

PACCAR INC

FORM 10-Q

(Quarterly Report)

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**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 September 30, 2023

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 No. 001-14817

PACCAR Inc

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-0351110
(I.R.S. Employer Identification No.)

777 - 106th Ave. N.E., Bellevue, WA
(Address of principal executive offices)

98004
(Zip Code)

(425) 468-7400

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, \$1 par value	PCAR	The Nasdaq Stock Market

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"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<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.

Common Stock, \$1 par value — 523,075,842 shares as of October 30, 2023

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income (Unaudited)

(Millions, Except Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
TRUCK, PARTS AND OTHER:				
Net sales and revenues	\$ 8,232.3	\$ 6,687.0	\$ 24,723.7	\$ 19,579.6
Cost of sales and revenues	6,626.7	5,689.3	19,971.5	16,785.8
Research and development	103.5	82.9	302.0	241.3
Selling, general and administrative	143.6	137.7	448.3	430.6
Interest and other (income) expense, net	(16.3)	(35.0)	544.8	(89.4)
	6,857.5	5,874.9	21,266.6	17,368.3
<i>Truck, Parts and Other Income Before Income Taxes</i>	1,374.8	812.1	3,457.1	2,211.3
FINANCIAL SERVICES:				
Interest and fees	269.8	160.4	716.5	443.6
Operating lease, rental and other revenues	194.3	211.5	610.6	667.0
Revenues	464.1	371.9	1,327.1	1,110.6
Interest and other borrowing expenses	138.5	55.8	347.8	142.0
Depreciation and other expenses	146.9	137.4	427.0	426.3
Selling, general and administrative	38.7	33.3	110.9	100.9
Provision for losses on receivables	6.2	(.8)	14.1	3.8
	330.3	225.7	899.8	673.0
<i>Financial Services Income Before Income Taxes</i>	133.8	146.2	427.3	437.6
Investment income	80.8	21.4	192.5	24.3
<i>Total Income Before Income Taxes</i>	1,589.4	979.7	4,076.9	2,673.2
Income taxes	360.9	210.3	893.4	582.9
<i>Net Income</i>	<u>\$ 1,228.5</u>	<u>\$ 769.4</u>	<u>\$ 3,183.5</u>	<u>\$ 2,090.3</u>
Net Income Per Share				
Basic	<u>\$ 2.35</u>	<u>\$ 1.47</u>	<u>\$ 6.08</u>	<u>\$ 4.00</u>
Diluted	<u>\$ 2.34</u>	<u>\$ 1.47</u>	<u>\$ 6.07</u>	<u>\$ 3.99</u>
Weighted Average Number of Common Shares Outstanding				
Basic	524.1	522.7	523.8	522.5
Diluted	<u>525.3</u>	<u>523.3</u>	<u>524.8</u>	<u>523.3</u>
<i>Comprehensive Income</i>	<u>\$ 1,068.7</u>	<u>\$ 488.0</u>	<u>\$ 3,199.3</u>	<u>\$ 1,618.3</u>

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2023 (Unaudited)	December 31 2022 *
ASSETS		
TRUCK, PARTS AND OTHER:		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 5,696.9	\$ 4,544.7
Trade and other receivables, net (allowance for losses: 2023 - \$.8, 2022 - \$.6)	2,303.6	1,919.8
Marketable securities	1,743.1	1,614.2
Inventories, net	2,622.4	2,198.8
Other current assets	710.5	682.0
<i>Total Truck, Parts and Other Current Assets</i>	13,076.5	10,959.5
Equipment on operating leases, net	146.7	190.8
Property, plant and equipment, net	3,613.7	3,468.4
Other noncurrent assets, net	1,642.3	1,477.2
<i>Total Truck, Parts and Other Assets</i>	18,479.2	16,095.9
FINANCIAL SERVICES:		
Cash and cash equivalents	209.4	146.2
Finance and other receivables, net (allowance for losses: 2023 - \$124.8, 2022 - \$121.1)	16,260.4	13,791.9
Equipment on operating leases, net	2,189.4	2,612.5
Other assets	901.1	629.0
<i>Total Financial Services Assets</i>	19,560.3	17,179.6
	\$ 38,039.5	\$ 33,275.5

* The December 31, 2022 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2023 (Unaudited)	December 31 2022 *
LIABILITIES AND STOCKHOLDERS' EQUITY		
TRUCK, PARTS AND OTHER:		
<i>Current Liabilities</i>		
Accounts payable, accrued expenses and other	\$ 5,237.9	\$ 4,511.7
Dividend payable		974.6
<i>Total Truck, Parts and Other Current Liabilities</i>	5,237.9	5,486.3
Residual value guarantees and deferred revenues	162.4	209.2
Other liabilities	1,971.0	1,490.1
<i>Total Truck, Parts and Other Liabilities</i>	7,371.3	7,185.6
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	1,074.1	826.8
Commercial paper and bank loans	5,019.2	3,604.9
Term notes	7,906.4	7,866.7
Deferred taxes and other liabilities	645.4	624.4
<i>Total Financial Services Liabilities</i>	14,645.1	12,922.8
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - authorized 1.0 million shares, none issued		
Common stock, \$1 par value - authorized 1.2 billion shares, issued 523.1 and 522.0 million shares	523.1	522.0
Additional paid-in capital	258.3	196.1
Treasury stock, at cost - .04 million and nil shares	(3.1)	
Retained earnings	16,182.4	13,402.4
Accumulated other comprehensive loss	(937.6)	(953.4)
<i>Total Stockholders' Equity</i>	16,023.1	13,167.1
	\$ 38,039.5	\$ 33,275.5

* The December 31, 2022 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)
(Millions)

	Nine Months Ended September 30 2023		2022
OPERATING ACTIVITIES:			
Net Income	\$	3,183.5	\$ 2,090.3
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization:			
Property, plant and equipment		308.2	239.7
Equipment on operating leases and other		370.2	345.9
Provision for losses on financial services receivables		14.1	3.8
Other, net		(115.1)	(187.2)
Pension contributions		(17.1)	(34.3)
Change in operating assets and liabilities:			
Trade and other receivables		(518.1)	(561.5)
Wholesale receivables on new trucks		(1,006.8)	(577.8)
Inventories		(450.0)	(523.5)
Accounts payable and accrued expenses		882.1	937.0
Income taxes, warranty and other		352.3	45.8
Net Cash Provided by Operating Activities		3,003.3	1,778.2
INVESTING ACTIVITIES:			
Originations of retail loans and finance leases		(4,557.4)	(3,559.5)
Collections on retail loans and finance leases		3,210.6	2,932.3
Net increase in wholesale receivables on used equipment		(15.2)	(15.2)
Purchases of marketable debt securities		(796.7)	(723.8)
Proceeds from sales and maturities of marketable debt securities		660.2	591.5
Payments for property, plant and equipment		(497.2)	(393.7)
Acquisitions of equipment for operating leases		(401.9)	(688.1)
Proceeds from asset disposals		449.0	511.3
Other, net		17.5	26.7
Net Cash Used in Investing Activities		(1,931.1)	(1,318.5)
FINANCING ACTIVITIES:			
Payments of cash dividends		(1,377.3)	(875.9)
Purchases of treasury stock		(3.1)	(2.0)
Proceeds from stock compensation transactions		43.1	21.7
Net increase in commercial paper, short-term bank loans and other		1,316.9	227.3
Proceeds from term debt		2,398.2	2,302.7
Payments on term debt		(2,218.3)	(2,092.7)
Net Cash Provided by (Used in) Financing Activities		159.5	(418.9)
Effect of exchange rate changes on cash and cash equivalents		(16.3)	(145.6)
Net Increase (Decrease) in Cash and Cash Equivalents		1,215.4	(104.8)
Cash and cash equivalents at beginning of period		4,690.9	3,428.3
Cash and cash equivalents at end of period	\$	5,906.3	\$ 3,323.5

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity (Unaudited)
(Millions, Except Per Share Amounts)

	Three Months Ended September 30 2023		2022	Nine Months Ended September 30 2023		2022		
COMMON STOCK, \$1 PAR VALUE:								
Balance at beginning of period	\$	522.8	\$	347.7	\$	522.0	\$	347.3
Stock compensation		.3		.1		1.1		.5
Balance at end of period		523.1		347.8		523.1		347.8
ADDITIONAL PAID-IN CAPITAL:								
Balance at beginning of period		241.8		174.0		196.1		142.0
Stock compensation		16.5		6.0		62.2		38.0
Balance at end of period		258.3		180.0		258.3		180.0
TREASURY STOCK, AT COST:								
Balance at beginning of period		(3.0)		(1.9)				
Purchases		(.1)		(.1)		(3.1)		(2.0)
Balance at end of period		(3.1)		(2.0)		(3.1)		(2.0)
RETAINED EARNINGS:								
						13,402.		
Balance at beginning of period	15,095.5		13,109.9		4		12,025.8	
Net income	1,228.5		769.4		3,183.5		2,090.3	
Cash dividends declared on common stock	(141.6)		(118.5)		(403.5)		(355.3)	
					16,182.			
Balance at end of period	16,182.4		13,760.8		4		13,760.8	
ACCUMULATED OTHER COMPREHENSIVE LOSS:								
Balance at beginning of period	(777.8)		(1,111.7)		(953.4)		(921.1)	
Other comprehensive (loss) income	(159.8)		(281.4)		15.8		(472.0)	
Balance at end of period	(937.6)		(1,393.1)		(937.6)		(1,393.1)	
					16,023.			
<i>Total Stockholders' Equity</i>	<u>\$16,023.1</u>		<u>\$ 12,893.5</u>		<u>\$ 1</u>		<u>\$ 12,893.5</u>	
Cash dividends declared on common stock, per share	\$.27		\$.23		\$.77		\$.69	

See Notes to Consolidated Financial Statements.

NOTE A - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. For further information, refer to the consolidated financial statements and footnotes included in PACCAR Inc's (PACCAR or the Company) Annual Report on Form 10-K for the year ended December 31, 2022.

Earnings per Share: Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding, plus the effect of any participating securities. Diluted earnings per common share are computed assuming that all potentially dilutive securities are converted into common shares under the treasury stock method.

On December 6, 2022, the Board of Directors declared a 50% common stock dividend which was paid on February 7, 2023, to stockholders of record on January 17, 2023, with fractional shares paid in cash. This resulted in the issuance of 174,035,361 additional shares and 411 fractional shares paid in cash. For all years presented, net income per share, weighted average number of common shares outstanding and cash dividends declared per share on common stock have been restated for the effect of the 50% dividend.

The dilutive and antidilutive options are shown separately in the table below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Additional shares	1,211,900		1,049,000	
	0	694,500	0	728,400
Antidilutive options	32,400	1,637,000	911,700	1,650,400

New Accounting Pronouncements: The Company adopted ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023, which had no material impact on the Company's consolidated financial statements.

The Financial Accounting Standards Board issued ASU 2022-03, *Fair Value Measurement (Topic 820)—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restriction* in 2022. The Company plans on adopting this standard on January 1, 2024, and is not expected to have a material impact on the Company's consolidated financial statements.

NOTE B - Sales and Revenues

Truck, Parts and Other

The Company enters into sales contracts with customers associated with purchases of the Company's products and services including trucks, parts, product support, and other related services. Generally, the Company recognizes revenue for the amount of consideration it will receive for delivering a product or service to a customer. Revenue is recognized when the customer obtains control of the product or receives benefits of the service. The Company excludes sales taxes, value added taxes and other related taxes assessed by government agencies from revenue. There are no significant financing components included in product or services revenue since generally customers pay shortly after the products or services are transferred. In the Truck and Parts segment, when the Company grants extended payment terms on selected receivables and charges interest, interest income is recognized when earned.

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

The following table disaggregates Truck, Parts and Other revenues by major sources:

	Three Months Ended September 30 2023		Nine Months Ended September 30 2023	
		2022		2022
Truck				
Truck sales	\$ 6,412.4	\$ 4,991.4	\$19,219.7	\$ 14,602.7
Revenues from extended warranties, operating leases and other	224.0	206.8	658.0	629.0
	6,636.4	5,198.2	19,877.7	15,231.7
Parts				
Parts sales	1,533.5	1,429.3	4,660.4	4,171.9
Revenues from dealer services and other	48.7	42.2	143.7	123.2
	1,582.2	1,471.5	4,804.1	4,295.1
<i>Winch sales and other</i>	13.7	17.3	41.9	52.8
Truck, Parts and Other sales and revenues	<u>\$ 8,232.3</u>	<u>\$ 6,687.0</u>	<u>\$24,723.7</u>	<u>\$ 19,579.6</u>

The Company recognizes truck and parts sales as revenues when control of the products is transferred to customers which generally occurs upon shipment, except for certain truck sales which are subject to a residual value guarantee (RVG) by the Company. The standard payment term for trucks and aftermarket parts is typically within 30 days, but the Company may grant extended payment terms on selected receivables. The Company recognizes revenue for the invoice amount adjusted for estimated sales incentives and returns. Sales incentives and returns are estimated based on historical experience and are adjusted to current period revenue when the most likely amount of consideration the Company expects to receive changes or becomes fixed. Truck and parts sales include a standard product warranty which is included in cost of sales. The Company has elected to treat delivery services as a fulfillment activity with revenues recognized when the customer obtains control of the product. Delivery revenue is included in revenues and the related costs are included in cost of sales. The Company is not disclosing truck order backlog, as a significant majority of the backlog has a duration of less than one year.

Truck sales with RVGs that allow customers the option to return their truck are accounted for as a sale when the customer does not have an economic incentive to return the truck to the Company, or as an operating lease when the customer does have an economic incentive to return the truck. The estimate of customers' economic incentive to return the trucks is based on an analysis of historical guaranteed buyback value and estimated market value. When truck sales with RVGs are accounted for as a sale, revenue is recognized when the truck is transferred to the customer less an amount for expected returns. Expected return rates are estimated by using a historical return rate.

Aftermarket parts sales allow for returns which are estimated at the time of sale based on historical data. Parts dealer services and other revenues are recognized as services are performed.

The following table presents the balance sheet classification of the estimated value of the returned goods assets and the related return liabilities:

	September 30, 2023		December 31, 2022	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Trucks				
Other current assets	\$ 165.8		\$ 183.0	
Accounts payable, accrued expenses and other		\$ 166.6		\$ 185.0
Other noncurrent assets, net	201.8		284.6	
Other liabilities		211.9		298.9
	<u>\$ 367.6</u>	<u>\$ 378.5</u>	<u>\$ 467.6</u>	<u>\$ 483.9</u>
Parts				
Other current assets	\$ 81.8		\$ 77.7	
Accounts payable, accrued expenses and other		\$ 208.6		\$ 181.4
	<u>\$ 81.8</u>	<u>\$ 208.6</u>	<u>\$ 77.7</u>	<u>\$ 181.4</u>

The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a sale was \$771.0 at September 30, 2023.

Revenues from extended warranties, operating leases and other include optional extended warranty and repair and maintenance (R&M) service contracts which can be purchased for periods generally ranging up to five years. The Company defers revenue based on stand-alone observable selling prices when it receives payments in advance and generally recognizes the revenue on a straight-line basis over the warranty or R&M contract periods. See Note F, Product Support Liabilities, in the Notes to the Consolidated Financial Statements for further information. Also included are truck sales with an RVG accounted for as an operating lease. A liability is created for the residual value obligation with the remainder of the proceeds recorded as deferred revenue. The deferred revenue is recognized on a straight-line basis over the guarantee period, which typically ranges from three to five years. Deferred revenue related to trucks sold with an RVG was \$28.3 at September 30, 2023. The Company expects to recognize approximately \$6.2 of the remaining deferred revenue in 2023, \$15.7 in 2024, \$4.4 in 2025, \$1.4 in 2026 and \$.6 in 2027. For the three and nine months ended September 30, 2023, total operating lease revenue from truck sales with RVGs was \$11.7 and \$47.1, respectively, compared to \$29.3 and \$79.2 for the three and nine months ended September 30, 2022. The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a lease was \$134.1 at September 30, 2023.

