

# FISCAL YEAR 2017 THIRD QUARTER EARNINGS PRESENTATION

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# Forward-Looking Statements

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This presentation contains statements relating to future results of the company (including certain projections and business trends) that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “estimate,” “should,” “are likely to be,” “will” and similar expressions. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to reliance on major OEM customers and possible negative outcomes from contract negotiations with our major customers, including failure to negotiate acceptable terms in contract renewal negotiations and our ability to obtain new customers; the outcome of actual and potential product liability, warranty and recall claims; our ability to successfully manage rapidly changing volumes in the commercial truck markets and work with our customers to manage demand expectations in view of rapid changes in production levels; global economic and market cycles and conditions; availability and sharply rising costs of raw materials, including steel, and our ability to manage or recover such costs; our ability to manage possible adverse effects on our European operations, or financing arrangements related thereto following the United Kingdom’s decision to exit the European Union or, in the event one or more other countries exit the European monetary union; risks inherent in operating abroad (including foreign currency exchange rates, restrictive government actions regarding trade, implications of foreign regulations relating to pensions and potential disruption of production and supply due to terrorist attacks or acts of aggression); risks related to our joint ventures; rising costs of pension and other postemployment benefits; the ability to achieve the expected benefits of strategic initiatives and restructuring actions; the demand for commercial and specialty vehicles for which we supply products; whether our liquidity will be affected by declining vehicle productions in the future; OEM program delays; demand for and market acceptance of new and existing products; successful development and launch of new products; labor relations of our company, our suppliers and customers, including potential disruptions in supply of parts to our facilities or demand for our products due to work stoppages; the financial condition of our suppliers and customers, including potential bankruptcies; possible adverse effects of any future suspension of normal trade credit terms by our suppliers; potential difficulties competing with companies that have avoided their existing contracts in bankruptcy and reorganization proceedings; potential impairment of long-lived assets, including goodwill; potential adjustment of the value of deferred tax assets; competitive product and pricing pressures; the amount of our debt; our ability to continue to comply with covenants in our financing agreements; our ability to access capital markets; credit ratings of our debt; the outcome of existing and any future legal proceedings, including any litigation with respect to environmental, asbestos-related, or other matters; possible changes in accounting rules; ineffective internal controls; and other substantial costs, risks and uncertainties, including but not limited to those detailed herein and from time to time in other filings of the company with the SEC. See also the following portions of our Annual Report on Form 10-K for the year ended September 30, 2016, as amended: Item 1. