Plan (the "Plan"). The Plan authorizes stock options, stock appreciation rights, restricted (non-vested) stock/units, performance share units and other stock-based awards. The Compensation and Talent Development Committee of the Company's Board of Directors determines the types of awards to be granted to individual participants and the terms and conditions of the awards. Awards are typically granted annually in the Company's fiscal first quarter.

A summary of the stock-based awards granted is presented below:

	Three Months Ended December 31,			
	2022		2021	
	Number Granted	Weighted Average Grant Date Fair Value	Number Granted	Weighted Average Grant Date Fair Value
Restricted stock/units	1,614,493	\$ 66.73	1,170,634	\$ 79.54
Performance shares	339,191	79.54	438,476	84.27
Stock options	570,140	18.21	548,398	18.59

Performance Share Awards

The following table summarizes the assumptions used in determining the fair value of performance share units granted:

	Three Months Ended December 31,	
	2022	2021
Risk-free interest rate	4.04%	0.99%
Expected volatility of the Company's stock	33.5%	30.0%

Stock Options

The following table summarizes the assumptions used in determining the fair value of stock options granted:

	Three Months Ended December 31,	
	2022	2021
Expected life of option (years)	5.8	6.0
Risk-free interest rate	3.59%	1.35%
Expected volatility of the Company's stock	29.4%	27.8%
Expected dividend yield on the Company's stock	2.10%	1.71%

14. Earnings Per Share

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share (in millions):

	Three Months Ended December 31,	
	2022	2021
Income Available to Ordinary Shareholders		
Basic and diluted income available to shareholders	<u>\$ 118</u>	<u>\$ 381</u>
Weighted Average Shares Outstanding		
Basic weighted average shares outstanding	687.0	704.3
Effect of dilutive securities:		
Stock options, unvested restricted stock and unvested performance share awards	<u>3.3</u>	<u>5.2</u>
Diluted weighted average shares outstanding	<u>690.3</u>	<u>709.5</u>
Antidilutive Securities		
Stock options and unvested restricted stock	0.3	—

15. Equity

Share repurchase program

For the three months ended December 31, 2022 and 2021, the Company repurchased and immediately retired \$154 million and \$526 million of its ordinary shares, respectively. As of December 31, 2022, approximately \$3.5 billion remains available under the Company's share repurchase program, which was approved by the Company's Board of Directors in March 2021. The share repurchase program does not have an expiration date and may be amended or terminated by the Board of Directors at any time without prior notice.

Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended December 31,	
	2022	2021
Foreign currency translation adjustments		
Balance at beginning of period	\$ (901)	\$ (421)
Aggregate adjustment for the period (net of tax effect of \$0 and \$0)	59	84
Balance at end of period	<u>(842)</u>	<u>(337)</u>
Realized and unrealized gains (losses) on derivatives		
Balance at beginning of period	(11)	(17)
Current period changes in fair value (net of tax effect of \$(2) and \$3)	(9)	4
Reclassification to income (net of tax effect of \$(1) and \$0) *	(2)	—
Balance at end of period	<u>(22)</u>	<u>(13)</u>
Pension and postretirement plans		
Balance at beginning of period	1	4
Reclassification to income (net of tax effect of \$0 and \$0)	(1)	(1)
Balance at end of period	<u>—</u>	<u>3</u>
Accumulated other comprehensive loss, end of period	<u>\$ (864)</u>	<u>\$ (347)</u>

* Refer to Note 11, "Derivative Instruments and Hedging Activities," of the notes to the consolidated financial statements for disclosure of the line items in the consolidated statements of income affected by reclassifications from AOCI into income related to derivatives.

16. Pension and Postretirement Plans

The components of the Company's net periodic benefit costs from continuing operations associated with its defined benefit pension and postretirement plans, which are primarily recorded in selling, general and administrative expenses in the consolidated statements of income, are shown in the tables below in accordance with ASC 715, "Compensation – Retirement Benefits" (in millions):

	U.S. Pension Plans	
	Three Months Ended December 31,	
	2022	2021
Interest cost	\$ 21	\$ 10
Expected return on plan assets	(34)	(41)
Net actuarial loss (gain)	8	(42)
Settlement gain	—	(1)
Net periodic benefit credit	<u>\$ (5)</u>	<u>\$ (74)</u>

	Non-U.S. Pension Plans	
	Three Months Ended December 31,	
	2022	2021
Service cost	\$ 3	\$ 6
Interest cost	16	10
Expected return on plan assets	(18)	(21)
Net periodic benefit cost (credit)	<u>\$ 1</u>	<u>\$ (5)</u>

	Postretirement Benefits	
	Three Months Ended December 31,	
	2022	2021
Interest cost	\$ 1	\$ —
Expected return on plan assets	(2)	(2)
Amortization of prior service credit	(1)	(1)
Net periodic benefit credit	<u>\$ (2)</u>	<u>\$ (3)</u>

During the three months ended December 31, 2022, the amount of cumulative fiscal 2023 lump sum payouts triggered a remeasurement event for certain U.S. pension plans resulting in the recognition of net actuarial losses of \$8 million, primarily due to decreases in discount rates, partially offset by favorable plan asset performance.

During the three months ended December 31, 2021, the amount of cumulative fiscal 2022 lump sum payouts triggered a remeasurement event for certain U.S. pension plans resulting in the recognition of net actuarial gains of \$42 million, primarily due to favorable plan asset performance.

17. Significant Restructuring and Impairment Costs

To better align its resources with its growth strategies and reduce the cost structure of its global operations in certain underlying markets, the Company commits to various restructuring activities as necessary. Restructuring activities generally result in charges for workforce reductions, plant closures, asset impairments and other related costs which are reported as restructuring and impairment costs in the Company's consolidated statements of income. The other related costs consist primarily of consulting costs incurred as a direct result of the restructuring activities. The Company expects the restructuring activities to reduce cost of sales and SG&A due to reduced employee-related costs, depreciation and amortization expense.

During the three months ended December 31, 2022, the Company recorded \$57 million of restructuring and impairment costs in the consolidated statements of income. These charges relate to restructuring plans within the segments and at Corporate to reduce and optimize our cost structure. Refer to Note 4, "Assets and Liabilities Held for Sale" of the notes to the consolidated financial statements for disclosure of other impairment costs.

In fiscal 2021, the Company committed to a significant multi-year restructuring plan ("2021 Plan"). The restructuring actions were substantially completed in fiscal 2022 and final payments, which are not material, will be made in fiscal 2023.

The following table summarizes restructuring and impairment costs (in millions):

	Three Months Ended December 31, 2022
Building Solutions North America	\$ 2
Building Solutions EMEA/LA	21
Building Solutions Asia Pacific	5
Global Products	23
Corporate	6
Total	<u>\$ 57</u>

The following table summarizes changes in the restructuring reserve, which is included within other current liabilities in the consolidated statements of financial position, for new restructuring actions taken in the three months ended December 31, 2022 (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Other	Total
Original reserve	\$ 30	\$ 6	\$ 21	\$ 57
Utilized—cash	(3)	—	(5)	(8)
Utilized—noncash	—	(6)	—	(6)
Balance at December 31, 2022	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ 16</u>	<u>\$ 43</u>

18. Income Taxes

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

The statutory tax rate in Ireland is being used as a comparison since the Company is domiciled in Ireland. For the three months ended December 31, 2022, the Company's effective tax rate for continuing operations was 8.2% and was lower than the statutory tax rate of 12.5% primarily due to impairment and restructuring charges and the benefits of continuing global tax planning initiatives, partially offset by tax rate differentials. For the three months ended December 31, 2021, the Company's effective tax rate for continuing operations was 14.5% and was higher than the statutory tax rate of 12.5% primarily due to the income tax effects of mark-to-market adjustments and tax rate differentials, partially offset by the benefits of continuing global tax planning initiatives.

Valuation Allowance

The Company reviews the realizability of its deferred tax assets on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated 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.

Uncertain Tax Positions

At September 30, 2022, the Company had gross tax-effected unrecognized tax benefits of \$2,537 million, of which \$1,973 million, if recognized, would impact the effective tax rate. Accrued interest, net at September 30, 2022 was approximately \$284 million (net of tax benefit). Interest accrued during the three months ended December 31, 2022 and 2021 was approximately \$26 million (net of tax benefit) and approximately \$17 million (net of tax benefit), respectively. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

In the U.S., fiscal years 2017 through 2018 are currently under exam by the Internal Revenue Service ("IRS") for certain legal entities. Additionally, the Company is currently under exam in the following major non-U.S. jurisdictions for continuing operations:

<u>Tax Jurisdiction</u>	<u>Tax Years Covered</u>
Belgium	2015 - 2021
Germany	2007 - 2018
Luxembourg	2017 - 2018
Mexico	2015 - 2017
United Kingdom	2014 - 2015, 2017 - 2018; 2020

It is reasonably possible that tax examinations and/or tax litigation will conclude within the next twelve months, which could have a material impact on tax expense. Based upon the circumstances surrounding these examinations, the impact is not currently quantifiable.

Other Tax Matters

The Company recorded restructuring and impairment costs of \$345 million, which generated a \$52 million tax benefit, during the three months ended December 31, 2022 and \$49 million, which generated a \$7 million tax benefit, during the three months ended December 31, 2021,

Tax expenses and benefits for the above transactions reflect the Company's current tax positions in the impacted jurisdictions. Refer to Note 17, "Significant Restructuring and Impairment Costs," of the notes to the consolidated financial statements for additional information.

Impacts of Tax Legislation

During the three months ended December 31, 2022 and 2021, tax legislation was adopted in various jurisdictions. These law changes did not have a material impact on the Company's consolidated financial statements.

19. Segment Information

ASC 280, "Segment Reporting," establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in ASC 280, the Company has determined that it has four reportable segments for financial reporting purposes.

- *Building Solutions North America:* Building Solutions North America designs, sells, installs, and services HVAC, controls, building management, refrigeration, integrated electronic security, and integrated fire detection and suppression systems for commercial, industrial, retail, small business, institutional and governmental customers in the United States and Canada. Building Solutions North America also provides energy efficiency solutions and technical services, including inspection, scheduled maintenance, and repair and replacement of mechanical and control systems, as well as data-driven "smart building" solutions, to non-residential building and industrial applications in the United States and Canadian marketplace.
- *Building Solutions EMEA/LA:* Building Solutions EMEA/LA designs, sells, installs and services HVAC, controls, building management, refrigeration, integrated electronic security, integrated fire detection and suppression systems, and provides technical services, including data-driven "smart building" solutions, to markets in Europe, the Middle East, Africa and Latin America.
- *Building Solutions Asia Pacific:* Building Solutions Asia Pacific designs, sells, installs and services HVAC, controls, building management, refrigeration, integrated electronic security, integrated fire-detection and suppression systems, and provides technical services, including data-driven "smart building" solutions, in the Asia Pacific marketplace.
- *Global Products:* Global Products designs, manufactures and sells HVAC equipment, controls software and software services for residential and commercial applications to commercial, industrial, retail, residential, small business, institutional and governmental customers worldwide. In addition, Global Products designs, manufactures and sells refrigeration equipment and controls globally. The Global Products business also designs, manufactures and sells fire protection, fire suppression and security products, including intrusion security, anti-theft devices, access control, and video surveillance and management systems, for commercial, industrial, retail, residential, small business, institutional and governmental customers worldwide. Global Products also includes the Johnson Controls-Hitachi joint venture.

Management evaluates the performance of its business segments primarily on segment earnings before interest, taxes and amortization ("EBITA"), which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, restructuring and impairment costs, and the net mark-to-market adjustments related to pension and postretirement plans and restricted asbestos investments.

Financial information relating to the Company's reportable segments is as follows (in millions):

	Net Sales	
	Three Months Ended December 31,	
	2022	2021
Building Solutions North America	\$ 2,367	\$ 2,152
Building Solutions EMEA/LA	975	959
Building Solutions Asia Pacific	646	675
Global Products	2,080	2,076
Total net sales	<u>\$ 6,068</u>	<u>\$ 5,862</u>

	Segment EBITA	
	Three Months Ended December 31,	
	2022	2021
Building Solutions North America	\$ 267	\$ 250
Building Solutions EMEA/LA	75	104
Building Solutions Asia Pacific	68	68
Global Products	382	301
Total segment EBITA	<u>792</u>	<u>723</u>
Corporate expenses	(109)	(70)
Amortization of intangible assets	(104)	(118)
Restructuring and impairment costs	(345)	(49)
Net mark-to-market adjustments	3	57
Net financing charges	(67)	(53)
Income from continuing operations before income taxes	<u>\$ 170</u>	<u>\$ 490</u>

20. Guarantees

Certain of the Company's subsidiaries at the business segment level have guaranteed the performance of third parties and provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from the current fiscal year through the completion of such transactions and would typically be triggered in the event of nonperformance. Performance under the guarantees, if required, would not have a material effect on the Company's financial position, results of operations or cash flows.

The Company offers 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 non-current liabilities if the warranty extends longer than one year.

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

	Three Months Ended December 31,	
	2022	2021
Balance at beginning of period	\$ 179	\$ 192
Accruals for warranties issued during the period	29	22
Accruals from acquisition and divestitures	(1)	—
Settlements made (in cash or in kind) during the period	(29)	(29)
Currency translation	3	(1)
Balance at end of period	<u>\$ 181</u>	<u>\$ 184</u>

21. 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. The following table presents the location and amount of reserves for environmental liabilities in the Company's consolidated statements of financial position (in millions):

	December 31, 2022	September 30, 2022
Other current liabilities	\$ 48	\$ 66
Other noncurrent liabilities	227	220
Total reserves for environmental liabilities	<u>\$ 275</u>	<u>\$ 286</u>

The Company periodically examines whether the contingent liabilities related to the environmental matters described below are probable and reasonably estimable based on experience and ongoing developments in those matters, including continued study and analysis of ongoing remediation obligations. During the three months ended September 30, 2022, with the assistance of independent environmental consultants and taking into consideration investigation and remediation actions previously completed, new information available to the Company during the fourth quarter of fiscal 2022 and ongoing discussions with the Wisconsin Department of Natural Resources ("WDNR"), the Company completed a comprehensive long-term analysis and cost assessment related to the Company's ongoing environmental remediation obligations. As a result of this analysis, the Company increased its accrual for environmental liabilities by \$228 million, which are recorded on an undiscounted basis. The Company expects that it will pay the amounts recorded over an estimated period of up to 20 years. The Company is not able to estimate a possible loss or range of loss, if any, in excess of the established accruals for environmental liabilities at this time.

A substantial portion of the increase to the Company's environmental reserves relates to ongoing long-term remediation efforts to address contamination relating to fire-fighting foams containing perfluorooctane sulfonate ("PFOS"), perfluorooctanoic acid ("PFOA"), and/or other per- and poly-fluoroalkyl substances ("PFAS") at or near the Tyco Fire Products L.P. ("Tyco Fire Products") Fire Technology Center ("FTC") located in Marinette, Wisconsin and surrounding areas in the City of Marinette and Town of Peshtigo, Wisconsin, as well as the continued remediation of PFAS, arsenic and other contaminants at the Tyco Fire Products Stanton Street manufacturing facility also located in Marinette, Wisconsin (the "Stanton Street Facility"). The increase in reserves was recorded as a result of several events that occurred in the three months ended September 30, 2022, including the completion and testing of the Groundwater Extraction and Treatment System ("GETS") at the FTC (as further discussed below), the completion of resident surveys in Peshtigo regarding long-term drinking water solutions, correspondence with regulators on planned remediation activities, finalization of cost estimates for system upgrades and related long-term run rate costs in response to new permit requirements at the Stanton Street Facility, and the development of additional information through ongoing investigation and analysis. These events allowed the Company to develop estimates of costs associated with the long-term remediation actions expected to be

performed over an estimated period of up to 20 years, including the continued operation of the GETS, the implementation of long-term drinking water solutions, continued monitoring and testing of the wells, the operation and wind-down of other legacy remediation and treatment systems and the completion of ongoing investigation obligations.

The use of fire-fighting foams at the FTC was primarily for training and testing purposes to ensure that such products sold by the Company's affiliates, Chemguard, Inc. ("Chemguard") and Tyco Fire Products, were effective at suppressing high intensity fires that may occur at military installations, airports, or elsewhere. In May 2021, as part of Tyco Fire Products' ongoing investigation and remediation program, the WDNR approved Tyco Fire Products' proposed GETS, a permanent groundwater remediation system that will extract groundwater that contains PFAS, treat it using advanced filtration systems, and return the treated water to the environment. Tyco Fire Products has completed construction of the GETS, which is now in operation. Tyco Fire Products is also in the process of completing the removal and disposal of PFAS-affected soil from the FTC. In December 2022, Tyco Fire Products also began implementation of a long-term drinking water solution for some Peshtigo residents with the installation of the first deep aquifer private drinking wells.

Tyco Fire Products has been engaged in remediation activities at the Stanton Street Facility since 1990. Its corporate predecessor, Ansul Incorporated ("Ansul"), manufactured arsenic-based agricultural herbicides at the Stanton Street Facility, which resulted in significant arsenic contamination of soil and groundwater on the site and in parts of the adjoining Menominee River. In 2009, Ansul entered into an Administrative Consent Order (the "Consent Order") with the U.S. Environmental Protection Agency ("EPA") to address the presence of arsenic at the site. Under this agreement, Tyco Fire Products' principal obligations are to contain the arsenic contamination on the site, pump and treat on-site groundwater, dredge, treat and properly dispose of contaminated sediments in the adjoining river areas, and monitor contamination levels on an ongoing basis. Activities completed under the Consent Order since 2009 include the installation of a subsurface barrier wall around the facility to contain contaminated groundwater, the installation of a groundwater extraction and treatment system and the dredging and offsite disposal of treated river sediment. In addition to ongoing remediation activities, the Company is also working with the WDNR to investigate and remediate the presence of PFAS at or near the Stanton Street Facility as part of the evaluation and remediation of PFAS in the Marinette region.

PFOA, PFOS, and other PFAS compounds are being studied by EPA and other environmental and health agencies and researchers. EPA has not issued binding regulatory limits, but had initially stated that it would propose regulatory standards for PFOS and PFOA in drinking water by the end of 2019, in accordance with its PFAS Action Plan released in February 2019, and issued interim recommendations for addressing PFOA and PFOS in groundwater in December 2019. In March 2021, EPA published its final determination to regulate PFOS and PFOA in drinking water. While those studies continue, EPA issued in June 2022 an updated set of interim health advisory levels for PFOA and PFOS in drinking water, as well as final health advisory levels for two other types of PFAS (PFBS and GenX chemicals). In November 2022, EPA added a class definition of PFAS to the final version of EPA's fifth Contaminant Candidate List (CCL 5), which is a list of substances not currently subject to national drinking water regulation, but which EPA believes may require future regulation.

In October 2021, EPA released its "PFAS Strategic Roadmap: EPA's Commitments to Action 2021-2024." The 2021-2024 Roadmap sets timelines by which EPA plans to take specific actions, including, among other items, publishing a national PFAS testing strategy, proposing to designate PFOA and PFOS as Comprehensive Environmental Response, Compensation and Liability Act hazardous substances, restricting PFAS discharges from industrial sources through Effluent Limitations Guidelines, publishing the final toxicity assessment for five additional PFAS, requiring water systems to test for 29 PFAS under the Safe Drinking Water Act, and publishing improved analytical methods in eight different environmental matrices to monitor 40 PFAS present in wastewater and stormwater discharges. Both PFOA and PFOS are types of synthetic chemical compounds that have been present in firefighting foam. However, both are also present in many existing consumer products. According to EPA, PFOA and PFOS have been used to make carpets, clothing, fabrics for furniture, paper packaging for food and other materials (e.g., cookware) that are resistant to water, grease or stains. In August 2022, EPA published a proposed rule that would designate PFOA and PFOS as "hazardous substances" under CERCLA.

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 financial viability of other potentially responsible parties and third-party indemnitors, the uncertainty as to the nature and scope of

the investigations and remediation to be conducted, changes in environmental regulations, changes in permissible levels of specific compounds in drinking water sources, or changes in enforcement theories and policies, including efforts to recover natural resource damages, 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. It is possible that technological, regulatory or enforcement developments, the results of additional environmental studies or other factors could change the Company's expectations with respect to future charges and cash outlays, and such changes could be material to the Company's future results of operations, financial condition or cash flows. Nevertheless, the Company does not currently believe that any claims, penalties or costs in addition to the amounts accrued 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. Conditional asset retirement obligations were \$17 million at both December 31, 2022 and September 30, 2022.

FTC-Related Remediation and Litigation

On June 21, 2019, the WDNR announced that it had received from the Wisconsin Department of Health Services ("WDHS") a recommendation for groundwater quality standards as to, among other compounds, PFOA and PFOS. The WDHS recommended a groundwater enforcement standard for PFOA and PFOS of 20 parts per trillion. Although Wisconsin recently approved final regulatory standards for PFOA and PFOS in drinking water and surface water, the Wisconsin Natural Resources Board did not approve WDNR's proposed standards for PFOA and PFOS in groundwater. In September 2022, the Governor of Wisconsin signed a scope statement setting out parameters for the WDNR to draft a final rule regarding groundwater quality standards for PFOA and PFOS, among other compounds. The WDNR is now in the process of drafting the rule.

In July 2019, the Company received a letter from the WDNR directing the expansion of the evaluation of PFAS in the Marinette region to include (1) biosolids sludge produced by the City of Marinette Waste Water Treatment Plant and spread on certain fields in the area and (2) the Menominee and Peshtigo Rivers. Tyco Fire Products responded to the WDNR's letter by requesting additional necessary information. On October 16, 2019, the WDNR issued a "Notice of Noncompliance" to Tyco Fire Products and Johnson Controls, Inc. regarding the WDNR's July 3, 2019 letter. The WDNR issued a further letter regarding the issue on November 4, 2019. In February 2020, the WDNR sent a letter to Tyco Fire Products and Johnson Controls, Inc. further directing the expansion of the evaluation of PFAS in the Marinette region to include investigation activities south and west of the previously defined FTC study area. In September 2021, the WDNR sent an additional "Notice of Noncompliance" to Tyco Fire Products and Johnson Controls, Inc. concerning land-applied biosolids, which reviewed and responded to the Company's biosolids investigation conducted to date. Tyco Fire Products responded to the WDNR's September 2021 notice by the December 27, 2021 deadline set by WDNR and submitted a Land Applied Biosolids Interim Site Status Update Report to WDNR on October 25, 2022. Tyco Fire Products and Johnson Controls, Inc. believe that they have complied with all applicable environmental laws and regulations. The Company cannot predict what regulatory or enforcement actions, if any, might result from the WDNR's actions, or the consequences of any such actions.

In March 2022, the Wisconsin Department of Justice ("WDOJ") filed a civil enforcement action against Johnson Controls Inc. and Tyco Fire Products in Wisconsin state court relating to environmental matters at the FTC (*State of Wisconsin v. Tyco Fire Products, LP and Johnson Controls, Inc.*, Case No. 22-CX-1 (filed March 14, 2022 in Circuit Court in Marinette County, Wisconsin)). The WDOJ alleges that the Company failed to timely report the presence of PFAS chemicals at the FTC, and that the Company has not sufficiently investigated or remediated PFAS at or near the FTC. The WDOJ seeks monetary penalties and an injunction ordering these two subsidiaries to complete a site investigation and cleanup of PFAS contamination in accordance with the WDNR's requests. The lawsuit is presently at the beginning stages of litigation: Tyco Fire Products and Johnson Controls, Inc. each filed Answers to the Complaint on April 4, 2022 and the parties are proceeding with initial fact discovery. The Company is vigorously defending this civil enforcement action and believes that it has meritorious defenses, but the Company is presently unable to predict the duration, scope, or outcome of this action.

In October 2022, the Town of Peshtigo filed a tort action in Wisconsin state court against Tyco Fire Products, Johnson Controls Inc., Chemguard, Inc., and ChemDesign, Inc. relating to environmental matters at the FTC (*Town of Peshtigo v. Tyco Fire Products L.P. et al.*, Case No. 2022CV000234 (filed October 18, 2022 in Circuit Court in Marinette County, Wisconsin)). The Town alleges that use of AFFF products at the FTC caused contamination of water supplies in Peshtigo. The Town seeks monetary penalties and an injunction ordering abatement of PFAS contamination in Peshtigo. The case has been removed to federal court and transferred to a multi-district litigation ("MDL") before the United States District Court for the District of South Carolina. The Company plans to vigorously defend against this case and believes that it has meritorious defenses, but the Company is presently unable to predict the duration, scope, or outcome of this action.

In November 2022, individuals filed six actions in Dane County, Wisconsin alleging personal injury and/or property damage against Tyco Fire Products, Johnson Controls Inc., Chemguard, Inc., and other unaffiliated defendants related to environmental matters at the FTC. Plaintiffs allege that use of AFFF products at the FTC and activities by third parties unrelated to the Company contaminated nearby drinking water sources, surface waters, and other natural resources and properties, including their personal properties. The individuals seek monetary damages for their personal injury and/or property damage. These lawsuits were removed to federal court on December 21, 2022, and were tagged to the MDL on December 22, 2022. The Plaintiffs have opposed removal and transfer to the MDL. These lawsuits are presently at the beginning stages of litigation. The Company is vigorously defending these cases and believes that it has meritorious defenses, but the Company is presently unable to predict the duration, scope, or outcome of this action.

Aqueous Film-Forming Foam ("AFFF") Litigation

Two of the Company's subsidiaries, Chemguard and Tyco Fire Products, have been named, along with other defendant manufacturers, suppliers and distributors, and, in some cases, certain subsidiaries of the Company affiliated with Chemguard and Tyco Fire Products, in a number of class action and other lawsuits relating to the use of fire-fighting foam products by the U.S. Department of Defense (the "DOD") and others for fire suppression purposes and related training exercises. Plaintiffs generally allege that the firefighting foam products contain or break down into the chemicals PFOS and PFOA and/or other PFAS compounds and that the use of these products by others at various airbases, airports and other sites resulted in the release of these chemicals into the environment and ultimately into communities' drinking water supplies neighboring those airports, airbases and other sites. Plaintiffs generally seek compensatory damages, including damages for alleged personal injuries, medical monitoring, diminution in property values, investigation and remediation costs, and natural resources damages, and also seek punitive damages and injunctive relief to address remediation of the alleged contamination.

In September 2018, Tyco Fire Products and Chemguard filed a Petition for Multidistrict Litigation with the United States Judicial Panel on Multidistrict Litigation ("JPML") seeking to consolidate all existing and future federal cases into one jurisdiction. On December 7, 2018, the JPML issued an order transferring various AFFF cases to the MDL. Additional cases have been identified for transfer to or are being directly filed in the MDL.

AFFF Putative Class Actions

Chemguard and Tyco Fire Products are named in 34 pending putative class actions in federal courts originating from 15 states and territories. All but one of these cases have been direct-filed in or transferred to the MDL and it is anticipated that the remaining case will be transferred to the MDL.

AFFF Individual or Mass Actions

There are more than 3,100 individual or "mass" actions pending that were filed in state or federal courts originating from 51 states and territories against Chemguard and Tyco Fire Products and other defendants in which the plaintiffs generally seek compensatory damages, including damages for alleged personal injuries, medical monitoring, and alleged diminution in property values. The cases involve plaintiffs from various states including approximately 7,000 plaintiffs in Colorado and more than 3,100 other plaintiffs. The vast majority of these matters have been tagged for transfer to, transferred to, or directly-filed in the MDL, and it is anticipated that several newly filed state court actions will be similarly tagged and transferred. There are several matters that are proceeding in state courts, including actions in Arizona and Illinois.

Tyco and Chemguard are also periodically notified by other individuals that they may assert claims regarding PFOS and/or PFOA contamination allegedly resulting from the use of AFFF.

AFFF Municipal and Water Provider Cases

Chemguard and Tyco Fire Products have been named as defendants in more than 290 cases involving municipal or water provider plaintiffs that were filed in state or federal courts originating from 27 states. The vast majority of these cases have been transferred to or were directly filed in the MDL, and it is anticipated that the remaining cases will be transferred to the MDL. These municipal and water provider plaintiffs generally allege that the use of the defendants' fire-fighting foam products at fire training academies, municipal airports, Air National Guard bases, or Navy or Air Force bases released PFOS and PFOA into public water supply wells and/or other public property, allegedly requiring remediation. The MDL Court has set the first case for trial on June 4, 2023, (*City of Stuart (Florida) v. 3M Co. et al.*) and has ordered the parties to conduct mediation of the water provider cases pending in the MDL.