Revenue from winch sales and other is primarily derived from the industrial winch business. Winch sales are recognized when the product is transferred to a customer, which generally occurs upon shipment. Also within this category are other revenues not attributable to a reportable segment.

Financial Services

The Company's Financial Services segment products include loans to customers collateralized by the vehicles being financed, finance leases for retail customers and dealers, dealer wholesale financing which includes floating-rate wholesale loans to PACCAR dealers for new and used trucks, and operating leases which include rentals on Company owned equipment. Interest income from finance and other receivables is recognized using the interest method. Certain loan origination costs are deferred and amortized to interest income over the expected life of the contracts using the straight-line method which approximates the interest method.

Operating lease rental revenue is recognized on a straight-line basis over the term of the lease. Customer contracts may include additional services such as excess mileage, repair and maintenance and other services on which revenue is recognized when earned. The Company's full-service lease arrangements bundle these additional services. Rents for full-service lease contracts are allocated between lease and non-lease components based on the relative stand-alone price of each component. Taxes, such as sales and use and value added, which are collected by the Company from a customer, are excluded from the measurement of lease income and expenses.

Recognition of interest income and rental revenue is suspended (put on non-accrual status) when the receivable becomes more than 90 days past the contractual due date or earlier if some other event causes the Company to determine that collection is not probable. Accordingly, no finance receivables more than 90 days past due were accruing interest at September 30, 2023 or December 31, 2022. Recognition is resumed if the receivable becomes current by the payment of all amounts due under the terms of the existing contract and collection of remaining amounts is considered probable (if not contractually modified) or if the customer makes scheduled payments for three months and collection of remaining amounts is considered probable (if contractually modified). Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms.

Finance leases are secured by the trucks and related equipment being leased and the lease terms generally range from three to five years depending on the type and use of the equipment. The lessee is required to either purchase the equipment or guarantee to the Company a stated residual value upon the disposition of the equipment at the end of the finance lease term.

Operating lease terms generally range from three to five years. At the end of the operating lease term, the lessee has the option to return the equipment to the Company or purchase the equipment at its fair market value.

The Company determines its estimate of the residual value of leased vehicles by considering the length of the lease term, the truck model, the expected usage of the truck and anticipated market demand. If the sales price of the truck at the end of the agreement differs from the Company's estimated residual value, a gain or loss will result. Future market conditions, changes in government regulations and other factors outside the Company's control could impact the ultimate sales price of trucks returned under these contracts. Residual values are reviewed regularly and adjusted if market conditions warrant.

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

The following table summarizes Financial Services lease revenues by lease type:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Finance lease revenues	\$ 72.7	\$ 46.6	\$ 194.1	\$ 134.5
Operating lease revenues	180.6	192.4	564.1	595.7
Total lease revenues	<u>\$ 253.3</u>	<u>\$ 239.0</u>	<u>\$ 758.2</u>	<u>\$ 730.2</u>

NOTE C - Investments in Marketable Securities

Debt Securities

The Company's investments in marketable debt securities are classified as available-for-sale. These investments are stated at fair value and may include an allowance for credit losses. Changes in the allowance for credit losses are recognized in the current period earnings and any unrealized gains or losses, net of tax, are included as a component of accumulated other comprehensive income (loss) (AOCI).

The Company utilizes third-party pricing services for all of its marketable debt security valuations. The Company reviews the pricing methodology used by the third-party pricing services, including the manner employed to collect market information. On a quarterly basis, the Company also performs review and validation procedures on the pricing information received from the third-party providers. These procedures help ensure the fair value information used by the Company is determined in accordance with applicable accounting guidance.

The Company evaluates its investment in marketable debt securities at the end of each reporting period to determine if a decline in fair value is the result of credit losses or unrealized losses. In assessing credit losses, the Company considers the collectability of principal and interest payments by monitoring changes to issuers' credit ratings, specific credit events associated with individual issuers as well as the credit ratings of any financial guarantor. The Company considers its intent for selling the security and whether it is more likely than not the Company will be able to hold the security until the recovery of any credit losses and unrealized losses. Charges against the allowance for credit losses occur when a security with credit losses is sold or the Company no longer intends to hold that security.

Equity Securities

Marketable equity securities are traded on active exchanges and are measured at fair value. The realized and unrealized gains (losses) are recognized in investment income.

Marketable securities at September 30, 2023 and December 31, 2022 consisted of the following:

<u>At September 30, 2023</u>	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Marketable debt securities				
U.S. tax-exempt securities	\$ 293.0		\$ 8.1	\$ 284.9
U.S. taxable municipal / non-U.S. provincial bonds	249.3		9.0	240.3
U.S. corporate securities	354.4		10.2	344.2
U.S. government and agency securities	151.6		4.4	147.2
Non-U.S. corporate securities	510.4		14.3	496.1
Non-U.S. government securities	134.2	\$.2	2.2	132.2
Other debt securities	100.1		4.3	95.8
Marketable equity securities	10.0		7.6	2.4
Total marketable securities	<u>\$ 1,803.0</u>	<u>\$.2</u>	<u>\$ 60.1</u>	<u>\$ 1,743.1</u>

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

<i>At December 31, 2022</i>	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Marketable debt securities				
U.S. tax-exempt securities	\$ 452.8	\$.5	\$ 8.2	\$ 445.1
U.S. taxable municipal / non-U.S. provincial bonds	191.6		10.8	180.8
U.S. corporate securities	262.5	.1	11.6	251.0
U.S. government and agency securities	118.0	.1	3.1	115.0
Non-U.S. corporate securities	467.9		17.9	450.0
Non-U.S. government securities	78.9	.2	2.7	76.4
Other debt securities	99.4		4.7	94.7
Marketable equity securities	10.0		8.8	1.2
Total marketable securities	<u>\$ 1,681.1</u>	<u>\$.9</u>	<u>\$ 67.8</u>	<u>\$ 1,614.2</u>

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. Gross realized gains were \$.9 and \$.5 and gross realized losses were \$3.6 and \$1.5 for the nine months periods ended September 30, 2023 and 2022, respectively.

Net realized gains on marketable equity securities were \$1.1 and nil for the nine months periods ending September 30, 2023 and 2022, respectively.

Marketable debt securities with continuous unrealized losses and their related fair values were as follows:

	September 30, 2023		December 31, 2022	
	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Unrealized losses	\$ 11.7	\$ 40.8	\$ 21.5	\$ 37.5
Fair value	706.6	850.1	889.2	608.4

The unrealized losses on marketable debt securities above were due to higher yields on certain securities. The Company did not identify any indicators of a credit loss in its assessments. Accordingly, no allowance for credit losses was recorded at September 30, 2023 and December 31, 2022. The Company does not currently intend, and it is more likely than not that it will not be required to sell the investment securities before recovery of the unrealized losses. The Company expects that the contractual principal and interest will be received on the investment securities.

Contractual maturities of marketable debt securities at September 30, 2023 were as follows:

	AMORTIZED COST	FAIR VALUE
Within one year	\$ 449.0	\$ 441.5
One to five years	1,330.9	1,287.6
Six to ten years	.9	.9
More than ten years	12.2	10.7
	<u>\$ 1,793.0</u>	<u>\$ 1,740.7</u>

NOTE D - Inventories

Inventories are stated at the lower of cost or market. Cost of inventories is determined principally by the first-in, first-out (FIFO) method.

Inventories include the following:

	September 30 2023	December 31 2022
Finished products	\$ 1,102.2	\$ 871.8
Work in process and raw materials	1,520.2	1,327.0
	<u>\$ 2,622.4</u>	<u>\$ 2,198.8</u>

NOTE E - Finance and Other Receivables

Finance and other receivables include the following:

	September 30 2023	December 31 2022
Loans	\$ 8,022.1	\$ 7,229.1
Finance leases	4,428.6	3,786.4
Dealer wholesale financing	3,783.2	2,772.1
Operating lease receivables and other	151.3	125.4
	16,385.2	13,913.0
Less allowance for losses:		
Loans and leases	(119.6)	(114.8)
Dealer wholesale financing	(2.6)	(3.4)
Operating lease receivables and other	(2.6)	(2.9)
	<u>\$ 16,260.4</u>	<u>\$ 13,791.9</u>

Included in Finance and other receivables, net on the Consolidated Balance Sheets is accrued interest receivable (net of allowance for credit losses) of \$73.6 and \$44.1 as of September 30, 2023 and December 31, 2022, respectively. The net activity of dealer direct loans and dealer wholesale financing on new trucks is shown in the operating section of the Condensed Consolidated Statements of Cash Flows since those receivables finance the sale of Company inventory.

Allowance for Credit Losses

The Company continuously monitors the payment performance of its finance receivables. For large retail finance customers and dealers with wholesale financing, the Company regularly reviews their financial statements and makes site visits and phone contact as appropriate. If the Company becomes aware of circumstances that could cause those customers or dealers to face financial difficulty, whether or not they are past due, the customers are placed on a watch list.

The Company modifies loans and finance leases in the normal course of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification.

When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. The Company does not typically grant credit modifications for customers that do not meet minimum underwriting standards since the Company normally repossesses the financed equipment in these circumstances.

On average, commercial and other modifications extended contractual terms by approximately four months in 2023 and three months in 2022, and did not have a significant effect on the weighted average term or interest rate of the total portfolio at September 30, 2023 and December 31, 2022.

The Company has developed a systematic methodology for determining the allowance for credit losses for its two portfolio segments, retail and wholesale. The retail segment consists of retail loans and sales-type finance leases, net of unearned interest. The wholesale segment consists of truck inventory financing loans to dealers that are collateralized by trucks and other collateral. The wholesale segment generally has less risk than the retail segment. Wholesale receivables generally are shorter in duration than retail receivables, and the Company requires periodic reporting of the wholesale dealer's financial condition, conducts periodic audits of the trucks being financed and in many cases, obtains guarantees or other security such as dealership assets. In determining the allowance for credit losses, retail loans and finance leases are evaluated together since they relate to a similar customer base, their contractual terms require regular payment of principal and interest, generally over three to five years, and they are secured by the same type of collateral. The allowance for credit losses consists of both specific and general reserves.

The Company individually evaluates certain finance receivables for expected credit losses. Finance receivables that are evaluated individually consist of all wholesale accounts and certain large retail accounts with past due balances or otherwise determined to be at a higher risk of loss. In general, finance receivables that are 90 days past due are placed on non-accrual status. Finance receivables on non-accrual status which have been performing for 90 consecutive days are placed on accrual status if it is deemed probable that the Company will collect all principal and interest payments.

Individually evaluated receivables on non-accrual status are generally considered collateral dependent. Large balance retail and all wholesale receivables on non-accrual status are individually evaluated to determine the appropriate reserve for losses. The determination of reserves for large balance receivables on non-accrual status considers the fair value of the associated collateral. When the underlying collateral fair value exceeds the Company's amortized cost basis, no reserve is recorded. Small balance receivables on non-accrual status with similar risk characteristics are evaluated as a separate pool to determine the appropriate reserve for losses using the historical loss information discussed below.

The Company evaluates finance receivables that are not individually evaluated and share similar risk characteristics on a collective basis and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data, current market conditions, and expected changes in future macroeconomic conditions that affect collectability. Historical credit loss data provides relevant information of expected credit losses. The historical information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse.

The Company has developed a range of loss estimates for each of its country portfolios based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. Adjustments to historical loss information are made for changes in forecasted economic conditions that are specific to the industry and markets in which the Company conducts business. The Company utilizes economic forecasts from third-party sources and determines expected losses based on historical experience under similar market conditions. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of expected credit losses, net of recoveries, inherent in the portfolio.

In determining the fair value of the collateral, the Company uses a pricing matrix and categorizes the fair value as Level 2 in the hierarchy of fair value measurement. The pricing matrix is reviewed quarterly and updated as appropriate. The pricing matrix considers the make, model and year of the equipment as well as recent sales prices of comparable equipment sold individually, which is the lowest unit of account, through wholesale channels to the Company's dealers (principal market). The fair value of the collateral also considers the overall condition of the equipment.

Accounts are charged off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible, which generally occurs upon repossession of the collateral. Typically the timing between the repossession and charge-off is not significant. In cases where repossession is delayed (e.g., for legal proceedings), the Company records a partial charge-off. The charge-off is determined by comparing the fair value of the collateral, less cost to sell, to the amortized cost basis.

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(Millions, Except Share Amounts)

For the following credit quality disclosures, finance receivables are classified into two portfolio segments, wholesale and retail. The retail portfolio is further segmented into dealer retail and customer retail. The dealer wholesale segment consists of truck inventory financing to PACCAR dealers. The dealer retail segment consists of loans and leases to participating dealers and franchises that use the proceeds to fund customers' acquisition of commercial vehicles and related equipment. The customer retail segment consists of loans and leases directly to customers for the acquisition of commercial vehicles and related equipment. Customer retail receivables are further segregated between fleet and owner/operator classes. The fleet class consists of customer retail accounts operating five or more trucks. All other customer retail accounts are considered owner/operator. These two classes have similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk.

The allowance for credit losses is summarized as follows:

	DEALER		2023 CUSTOMER		OTHER*	TOTAL
	WHOLESALE	RETAIL	RETAIL			
Balance at January 1	\$ 3.4	\$ 2.2	\$ 112.6	\$ 2.9	\$	121.1
Provision for losses	(.8)	(.8)	16.3	(.6)		14.1
Charge-offs			(16.0)	(1.2)		(17.2)
Recoveries			4.3	1.3		5.6
Currency translation and other			1.0	.2		1.2
Balance at September 30	<u>\$ 2.6</u>	<u>\$ 1.4</u>	<u>\$ 118.2</u>	<u>\$ 2.6</u>		<u>\$ 124.8</u>

	DEALER		2022 CUSTOMER		OTHER*	TOTAL
	WHOLESALE	RETAIL	RETAIL			
Balance at January 1	\$ 3.3	\$ 7.1	\$ 104.4	\$ 2.1	\$	116.9
Provision for losses	.4	(3.3)	8.1	(1.4)		3.8
Charge-offs			(6.3)	(.1)		(6.4)
Recoveries	.1		5.2	1.8		7.1
Currency translation and other	(.3)		(3.9)	.7		(3.5)
Balance at September 30	<u>\$ 3.5</u>	<u>\$ 3.8</u>	<u>\$ 107.5</u>	<u>\$ 3.1</u>		<u>\$ 117.9</u>

* Operating leases and other trade receivables.

Credit Quality

The Company's customers are principally concentrated in the transportation industry in North America, Europe, Australia and Brasil. The Company's portfolio assets are diversified over a large number of customers and dealers with no single customer or dealer balances representing over 5% of the total portfolio assets. The Company retains as collateral a security interest in the related equipment.

At the inception of each contract, the Company considers the credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios and other internal metrics. On an ongoing basis, the Company monitors credit quality based on past due status and collection experience as there is a meaningful correlation between the past due status of customers and the risk of loss.

The Company has three credit quality indicators: performing, watch and at-risk. Performing accounts pay in accordance with the contractual terms and are not considered high-risk. Watch accounts include accounts 31 to 90 days past due and large accounts that are performing but are considered to be high-risk. Watch accounts are not collateral dependent. At-risk accounts are collateral dependent, including accounts over 90 days past due and other accounts on non-accrual status.

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(Unaudited)**

(Millions, Except Share Amounts)

The tables below summarize the amortized cost basis of the Company's finance receivables within each credit quality indicator by year of origination and portfolio class and current period gross charge-offs of the Company's finance receivables by year of origination and portfolio class.