Tyco and Chemguard are also periodically notified by other municipal entities that those entities may assert claims regarding PFOS and/or PFOA contamination allegedly resulting from the use of AFFF.

State or U.S. Territory Attorneys General Litigation related to AFFF

In June 2018, the State of New York filed a lawsuit in New York state court (*State of New York v. The 3M Company et al* No. 904029-18 (N.Y. Sup. Ct., Albany County)) against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at locations across New York, including Stewart Air National Guard Base in Newburgh and Gabreski Air National Guard Base in Southampton, Plattsburgh Air Force Base in Plattsburgh, Griffiss Air Force Base in Rome, and unspecified "other" sites throughout the State. The lawsuit seeks to recover costs and natural resource damages associated with contamination at these sites. This suit has been removed to the United States District Court for the Northern District of New York and transferred to the MDL.

In February 2019, the State of New York filed a second lawsuit in New York state court (*State of New York v. The 3M Company et al* (N.Y. Sup. Ct., Albany County)), against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at additional locations across New York. This suit has been removed to the United States District Court for the Northern District of New York and transferred to the MDL. In July 2019, the State of New York filed a third lawsuit in New York state court (*State of New York v. The 3M Company et al* (N.Y. Sup. Ct., Albany County)), against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at further additional locations across New York. This suit has been removed to the United States District Court for the Northern District of New York and transferred to the MDL. In November 2019, the State of New York filed a fourth lawsuit in New York state court (*State of New York v. The 3M Company et al* (N.Y. Sup. Ct., Albany County)), against a number of manufacturers, including affiliates of the Company, with respect to alleged PFOS and PFOA contamination purportedly resulting from firefighting foams used at further additional locations across New York. This suit has been removed to federal court and transferred to the MDL.

In January 2019, the State of Ohio filed a lawsuit in Ohio state court (*State of Ohio v. The 3M Company et al.*, No. G-4801-CI-021804752-000 (Court of Common Pleas of Lucas County, Ohio)) against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various specified and unspecified locations across Ohio. The lawsuit seeks to recover costs and natural resource damages associated with the contamination. This lawsuit has been removed to the United States District Court for the Northern District of Ohio and transferred to the MDL.

In addition, in May and June 2019, three other states filed lawsuits in their respective state courts against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various specified and unspecified locations across their jurisdictions (*State of New Hampshire v. The 3M Company et al.*; *State of Vermont v. The 3M Company et al.*; *State of New Jersey v. The 3M Company et al.*). All three of these suits have been removed to federal court and transferred to the MDL.

In September 2019, the government of Guam filed a lawsuit in the superior court of Guam against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various locations within its jurisdiction. This complaint has been removed to federal court and transferred to the MDL.

In November 2019, the government of the Commonwealth of the Northern Mariana Islands filed a lawsuit in the superior court of the Northern Mariana Islands against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various locations within its jurisdiction. This complaint has been removed to federal court and transferred to the MDL.

In August 2020, Attorney General of the State of Michigan filed two substantially similar lawsuits—one in federal court and one in state court—against a number of manufacturers, including affiliates of the Company, with respect to PFOS and PFOA contamination allegedly resulting from the use of firefighting foams at various locations within the State. The federal action has been transferred to the MDL, and the state court action has been removed to federal court and transferred to the MDL.

In December 2020, the State of Mississippi filed a lawsuit against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFOS and PFOA damage of the State's land and natural resources allegedly resulting from the use of firefighting foams at various locations throughout the State. This complaint was direct-filed in the MDL in South Carolina.

In April 2021, the State of Alaska filed a lawsuit in the superior court of the State of Alaska against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFOS and PFOA damage of the State's land and natural resources allegedly resulting from the use of firefighting foams at various locations throughout the State. The State's case has been removed to federal court and transferred to the MDL. The State of Alaska has also named a number of manufacturers and other defendants, including affiliates of the Company, as third-party defendants in two cases brought by individuals against the State. These two cases have also been transferred to the MDL.

In early November 2021, the Attorney General of the State of North Carolina filed four individual lawsuits in the superior courts of the State of North Carolina against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFOS and PFOA damage of the State's land, natural resources, and property allegedly resulting from the use of firefighting foams at four separate locations throughout the State. These four cases have been removed to federal court and transferred to the MDL. In October 2022, the Attorney General filed two similar lawsuits in the superior courts of the State of North Carolina regarding alleged PFAS damages at two additional locations. It is anticipated that these two cases will be removed to federal court and transferred to the MDL.

In February 2022, the Attorney General of the State of Colorado filed a lawsuit in Colorado state court against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFOS and PFOA damage of the State's land and natural resources, public health, and State property allegedly resulting from the use of firefighting foams at various locations throughout the State. This complaint has been removed to federal court and transferred to the MDL.

In April 2022, the Attorney General of the State of Florida filed a lawsuit in Florida state court against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFOS and PFOA damage to the State's natural resources and public health allegedly resulting from the use of firefighting foams at various locations throughout the State. It is anticipated that this complaint will be removed to federal court and transferred to the MDL.

In May 2022, the Attorney General of the Commonwealth of Massachusetts filed a lawsuit against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFOS and PFOA damage of the State's natural resources, property, residents, and consumers allegedly resulting from the use of firefighting foams at various locations throughout the State. This complaint was direct-filed in the MDL in South Carolina.

In July 2022, the Attorney General of the State of Wisconsin filed a lawsuit in Wisconsin state court against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFAS damage to the State's natural resources and public health allegedly resulting, in part, from the use of firefighting foams at various locations throughout the State. This complaint has been removed to federal court and transferred to the MDL.

In November 2022, the Attorney General of the State of California filed a lawsuit in California state court against a number of manufacturers and other defendants, including affiliates of the Company, with respect to PFOS and PFOA damage of the State's land and natural resources allegedly resulting from the manufacture, use, marketing, or sale of PFAS-containing products, including firefighting foams, at various locations throughout the State. On December 20, 2022, the case was removed to federal court and tagged to the MDL. The Attorney General has opposed removal and transfer.

Other AFFF Related Matters

In March 2020, the Kalispel Tribe of Indians (a federally recognized Tribe) and two tribal corporations filed a lawsuit in the United States District Court for the Eastern District of Washington against a number of manufacturers, including affiliates of the Company, and the United States with respect to PFAS contamination allegedly resulting from the use and disposal of AFFF by the United States Air Force at and around Fairchild Air Force Base in eastern Washington. This case has been transferred to the MDL.

In October 2022, the Red Cliff Band of Lake Superior Chippewa Indians (a federally recognized tribe) filed a lawsuit in the United States District Court for the Western District of Wisconsin against a number of manufacturers, including affiliates of the Company, with respect to PFAS contamination allegedly resulting from the use and disposal of AFFF at Duluth Air National Guard Base in Duluth, Minnesota. This complaint has been transferred to the MDL.

The Company is vigorously defending the above matters and believes that it has meritorious defenses to class certification and the claims asserted, including statutes of limitations, the government contractor defense, various medical and scientific defenses, and other factual and legal defenses. The government contractor defense is a form of immunity available to government contractors that produced products for the United States government pursuant to the government's specifications. In September 2022, the AFFF MDL Court declined to grant summary judgment on the government contractor defense, ruling that various factual issues relevant to the defense must be decided by a jury rather than the Court. Tyco and Chemguard have insurance that has been in place for many years and the Company is pursuing this coverage for these matters. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure, if any, represented by these matters, and there can be no assurance that any such exposure will not be material.

Asbestos Matters

The Company and certain of its subsidiaries, along with numerous other third parties, are named as defendants in personal injury lawsuits based on alleged exposure to asbestos containing materials. These cases have typically involved product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were used with asbestos containing components.

The Company estimates the asbestos-related liability for pending and future claims and related defense costs on a discounted basis. In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable.

The following table presents the location and amount of asbestos-related assets and liabilities in the Company's consolidated statements of financial position (in millions):

	December 31, 2022	September 30, 2022
Other current liabilities	\$ 58	\$ 58
Other noncurrent liabilities	375	380
Total asbestos-related liabilities	433	438
Other current assets	39	37
Other noncurrent assets	267	263
Total asbestos-related assets	306	300
Net asbestos-related liabilities	\$ 127	\$ 138

The following table presents the components of asbestos-related assets (in millions):

	December 31, 2022	September 30, 2022
Restricted		
Cash	\$ 8	\$ 6
Investments	244	239
Total restricted assets	252	245
Insurance receivables for asbestos-related liabilities	54	55
Total asbestos-related assets	\$ 306	\$ 300

The Company's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Company's historical claim experience, and estimates of the number and resolution cost of potential future claims that may be filed and is discounted to present value from 2068 (which is the Company's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be paid by Company affiliates). Estimated asbestos-related defense costs are included in the asbestos liability. The Company's legal strategy for resolving claims also impacts these estimates. The Company considers various trends and developments in evaluating the period of time (the look-back period) over which historical claim and settlement experience is used to estimate and value claims reasonably projected to be paid through 2068. Annually, the Company assesses the sufficiency of its estimated liability for pending and future claims and defense costs by evaluating actual experience regarding claims filed, settled and dismissed, and amounts paid in settlements. In addition to claims and settlement experience, the Company considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Company's defense strategy. The Company also evaluates the recoverability of its insurance receivable on an annual basis. The Company evaluates all of these factors and determines whether a change in the estimate of its liability for pending and future claims and defense costs or insurance receivable is warranted.

The amounts recorded by the Company for asbestos-related liabilities and insurance-related assets are based on the Company's strategies for resolving its asbestos claims, currently available information, and a number of estimates and assumptions. Key variables and assumptions include the number and type of new claims that are filed each year, the average cost of resolution of claims, the identity of defendants, the resolution of coverage issues with insurance carriers, amount of insurance, and the solvency risk with respect to the Company's insurance carriers. Many of these factors are closely linked, such that a change in one variable or assumption may impact one or more of the others, and no single variable or assumption predominately influences the determination of the Company's asbestos-related liabilities and insurance-related assets. Furthermore, predictions with respect to these variables are subject to greater uncertainty in the later portion of the projection period. Other factors that may affect the Company's liability and cash payments for asbestos-related matters include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms of state or federal tort legislation and the applicability of insurance policies among subsidiaries. As a result, actual liabilities or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Company's calculations vary significantly from actual results.

Self-Insured 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. The Company maintains captive insurance companies to manage its self-insured liabilities.

The following table presents the location and amount of self-insured liabilities in the Company's consolidated statements of financial position (in millions):

	<u>December 31, 2022</u>	<u>September 30, 2022</u>
Other current liabilities	\$ 112	\$ 89
Accrued compensation and benefits	22	22
Other noncurrent liabilities	230	230
Total self-insured liabilities	<u>\$ 364</u>	<u>\$ 341</u>

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

	<u>December 31, 2022</u>	<u>September 30, 2022</u>
Other current assets	\$ 10	\$ 10
Other noncurrent assets	20	20
Total insurance receivables	<u>\$ 30</u>	<u>\$ 30</u>

Other Matters

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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statements for Forward-Looking Information

Unless otherwise indicated, references to "Johnson Controls," the "Company," "we," "our" and "us" in this Quarterly Report on Form 10-Q refer to Johnson Controls International plc and its consolidated subsidiaries.

The Company has made statements in this document that are forward-looking and therefore are subject to risks and uncertainties. All statements in this document other than statements of historical fact are, or could be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In this document, statements regarding the Company's future financial position, sales, costs, earnings, cash flows, other measures of results of operations, synergies and integration opportunities, capital expenditures, debt levels and market outlook are forward-looking statements. Words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "forecast," "project" or "plan" and terms of similar meaning are also generally intended to identify forward-looking statements. However, the absence of these words does not mean that a statement is not forward-looking. The Company cautions that these statements are subject to numerous important risks, uncertainties, assumptions and other factors, some of which are beyond the Company's control, that could cause the Company's actual results to differ materially from those expressed or implied by such forward-looking statements, including, among others, risks related to: The Company's ability to manage general economic, business and capital market conditions, including the impact of recessions and economic downturns; the ability to manage macroeconomic and geopolitical volatility, including global price inflation, shortages impacting the availability of raw materials and component products and the conflict between Russia and Ukraine; the ability to develop or acquire new products and technologies that achieve market acceptance and meet applicable regulatory requirements; the strength of the U.S. or other economies; fluctuations in currency exchange rates; changes or uncertainty in laws, regulations, rates, policies or interpretations that impact the Company's business operations or tax status; changes to laws or policies governing foreign trade, including economic sanctions, tariffs or trade restrictions; maintaining and improving the capacity, reliability and security of the Company's enterprise information technology infrastructure; the ability to manage the lifecycle cybersecurity risk in the development, deployment and operation of the Company's digital platforms and services; the outcome of litigation and governmental proceedings; the risk of infringement or expiration of intellectual property rights; the Company's ability to manage the impacts of natural disasters, climate change, pandemics and outbreaks of contagious diseases and other adverse public health developments, such as the COVID-19 pandemic; the ability of the Company to drive organizational improvement; any delay or inability of the Company to realize the expected benefits and synergies of recent portfolio transactions; the ability to hire and retain senior management and other key personnel; the tax treatment of recent portfolio transactions; significant transaction costs and/or unknown liabilities associated with such transactions; labor shortages, work stoppages, union negotiations, labor disputes and other matters associated with the labor force; and the cancellation of or changes to commercial arrangements. A detailed discussion of risks related to Johnson Controls' business is included in the section entitled "Risk Factors" in Johnson Controls' Annual Report on Form 10-K for the year ended September 30, 2022 filed with the United States Securities and Exchange Commission ("SEC") on November 15, 2022, which is available at www.sec.gov and www.johnsoncontrols.com under the "Investors" tab. The forward-looking statements included in this document are made only as of the date of this document, unless otherwise specified, and, except as required by law, Johnson Controls assumes no obligation, and disclaims any obligation, to update such statements to reflect events or circumstances occurring after the date of this document.

Overview

Johnson Controls International plc, headquartered in Cork, Ireland, is a global leader in smart, healthy and sustainable buildings, serving a wide range of customers in more than 150 countries. The Company's products, services, systems and solutions advance the safety, comfort and intelligence of spaces to serve people, places and the planet. The Company is committed to helping its customers win and creating greater value for all of its stakeholders through its strategic focus on buildings.

The Company is a global leader in engineering, manufacturing, commissioning and retrofitting building products and systems, including residential and commercial heating, ventilating, air-conditioning ("HVAC") equipment, industrial refrigeration systems, controls, security systems, fire-detection systems and fire-suppression solutions. The Company further serves customers by providing technical services, including maintenance, management, repair, retrofit and replacement of equipment (in the HVAC, industrial refrigeration, controls, security and fire-protection space), energy-management consulting and data-driven "smart building" services and solutions powered by its OpenBlue software platform and capabilities. The Company partners with customers by leveraging its broad product portfolio and digital capabilities powered by OpenBlue, together with

its direct channel service and solutions capabilities, to deliver outcome-based solutions across the lifecycle of a building that address customers' needs to improve energy efficiency, enhance security, create healthy environments and reduce greenhouse gas emissions.

The following information should be read in conjunction with the September 30, 2022 consolidated financial statements and notes thereto, along with management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended September 30, 2022 filed with the SEC on November 15, 2022. References in the following discussion and analysis to "Three Months" (or similar language) refer to the three months ended December 31, 2022 compared to the three months ended December 31, 2021.

Macroeconomic Trends

Much of the demand for installation of the Company's products and solutions is driven by commercial and residential construction and industrial facility expansion and maintenance projects. Commercial and residential construction projects are heavily dependent on general economic conditions, localized demand for commercial and residential real estate and availability of credit. Positive or negative fluctuations in commercial and residential construction, industrial facility expansion and maintenance projects and other capital investments in buildings could have a corresponding impact on the Company's financial condition, results of operations and cash flows.

As a result of the Company's global presence, a significant portion of its revenues and expenses is denominated in currencies other than the U.S. dollar. The Company is therefore subject to non-U.S. currency risks and non-U.S. exchange exposure. While the Company employs financial instruments to hedge some of its transactional foreign exchange exposure, these activities do not insulate it completely from those exposures. In addition, the currency exposure from the translation of non-U.S. dollar functional currency subsidiaries are not able to be hedged. Exchange rates can be volatile and a substantial weakening or strengthening of foreign currencies against the U.S. dollar could increase or reduce the Company's profit margin, respectively, and impact the comparability of results from period to period. During the three months ended December 31, 2022, revenue and profits were adversely impacted due to the strengthening of the U.S. dollar against foreign currencies. The continued strength of the U.S. dollar could continue to adversely impact the Company's results.

The Company continues to observe trends demonstrating increased interest and demand for its products and services that enable smart, safe, efficient and sustainable buildings. This demand is driven in part by government tax incentives, building performance standards and other regulations designed to limit emissions and combat climate change. In particular, legislative and regulatory initiatives such as the U.S. Climate Smart Buildings Initiative, U.S. Inflation Reduction Act and EU Energy Performance of Buildings Directive include provisions designed to fund and encourage investment in decarbonization and digital technologies for buildings. This demand is supplemented by an increase in commitments in both the public and private sectors to reduce emissions and/or achieve net zero emissions. The Company seeks to capitalize on these trends to drive growth by developing and delivering technologies and solutions to create smart, sustainable and healthy buildings. The Company is investing in new digital and product capabilities, including its OpenBlue platform, to enable it to deliver sustainable, high-efficiency products and tailored services to enable customers to achieve their sustainability goals. The Company is leveraging its install base, together with data-driven products and services to offer outcome-based solutions to customers with a focus on generating accelerated growth in services and recurring revenue.

The Company has experienced, and expects to continue to experience, increased material cost inflation and component shortages, as well as disruptions and delays in its supply chain, as a result of global macroeconomic trends, including increased global demand, the conflict between Russia and Ukraine, government-mandated actions in response to COVID-19, particularly in China, and labor shortages. Actions taken by the Company to mitigate supply chain disruptions and inflation, including expanding and redistributing its supplier network, supplier financing, price increases and productivity improvements, have generally been successful in offsetting some, but not all, of the impact of these trends. The collective impact of these trends has been favorable to revenue due to increased demand and price increases to offset inflation, while negatively impacting margins due to supply chain disruptions and cost pressures. However, the Company is beginning to observe improved margins as supply chain disruptions ease and higher priced backlog is converted to sales. Although the Company has experienced recent improvement in its supply chain, the Company could experience further disruptions, shortages and cost increases in the future, the effect of which will depend on the Company's ability to successfully mitigate and offset the impact of these events.

During the second quarter of fiscal 2022, the Company suspended its operations in Russia in response to the conflict between Russia and Ukraine, with existing contractual obligations being fulfilled in a manner that fully complies with all sanctions and

trade controls. The Company has subsequently reduced its business presence and operations in Russia. Although these actions have not had and are not expected to have a material impact on the Company's operating results, the broader consequences of this conflict, including heightened supply chain disruption, inflation, economic instability and other factors have and could continue to adversely impact the Company's results of operations.