	REVOLVING							
<u>At September 30,</u> <u>2023</u>	LOANS	2023	2022	2021	2020	2019	PRIOR	TOTAL
Amortized cost:								
Dealer:								
Wholesale:								
Performing	\$ 3,782.1							\$3,782.1
Watch	1.1							1.1
	\$ 3,783.2							\$3,783.2
Retail:								
Performing	\$ 164.3	\$ 556.1	\$ 542.8	\$ 315.3	\$ 177.2	\$ 182.7	\$ 152.5	\$2,090.9
	\$ 164.3	\$ 556.1	\$ 542.8	\$ 315.3	\$ 177.2	\$ 182.7	\$ 152.5	\$2,090.9
Total dealer	<u>\$ 3,947.5</u>	<u>\$ 556.1</u>	<u>\$ 542.8</u>	<u>\$ 315.3</u>	<u>\$ 177.2</u>	<u>\$ 182.7</u>	<u>\$ 152.5</u>	<u>\$5,874.1</u>
Customer retail:								
Fleet:								
Performing		\$ 3,460.9	\$2,866.1	\$ 1,455.3	\$ 836.6	\$ 294.9	\$ 91.8	\$9,005.6
Watch		34.4	14.9	2.6	1.0	1.1	.9	54.9
At-risk		8.6	23.2	11.5	6.0	11.6	.3	61.2
		\$ 3,503.9	\$2,904.2	\$ 1,469.4	\$ 843.6	\$ 307.6	\$ 93.0	\$9,121.7
Owner/operator:								
Performing		\$ 325.4	\$ 357.4	\$ 293.9	\$ 167.2	\$ 66.6	\$ 15.1	\$1,225.6
Watch		.3	2.1	1.8	1.1	.1	.2	5.6
At-risk		.1	1.5	2.2	2.1	.7	.3	6.9
		\$ 325.8	\$ 361.0	\$ 297.9	\$ 170.4	\$ 67.4	\$ 15.6	\$1,238.1
Total customer retail		<u>\$ 3,829.7</u>	<u>\$3,265.2</u>	<u>\$1,767.3</u>	<u>\$1,014.0</u>	<u>\$ 375.0</u>	<u>\$ 108.6</u>	<u>10,359.8</u>
								16,233.9
Total	\$ 3,947.5	\$ 4,385.8	\$3,808.0	\$ 2,082.6	\$ 1,191.2	\$ 557.7	\$ 261.1	\$ 9

REVOLVING															
<u>At September 30,</u> <u>2023</u>	LOANS	2023	2022	2021	2020	2019	PRIOR	TOTAL							
Gross charge-offs:															
Customer retail:															
Fleet		\$	4.4	\$	4.4	\$	3.6	\$.4	\$.4	\$	13.2		
Owner/operator		\$.2		1.0		1.0		.3		.3		2.8		
Total		\$.2	\$	5.4	\$	5.4	\$	3.9	\$.4	\$.7	\$	16.0

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	REVOLVING							
<u>At December 31, 2022</u>	LOANS	2022	2021	2020	2019	2018	PRIOR	TOTAL
Amortized cost:								
Dealer:								
Wholesale:								
Performing	\$ 2,766.0							\$2,766.0
Watch	6.1							6.1
	\$ 2,772.1							\$2,772.1
Retail:								
Performing	\$ 206.2	\$ 609.7	\$ 348.6	\$ 223.1	\$ 241.7	\$ 120.8	\$ 121.1	\$1,871.2
At-risk							.7	.7
	\$ 206.2	\$ 609.7	\$ 348.6	\$ 223.1	\$ 241.7	\$ 120.8	\$ 121.8	\$1,871.9
Total dealer	<u>\$ 2,978.3</u>	<u>\$ 609.7</u>	<u>\$ 348.6</u>	<u>\$ 223.1</u>	<u>\$ 241.7</u>	<u>\$ 120.8</u>	<u>\$ 121.8</u>	<u>\$4,644.0</u>
Customer retail:								
Fleet:								
Performing		\$3,558.0	\$1,981.9	\$1,306.5	\$ 603.7	\$ 203.4	\$ 65.6	\$7,719.1
Watch		7.5	7.3	1.8	3.4	2.4	.5	22.9
At-risk		6.7	17.7	18.8	17.2	5.9	.5	66.8
		\$3,572.2	\$2,006.9	\$1,327.1	\$ 624.3	\$ 211.7	\$ 66.6	\$7,808.8
Owner/operator:								
Performing	\$ 478.2	\$ 425.9	\$ 251.2	\$ 120.9	\$ 45.3	\$ 6.0		\$1,327.5
Watch	1.8	.9	.4	.3		.1		3.5
At-risk	.4	.8	1.1	.8	.7			3.8
	\$ 480.4	\$ 427.6	\$ 252.7	\$ 122.0	\$ 46.0	\$ 6.1		\$1,334.8
Total customer retail	<u></u>	<u>\$4,052.6</u>	<u>\$2,434.5</u>	<u>\$1,579.8</u>	<u>\$ 746.3</u>	<u>\$ 257.7</u>	<u>\$ 72.7</u>	<u>\$9,143.6</u>
								13,787.
Total	<u>\$ 2,978.3</u>	<u>\$4,662.3</u>	<u>\$2,783.1</u>	<u>\$1,802.9</u>	<u>\$ 988.0</u>	<u>\$ 378.5</u>	<u>\$ 194.5</u>	<u>\$ 6</u>

The tables below summarize the Company's finance receivables by aging category. In determining past due status, the Company considers the entire contractual account balance past due when any installment is over 30 days past due. Substantially all customer accounts that were greater than 30 days past due prior to credit modification became current upon modification for aging purposes.

	DEALER		CUSTOMER RETAIL			
			OWNER/			
	WHOLESALE	RETAIL	FLEET	OPERATOR	TOTAL	
<u>At September 30, 2023</u>						
Current and up to 30 days past due	\$ 3,783.2	\$ 2,090.9	\$ 9,034.9	\$ 1,228.3	\$ 16,137.3	
31 - 60 days past due			46.1	4.8	50.9	
Greater than 60 days past due			40.7	5.0	45.7	
					16,233.9	
	<u>\$ 3,783.2</u>	<u>\$ 2,090.9</u>	<u>\$ 9,121.7</u>	<u>\$ 1,238.1</u>	<u>\$ 13,787.6</u>	

	DEALER		CUSTOMER RETAIL			
			OWNER/			
	WHOLESALE	RETAIL	FLEET	OPERATOR	TOTAL	
<u>At December 31, 2022</u>						
Current and up to 30 days past due	\$ 2,772.1	\$ 1,871.9	\$ 7,768.5	\$ 1,329.1	\$13,741.6	
31 - 60 days past due			14.7	3.1	17.8	
Greater than 60 days past due			25.6	2.6	28.2	
	<u>\$ 2,772.1</u>	<u>\$ 1,871.9</u>	<u>\$ 7,808.8</u>	<u>\$ 1,334.8</u>	<u>\$13,787.6</u>	

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The amortized cost basis of finance receivables that are on non-accrual status was as follows:

	DEALER		CUSTOMER RETAIL		
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
<u>At September 30, 2023</u>					
Amortized cost basis with a specific reserve			\$ 27.9	\$ 6.2	\$ 34.1
Amortized cost basis with no specific reserve			26.7	.5	27.2
Total			\$ 54.6	\$ 6.7	\$ 61.3

	DEALER		CUSTOMER RETAIL		
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
<u>At December 31, 2022</u>					
Amortized cost basis with a specific reserve			\$ 33.9	\$ 3.6	\$ 37.5
Amortized cost basis with no specific reserve		\$.7	16.2		16.9
Total		\$.7	\$ 50.1	\$ 3.6	\$ 54.4

Interest income recognized on a cash basis for finance receivables that are on non-accrual status was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Interest income recognized:				
Dealer:				
Retail			\$.1	
Customer retail:				
Fleet	\$.4	\$.6	\$ 1.0	2.0
Owner/operator	.1	.1	.2	.2
	\$.5	\$.7	\$ 1.2	\$ 2.3

Customers Experiencing Financial Difficulty

The Company adopted ASU 2022-02 on January 1, 2023. The amortized cost basis of finance receivables modified for fleet customers experiencing financial difficulty was \$.6 and \$.7 for the three and nine months ended September 30, 2023, respectively. The amortized cost basis of finance receivables modified for owner/operator customers experiencing financial difficulty was nil for the three and nine months ended September 30, 2023. Total modifications with customers experiencing financial difficulty represented nil and .1% of the total retail portfolio on an annualized basis for the three and nine months ended September 30, 2023, respectively. The modifications provided term extensions and granted customers additional time to pay, primarily in Brasil. The financial effects of the term extensions added a weighted-average of 5 and 19 months to the life of the modified contracts for the three and nine months ended September 30, 2023, respectively. The effect on the allowance for credit losses from such modifications was not significant for the three and nine months ended September 30, 2023.

All of the finance receivables modified with customers experiencing financial difficulty are current. There were no finance receivables modified with customers experiencing financial difficulty on or after January 1, 2023 that had a payment default in the nine months ended September 30, 2023.

Troubled Debt Restructuring Disclosures Prior to Adoption of ASU 2022-02

Prior to the adoption of ASU 2022-02, when considering whether to modify customer accounts for credit reasons, the Company evaluated the creditworthiness of the customers and modified those accounts that the Company considered likely to perform under the modified terms. When the Company modified a loan or finance lease for credit reasons and granted a concession, the modification was classified as a troubled debt restructuring (TDR). The Company did not typically grant credit modifications for customers that did not meet minimum underwriting standards since the Company normally repossesses the financed equipment in those circumstances. When such modifications did occur, they were considered TDRs.

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The balance of TDRs was \$31.1 and \$34.2 at December 31, 2022 and September 30, 2022, respectively. At modification date, the pre-modification and post-modification amortized cost basis balances for finance receivables modified during the period by portfolio class were as follows:

	Three Months Ended September 30, 2022 AMORTIZED COST BASIS		Nine Months Ended September 30, 2022 AMORTIZED COST BASIS	
	PRE- MODIFICATION	POST- MODIFICATION	PRE- MODIFICATION	POST- MODIFICATION
Fleet	\$ 1.6	\$ 1.6	\$ 9.7	\$ 9.7

The effect on the allowance for credit losses from such modifications was not significant at September 30, 2022.

Repossessions

When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating leases. The Company records the vehicles as used truck inventory included in Financial Services Other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at September 30, 2023 and December 31, 2022 was \$17.2 and \$9.2, respectively. Proceeds from the sales of repossessed assets were \$17.7 and \$16.1 for the nine months ended September 30, 2023 and 2022, respectively. These amounts are included in Proceeds from asset disposals in the Condensed Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services Depreciation and other expenses on the Consolidated Statements of Comprehensive Income.

NOTE F - Product Support Liabilities

Product support liabilities include estimated future payments related to product warranties and deferred revenues on optional extended warranties and R&M contracts. The Company generally offers one year warranties covering most of its vehicles and related aftermarket parts. For vehicles equipped with engines manufactured by PACCAR, the Company generally offers two year warranties on the engine. Specific terms and conditions vary depending on the product and the country of sale. Optional extended warranty and R&M contracts can be purchased for periods which generally range up to five years. Warranty expenses and reserves are estimated and recorded at the time products or contracts are sold based on historical and current data and reasonable expectations for the future regarding the frequency and cost of warranty claims, net of recoveries. The Company periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience. Revenue from extended warranty and R&M contracts is deferred and recognized to income generally on a straight-line basis over the contract period. Warranty and R&M costs on these contracts are recognized as incurred.

Changes in product support liabilities are summarized as follows:

<u>WARRANTY RESERVES</u>		2023	2022
Balance at January 1	\$	437.7	\$ 344.3
Cost accruals		484.1	269.4
Payments		(459.9)	(302.9)
Change in estimates for pre-existing warranties		186.1	80.6
Currency translation and other		(2.6)	(23.2)
Balance at September 30	\$	645.4	\$ 368.2
<u>DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS</u>		2023	2022
Balance at January 1	\$	904.9	\$ 775.2
Deferred revenues		583.5	439.7
Revenues recognized		(339.7)	(352.7)
Currency translation		(5.4)	(56.7)
Balance at September 30	\$	1,143.3	\$ 805.5

The Company expects to recognize approximately \$85.5 of the remaining deferred revenue on extended warranties and R&M contracts in 2023, \$310.3 in 2024, \$315.8 in 2025, \$241.7 in 2026, \$119.3 in 2027 and \$70.7 thereafter.

NOTE G - Stockholders' Equity

Comprehensive Income

The components of comprehensive income are as follow:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Net income	\$ 1,228.5	\$ 769.4	\$ 3,183.5	\$ 2,090.3
Other comprehensive income (loss) (OCI):				
Unrealized gains (losses) on derivative contracts	38.6	24.3	(23.9)	61.4
Tax effect	(8.8)	(6.3)	5.1	(17.2)
	29.8	18.0	(18.8)	44.2
Unrealized gains (losses) on marketable debt securities	2.5	(22.7)	6.2	(67.2)
Tax effect	(.7)	5.5	(1.6)	16.6
	1.8	(17.2)	4.6	(50.6)
Pension plans	1.4	20.2	4.7	50.4
Tax effect	(.7)	(5.1)	(1.1)	(12.6)
	.7	15.1	3.6	37.8
Foreign currency translation (losses) gains	(192.1)	(297.3)	26.4	(503.4)
Net other comprehensive (loss) income	(159.8)	(281.4)	15.8	(472.0)
Comprehensive income	\$ 1,068.7	\$ 488.0	\$ 3,199.3	\$ 1,618.3

Accumulated Other Comprehensive Income (Loss)

The components of AOCI and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets and the Consolidated Statements of Stockholders' Equity consisted of the following:

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
<i>Three Months Ended September 30, 2023</i>					
Balance at July 1, 2023	\$ (13.5)	\$ (40.8)	\$ (108.0)	\$ (615.5)	\$ (777.8)
Recorded into AOCI	57.5	2.2	(.5)	(192.1)	(132.9)
Reclassified out of AOCI	(27.7)	(.4)	1.2		(26.9)
Net other comprehensive income (loss)	29.8	1.8	.7	(192.1)	(159.8)
Balance at September 30, 2023	\$ 16.3	\$ (39.0)	\$ (107.3)	\$ (807.6)	\$ (937.6)

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
<i>Three Months Ended September 30, 2022</i>					
Balance at July 1, 2022	\$ 12.7	\$ (34.5)	\$ (247.1)	\$ (842.8)	\$ (1,111.7)
Recorded into AOCI	56.2	(16.9)	9.5	(297.3)	(248.5)
Reclassified out of AOCI	(38.2)	(.3)	5.6		(32.9)
Net other comprehensive income (loss)	18.0	(17.2)	15.1	(297.3)	(281.4)
Balance at September 30, 2022	\$ 30.7	\$ (51.7)	\$ (232.0)	\$ (1,140.1)	\$ (1,393.1)

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
<i>Nine Months Ended September 30, 2023</i>					
Balance at January 1, 2023	\$ 35.1	\$ (43.6)	\$ (110.9)	\$ (834.0)	\$ (953.4)
Recorded into AOCI	(55.8)	6.7	.1	26.4	(22.6)
Reclassified out of AOCI	37.0	(2.1)	3.5		38.4
Net other comprehensive (loss) income	(18.8)	4.6	3.6	26.4	15.8
Balance at September 30, 2023	\$ 16.3	\$ (39.0)	\$ (107.3)	\$ (807.6)	\$ (937.6)

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

<i>Nine Months Ended September 30, 2022</i>	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATIO N	TOTAL
Balance at January 1, 2022	\$ (13.5)	\$ (1.1)	\$ (269.8)	\$ (636.7)	\$ (921.1)
Recorded into AOCI	90.7	(50.0)	20.9	(503.4)	(441.8)
Reclassified out of AOCI	(46.5)	(.6)	16.9		(30.2)
Net other comprehensive income (loss)	44.2	(50.6)	37.8	(503.4)	(472.0)
Balance at September 30, 2022	<u>\$ 30.7</u>	<u>\$ (51.7)</u>	<u>\$ (232.0)</u>	<u>\$ (1,140.1)</u>	<u>\$ (1,393.1)</u>