Impact of COVID-19 Pandemic

The COVID-19 pandemic continues to impact aspects of the Company's operations and results. Recently, the Company's facilities have generally operated at normal levels. As a result of the pandemic, the Company has seen an increase in demand for its products and solutions that promote building health and optimize customers' infrastructure.

However, the Company continues to be influenced by COVID-19-related trends impacting site access and the labor force, which have and may continue to negatively impact the Company's revenues and margins. Challenges in reaching sufficient vaccination levels and the introduction of new variants of COVID-19 have caused some governments to extend or reinstitute lockdowns and similar restrictive measures, which, in some cases, have limited the Company's ability to access customer sites to install and maintain its products and deliver services. In addition, the Company has experienced and continues to experience labor shortages at certain facilities as the Company expands its production capacity to meet increased customer demand. Although the Company is mitigating these shortages through focused recruitment efforts and competitive compensation packages, the Company could continue to experience such shortages in the future.

The extent to which the COVID-19 pandemic continues to impact the Company's results of operations and financial condition will depend on future developments that are highly uncertain and cannot be predicted. See the section entitled "Risk Factors" in Johnson Controls' Annual Report on Form 10-K for the year ended September 30, 2022 filed with the United States Securities and Exchange Commission ("SEC") on November 15, 2022 for additional discussion of risks related to COVID-19.

Net Sales

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Net sales	\$ 6,068	\$ 5,862	4%

The increase in consolidated net sales for the three months ended December 31, 2022 was due to higher organic sales (\$497 million) and incremental sales from acquisitions (\$27 million), partially offset by the unfavorable impact of foreign currency translation (\$300 million) and lower sales due to business divestitures (\$18 million). Excluding the impact of foreign currency translation and business acquisitions and divestitures, consolidated net sales increased 9% as compared to the prior year, attributable to increased pricing in response to inflation pressures. Refer to the "Segment Analysis" below within this Item 2 for a discussion of net sales by segment.

Cost of Sales / Gross Profit

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Cost of sales	\$ 3,977	\$ 3,971	—%
Gross profit	2,091	1,891	11%
% of sales	34.5 %	32.3 %	

Cost of sales and gross profit increased for the three-month period ended December 31, 2022, and gross profit as a percentage of sales increased by 220 basis points. Gross profit increased due to sales growth and favorable price/cost, partially offset by unfavorable foreign currency translation (\$94 million) and the unfavorable year-over-year impact of net mark-to-market adjustments. Gross profit as a percentage of sales increased primarily due to favorable price/cost. Refer to the "Segment Analysis" below within this Item 2 for a discussion of segment earnings before interest, taxes and amortization ("EBITA").

Selling, General and Administrative Expenses

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Selling, general and administrative expenses	\$ 1,571	\$ 1,369	15 %
% of sales	25.9 %	23.4 %	

Selling, general and administrative expenses ("SG&A") for the three-month period ended December 31, 2022 increased \$202 million, and SG&A as a percentage of sales increased by 250 basis points. The increase in SG&A was primarily due to the unfavorable year-over-year impact of net mark-to-market adjustments, a loss associated with a fire at a leased warehouse facility, certain investments to support growth and one-time transaction and separation costs, partially offset by favorable foreign currency translation (\$65 million). Refer to the "Segment Analysis" below within this Item 2 for a discussion of segment EBITA.

Restructuring and Impairment Costs

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Restructuring and impairment costs	\$ 345	\$ 49	*

* Measure not meaningful

Restructuring and impairment costs for the three-month period ended December 31, 2022 included \$288 million of impairment costs related to businesses classified as held-for-sale, \$30 million in severance and \$27 million in other long-lived asset impairments and restructuring costs.

Restructuring and impairment costs for the three-month period ended December 31, 2021 included primarily severance and other cash related items.

Refer to Note 4, "Assets and Liabilities Held for Sale" and Note 17, "Significant Restructuring and Impairment Costs," of the notes to the consolidated financial statements for further disclosure related to the Company's restructuring plans and impairment costs.

Net Financing Charges

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Net financing charges	\$ 67	\$ 53	26%

Refer to Note 10, "Debt and Financing Arrangements," of the notes to the consolidated financial statements for further disclosure related to the Company's net financing charges.

Equity Income

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Equity income	\$ 62	\$ 70	(11)%

The decrease in equity income for the three months ended December 31, 2022 was primarily due to lower income at certain partially-owned affiliates of Johnson Controls within the Building Solutions EMEA/LA segment. Refer to the "Segment Analysis" below within this Item 2 for a discussion of segment EBITA.

Income Tax Provision

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Income tax provision	\$ 14	\$ 71	(80)%
Effective tax rate	8.2%	14.5%	

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

The statutory tax rate in Ireland is being used as a comparison since the Company is domiciled in Ireland. For the three months ended December 31, 2022, the Company's effective tax rate for continuing operations was 8.2% and was lower than the statutory tax rate of 12.5% primarily due to impairment and restructuring charges and the benefits of continuing global tax planning initiatives, partially offset by tax rate differentials. For the three months ended December 31, 2021, the Company's effective tax rate for continuing operations was 14.5% and was higher than the statutory tax rate of 12.5% primarily due to the income tax effects of mark-to-market adjustments and tax rate differentials, partially offset by the benefits of continuing global tax planning initiatives. The effective tax rate for the three months ended December 31, 2022 decreased as compared to the three months ended December 31, 2021 primarily due to the discrete tax items. Refer to Note 18, "Income Taxes," of the notes to the consolidated financial statements for further detail.

Income Attributable to Noncontrolling Interests

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Income from continuing operations attributable to noncontrolling interests	\$ 38	\$ 38	—%

Net Income Attributable to Johnson Controls

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Net income attributable to Johnson Controls	\$ 118	\$ 381	(69)%

The decrease in net income attributable to Johnson Controls for the three months ended December 31, 2022 was primarily due to higher restructuring and impairment costs and higher SG&A, partially offset by higher gross profit, all of which are discussed above.

Diluted earnings per share attributable to Johnson Controls for the three months ended December 31, 2022 was \$0.17 compared to \$0.54 for the three months ended December 31, 2021.

Comprehensive Income Attributable to Johnson Controls

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Comprehensive income attributable to Johnson Controls	\$ 165	\$ 468	(65)%

The decrease in comprehensive income attributable to Johnson Controls for the three months ended December 31, 2022 was due to lower net income attributable to Johnson Controls (\$263 million) and a decrease in other comprehensive income attributable to Johnson Controls (\$40 million) resulting from currency translation adjustments and realized and unrealized losses on derivatives.

Segment Analysis

Management evaluates the performance of its business units based primarily on segment EBITA, which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, restructuring and impairment costs, and net mark-to-market adjustments related to pension and postretirement plans and restricted asbestos investments.

Net Sales

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Building Solutions North America	\$ 2,367	\$ 2,152	10 %
Building Solutions EMEA/LA	975	959	2 %
Building Solutions Asia Pacific	646	675	(4)%
Global Products	2,080	2,076	— %
	<u>\$ 6,068</u>	<u>\$ 5,862</u>	<u>4 %</u>

- The increase in Building Solutions North America was due to higher prices and volumes (\$223 million) and incremental sales related to business acquisitions (\$7 million), partially offset by the unfavorable impact of foreign currency translation (\$15 million). Sales growth was led by continued growth in the project-based business, including low double-digit growth in new construction.

- The increase in Building Solutions EMEA/LA was due to higher prices (\$103 million) and incremental sales related to business acquisitions (\$20 million), partially offset by the unfavorable impact of foreign currency translation (\$89 million) and business divestitures (\$18 million). Excluding the impacts of foreign currency translation and business acquisitions and divestitures, sales growth was led by mid-teens growth in the service-based business and low double-digit growth in Fire & Security. By region, there was strong organic growth in Europe, Latin America and the Middle East.
- The decrease in Building Solutions Asia Pacific was due to the unfavorable impact of foreign currency translation (\$71 million), partially offset by the net impact of higher prices and lower volumes (\$42 million). Excluding the impacts of foreign currency translation, sales growth was led by strong demand for HVAC & Controls. By region, sales in China grew 1% in the quarter, as strong service execution offset a decline in the project-based business.
- The increase in Global Products was due to the net impact of higher prices and lower volumes (\$129 million), partially offset by the unfavorable impact of foreign currency translation (\$125 million). Excluding the impacts of foreign currency translation, sales growth was driven by strong price realization and continued growth in Applied and Fire Detection products.

Segment EBITA

(in millions)	Three Months Ended December 31,		Change
	2022	2021	
Building Solutions North America	\$ 267	\$ 250	7 %
Building Solutions EMEA/LA	75	104	(28)%
Building Solutions Asia Pacific	68	68	0 %
Global Products	382	301	27 %
	<u>\$ 792</u>	<u>\$ 723</u>	<u>10 %</u>

- The increase in Building Solutions North America was primarily due to favorable price/cost and productivity savings, partially offset by unfavorable project mix.
- The decrease in Building Solutions EMEA/LA was primarily due to unfavorable project mix and the unfavorable impact of foreign currency translation (\$9 million), partially offset by favorable volume leverage and productivity savings.
- Building Solutions Asia Pacific remained flat as favorable price/cost and productivity savings were offset by the unfavorable impact of foreign currency translation (\$10 million) and lower volumes.
- The increase in Global Products was primarily due to favorable price/cost and productivity savings, partially offset by an uninsured loss associated with a fire at a leased warehouse facility in (\$40 million) and the unfavorable impact of foreign currency translation (\$15 million).