Reclassifications out of AOCI were as follows:

		Three Months Ended	
	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	September 30 2023	2022
AOCI COMPONENTS			
Unrealized losses (gains) on derivative contracts:			
Truck, Parts and Other			
Foreign-exchange contracts	Net sales and revenues	\$ 13.2	\$ 2.0
	Cost of sales and revenues	(9.6)	(6.2)
	Interest and other (income) expense, net	(.9)	3.9
Commodity contracts	Cost of sales and revenues	4.2	7.0
Financial Services			
Foreign-exchange contracts	Interest and other borrowing expenses	(1.6)	(3.0)
Interest-rate contracts	Interest and other borrowing expenses	(42.1)	(56.2)
	Pre-tax expense reduction	(36.8)	(52.5)
	Tax expense	9.1	14.3
	After-tax expense increase	(27.7)	(38.2)
Unrealized gains on marketable debt securities:			
Marketable debt securities	Investment income	(.5)	(.4)
	Tax expense	.1	.1
	After-tax income increase	(.4)	(.3)
Pension plans:			
Truck, Parts and Other			
Actuarial loss	Interest and other (income) expense, net	1.2	7.1
Prior service costs	Interest and other (income) expense, net	.3	.2
	Pre-tax expense increase	1.5	7.3
	Tax benefit	(.3)	(1.7)
	After-tax expense increase	1.2	5.6
Total reclassifications out of AOCI		\$ (26.9)	\$ (32.9)

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Nine Months Ended	
		September 30 2023	2022
AOCI COMPONENTS			
Unrealized losses (gains) on derivative contracts:			
<i>Truck, Parts and Other</i>			
Foreign-exchange contracts	Net sales and revenues	\$ 25.2	\$ 17.1
	Cost of sales and revenues	1.8	(3.5)
	Interest and other (income) expense, net	(.9)	8.8
Commodity contracts	Cost of sales and revenues	1.8	17.4
<i>Financial Services</i>			
Foreign-exchange contracts	Interest and other borrowing expenses	(3.6)	(7.6)
Interest-rate contracts	Interest and other borrowing expenses	17.9	(99.3)
	Pre-tax expense increase (reduction)	42.2	(67.1)
	Tax (benefit) expense	(5.2)	20.6
	After-tax expense increase (reduction)	37.0	(46.5)
Unrealized gains on marketable debt securities:			
Marketable debt securities	Investment income	(2.8)	(.8)
	Tax expense	.7	.2
	After-tax income increase	(2.1)	(.6)
Pension plans:			
<i>Truck, Parts and Other</i>			
Actuarial loss	Interest and other (income) expense, net	3.6	21.7
Prior service costs	Interest and other (income) expense, net	1.0	.5
	Pre-tax expense increase	4.6	22.2
	Tax benefit	(1.1)	(5.3)
	After-tax expense increase	3.5	16.9
Total reclassifications out of AOCI		\$ 38.4	\$ (30.2)

Stock Compensation Plans

Stock-based compensation expense was \$2.5 and \$18.4 for the three months and nine months ended September 30, 2023, respectively, and \$2.6 and \$15.1 for the three and nine months ended September 30, 2022, respectively.

During the first nine months of 2023, the Company issued 1,132,535 common shares under deferred and stock compensation arrangements.

Other Capital Stock Changes

During the first nine months of 2023, the Company acquired no treasury shares under the Company's common stock repurchase plans. The Company acquired 44,955 shares under the Company's Long-Term Incentive Plan. Stock repurchases of \$390.0 million remain authorized under the current \$500.0 million program approved by the PACCAR Board of Directors on December 4, 2018.

NOTE H - Income Taxes

The effective tax rate for the third quarter of 2023 was 22.7% compared to 21.5% for the third quarter of 2022. The higher effective tax rate in the third quarter of 2023 was primarily due to a higher mix of pre-tax income in jurisdictions with higher tax rates. The effective tax rate for the first nine months of 2023 was 21.9% and is comparable to 21.8% for the first nine months of 2022.

NOTE I - Segment Information

PACCAR operates in three principal segments: Truck, Parts and Financial Services. The Company evaluates the performance of its Truck and Parts segments based on operating profits, which excludes investment income, other income and expense and income taxes. The Financial Services segment's performance is evaluated based on income before income taxes. The accounting policies of the reportable segments are the same as those applied in the consolidated financial statements as described in Note A of the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Truck and Parts

The Truck segment includes the design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks and the Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles, both of which are sold through the same network of independent dealers. These segments derive a large proportion of their revenues and operating profits from operations in North America and Europe. The Truck segment incurs substantial costs to design, manufacture and sell trucks to its customers. The sale of new trucks provides the Parts segment with the basis for parts sales that may continue over the life of the truck, but are generally concentrated in the first five years after truck delivery. To reflect the benefit the Parts segment receives from costs incurred by the Truck segment, certain expenses are allocated from the Truck segment to the Parts segment. The expenses allocated are based on a percentage of the average annual expenses for factory overhead, engineering, research and development and SG&A expenses for the preceding five years. The allocation is based on the ratio of the average parts direct margin dollars (net sales less material and labor costs) to the total truck and parts direct margin dollars for the previous five years. The Company believes such expenses have been allocated on a reasonable basis. Truck segment assets related to the indirect expense allocation are not allocated to the Parts segment.

Financial Services

The Financial Services segment derives its earnings primarily from financing or leasing of PACCAR products and services provided to truck customers and dealers. Revenues are primarily generated from operations in North America and Europe.

In Europe, the marketing of used trucks, including those units sold by the Truck segment subject to an RVG, is performed by the Financial Services segment. When a customer returns the truck at the end of the RVG contract, the Company's Truck segment records a reduction in an RVG liability and the Company's Financial Services segment records a used truck asset and revenue from the subsequent sale. Certain gains and losses from the sale of these used trucks are shared with the Truck segment.

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

Other

Included in Other is the Company's industrial winch manufacturing business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expense.

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Net sales and revenues:				
	6,772.		20,274	15,724.
Truck	\$ 8	\$ 5,389.8	\$.5	\$ 8
Less intersegment	(136.4)	(191.6)	(396.8)	(493.1)
	6,636.		19,877	15,231.
External customers	4	5,198.2	.7	7
	1,599.		4,858.	
Parts	4	1,487.3	9	4,343.2
Less intersegment	(17.2)	(15.8)	(54.8)	(48.1)
	1,582.		4,804.	
External customers	2	1,471.5	1	4,295.1
Other	13.7	17.3	41.9	52.8
	8,232.		24,723	19,579.
	3	6,687.0	.7	6
			1,327.	
Financial Services	464.1	371.9	1	1,110.6
	8,696.		26,050	20,690.
	\$ 4	\$ 7,058.9	\$.8	\$ 2
Income before income taxes:				
			2,803.	
Truck	\$ 960.9	\$ 430.5	\$ 5	\$ 1,129.3
			1,270.	
Parts	412.3	373.6	2	1,067.1
Other*	1.6	8.0	(616.6)	14.9
	1,374.		3,457.	
	8	812.1	1	2,211.3
Financial Services	133.8	146.2	427.3	437.6
Investment income	80.8	21.4	192.5	24.3
	1,589.		4,076.	
	\$ 4	\$ 979.7	\$ 9	\$ 2,673.2
Depreciation and amortization:				
Truck	\$ 102.1	\$ 86.3	\$ 301.1	\$ 235.6
Parts	3.6	3.5	10.9	10.0
Other	6.4	6.0	18.7	17.9
	112.1	95.8	330.7	263.5
Financial Services	121.8	107.2	347.7	322.1
	\$ 233.9	\$ 203.0	\$ 678.4	\$ 585.6

* In the first nine months of 2023, Other includes a \$600.0 million non-recurring charge related to civil litigation in Europe (EC-related claims) which is discussed in Note M.

NOTE J - Derivative Financial Instruments

As part of its risk management strategy, the Company enters into derivative contracts to hedge against the risks of interest rates, foreign currency rates and commodity prices. Certain derivative instruments designated as fair value hedges, cash flow hedges or net investment hedges are subject to hedge accounting. Derivative instruments that are not subject to hedge accounting are held as derivatives not designated as hedged instruments. The Company's policies prohibit the use of derivatives for speculation or trading. At the inception of each hedge relationship, the Company documents its risk management objectives, procedures and accounting treatment. All of the Company's interest-rate, commodity as well as certain foreign-exchange contracts are transacted under International Swaps and Derivatives Association (ISDA) master agreements. Each agreement permits the net settlement of amounts owed in the event of default and certain other termination events. For derivative financial instruments, the Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreements and is not required to post or receive collateral.

Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company's maximum exposure to potential default of its derivative counterparties is limited to the asset position of its derivative portfolio. The asset position of the Company's derivative portfolio was \$85.2 at September 30, 2023.

The Company assesses hedges at inception and on an ongoing basis to determine the designated derivatives are highly effective in offsetting changes in fair values or cash flow of the hedged items. Hedge accounting is discontinued prospectively when the Company determines a derivative financial instrument has ceased to be a highly effective hedge. Cash flows from derivative instruments are included in Operating activities in the Condensed Consolidated Statements of Cash Flows.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. The Company is exposed to interest-rate and exchange-rate risk caused by market volatility as a result of its borrowing activities. The objective of these contracts is to mitigate the fluctuations on earnings, cash flows and fair value of borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

At September 30, 2023, the notional amount of the Company's interest-rate contracts was \$2,530.7. Notional maturities for all interest-rate contracts are \$6.2 for the remainder of 2023, \$550.9 for 2024, \$990.9 for 2025, \$548.4 for 2026, \$263.5 for 2027, \$170.8 for 2028 and thereafter.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. The Company enters into foreign-exchange contracts as net investment hedges to reduce the foreign currency exposure from its investments in foreign subsidiaries. At September 30, 2023, the notional amount of the outstanding foreign-exchange contracts was \$2,164.2. Foreign-exchange contracts typically mature within one year.

Commodity Contracts: The Company enters into commodity forward contracts to hedge the prices of certain commodities used in the production of trucks. The objective is to reduce the fluctuation in earnings and cash flows associated with adverse movement in commodity prices. At September 30, 2023, the notional amount of the outstanding commodity contracts was \$20.0. Commodity contracts mature within one year.

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

The following table presents the balance sheet classification, fair value, gross and pro forma net amounts of derivative financial instruments:

	September 30, 2023		December 31, 2022	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
<i>Interest-rate contracts:</i>				
Financial Services:				
Other assets	\$ 43.3		\$ 58.0	
Deferred taxes and other liabilities		\$ 81.5		\$ 82.6
<i>Foreign-exchange contracts:</i>				
Truck, Parts and Other:				
Other current assets	39.1		57.3	
Accounts payable, accrued expenses and other		10.2		9.5
Financial Services:				
Other current assets	1.6		1.6	
Deferred taxes and other liabilities		4.3		5.1
<i>Commodity contracts:</i>				
Truck, Parts and Other:				
Other current assets	.1		1.5	
Accounts payable, accrued expenses and other		2.0		.6
	<u>\$ 84.1</u>	<u>\$ 98.0</u>	<u>\$ 118.4</u>	<u>\$ 97.8</u>
Derivatives not designated as hedging instruments:				
<i>Foreign-exchange contracts:</i>				
Truck, Parts and Other:				
Other current assets	\$.9		\$ 1.0	
Accounts payable, accrued expenses and other		\$.9		\$.1
Financial Services:				
Other assets	.2			
Deferred taxes and other liabilities		.2		.1
<i>Commodity contracts:</i>				
Truck, Parts and Other:				
Accounts payable, accrued expenses and other				.2
	<u>\$ 1.1</u>	<u>\$ 1.1</u>	<u>\$ 1.0</u>	<u>\$.4</u>
Gross amounts recognized in Balance Sheets	<u>\$ 85.2</u>	<u>\$ 99.1</u>	<u>\$ 119.4</u>	<u>\$ 98.2</u>
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	\$ (2.5)	\$ (2.5)	\$ (.1)	\$ (.1)
Commodity contracts	(.1)	(.1)	(.5)	(.5)
Financial Services:				
Foreign-exchange contracts	(.7)	(.7)	(1.8)	(1.8)
Interest-rate contracts	(20.7)	(20.7)	(21.5)	(21.5)
Pro forma net amount	<u>\$ 61.2</u>	<u>\$ 75.1</u>	<u>\$ 95.5</u>	<u>\$ 74.3</u>

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

The following table presents the amount of loss (gain) from derivative financial instruments recorded in the Consolidated Statements of Comprehensive Income:

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	INTEREST- RATE	FOREIGN- EXCHANGE	INTEREST- RATE	FOREIGN- EXCHANGE
Truck, Parts and Other:				
Net sales and revenues				
Cash flow hedges		\$ 13.2		\$ 25.2
Cost of sales and revenues				
Cash flow hedges		(9.6)		1.8
Derivatives not designated as hedging instruments		.3		(3.7)
Interest and other (income) expenses, net				
Cash flow hedges		3.3		9.5
Net investment hedges		(2.0)		(6.7)
Derivatives not designated as hedging instruments		(.4)		4.5
		\$ 4.8		\$ 30.6
Financial Services:				
Interest and other borrowing expenses				
Cash flow hedges	\$ (42.1)	\$ (.8)	\$ 17.9	\$ (.3)
Fair value hedges	2.7		7.0	
Derivatives not designated as hedging instruments		.7		.6
	\$ (39.4)	\$ (.1)	\$ 24.9	\$.3
Total	\$ (39.4)	\$ 4.7	\$ 24.9	\$ 30.9

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	INTEREST- RATE	FOREIGN- EXCHANGE	INTEREST- RATE	FOREIGN- EXCHANGE
Truck, Parts and Other:				
Net sales and revenues				
Cash flow hedges		\$ 2.0		\$ 17.1
Cost of sales and revenues				
Cash flow hedges		(6.2)		(3.5)
Derivatives not designated as hedging instruments		.4		.3
Interest and other (income) expenses, net				
Cash flow hedges		3.9		8.8
Net investment hedges		(1.4)		(4.2)
Derivatives not designated as hedging instruments		(5.8)		(4.5)
		\$ (7.1)		\$ 14.0
Financial Services:				
Interest and other borrowing expenses				
Cash flow hedges	\$ (56.2)	\$ (3.0)	\$ (99.3)	\$ (7.6)
Fair value hedges	(.2)		(.1)	
Derivatives not designated as hedging instruments		2.9		3.1
	\$ (56.4)	\$ (.1)	\$ (99.4)	\$ (4.5)
Total	\$ (56.4)	\$ (7.2)	\$ (99.4)	\$ 9.5

The loss from commodity contracts recorded in Cost of sales and revenue was \$4.2 and \$1.8 for the three and nine months ended September 30, 2023, respectively and \$7.0 and \$17.4 for the three and nine months ended September 30, 2022, respectively.

Fair Value Hedges

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. The following table presents the amounts recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

	September 30 2023	December 31 2022
Financial Services		
Term notes:		
Carrying amount of the hedged liabilities	\$ 123.1	\$ 319.8
Cumulative basis adjustment included in the carrying amount	9.8	27.7

The above table excludes the cumulative basis adjustments on discontinued hedge relationships of \$14.9 and \$7.1 as of September 30, 2023 and December 31, 2022, respectively.

Cash Flow Hedges

Substantially all of the Company's interest-rate contracts, some foreign-exchange contracts and all commodity contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI. Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. The Company elected to exclude the forward premium component (excluded component) on some foreign-exchange cash flow hedges and amortize the excluded component over the life of the derivative instruments. The amortization of the excluded component is recognized in Interest and other (income), net in Truck, Parts and Other segment and Interest and other borrowing expenses in Financial Services segment in the Consolidated Statements of Comprehensive Income. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 9.2 years.

The following tables presents the pre-tax effects of gain (loss) on cash flow hedges recognized in other comprehensive income (loss) (OCI):

	Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023		
	INTEREST- RATE	FOREIGN- EXCHANGE	COMMODITY	INTEREST- RATE	FOREIGN- EXCHANGE	COMMODITY
Gain (loss) recognized in OCI:						
Truck, Parts and Other		\$ 33.7	\$ (4.8)		\$ (33.5)	\$ (2.9)
Financial Services	\$ 44.9	1.6		\$ (33.0)	3.2	
	<u>\$ 44.9</u>	<u>\$ 35.3</u>	<u>\$ (4.8)</u>	<u>\$ (33.0)</u>	<u>\$ (30.3)</u>	<u>\$ (2.9)</u>

	Three Months Ended September 30, 2022			Nine Months Ended September 30, 2022		
	INTEREST- RATE	FOREIGN- EXCHANGE	COMMODITY	INTEREST- RATE	FOREIGN- EXCHANGE	COMMODITY
Gain (loss) recognized in OCI:						
Truck, Parts and Other		\$ 35.4	\$ (7.9)		\$ 35.5	\$ (15.7)
Financial Services	\$ 49.4	(.1)		\$ 109.1	(.4)	
	<u>\$ 49.4</u>	<u>\$ 35.3</u>	<u>\$ (7.9)</u>	<u>\$ 109.1</u>	<u>\$ 35.1</u>	<u>\$ (15.7)</u>

The amount of gain recorded in AOCI at September 30, 2023 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately \$9.5, net of taxes. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's risk management strategy.

The amount of gains reclassified out of AOCI into net income based on the probability that the original forecasted transactions would not occur was nil and \$.2 for the three months and nine months ended September 30, 2023, respectively and nil and \$.1 for the same periods ended September 30, 2022.

Net Investment Hedges

Changes in the fair value of derivatives designated as net investment hedges are recorded in AOCI as an adjustment to the Cumulative Translation Adjustment (CTA). At September 30, 2023, the notional amount of the outstanding net investment hedges was \$443.6. For the three and nine months ended September 30, 2023, the pre-tax gain recognized in OCI for the net investment hedges were \$13.9 and \$10.5, respectively and \$22.8 and \$58.8 for the same periods ending September 30, 2022.

Derivatives Not Designated As Hedging Instruments

For other risk management purposes, the Company enters into derivative instruments that do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of market volatility arising from borrowings and foreign currency denominated transactions. Changes in the fair value of derivatives not designated as hedging instruments are recorded in earnings in the period in which the change occurs.

NOTE K - Fair Value Measurements

Fair value represents 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. Inputs to valuation techniques used to measure fair value are either observable or unobservable. These inputs have been categorized into the fair value hierarchy described below.

Level 1 – Valuations are based on quoted prices that the Company has the ability to obtain in actively traded markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market or exchange traded market, valuation of these instruments does not require a significant degree of judgment.

Level 2 – Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuations are based on model-based techniques for which some or all of the assumptions are obtained from indirect market information that is significant to the overall fair value measurement and which require a significant degree of management judgment.

The Company uses the following methods and assumptions to measure fair value for assets and liabilities subject to recurring fair value measurements.

Marketable Debt Securities: The Company's marketable debt securities consist of municipal bonds, government obligations, investment-grade corporate obligations, commercial paper, asset-backed securities and term deposits. The fair value of U.S. government obligations is determined using the market approach and is based on quoted prices in active markets and are categorized as Level 1.

The fair value of U.S. government agency obligations, non-U.S. government bonds, municipal bonds, corporate bonds, asset-backed securities, commercial paper and term deposits is determined using the market approach and is primarily based on matrix pricing as a practical expedient which does not rely exclusively on quoted prices for a specific security. Significant inputs used to determine fair value include interest rates, yield curves, credit rating of the security and other observable market information and are categorized as Level 2.

Marketable Equity Securities: The Company's equity securities are traded on active exchanges and are classified as Level 1.

Derivative Financial Instruments: The Company's derivative contracts consist of interest-rate swaps, cross currency swaps, foreign currency exchange and commodity contracts. These derivative contracts are traded over the counter, and their fair value is determined using industry standard valuation models, which are based on the income approach (i.e., discounted cash flows). The significant observable inputs into the valuation models include interest rates, yield curves, currency exchange rates, credit default swap spreads, forward rates and commodity prices and are categorized as Level 2.

Assets and Liabilities Subject to Recurring Fair Value Measurement

The Company's assets and liabilities subject to recurring fair value measurements are either Level 1 or Level 2 as follows:

<i>At September 30, 2023</i>	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities	\$	284.9	\$ 284.9
U.S. taxable municipal / non-U.S. provincial bonds		240.3	240.3
U.S. corporate securities		344.2	344.2
U.S. government and agency securities	\$ 147.2		147.2
Non-U.S. corporate securities		496.1	496.1
Non-U.S. government securities		132.2	132.2
Other debt securities		95.8	95.8
Total marketable debt securities	\$ 147.2	\$ 1,593.5	\$ 1,740.7
Marketable equity securities	\$ 2.4		\$ 2.4
Total marketable securities	<u>\$ 149.6</u>	<u>\$ 1,593.5</u>	<u>\$ 1,743.1</u>
Derivatives			
Cross currency swaps		\$ 29.2	\$ 29.2
Interest-rate swaps		14.1	14.1
Foreign-exchange contracts		41.8	41.8
Commodity contracts		.1	.1
Total derivative assets		<u>\$ 85.2</u>	<u>\$ 85.2</u>
Liabilities:			
Derivatives			
Cross currency swaps	\$	71.3	\$ 71.3
Interest-rate swaps		10.2	10.2
Foreign-exchange contracts		15.6	15.6
Commodity contracts		2.0	2.0
Total derivative liabilities		<u>\$ 99.1</u>	<u>\$ 99.1</u>

**Notes to Consolidated Financial Statements
(Unaudited)**

(Millions, Except Share Amounts)

<u>At December 31, 2022</u>	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities	\$	445.1	\$ 445.1
U.S. taxable municipal / non-U.S. provincial bonds		180.8	180.8
U.S. corporate securities		251.0	251.0
U.S. government and agency securities	\$ 115.0		115.0
Non-U.S. corporate securities		450.0	450.0
Non-U.S. government securities		76.4	76.4
Other debt securities		94.7	94.7
Total marketable debt securities	\$ 115.0	\$ 1,498.0	\$ 1,613.0
Marketable equity securities	\$ 1.2		\$ 1.2
Total marketable securities	\$ 116.2	\$ 1,498.0	\$ 1,614.2
Derivatives			
Cross currency swaps	\$	49.1	\$ 49.1
Interest-rate swaps		8.9	8.9
Foreign-exchange contracts		59.9	59.9
Commodity contracts		1.5	1.5
Total derivative assets		\$ 119.4	\$ 119.4
Liabilities:			
Derivatives			
Cross currency swaps	\$	52.0	\$ 52.0
Interest-rate swaps		30.6	30.6
Foreign-exchange contracts		14.8	14.8
Commodity contracts		.8	.8
Total derivative liabilities		\$ 98.2	\$ 98.2

Fair Value Disclosure of Other Financial Instruments

For financial instruments that are not recognized at fair value, the Company uses the following methods and assumptions to determine the fair value. These instruments are categorized as Level 2, except cash which is categorized as Level 1 and fixed rate loans which are categorized as Level 3.

Cash and Cash Equivalents: Carrying amounts approximate fair value.

Financial Services Net Receivables: For floating rate loans, wholesale financing and operating lease and other trade receivables, carrying values approximate fair values. For fixed rate loans, fair values are estimated using the income approach by discounting cash flows to their present value based on assumptions regarding the credit and market risks to approximate current rates for comparable loans. Finance lease receivables and related allowance for credit losses have been excluded from the accompanying table.

Debt: The carrying amounts of Financial Services commercial paper, variable rate bank loans and variable rate term notes approximate fair value. For fixed rate debt, fair values are estimated using the income approach by discounting cash flows to their present value based on current rates for comparable debt.

The Company's estimate of fair value for fixed rate loans and debt that are not carried at fair value was as follows:

	September 30, 2023		December 31, 2022	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed rate loans	\$ 7,764.7	\$ 7,580.8	\$ 6,859.1	\$ 6,582.0
Liabilities:				
Financial Services fixed rate debt	8,067.5	7,833.6	8,070.5	7,715.9

NOTE L - Employee Benefit Plans

The Company has several defined benefit pension plans, which cover a majority of its employees. The following information details the components of net pension (income) expense for the Company's defined benefit plans:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Service cost	\$ 23.5	\$ 37.7	\$ 70.4	\$ 113.5
Interest on projected benefit obligation	32.0	21.0	95.7	63.9
Expected return on assets	(57.8)	(53.2)	(172.9)	(162.0)
Amortization of prior service costs	.3	.2	1.0	.5
Recognized actuarial loss	1.3	7.1	3.7	21.7
Net pension (income) expense	<u>\$ (.7)</u>	<u>\$ 12.8</u>	<u>\$ (2.1)</u>	<u>\$ 37.6</u>

The components of net pension expense other than service cost are included in Interest and other (income) expense, net on the Consolidated Statements of Comprehensive Income.

During the three months and nine months ended September 30, 2023, the Company contributed \$5.6 and \$17.1 to its pension plans, respectively, and \$21.1 and \$34.3 for the three months and nine months ended September 30, 2022, respectively.

NOTE M - Commitments and Contingencies

On July 19, 2016, the European Commission (EC) concluded its investigation of all major European truck manufacturers and reached a settlement with DAF Trucks N.V., DAF Trucks Deutschland GmbH and PACCAR Inc (collectively "the Company"). Following the settlement, certain EC-related claims and lawsuits have been filed in various jurisdictions primarily in Europe against all major European truck manufacturers including the Company and certain subsidiaries. These claims and lawsuits include a number of collective proceedings, including a class action in the United Kingdom and Israel, alleging EC-related claims and seeking monetary damages. In certain jurisdictions, additional claimants may bring EC-related claims and lawsuits against the Company or its subsidiaries.

The legal proceedings are moving through the court systems. In 2023, several European courts issued judgments; some have been favorable while others have been unfavorable and are being appealed. The Company believes it has meritorious defenses to the legal claims. In early 2023, the Company began settling with selected claimants. Based on these settlements and judgments, the Company recorded in the first quarter 2023, a non-recurring pre-tax charge of \$600.0 million (\$446.4 million after-tax) for the estimable total cost. The estimate may be adjusted as the legal process continues, which could have a material impact on the Company's financial results.

PACCAR is also a defendant in various other legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these various other proceedings and contingent liabilities will have a material effect on the consolidated financial statements.

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

OVERVIEW:

PACCAR is a global technology company whose Truck segment includes the design and manufacture of high-quality light-, medium- and heavy-duty commercial trucks. In North America, trucks are sold under the Kenworth and Peterbilt nameplates, in Europe, under the DAF nameplate and in Australia and South America, under the Kenworth and DAF nameplates. The Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles. The Company's Financial Services segment derives its earnings primarily from financing or leasing PACCAR products in North America, Europe, Australia and South America. The Company's Other business includes the manufacturing and marketing of industrial winches.

Third Quarter Financial Highlights:

- Worldwide net sales and revenues were \$8.70 billion in 2023 compared to \$7.06 billion in 2022, primarily due to higher truck and parts revenues.
- Truck revenues were \$6.64 billion in 2023 compared to \$5.20 billion in 2022, reflecting higher truck deliveries and price realization in all markets.
- Parts sales were \$1.58 billion in 2023 compared to \$1.47 billion in 2022, primarily reflecting higher price realization in the U.S. and Europe.
- Financial Services revenues were \$464.1 million in 2023 compared to \$371.9 million in 2022, primarily due to portfolio growth and higher portfolio yields.
- Net income was \$1.23 billion (\$2.34 per diluted share) in 2023 compared to \$769.4 million (\$1.47 per diluted share) in 2022 due to higher Truck and Parts operating results.
- Capital investments were \$174.5 million in 2023 compared to \$115.0 million in 2022.
- Research and development (R&D) expenses were \$103.5 million in 2023 compared to \$82.9 million in 2022.

First Nine Months Financial Highlights:

- Worldwide net sales and revenues were \$26.05 billion in 2023 compared to \$20.69 billion in 2022, primarily due to higher truck and parts revenues.
- Truck revenues were \$19.88 billion in 2023 compared to \$15.23 billion in 2022, primarily due to higher truck deliveries and price realization in all markets.
- Parts sales were \$4.80 billion in 2023 compared to \$4.30 billion in 2022 reflecting higher price realization in all markets.
- Financial Services revenues were \$1.33 billion in 2023 compared to \$1.11 billion in 2022, primarily due to portfolio growth and higher portfolio yields.
- Net income was \$3.18 billion (\$6.07 per diluted share) in 2023 compared to \$2.09 billion (\$3.99 per diluted share) in 2022 due to higher Truck and Parts operating results.
- Adjusted net income (non-GAAP), excluding a \$446.4 million after-tax non-recurring charge related to civil litigation in Europe in the first quarter of this year, was \$3.63 billion (\$6.92 per diluted share). See Reconciliation of GAAP to Non-GAAP Financial Measures on page 48.
- Capital investments were \$486.5 million in 2023 compared to \$349.5 million in 2022.
- Research and development (R&D) expenses were \$302.0 million in 2023 compared to \$241.3 million in 2022.

PACCAR has begun construction of a new 240,000 square-foot PACCAR Parts Distribution Center (PDC) to be opened in Massbach, Germany, in 2024. This PDC will improve parts delivery to dealers and customers in the region.

PACCAR, Cummins, Daimler Trucks and EVE Energy are partnering to create state of the art commercial vehicle battery cell production in the United States. The joint venture partners expect growing demand for zero emissions vehicles throughout the decade. The planned battery cell factory will provide cost effective scale and industry leading battery cell technology, which will benefit our commercial vehicle customers. The total investment is expected to be in the range of \$2-3 billion, subject to regulatory approval, for

the 21-gigawatt hour (GWh) factory, of which PACCAR's share is 30%. PACCAR, Cummins and Daimler Truck will each own 30% of the joint venture, which will initially focus on the lithium-iron-phosphate (LFP) battery technology for commercial battery-electric trucks. EVE Energy will serve as the technology partner in the joint venture with 10% ownership and will contribute its industry leading battery cell design and manufacturing expertise.

The PACCAR Financial Services (PFS) group of companies has operations covering four continents and 26 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of loans and leases with total assets of \$19.56 billion. PFS issued \$2.14 billion in medium-term notes during the first nine months of 2023 to support new business volume and repay maturing debt.

Truck Outlook

Truck industry heavy-duty retail sales in the U.S. and Canada in 2023 are expected to be 295,000 to 315,000 units compared to 283,500 in 2022. Estimates for the U.S. and Canada truck industry retail sales in 2024 are in the range of 260,000 to 300,000 units. In Europe, 2023 truck industry registrations for over 16-tonne vehicles are expected to be 310,000 to 330,000 units compared to 297,500 in 2022. The European truck industry registrations in the above 16-tonne truck market for 2024 are projected to be in a range of 260,000 to 300,000. In South America, heavy-duty truck industry registrations in 2023 are projected to be 105,000 to 115,000 as compared to 137,100 in 2022, and in a similar range in 2024.

The Company has been affected by an industry-wide undersupply of component parts and anticipates the shortages may continue to affect deliveries in 2023.

Parts Outlook

In 2023, PACCAR Parts sales are expected to increase 10-13% compared to 2022 levels reflecting good retail demand. In 2024, PACCAR Parts sales could increase 4-8% from 2023 levels, depending on economic conditions.