Backlog

The Company's backlog is applicable to its sales of systems and services. At December 31, 2022, the backlog was \$12.7 billion, of which \$11.3 billion was attributable to the field business. The backlog amount outstanding at any given time is not necessarily indicative of the amount of revenue to be earned in the upcoming fiscal year.

At December 31, 2022, remaining performance obligations were \$18.4 billion, which is \$5.7 billion higher than the Company's backlog of \$12.7 billion. Differences between the Company's remaining performance obligations and backlog are primarily due to:

- Remaining performance obligations include large, multi-purpose contracts to construct hospitals, schools and other governmental buildings, which are services to be performed over the building's lifetime with average initial contract

terms of 25 to 35 years for the entire term of the contract versus backlog which includes only the lifecycle period of these contracts which approximates five years;

- Remaining performance obligations exclude certain customer contracts with a term of one year or less or contracts that are cancellable without substantial penalty versus backlog which includes short-term and cancellable contracts; and
- Remaining performance obligations include the full remaining term of service contracts with substantial termination penalties versus backlog which includes only one year for all outstanding service contracts.

The Company reports backlog as it believes it is a useful measure of evaluating the Company's operational performance and relationship to total orders.

Liquidity and Capital Resources

Working Capital

(in millions)	December 31, 2022	September 30, 2022	Change
Current assets	\$ 11,837	\$ 11,685	
Current liabilities	(11,563)	(11,239)	
	274	446	(39)%
Less: Cash and cash equivalents	(1,509)	(2,031)	
Add: Short-term debt	1,026	669	
Add: Current portion of long-term debt	937	865	
Less: Current assets held for sale	(418)	(387)	
Add: Current liabilities held for sale	310	236	
Working capital (as defined)	<u>\$ 620</u>	<u>\$ (202)</u>	*
Accounts receivable - net	\$ 5,722	\$ 5,528	4 %
Inventories	2,895	2,510	15 %
Accounts payable	4,138	4,241	(2)%

* Measure not meaningful

- Working capital is a non-GAAP financial measure. The Company defines working capital as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt, and current assets and liabilities held for sale. Management believes that this measure of working capital, which excludes financing-related items and businesses to be divested, provides a more useful measurement of the Company's operating performance.
- The increase in working capital at December 31, 2022 as compared to September 30, 2022, was primarily due to an increase in inventory due to supply chain disruptions, an increase in accounts receivable and a decrease in accounts payable.
- The Company's days sales in accounts receivable at December 31, 2022 and September 30, 2022 were 60 days and 51 days, respectively. There has been no significant adverse changes in the level of overdue receivables or significant changes in revenue recognition methods.
- The Company's inventory turns for the three months ended December 31, 2022 were lower than the comparable period ended September 30, 2022 primarily due to supply chain disruptions.
- Days in accounts payable at December 31, 2022 were 93 days, higher than 85 days at the comparable period ended September 30, 2022, primarily due to timing of payments.

Cash Flows From Continuing Operations

(in millions)	Three Months Ended December 31,	
	2022	2021
Cash provided (used) by operating activities	\$ (296)	\$ 392
Cash used by investing activities	(189)	(218)
Cash provided (used) by financing activities	9	(357)

- The increase in cash used by operating activities was primarily due to the timing of accounts payable and accrued liabilities payments.
- The decrease in cash used by investing activities was primarily due to lower cash payments made for acquisitions and increased sales of property, plant and equipment, partially offset by prior year divestitures.
- The increase in cash provided by financing activities was primarily due to lower stock repurchases.

Capitalization

(in millions)	December 31, 2022	September 30, 2022	Change
Short-term debt	\$ 1,026	\$ 669	
Current portion of long-term debt	937	865	
Long-term debt	7,784	7,426	
Total debt	9,747	8,960	9 %
Less: Cash and cash equivalents	1,509	2,031	
Total net debt	8,238	6,929	19 %
Shareholders' equity attributable to Johnson Controls ordinary shareholders	16,046	16,268	(1)%
Total capitalization	\$ 24,284	\$ 23,197	5 %
Total net debt as a % of total capitalization	33.9%	29.9%	

- Net debt and net debt as a percentage of total capitalization are non-GAAP financial measures. The Company believes the percentage of total net debt to total capitalization is useful to understanding the Company's financial condition as it provides a view of the extent to which the Company relies on external debt financing for its funding and is a measure of risk to its shareholders.
- The Company's material cash requirements primarily consist of working capital requirements, repayments of long-term debt and related interest, operating leases, dividends, capital expenditures, potential acquisitions and share repurchases.
- As of December 31, 2022, approximately \$3.5 billion remains available under the Company's share repurchase authorization, which does not have an expiration date and may be amended or terminated by the Board of Directors at any time without prior notice. The Company expects to repurchase outstanding shares from time to time depending on market conditions, alternate uses of capital, liquidity, and the economic environment.
- The Company declared a dividend of \$0.35 per common share in the quarter ended December 31, 2022 and intends to continue paying dividends throughout fiscal 2023.
- The Company believes its capital resources and liquidity position, including cash and cash equivalents of \$1.5 billion at December 31, 2022, are adequate to fund operations and meet its obligations for the foreseeable future. The Company expects requirements for working capital, capital expenditures, dividends, minimum pension contributions, debt maturities

and any potential acquisitions or stock repurchases in the remainder of fiscal 2023 will be funded from operations, supplemented by short- and long-term borrowings, if required.

- The Company manages its short-term debt position in the U.S. and euro commercial paper and bank loan markets. The Company had \$715 million and \$172 million of commercial paper outstanding as of December 31, 2022 and September 30, 2022, respectively.
 - The Company expects to file a new shelf registration statement with the SEC under which it may issue additional debt securities, ordinary shares, preferred shares, depository shares, warrants purchase contracts and units that may be offered in one or more offerings on terms to be determined at the time of the offering. The Company anticipates that the proceeds of any offering would be used for general corporate purposes, including repayment of indebtedness, acquisitions, additions to working capital, repurchases of ordinary shares, dividends, capital expenditures and investments in the Company's subsidiaries.
 - The Company also has the ability to draw on its \$2.5 billion revolving credit facility which expires in December 2024 or its \$0.5 billion 364-day revolving credit facility which expires in November 2023. There were no draws on the revolving credit facilities as of December 31, 2022 and September 30, 2022.
- The Company's ability to access the global capital markets and the related cost of financing is dependent upon, among other factors, the Company's credit ratings. As of December 31, 2022, the Company's credit ratings and outlook were as follows:

Rating Agency	Short-Term Rating	Long-Term Rating	Outlook
S&P	A-2	BBB+	Stable
Moody's	P-2	Baa2	Positive

The security ratings set forth above are issued by unaffiliated third party rating agencies and are not a recommendation to buy, sell or hold securities. The ratings may be subject to revision or withdrawal by the assigning rating organization at any time.

- Financial covenants in the Company's revolving credit facilities requires a minimum consolidated shareholders' equity attributable to Johnson Controls of at least \$3.5 billion at all times. The revolving credit facility also limits the amount of debt secured by liens that may be incurred to a maximum aggregated amount of 10% of consolidated shareholders' equity attributable to Johnson Controls for liens and pledges. For purposes of calculating these covenants, consolidated shareholders' equity attributable to Johnson Controls is calculated without giving effect to (i) the application of Accounting Standards Codification ("ASC") 715-60, "Defined Benefit Plans - Other Postretirement," or (ii) the cumulative foreign currency translation adjustment. As of December 31, 2022, the Company was in compliance with all covenants and other requirements set forth in its credit agreements and the indentures governing its notes, and expects to remain in compliance for the foreseeable future. None of the Company's debt agreements limit access to stated borrowing levels or require accelerated repayment in the event of a decrease in the Company's credit rating.
- The key financial assumptions used in calculating the Company's pension liability are determined annually, or whenever plan assets and liabilities are re-measured as required under accounting principles generally accepted in the U.S., including the expected rate of return on its plan assets. In fiscal 2023, the Company believes the long-term rate of return will approximate 8.25%, 3.70% and 6.65% for U.S. pension, non-U.S. pension and postretirement plans, respectively. During the first three months of fiscal 2023, the Company made approximately \$9 million in total pension and postretirement contributions. In total, the Company expects to contribute approximately \$38 million in cash to its defined benefit pension plans in fiscal 2023. The Company expects to contribute \$3 million in cash to its postretirement plans in fiscal 2023.
- The Company earns a significant amount of its income outside of the parent company. Outside basis differences in these subsidiaries are deemed to be permanently reinvested except in limited circumstances. However, in fiscal 2022, the Company recorded income tax expense related to a change in the Company's assertion over the outside basis differences of the Company's investment in certain subsidiaries as a result of the planned divestitures. The Company currently does not intend nor foresee a need to repatriate undistributed earnings included in the outside basis differences other than in tax efficient manners. The Company's intent is to reduce basis differences only when it would be tax efficient. The Company expects existing U.S. cash and liquidity to continue to be sufficient to fund the Company's U.S. operating activities and

cash commitments for investing and financing activities for at least the next twelve months and thereafter for the foreseeable future. In the U.S., should the Company require more capital than is generated by its operations, the Company could elect to raise capital in the U.S. through debt or equity issuances. The Company has borrowed funds in the U.S. and continues to have the ability to borrow funds in the U.S. at reasonable interest rates. In addition, the Company expects existing non-U.S. cash, cash equivalents, short-term investments and cash flows from operations to continue to be sufficient to fund the Company's non-U.S. operating activities and cash commitments for investing activities, such as material capital expenditures, for at least the next twelve months and thereafter for the foreseeable future. Should the Company require more capital at its Luxembourg and Ireland holding and financing entities, other than amounts that can be provided in tax efficient methods, the Company could also elect to raise capital through debt or equity issuances. These alternatives could result in increased interest expense or other dilution of the Company's earnings.