Financial Services Outlook

In 2023, average earning assets are expected to increase 8-10% compared to 2022 due to strong new business volume and dealer wholesale financing. If current freight transportation conditions decline due to weaker economic conditions, then past due accounts, truck repossessions and credit losses would likely increase from the current low levels and new business volume would likely decline. In 2024, average earning assets are expected to increase 3-5% compared to 2023.

Capital Investments and R&D Outlook

Capital investments in 2023 are expected to be \$650 to \$675 million and R&D is expected to be \$410 to \$420 million. In 2024, capital investments are projected to be \$675 to \$725 million and R&D is expected to be \$470 to \$520 million. The Company is increasing its investment in fuel efficient diesel and electric powertrain technologies, autonomous systems, connected vehicle services, and next-generation manufacturing and parts and distribution capabilities.

See the Forward-Looking Statements section of Management's Discussion and Analysis for factors that may affect these outlooks.

RESULTS OF OPERATIONS:

The Company's results of operations for the three and nine months ended September 30, 2023 and 2022 are presented below.

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
<i>(\$ in millions, except per share amounts)</i>				
Net sales and revenues:				
Truck	\$ 6,636.4	\$ 5,198.2	\$19,877.7	\$ 15,231.7
Parts	1,582.2	1,471.5	4,804.1	4,295.1
Other	13.7	17.3	41.9	52.8
Truck, Parts and Other	8,232.3	6,687.0	24,723.7	19,579.6
Financial Services	464.1	371.9	1,327.1	1,110.6
	<u>\$ 8,696.4</u>	<u>\$ 7,058.9</u>	<u>\$26,050.8</u>	<u>\$ 20,690.2</u>
Income before income taxes:				
Truck	\$ 960.9	\$ 430.5	\$ 2,803.5	\$ 1,129.3
Parts	412.3	373.6	1,270.2	1,067.1
Other*	1.6	8.0	(616.6)	14.9
Truck, Parts and Other	1,374.8	812.1	3,457.1	2,211.3
Financial Services	133.8	146.2	427.3	437.6
Investment income	80.8	21.4	192.5	24.3
Income taxes	(360.9)	(210.3)	(893.4)	(582.9)
Net income	\$ 1,228.5	\$ 769.4	\$ 3,183.5	\$ 2,090.3
Diluted earnings per share	<u>\$ 2.34</u>	<u>\$ 1.47</u>	<u>\$ 6.07</u>	<u>\$ 3.99</u>
After-tax return on revenues	14.1%	10.9%	12.2%	10.1%
After-tax adjusted return on revenues (non-GAAP)**			13.9%	

* In 2023, Other includes a \$600.0 million non-recurring charge related to civil litigation in Europe (EC-related claims) in the first quarter 2023.

** See Reconciliation of GAAP to Non-GAAP Financial Measures for 2023 on page 48.

The following provides an analysis of the results of operations for the Company's three reportable segments - Truck, Parts and Financial Services. Where possible, the Company has quantified the impact of factors identified in the following discussion and analysis. In cases where it is not possible to quantify the impact of factors, the Company lists them in estimated order of importance. Factors for which the Company is unable to specifically quantify the impact include market demand, fuel prices, freight tonnage and economic conditions affecting the Company's results of operations.

2023 Compared to 2022:

Truck

The Company's Truck segment accounted for 76% of revenues in the third quarter and first nine months of 2023, respectively, compared to 74% in the third quarter and first nine months of 2022.

The Company's new truck deliveries are summarized below:

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% CHANGE	2023	2022	% CHANGE
U.S. and Canada	27,500	24,400	13	81,000	69,500	17
Europe	14,500	13,300	9	48,300	44,800	8
Mexico, South America, Australia and other	8,100	6,700	21	23,800	20,000	19
Total units	<u>50,100</u>	<u>44,400</u>	<u>13</u>	<u>153,100</u>	<u>134,300</u>	<u>14</u>

The increase in new truck deliveries worldwide in the third quarter and first nine months of 2023 compared to the same period of 2022 was driven by higher build rates and increased demand in all major markets. The industry-wide undersupply of component parts continues to impact deliveries.

Market share data discussed below is provided by third-party sources and is measured by either retail sales or registrations for the Company's dealer network as a percentage of total registrations or retail sales depending on the geographic market. In the U.S. and Canada, market share is based on retail sales. In Europe, market share is based primarily on registrations.

In the first nine months of 2023, industry retail sales in the heavy-duty market in the U.S. and Canada were 225,200 units compared to 201,000 units in the same period of 2022. The Company's heavy-duty truck retail market share was 28.4% in the first nine months of 2023 compared to 29.4% in the first nine months of 2022. The medium-duty market was 78,400 units in the first nine months of 2023 compared to 64,200 units in the same period of 2022. The Company's medium-duty market share was 13.5% in the first nine months of 2023 compared to 10.0% in the first nine months of 2022.

The over 16-tonne truck market in Europe in the first nine months of 2023 was 263,100 units compared to 217,400 units in the first nine months of 2022. DAF over 16-tonne market share was a 15.9% in the first nine months of 2023 compared to 17.4% in the same period of 2022. The 6 to 16-tonne market in the first nine months of 2023 was 35,800 units compared to 28,700 units in the same period of 2022. DAF market share in the 6 to 16-tonne market in the first nine months of 2023 was 9.0% compared to 10.1% in the same period of 2022.

The Company's worldwide truck net sales and revenues are summarized below:

(\$ in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% CHANGE	2023	2022	% CHANGE
Truck net sales and revenues:						
	4,006.			11,715		
U.S. and Canada	\$ 8	\$3,200.8	25	\$.0	\$8,948.4	31
	1,558.			5,155.		
Europe	8	1,239.0	26	7	4,080.0	26
Mexico, South America, Australia and other	1,070.			3,007.		
	8	758.4	41	0	2,203.3	36
	6,636.			19,877		
	\$ 4	\$5,198.2	28	\$.7	\$ 7	31
				2,803.		
Truck income before income taxes	\$ 960.9	\$ 430.5	123	\$ 5	\$1,129.3	148
Pre-tax return on revenues	14.5%	8.3%		14.1%	7.4%	

The Company's worldwide truck net sales and revenues in the third quarter increased to \$6.64 billion in 2023 from \$5.20 billion in 2022 primarily due to higher truck unit deliveries, improved price realization in all markets and favorable currency translation effects, primarily the euro. Revenues for the first nine months increased to \$19.88 billion in 2023 from \$15.23 billion in 2022 primarily due to higher truck unit deliveries and improved price realization in all markets.

In the third quarter and first nine months of 2023, Truck segment income before taxes and pretax return on revenues increased to reflect the impact of higher truck unit deliveries and improved margins.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between the three months ended September 30, 2023 and 2022 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Three Months Ended September 30, 2022	\$ 5,198.2	\$ 4,646.2	\$ 552.0
Increase (decrease)			
Truck sales volume	740.2	554.8	185.4
Average truck sales prices	585.9		585.9
Average per truck material, labor and other direct costs		140.5	(140.5)
Factory overhead and other indirect costs		61.5	(61.5)
Extended warranties, operating leases and other	5.9	19.7	(13.8)
Currency translation	106.2	98.8	7.4
Total increase	1,438.2	875.3	562.9
Three Months Ended September 30, 2023	\$ 6,636.4	\$ 5,521.5	\$ 1,114.9

•Truck sales volume reflects higher truck deliveries in all major markets.

•Average truck sales prices increased sales by \$585.9 million, primarily due to higher price realization worldwide reflecting the positive effect of new truck models as well as moderating inflationary cost increases.

- Average cost per truck increased cost of sales by \$140.5 million, primarily due to moderately higher raw material, labor and product support costs, mainly warranty expense.
- Factory overhead and other indirect costs increased \$61.5 million, primarily due to higher labor costs, maintenance and depreciation.
- Extended warranties, operating leases and other increased revenues by \$5.9 million and increased cost of sales by \$19.7 million. The increase in cost of sales was primarily due to higher warranty labor and material costs.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar.
- Truck gross margin was 16.8% in the third quarter of 2023 compared to 10.6% in the same period of 2022 due to the factors noted above.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between the nine months ended September 30, 2023 and 2022 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Nine Months Ended September 30, 2022	\$ 15,231.7	\$ 13,730.7	\$ 1,501.0
Increase (decrease)			
Truck sales volume	2,447.7	1,914.3	533.4
Average truck sales prices	2,216.9		2,216.9
Average per truck material, labor and other direct costs		753.8	(753.8)
Factory overhead and other indirect costs		160.3	(160.3)
Extended warranties, operating leases and other	20.3	103.1	(82.8)
Currency translation	(38.9)	(31.8)	(7.1)
Total increase	4,646.0	2,899.7	1,746.3
Nine Months Ended September 30, 2023	\$ 19,877.7	\$ 16,630.4	\$ 3,247.3

- Truck sales volume reflects higher truck deliveries in all major markets.
- Average truck sales prices increased sales by \$2.22 billion, primarily due to higher price realization worldwide reflecting the positive effect of new truck models as well as inflationary cost increases.
- Average cost per truck increased cost of sales by \$753.8 million, primarily reflecting higher raw material, labor, and product support costs, mainly warranty expense.
- Factory overhead and other indirect costs increased \$160.3 million, primarily due to higher labor costs, maintenance, depreciation and utilities.
- Extended warranties, operating leases and other increased revenues by \$20.3 million and increased cost of sales by \$103.1 million. The increase in cost of sales was primarily due to higher warranty labor and material costs.
- The currency translation effect on sales and cost of sales mainly reflects a decline in the value of the Canadian dollar and Australian dollar relative to the U.S. dollar, partially offset by the increase in the value of the euro.
- Truck gross margin was 16.3% in the first nine months of 2023 compared to 9.9% in the same period of 2022 due to the factors noted above.

Truck SG&A expense increased in the third quarter of 2023 to \$71.5 million from \$60.7 million in 2022, and for the first nine months of 2023, Truck SG&A increased to \$206.6 million from \$201.6 million in 2022. The increase in both periods was primarily due to higher salaries and related expenses and higher travel costs, partially offset by lower professional fees.

As a percentage of sales, Truck SG&A decreased to 1.1% and 1.0% in the third quarter and first nine months of 2023, respectively, compared to 1.2% and 1.3% in the third quarter and first nine months of 2022, respectively.

Parts

The Company's Parts segment accounted for 19% of revenues in the third quarter and first nine months of 2023, respectively, compared to 21% in the third quarter and first nine months of 2022.

(\$ in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% CHANGE	2023	2022	% CHANGE
Parts net sales and revenues:						
	1,099.			3,348.		
U.S. and Canada	\$ 8	\$ 1,065.2	3	\$ 2	\$ 3,071.5	9
				1,001.		
Europe	325.1	263.3	23	5	832.5	20
Mexico, South America, Australia and other	157.3	143.0	10	454.4	391.1	16
	1,582.			4,804.		
	\$ 2	\$ 1,471.5	8	\$ 1	\$ 4,295.1	12
				1,270.		
Parts income before income taxes	\$ 412.3	\$ 373.6	10	\$ 2	\$ 1,067.1	19
Pre-tax return on revenues	26.1%	25.4%		26.4%	24.8%	

The Company's worldwide parts net sales and revenues for the third quarter increased to \$1.58 billion in 2023 from \$1.47 billion in 2022 primarily due to higher price realization in all markets and favorable currency translation effects, primarily the euro. For the first nine months, worldwide parts net sales and revenues increased to \$4.80 billion in 2023 from \$4.30 billion in 2022 primarily due to higher price realization in all markets.

For the third quarter and first nine months of 2023, the increase in Parts segment income before income taxes and pre-tax return on revenues was primarily due to higher price realization.

The major factors for the changes in Parts segment net sales and revenues, cost of sales and revenues and gross margin between the three months ended September 30, 2023 and 2022 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Three Months Ended September 30, 2022	\$ 1,471.5	\$ 1,023.5	\$ 448.0
(Decrease) increase			
Aftermarket parts volume	(35.3)	(22.8)	(12.5)
Average aftermarket parts sales prices	123.6		123.6
Average aftermarket parts direct costs		59.5	(59.5)
Warehouse and other indirect costs		10.6	(10.6)
Currency translation	22.4	12.3	10.1
Total increase	110.7	59.6	51.1
Three Months Ended September 30, 2023	\$ 1,582.2	\$ 1,083.1	\$ 499.1

- Aftermarket parts sales volume decreased by \$35.3 million and related cost of sales decreased by \$22.8 million primarily reflecting lower sales volume in the U.S. and Europe.

- Average aftermarket parts sales prices increased sales by \$123.6 million primarily due to higher price realization in the U.S. and Europe.

- Average aftermarket parts direct costs increased \$59.5 million due to higher material and freight costs, primarily in the U.S. and Europe.

- Warehouse and other indirect costs increased \$10.6 million primarily due to higher salaries and related expenses and higher shipping costs.

- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar.

- Parts gross margins in the third quarter of 2023 increased to 31.5% from 30.4% in the third quarter of 2022 due to the factors noted above.

The major factors for the changes in Parts segment net sales and revenues, cost of sales and revenues and gross margin between the nine months ended September 30, 2023 and 2022 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Nine Months Ended September 30, 2022	\$ 4,295.1	\$ 2,997.5	\$ 1,297.6
(Decrease) increase			
Aftermarket parts volume	(7.0)	(4.1)	(2.9)
Average aftermarket parts sales prices	522.4		522.4
Average aftermarket parts direct costs		250.1	(250.1)
Warehouse and other indirect costs		37.0	(37.0)
Currency translation	(6.4)	(2.1)	(4.3)
Total increase	509.0	280.9	228.1
Nine Months Ended September 30, 2023	\$ 4,804.1	\$ 3,278.4	\$ 1,525.7

- Aftermarket parts sales volume decreased by \$7.0 million and related cost of sales decreased by \$4.1 million primarily reflecting lower sales volume in the U.S., partially offset by higher sales volume in Australia, Brasil and Europe.

- Average aftermarket parts sales prices increased sales by \$522.4 million primarily due to higher price realization in the U.S. and Europe.

- Average aftermarket parts direct costs increased \$250.1 million due to higher material and freight costs, primarily in the U.S. and Europe.

- Warehouse and other indirect costs increased \$37.0 million primarily due to higher salaries and related expenses and higher shipping costs.

- The currency translation effect on sales and cost of sales primarily reflects a decrease in the value of the Australian dollar and the Canadian dollar relative to the U.S. dollar, partially offset by an increase in the value of the euro.

- Parts gross margins in the first nine months of 2023 increased to 31.8% from 30.2% in the first nine months of 2022 due to the factors noted above.

Parts SG&A expense increased in the third quarter of 2023 to \$61.4 million from \$52.9 million in 2022, and for the first nine months, Parts SG&A increased to \$178.6 million in 2023 from \$162.4 million in 2022. The increase in both periods was primarily due to higher salaries and related expenses.

As a percentage of sales, Parts SG&A was 3.9% and 3.7% in the third quarter and first nine months of 2023, respectively, compared to 3.6% and 3.8% in the third quarter and first nine months of 2022.

Financial Services

The Company's Financial Services segment accounted for 5% of revenues in the third quarter and first nine months of 2023 and 2022.

	Three Months Ended September 30			Nine Months Ended September 30		
(\$ in millions)	2023	2022	% CHANGE	2023	2022	% CHANGE
New loan and lease volume:						
U.S. and Canada	\$1,032.7	\$ 758.0	36	\$2,699.6	\$ 2,412.0	12
Europe	368.6	345.7	7	1,136.9	1,043.7	9
Mexico, Australia, Brasil and other	500.3	333.4	50	1,407.6	964.4	46
	\$1,901.6	\$ 1,437.1	32	\$5,244.1	\$ 4,420.1	19
New loan and lease volume by product:						
Loans and finance leases	\$1,737.3	\$ 1,190.8	46	\$4,768.6	\$ 3,639.4	31
Equipment on operating lease	164.3	246.3	(33)	475.5	780.7	(39)
	\$1,901.6	\$ 1,437.1	32	\$5,244.1	\$ 4,420.1	19
New loan and lease unit volume:						
Loans and finance leases	12,120	10,000	21	34,670	29,730	17
Equipment on operating lease	1,690	2,800	(40)	5,220	8,760	(40)
	13,810	12,800	8	39,890	38,490	4
Average earning assets:						
U.S. and Canada	\$9,644.9	\$ 8,608.7	12	\$9,268.7	\$ 8,622.6	7
Europe	4,445.6	3,628.2	23	4,432.2	3,773.0	17
Mexico, Australia, Brasil and other	3,803.2	2,579.6	47	3,447.8	2,475.0	39
	17,893.	14,816.		17,148.	14,870.	
	\$ 7	\$ 5	21	\$ 7	\$ 6	15
Average earning assets by product:						
	12,250.	10,228.		11,613.	10,194.	
Loans and finance leases	\$ 9	\$ 8	20	\$ 5	\$ 7	14
Dealer wholesale financing	3,148.6	1,870.7	68	2,933.6	1,855.9	58
Equipment on lease and other	2,494.2	2,717.0	(8)	2,601.6	2,820.0	(8)
	17,893.	14,816.		17,148.	14,870.	
	\$ 7	\$ 5	21	\$ 7	\$ 6	15
Revenues:						
U.S. and Canada	\$ 190.6	\$ 170.5	12	\$ 559.9	\$ 507.4	10
Europe	138.2	118.1	17	413.2	372.5	11
Mexico, Australia, Brasil and other	135.3	83.3	62	354.0	230.7	53
	\$ 464.1	\$ 371.9	25	\$1,327.1	\$ 1,110.6	19
Revenues by product:						
Loans and finance leases	\$ 205.0	\$ 135.2	52	\$ 547.0	\$ 382.4	43
Dealer wholesale financing	64.8	25.2	157	169.5	61.2	177
Equipment on lease and other	194.3	211.5	(8)	610.6	667.0	(8)
	\$ 464.1	\$ 371.9	25	\$1,327.1	\$ 1,110.6	19
Income before income taxes	\$ 133.8	\$ 146.2	(8)	\$ 427.3	\$ 437.6	(2)

New loan and lease unit volume was \$1.90 billion in the third quarter of 2023 compared to \$1.44 billion in the third quarter of 2022, and for the first nine months was \$5.24 billion in 2023 and \$4.42 billion in 2022. The increase in new loan and finance lease volume reflected higher retail sales of PACCAR trucks and a higher amount financed per truck in all major markets. The decrease in equipment on operating leases new business volume reflected lower market demand, partially offset by a higher amount financed per truck in all major markets.

In the third quarter of 2023, PFS finance market share of new PACCAR truck sales was 23.7% compared to 24.4% in the third quarter of 2022. In the first nine months of 2023, PFS finance market share of new PACCAR truck sales was 23.4% compared to 25.7% in the first nine months of 2022.

In the third quarter of 2023, PFS revenues increased to \$464.1 million from \$371.9 million in 2022. In the first nine months of 2023, PFS revenues increased to \$1.33 billion from \$1.11 billion in 2022. The increase for both periods were primarily due to higher interest income driven by higher portfolio yields and portfolio growth. The effects of currency translation increased PFS revenues by \$21.9 million and \$24.0 million for the third quarter and first nine months of 2023, respectively, primarily due to a stronger Mexican peso and euro relative to the U.S. dollar.

PFS income before income taxes decreased to \$133.8 million in the third quarter of 2023 from \$146.2 million in the third quarter of 2022. In the first nine months of 2023, PFS income before income taxes decreased to \$427.3 million from \$437.6 million in 2022. The decrease in both periods was primarily due to lower operating lease margins, reflecting lower results on returned lease assets, partially offset by higher finance margins. The effects of currency translation increased PFS income before income taxes by \$7.5 million and \$10.2 million for the third quarter and first nine months of 2023, respectively, primarily due to a stronger Mexican peso relative to the U.S. dollar.

Included in Financial Services “Other assets” on the Company’s Consolidated Balance Sheets are used trucks held for sale, net of impairments, of \$288.1 million at September 30, 2023 and \$141.7 million at December 31, 2022. These trucks are primarily units returned from matured operating leases in the ordinary course of business, and also include trucks acquired from repossessions or through acquisitions of used trucks in trades related to new truck sales and trucks returned from residual value guarantees (RVGs).

The Company recognized gains on used trucks, excluding repossessions, of \$4.3 million in the third quarter of 2023 compared to gains of \$34.8 million in the third quarter of 2022, including \$3.2 million of losses on multiple unit transactions in the third quarter of 2023 compared to \$.1 million in the third quarter of 2022. Used truck losses related to repossessions, which are recognized as credit losses, were not significant for either the third quarter of 2023 or 2022.

The Company recognized gains on used trucks, excluding repossessions, of \$51.2 million in the first nine months of 2023 compared to gains of \$104.7 million in the first nine months of 2022, including losses on multiple unit transactions of \$4.2 million in the first nine months of 2023 compared to \$.2 million in the first nine months of 2022. Used truck losses related to repossessions, which are recognized as credit losses, were not significant for the first nine months of 2023 or 2022.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin for the three months ended September 30, 2023 and 2022 are outlined below:

(\$ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
Three Months Ended September 30, 2022	\$ 160.4	\$ 55.8	\$ 104.6
Increase (decrease)			
Average finance receivables	52.5		52.5
Average debt balances		22.7	(22.7)
Yields	46.6		46.6
Borrowing rates		55.2	(55.2)
Currency translation and other	10.3	4.8	5.5
Total increase	109.4	82.7	26.7
Three Months Ended September 30, 2023	\$ 269.8	\$ 138.5	\$ 131.3

• Average finance receivables increased \$3.07 billion (excluding foreign exchange effects) in the third quarter of 2023 primarily due to higher average loan, finance lease and dealer wholesale balances.

• Average debt balances increased \$2.14 billion (excluding foreign exchange effects) in the third quarter of 2023, reflecting higher funding requirements for the portfolio, which includes loans, finance leases, dealer wholesale and equipment on operating lease.

• Higher portfolio yields (7.0% in 2023 compared to 5.3% in 2022) increased interest and fees by \$46.6 million. The higher portfolio yields were primarily due to higher market rates in all markets.

• Higher borrowing rates (4.2% in 2023 compared to 2.1% in 2022) increased interest and other borrowing expenses by \$55.2 million and were primarily due to higher debt market rates in all markets.

• The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and euro.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin for the nine months ended September 30, 2023 and 2022 are outlined below:

(\$ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
Nine Months Ended September 30, 2022	\$ 443.6	\$ 142.0	\$ 301.6
Increase (decrease)			
Average finance receivables	122.9		122.9
Average debt balances		48.0	(48.0)
Yields	139.3		139.3
Borrowing rates		153.9	(153.9)
Currency translation and other	10.7	3.9	6.8
Total increase	272.9	205.8	67.1
Nine Months Ended September 30, 2023	\$ 716.5	\$ 347.8	\$ 368.7

- Average finance receivables increased \$2.53 billion (excluding foreign exchange effects) in the first nine months of 2023 primarily due to higher average loan, finance lease and dealer wholesale balances.
- Average debt balances increased \$1.68 billion (excluding foreign exchange effects) in the first nine months of 2023, reflecting higher funding requirements for the portfolio, which includes loans, finance leases, dealer wholesale and equipment on operating lease.
- Higher portfolio yields (6.6% in 2023 compared to 4.9% in 2022) increased interest and fees by \$139.3 million. The higher portfolio yields were primarily due to higher market rates in all markets.
- Higher borrowing rates (3.7% in 2023 compared to 1.8% in 2022) were primarily due to higher debt market rates in all markets.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso.

The following table summarizes operating lease, rental and other revenues and depreciation and other expenses:

(\$ in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Operating lease and rental revenues	\$ 184.1	\$ 197.3	\$ 574.9	\$ 610.4
Used truck sales	3.1	8.9	15.5	42.3
Insurance, franchise and other revenues	7.1	5.3	20.2	14.3
Operating lease, rental and other revenues	<u>\$ 194.3</u>	<u>\$ 211.5</u>	<u>\$ 610.6</u>	<u>\$ 667.0</u>
Depreciation of operating lease equipment	\$ 122.2	\$ 122.7	\$ 363.0	\$ 359.2
Vehicle operating expenses	20.0	4.6	44.2	24.0
Cost of used truck sales	3.2	9.3	16.1	41.2
Insurance, franchise and other expenses	1.5	.8	3.7	1.9
Depreciation and other expenses	<u>\$ 146.9</u>	<u>\$ 137.4</u>	<u>\$ 427.0</u>	<u>\$ 426.3</u>

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the three months ended September 30, 2023 and 2022 are outlined below:

(\$ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
Three Months Ended September 30, 2022	\$ 211.5	\$ 137.4	\$ 74.1
(Decrease) increase			
Used truck sales	(6.0)	(6.2)	.2
Results on returned lease assets		32.4	(32.4)
Average operating lease assets	(37.6)	(31.1)	(6.5)
Revenue and cost per asset	13.4	6.1	7.3
Currency translation and other	13.0	8.3	4.7
Total (decrease) increase	(17.2)	9.5	(26.7)
Three Months Ended September 30, 2023	\$ 194.3	\$ 146.9	\$ 47.4

• Lower sales volume and lower market prices of used trucks on trade, primarily in Europe, decreased revenues by \$6.0 million and related depreciation and other expenses by \$6.2 million.

• Results on returned lease assets increased depreciation and other expenses by \$32.4 million, primarily due to lower gains on sales of returned units as a result of lower used truck market values.

• Average operating lease assets decreased \$313.0 million (excluding foreign exchange effects), which decreased revenues by \$37.6 million and related depreciation and other expenses by \$31.1 million.

• Revenue per asset increased \$13.4 million primarily due to higher lease rates, reflecting higher average truck values financed and higher market rates. Cost per asset increased \$6.1 million due to higher depreciation and operating expenses.

• The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and the euro.

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the nine months ended September 30, 2023 and 2022 are outlined below:

(\$ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
Nine Months Ended September 30, 2022	\$ 667.0	\$ 426.3	\$ 240.7
(Decrease) increase			
Used truck sales	(27.0)	(25.2)	(1.8)
Results on returned lease assets		68.2	(68.2)
Average operating lease assets	(87.9)	(72.3)	(15.6)
Revenue and cost per asset	39.5	20.3	19.2
Currency translation and other	19.0	9.7	9.3
Total (decrease) increase	(56.4)	.7	(57.1)
Nine Months Ended September 30, 2023	\$ 610.6	\$ 427.0	\$ 183.6

• Lower sales volume and lower market prices of used trucks on trade, primarily in Europe, decreased revenues by \$27.0 million and related depreciation and other expenses by \$25.2 million.

• Results on returned lease assets increased depreciation and other expenses by \$68.2 million, primarily due to lower gains on sales of returned units as a result of lower used truck market values.

• Average operating lease assets decreased \$237.3 million (excluding foreign exchange effects), which decreased revenues by \$87.9 million and related depreciation and other expenses by \$72.3 million.

• Revenue per asset increased \$39.5 million primarily due to higher lease rates, reflecting higher average truck value financed and higher market rates. Cost per asset increased \$20.3 million due to higher depreciation and operating expenses.

• The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso.

Financial Services SG&A for the third quarter of 2023 increased to \$38.7 million from \$33.3 million in the third quarter of 2022, and for the first nine months of 2023, Financial Services SG&A increased to \$110.9 million from \$100.9 million in 2022. The increase in both periods was primarily due to higher salaries and related expenses, higher travel costs and unfavorable currency translation effects, primarily the Mexican peso. As an annualized percentage of average earnings assets, Financial Services SG&A was .9% in the third quarter and first nine months of 2023 and 2022.

The following table summarizes the provision for losses on receivables and net charge-offs:

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS
<i>(\$ in millions)</i>				
U.S. and Canada	\$.9	\$ 1.1	\$ 2.0	\$ 3.0
Europe	.5	.6	1.5	1.6
Mexico, Australia, Brasil and other	4.8	3.7	10.6	7.0
	<u>\$ 6.2</u>	<u>\$ 5.4</u>	<u>\$ 14.1</u>	<u>\$ 11.6</u>

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS
<i>(\$ in millions)</i>				
U.S. and Canada	\$ (1.1)	\$ (.1)	\$ (4.0)	\$ (.8)
Europe	(.2)	(.3)	.1	.2
Mexico, Australia, Brasil and other	.5	(1.4)	7.7	(.1)
	<u>\$ (.8)</u>	<u>\$ (1.8)</u>	<u>\$ 3.8</u>	<u>\$ (.7)</u>

The provision for losses on receivables was \$6.2 million in the third quarter of 2023 compared to (\$.8) million in 2022, and in the first nine months, the provision for losses on receivables was \$14.1 million in 2023 compared to \$3.8 million in 2022. The increase in provision for losses for the third quarter and first nine months of 2023 compared to 2022 was driven by portfolio growth, lower recoveries and an increase in charges-offs, primarily Mexico and Brasil.

The Company modifies loans and finance leases as a normal part of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification. When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms.

The post-modification balances of accounts modified during the nine months ended September 30, 2023 and 2022 are summarized below:

	2023		2022	
	AMORTIZED COST BASIS	% OF TOTAL PORTFOLIO*	AMORTIZED COST BASIS	% OF TOTAL PORTFOLIO*
<i>(\$ in millions)</i>				
Commercial	\$ 134.5	1.4 %	\$ 158.3	2.1 %
Insignificant delay	81.8	.9 %	60.8	.8 %
Credit	20.0	.2 %	56.0	.7 %
	<u>\$ 236.3</u>	<u>2.5 %</u>	<u>\$ 275.1</u>	<u>3.6 %</u>

* Amortized cost basis immediately after modification as a percentage of ending retail portfolio, on an annualized basis.

Modification activity decreased to \$236.3 million in the nine months of 2023 from \$275.1 million in the same period of 2022. The decrease in modifications for Commercial reasons primarily reflects lower volumes of refinancing. Insignificant delay modifications, which are customers requesting payment relief for up to three months, were a comparable percentage of the total portfolio in the same period in the prior year. The decrease in Credit modifications, primarily reflects lower volumes of contract modifications in Brasil.

The following table summarizes the Company's 30+ days past due accounts:

	September 30 2023	December 31 2022	September 30 2022
Percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	.4 %	.1 %	.1 %
Europe	1.4 %	.2 %	.4 %
Mexico, Australia, Brasil and other	1.5 %	1.6 %	1.7 %
Worldwide	.8 %	.4 %	.4 %

Accounts 30+ days past due was .8% at September 30, 2023 compared to .4% at December 31, 2022 and .4% at September 30, 2022, primarily due to increases in the U.S. and Europe. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified \$21.5 million of accounts worldwide during the third quarter of 2023, \$8.9 million during the fourth quarter of 2022 and \$16.2 million during the third quarter of 2022 that were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

	September 30 2023	December 31 2022	September 30 2022
Pro forma percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	.4 %	.1 %	.1 %
Europe	1.4 %	.2 %	.4 %
Mexico, Australia, Brasil and other	2.1 %	2.0 %	1.9 %
Worldwide	.9 %	.5 %	.5 %

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at September 30, 2023, December 31, 2022 and September 30, 2022. The effect on the allowance for credit losses from such modifications was not significant at September 30, 2023, December 31, 2022 and September 30, 2022.

The Company's annualized pre-tax return on average assets for Financial Services was 2.7% in the third quarter of 2023 compared to 3.6% in the same period of 2022, was 3.1% for the first nine months in 2023 compared to 3.7% in the same period of 2022.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for both the third quarter and first nine months of 2023 and 2022. Other SG&A decreased to \$10.7 million for the third quarter of 2023 from \$24.1 million for the third quarter of 2022 and decreased to \$63.1 million for the first nine months of 2023 compared to \$66.6 million for the same period of 2022. The decrease in both periods was primarily due to lower corporate expenses.