- The Company may from time to time purchase its outstanding debt through open market purchases, privately negotiated transactions or otherwise. Purchases or retirement of debt, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.
- Refer to Note 10, "Debt and Financing Arrangements," of the notes to the consolidated financial statements for additional information on items impacting capitalization.

Co-Issued Securities: Summarized Financial Information

The following information is provided in compliance with Rule 13-01 of Regulation S-X under the Securities Exchange Act of 1934 with respect to the (i) \$625 million aggregate principal amount of 1.750% Senior Notes due 2030 (the "2030 Notes"), (ii) €500 million aggregate principal amount of 0.375% Senior Notes due 2027 (the "2027 Notes"), (iii) €500 million aggregate principal amount of 1.000% Senior Notes due 2032 (the "2032 Notes"), (iv) \$500 million aggregate principal amount of 2.000% Sustainability-Linked Senior Notes due 2031 (the "2031 Notes"), (v) €600 million aggregate principal amount of 3.000% Senior Notes due 2028 (the "2028 Notes") and (vi) \$400 million aggregate principal amount of 4.900% Senior Notes due 2032 (the "2032 Notes 2" and together with the 2032 Notes, the 2030 Notes, the 2028 Notes and the 2027 Notes, the "Notes"), each issued by Johnson Controls International plc ("Parent Company") and Tyco Fire & Security Finance S.C.A. ("TFSCA"), a corporate partnership limited by shares (*société en commandite par actions*) incorporated and organized under the laws of the Grand Duchy of Luxembourg ("Luxembourg").

TFSCA is a wholly-owned consolidated subsidiary of the Company that is 99.924% owned directly by the Parent Company and 0.076% owned by TFSCA's sole general partner and manager, Tyco Fire & Security S.à r.l., which is itself wholly-owned by the Company. The Notes are the Parent Company's and TFSCA's unsecured, unsubordinated obligations. The Parent Company is incorporated and organized under the laws of Ireland and TFSCA is incorporated and organized under the laws of Luxembourg. The bankruptcy, insolvency, administrative, debtor relief and other laws of Luxembourg or Ireland, as applicable, may be materially different from, or in conflict with, those of the United States, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could adversely affect noteholders' ability to enforce their rights under the Notes in those jurisdictions or limit any amounts that they may receive.

The following tables set forth summarized financial information of the Parent Company and TFSCA (collectively, the "Obligor Group") on a combined basis after intercompany transactions have been eliminated, including adjustments to remove the receivable and payable balances, investment in, and equity in earnings from, those subsidiaries of the Parent Company other than TFSCA (collectively, the "Non-Obligor Subsidiaries").

The following table presents summarized income statement information (in millions):

	Three Months Ended December 31, 2022	Year Ended September 30, 2022
Net sales	\$ —	\$ —
Gross profit	—	—
Loss from continuing operations	(94)	(268)
Net loss	(94)	(268)
Income attributable to noncontrolling interests	—	—
Net loss attributable to the entity	(94)	(268)

Excluded from the table above are intercompany transactions between the Obligor Group and Non-Obligor Subsidiaries as follows (in millions):

	Three Months Ended December 31, 2022	Year Ended September 30, 2022
Net sales	\$ —	\$ —
Gross profit	—	—
Income from continuing operations	3	92
Net income	3	92
Income attributable to noncontrolling interests	—	—
Net income attributable to the entity	3	92

The following table presents summarized balance sheet information as of December 31, 2022 and September 30, 2022 (in millions):

	December 31, 2022	September 30, 2022
Current assets	\$ 714	\$ 1,231
Noncurrent assets	243	243
Current liabilities	6,856	5,463
Noncurrent liabilities	7,527	7,176
Noncontrolling interests	—	—

Excluded from the table above are intercompany balances between the Obligor Group and Non-Obligor Subsidiaries as follows (in millions):

	December 31, 2022	September 30, 2022
Current assets	\$ 342	\$ 455
Noncurrent assets	3,543	2,952
Current liabilities	7,218	2,538
Noncurrent liabilities	6,331	6,228
Noncontrolling interests	—	—

The same accounting policies as described in Note 1, "Summary of Significant Accounting Policies," of the Company's Annual Report on 10-K for the year ended September 30, 2022 are used by the Parent Company and each of its subsidiaries in connection with the summarized financial information presented above.

New Accounting Standards

Refer to Note 2, "New Accounting Standards," of the notes to the consolidated financial statements.

Critical Accounting Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). This requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. The Company's critical accounting estimates requiring significant judgment that could materially impact the Company's results of operations, financial position and cash flows are described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended September 30, 2022. Since the date of the Company's most recent Annual Report, there have been no material changes in the Company's critical accounting estimates or assumptions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2022, the Company had not experienced any adverse changes in market risk exposures that materially affected the quantitative and qualitative disclosures presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based upon their evaluation of these disclosure controls and procedures, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of December 31, 2022 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting during the three months ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Gumm v. Molinaroli, et al.

On August 16, 2016, a putative class action lawsuit, *Gumm v. Molinaroli, et al.*, Case No. 16-cv-1093, was filed in the United States District Court for the Eastern District of Wisconsin, naming Johnson Controls, Inc., the individual members of its board of directors at the time of the merger with the Company's merger subsidiary and certain of its officers, the Company and the Company's merger subsidiary as defendants. The complaint asserted various causes of action under the federal securities laws, state law and the Taxpayer Bill of Rights, including that the individual defendants allegedly breached their fiduciary duties and unjustly enriched themselves by structuring the merger among the Company, Tyco and the merger subsidiary in a manner that would result in a United States federal income tax realization event for the putative class of certain Johnson Controls, Inc. shareholders and allegedly result in certain benefits to the defendants, as well as related claims regarding alleged misstatements in the proxy statement/prospectus distributed to the Johnson Controls, Inc. shareholders, conversion and breach of contract. The complaint also asserted that Johnson Controls, Inc., the Company and the Company's merger subsidiary aided and abetted the

individual defendants in their breach of fiduciary duties and unjust enrichment. The complaint seeks, among other things, disgorgement of profits and damages. Plaintiffs filed an amended complaint on February 15, 2017. On November 3, 2021, the court granted the Company's motion to dismiss the amended complaint. Plaintiffs have appealed to the United States Court of Appeals for the Seventh Circuit. Briefing on the appeal is completed. Oral argument has yet to be scheduled by the court.

Refer to Note 21, "Commitments and Contingencies," of the notes to the consolidated financial statements for discussion of environmental, asbestos, self-insured liabilities and other litigation matters, which is incorporated by reference herein and is considered an integral part of Part II, Item 1, "Legal Proceedings."

ITEM 1A. RISK FACTORS

There have been no material changes to the disclosure regarding risk factors presented in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended September 30, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In March 2021, the Company's Board of Directors approved a \$4.0 billion increase to the Company's share repurchase authorization, adding to the \$2.0 billion remaining as of December 31, 2020 under the prior share repurchase authorization approved in 2019. The share repurchase authorization does not have an expiration date and may be amended or terminated by the Board of Directors at any time without prior notice. During the three months ended December 31, 2022, the Company repurchased approximately \$0.2 billion of its ordinary shares on an open market. As of December 31, 2022, approximately \$3.5 billion remains available under the share repurchase authorization.

The following table presents information regarding the repurchase of the Company's ordinary shares by the Company as part of its publicly announced program during the three months ended December 31, 2022.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Programs
10/1/22 - 10/31/22				
Purchases by Company	2,242,486	\$ 52.68	2,242,486	\$ 3,496,266,553
11/1/22 - 11/30/22				
Purchases by Company	601,650	59.32	601,650	3,460,577,478
12/1/22 - 12/31/22				
Purchases by Company	—	—	—	—

During the three months ended December 31, 2022, acquisitions of shares by the Company from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted shares were not material.

ITEM 6. EXHIBITS

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.1	<u>Form of terms and conditions for Option / SAR Awards, Restricted Stock / Unit Awards, Performance Share Awards under the Johnson Controls International plc 2021 Equity and Incentive Plan for fiscal 2023 (filed herewith)</u> *
31.1	<u>Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
31.2	<u>Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
32.1	<u>Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
101	The following materials from Johnson Controls International plc's Quarterly Report on Form 10-Q for the quarter ended December 31, 2022, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Shareholders' Equity and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101)
*	Management contract or compensatory plan

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOHNSON CONTROLS INTERNATIONAL PLC

Date: February 1, 2023

By: /s/ Olivier Leonetti

Olivier Leonetti

Executive Vice President and
Chief Financial Officer

CERTIFICATIONS

I, George R. Oliver, of Johnson Controls International plc, certify that:

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

Date: February 1, 2023

/s/ George R. Oliver

George R. Oliver
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Olivier Leonetti, of Johnson Controls International plc, certify that:

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

Date: February 1, 2023

/s/ Olivier Leonetti

Olivier Leonetti
Executive Vice President and
Chief Financial Officer

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

We, George R. Oliver and Olivier Leonetti, of Johnson Controls International plc, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Quarterly Report on Form 10-Q for the quarter ended December 31, 2022 (Periodic Report) to which this statement is an exhibit fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and
2. information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Johnson Controls International plc.

Date: February 1, 2023

/s/ George R. Oliver

George R. Oliver
Chairman and Chief Executive Officer

/s/ Olivier Leonetti

Olivier Leonetti
Executive Vice President and
Chief Financial Officer