For the third quarter, Other income (loss) before income taxes was \$1.6 million compared to \$8.0 million in 2022 primarily due to higher expenditures related to environmental activities. For the first nine months, Other (loss) income before tax was (\$616.6) million compared to \$14.9 million in 2022, primarily due to the EC-related charge in the first quarter of 2023 which is discussed in Note M of the consolidated financial statements.

Investment income for the third quarter increased to \$80.8 million in 2023 compared to an investment income of \$21.4 million in 2022. For the first nine months, investment income increased to \$192.5 million in 2023 from \$24.3 million in 2022. The higher investment income in the third quarter and the first nine months of 2023 was primarily due to higher market interest rates in all regions, as well as higher investment balances.

Income Taxes

The effective tax rate for the third quarter of 2023 was 22.7% compared to 21.5% for the third quarter of 2022. The higher effective tax rate in the third quarter of 2023 was primarily due to a higher mix of pre-tax income in jurisdictions with higher tax rates. The effective tax rate for the first nine months of 2023 was 21.9% and is comparable to 21.8% for the first nine months of 2022.

(\$ in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Domestic income before taxes	\$ 1,026.5	\$ 623.7	\$ 2,858.0	\$ 1,666.1
Foreign income before taxes	562.9	356.0	1,218.9	1,007.1
Total income before taxes	<u>\$ 1,589.4</u>	<u>\$ 979.7</u>	<u>\$ 4,076.9</u>	<u>\$ 2,673.2</u>
Domestic pre-tax return on revenues	21.4%	15.3%	20.1%	14.6%
Foreign pre-tax return on revenues	14.4%	11.9%	10.3%	10.9%
Total pre-tax return on revenues	<u>18.3%</u>	<u>13.9%</u>	<u>15.6%</u>	<u>12.9%</u>

For the third quarter and first nine months of 2023, domestic and foreign income before income taxes and pre-tax return on revenues increased primarily due to the improved results from Truck and Parts operations. In the first nine months of 2023, foreign income before income taxes and pre-tax return on revenues includes a one-time unfavorable adjustment for the EC-related charge of \$600.0 million in the first quarter 2023.

LIQUIDITY AND CAPITAL RESOURCES:

(\$ in millions)	September 30 2023	December 31 2022
Cash and cash equivalents	\$ 5,906.3	\$ 4,690.9
Marketable securities	1,743.1	1,614.2
	<u>\$ 7,649.4</u>	<u>\$ 6,305.1</u>

The Company's total cash and marketable securities at September 30, 2023 increased \$1,344.3 million from the balances at December 31, 2022. Total cash and marketable securities are primarily intended to provide liquidity while preserving capital.

The change in cash and cash equivalents is summarized below:

(\$ in millions) <i>Nine Months Ended September 30,</i>	2023	2022
Operating activities:		
Net income	\$ 3,183.5	\$ 2,090.3
Net income items not affecting cash	577.4	402.2
Changes in operating assets and liabilities, net	(757.6)	(714.3)
Net cash provided by operating activities	3,003.3	1,778.2
Net cash used in investing activities	(1,931.1)	(1,318.5)
Net cash provided by (used in) financing activities	159.5	(418.9)
Effect of exchange rate changes on cash and cash equivalents	(16.3)	(145.6)
Net increase (decrease) in cash and cash equivalents	1,215.4	(104.8)
Cash and cash equivalents at beginning of period	4,690.9	3,428.3
Cash and cash equivalents at end of period	<u>\$ 5,906.3</u>	<u>\$ 3,323.5</u>

Operating activities: Cash provided by operations increased by \$1,225.1 million to \$3,003.3 million in the first nine months of 2023 from \$1,778.2 million in 2022. Higher operating cash flows reflects higher net income of \$1,093.2 million and higher accruals of \$709.8 million, including EC-related charge and product support liabilities. The higher operating cash flows were partially offset by higher cash outflows for income taxes of \$392.3 million and higher cash usage of \$429.0 million for wholesale receivables.

Investing activities: Cash used in investing activities increased by \$612.6 million to \$1,931.1 million in the first nine months of 2023 from \$1,318.5 million in 2022. Higher net cash used in investing activities reflects higher net originations for retails loans and financing leases of \$719.6 million and higher cash used in the acquisition of property, plant and equipment of \$103.5 million. The higher net cash usage was partially offset by lower acquisitions of equipment for operating leases of \$286.2 million.

Financing activities: Cash provided by financing activities was \$159.5 million for the first nine months of 2023 compared to cash used in financing activities of \$418.9 million in 2022. In the first nine months of 2023, the company paid \$1.38 billion in dividends in 2023 compared to \$875.9 million in 2022, primarily due to a higher year-end dividend paid in January 2023. Cash provided from borrowing activities was \$1.50 billion, \$1.06 billion higher than the cash provided by borrowing activities of \$437.3 million in 2022 reflecting higher funding to support financial services portfolio growth.

Credit Lines and Other

The Company has line of credit arrangements of \$3.98 billion, of which \$3.51 billion were unused at September 30, 2023. Included in these arrangements are \$3.00 billion of committed bank facilities, of which \$1.00 billion expires in June 2024, \$1.00 billion expires in June 2026 and \$1.00 billion expires in June 2028. The Company intends to extend or replace these credit facilities on or before expiration to maintain facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the committed bank facilities for the nine months ended September 30, 2023.

On December 4, 2018, PACCAR's Board of Directors approved the repurchase of up to \$500.0 million of the Company's outstanding common stock. As of September 30, 2023, the Company has repurchased \$110.0 million of shares under this plan. There were no repurchases made under this plan during the first nine months of 2023.

Truck, Parts and Other

The Company provides funding for working capital, capital expenditures, R&D, dividends, stock repurchases and other business initiatives and commitments primarily from cash provided by operations. Management expects this method of funding to continue in the future.

Investments for manufacturing property, plant and equipment in the first nine months of 2023 were \$471.7 million compared to \$339.4 million for the same period of 2022. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled \$7.54 billion and have significantly increased the operating capacity and efficiency of its facilities and enhanced the quality and operating efficiency of the Company's premium products.

In 2023, total capital investments for PACCAR are expected to be \$650 to \$675 million and R&D is expected to be \$410 to \$420 million. In 2024, capital investments are projected to be \$675 to \$725 million and R&D is expected to be \$470 to \$520 million. The Company is increasing its investment in fuel efficient diesel and electric powertrain technologies, autonomous systems, connected vehicle services, and next-generation manufacturing and parts distribution capabilities.

Financial Services

The Company funds its financial services activities primarily from collections on existing finance receivables and borrowings in the capital markets. The primary sources of borrowings in the capital markets are commercial paper and medium-term notes issued in the public markets and, to a lesser extent, bank loans.

In November 2021, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of September 30, 2023 was \$5.50 billion. The registration expires in November 2024 and does not limit the principal amount of debt securities that may be issued during that period.

As of September 30, 2023, the Company's European finance subsidiary, PACCAR Financial Europe, had €911.5 million available for issuance under a €2.50 billion medium-term note program listed on the Euro MTF Market of the Luxembourg Stock Exchange. This program has been renewed through the filing of a new listing, which expires in September 2024.

In August 2021, PACCAR Financial Mexico registered a 10.00 billion Mexican peso program with the Comision Nacional Bancaria y de Valores to issue medium-term notes and commercial paper. The registration expires in August 2026 and limits the amount of commercial paper (up to one year) to 5.00 billion Mexican pesos. At September 30, 2023, 6.24 billion Mexican pesos were available for issuance.

In August 2018, the Company's Australian subsidiary, PACCAR Financial Pty. Ltd. (PFPL Australia), established a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFPL Australia as of September 30, 2023 was 850.0 million Australian dollars.

In May 2021, the Company's Canadian subsidiary, PACCAR Financial Ltd. (PFL Canada), established a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFL Canada as of September 30, 2023 was 150.0 million Canadian dollars.

The Company believes its cash balances and investments, collections on existing finance receivables, committed bank facilities and current investment-grade credit ratings of A+/A1 will continue to provide it with sufficient resources and access to capital markets at competitive interest rates and therefore contribute to the Company maintaining its liquidity and financial stability. In the event of a decrease in the Company's credit ratings or a disruption in the financial markets, the Company may not be able to refinance its maturing debt in the financial markets. In such circumstances, the Company would be exposed to liquidity risk to the degree that the timing of debt maturities differs from the timing of receivable collections from customers. The Company believes its various sources of liquidity, including committed bank facilities, would continue to provide it with sufficient funding resources to service its maturing debt obligations.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES:

This Form 10-Q includes "adjusted net income (non-GAAP)" and "adjusted net income per diluted share (non-GAAP)", which are financial measures that are not in accordance with U.S. generally accepted accounting principles ("GAAP"), since they exclude a charge for EC-related claims. These measures differ from the most directly comparable measures calculated in accordance with GAAP and may not be comparable to similarly titled non-GAAP financial measures used by other companies.

Adjustment for the EC-related claims relates to a pre-tax charge of \$600.0 million (\$446.4 million after-tax) for estimable total costs recorded in Interest and other (income) expense, net in the nine months ended September 30, 2023 (recorded in the first quarter 2023).

Management utilizes these non-GAAP measures to evaluate the Company's performance and believes these measures allow investors and management to evaluate operating trends by excluding a significant non-recurring charge that is not representative of underlying operating trends.

Reconciliations from the most directly comparable GAAP measures to adjusted net income (non-GAAP) and adjusted net income per diluted shares (non-GAAP) are as follows:

(\$ in millions, except per share amounts)		Nine Months Ended September 30, 2023
Net income	\$	3,183.5
EC-related claims, net of taxes		446.4
Adjusted net income (non-GAAP)	\$	<u>3,629.9</u>
Per diluted share		
Net income	\$	6.07
EC-related claims, net of taxes		.85
Adjusted net income (non-GAAP)	\$	<u>6.92</u>
After-tax return on revenues		12.2 %
EC-related claims, net of taxes		1.7 %
After-tax adjusted return on revenues (non-GAAP) *		<u>13.9 %</u>

* Calculated using adjusted net income.

FORWARD-LOOKING STATEMENTS:

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations or tariffs resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient liquidity in the capital markets; fluctuations in interest rates; changes in the levels of the Financial Services segment new business volume due to unit fluctuations in new PACCAR truck sales or reduced market shares; changes affecting the profitability of truck owners and operators; price changes impacting truck sales prices and residual values; insufficient supplier capacity or access to raw materials and components, including semiconductors; labor disruptions; shortages of commercial truck drivers; increased warranty costs; cybersecurity risks to the Company's information technology systems; pandemics; climate-related risks; global conflicts; litigation, including European Commission (EC) settlement-related claims; or legislative and governmental regulations. A more detailed description of these and other risks is included under the headings Part I, Item 1A, “Risk Factors” in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 and in Part II, Item 1, “Legal Proceedings” and Part II, Item 1A, “Risk Factors” of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's market risk during the three months ended September 30, 2023. For additional information, refer to Item 7A as presented in the 2022 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note M – “Commitments and Contingencies” in the Notes to Consolidated Financial Statements (Part I, Item 1) for discussion on litigation matters, which is incorporated by reference herein.

ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as presented in the 2022 Annual Report on Form 10-K. There have been no material changes in the Company’s risk factors during the three months ended September 30, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

For Items 2(a) and (b), there was no reportable information for the three months ended September 30, 2023.

(c) Issuer purchases of equity securities.

On December 4, 2018, PACCAR’s Board of Directors approved the repurchase of up to \$500.0 million of the Company’s outstanding common stock. As of September 30, 2023, the Company has repurchased \$110.0 million of shares under this plan. There were no repurchases made under this plan during the first nine months of 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None of the Company's directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company's quarter ended September 30, 2023, as such terms are defined under Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Any exhibits filed herewith are listed in the accompanying index to exhibits.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(3) (i)	Articles of Incorporation:				
	Amended and Restated Certificate of Incorporation of PACCAR Inc.	8-K	May 4, 2018	3(i)	001-14817
	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of PACCAR Inc.	8-K	April 24, 2020	3(i)	001-14817
	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of PACCAR Inc.	8-K	April 29, 2022	3(i)	001-14817
(ii)	Bylaws:				
	Seventh Amended and Restated Bylaws of PACCAR Inc.	8-K	July 26, 2022	3(ii)	001-14817
(4)	Instruments defining the rights of security holders, including indentures**:				
(a)	Indenture for Senior Debt Securities dated as of November 20, 2009 between PACCAR Financial Corp. and The Bank of New York Mellon Trust Company, N.A.	S-3	November 20, 2009	4.1	333-163273
(b)	Forms of Medium-Term Note, Series P (PACCAR Financial Corp.)	S-3	November 2, 2018	4.2 and 4.3	333-228141
(c)	Forms of Medium-Term Note, Series Q (PACCAR Financial Corp.)	S-3	November 1, 2021	4.3 and 4.4	333-260663
(d)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated May 29, 2020	10-Q	August 3, 2020	4(h)	001-14817
(e)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated July 15, 2021	10-Q	August 2, 2021	4(g)	001-14817
(f)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated July 13, 2022	10-Q	August 2, 2022	4(h)	001-14817
(g)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated September 20, 2023*				
(h)	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	February 19, 2020	4(j)	001-14817

** Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the Company and its wholly owned subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the Company's total assets. The Company will file copies of such instruments upon request of the Commission.

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(10)	Material Contracts:				
(a)	PACCAR Inc Amended and Restated Supplemental Retirement Plan	10-K	February 27, 2009	10(a)	001-14817
(b)	Amended and Restated Deferred Compensation Plan	10-Q	May 10, 2012	10(b)	001-14817
(c)	Deferred Incentive Compensation Plan (Amended and Restated as of December 31, 2004)	10-K	February 27, 2006	10(b)	001-14817
(d)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors	10-K	February 22, 2023	10(d)	001-14817
(e)	PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Deferred Restricted Stock Unit Agreement for Non-Employee Directors	8-K	December 10, 2007	99.3	001-14817
(f)	Amendment to Compensatory Arrangement with Non-Employee Directors	10-K	February 26, 2015	10(g)	001-14817
(g)	PACCAR Inc Senior Executive Yearly Incentive Compensation Plan	10-K	February 19, 2020	10(g)	001-14817
(h)	PACCAR Inc Long Term Incentive Plan	10-K	February 22, 2023	10(h)	001-14817
(i)	Amendment One to PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement	10-Q	August 7, 2013	10(k)	001-14817
(j)	PACCAR Inc Long Term Incentive Plan, 2018 Form of Restricted Stock Award Agreement	10-K	February 21, 2019	10(m)	001-14817
(k)	PACCAR Inc Long Term Incentive Plan, Form of Restricted Stock Unit Agreement	10-K	February 21, 2019	10(n)	001-14817
(l)	PACCAR Inc Savings Investment Plan, Amendment and Restatement effective September 1, 2016	10-Q	November 4, 2016	10(q)	001-14817
(m)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Deferred Restricted Stock Unit Grant Agreement	10-K	February 26, 2015	10(t)	001-14817
(n)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Restricted Stock Grant Agreement	10-K	February 26, 2015	10(u)	001-14817
(31)	Rule 13a-14(a)/15d-14(a) Certifications:				
(a)	Certification of Principal Executive Officer*				
(b)	Certification of Principal Financial Officer*				
(32)	Section 1350 Certifications:				
	Certification pursuant to rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350)*				
(101.INS)	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(101.SCH)	Inline XBRL Taxonomy Extension Schema Document*				
(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document*				
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document*				
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document*				
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document*				
(104)	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)*				

* filed herewith

SIGNATURE

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.

PACCAR Inc
(Registrant)

Date
November 2, 2023

By
/s/ B. J. Poplawski
B. J. Poplawski
Vice President and Controller
(Authorized Officer and Chief Accounting Officer)

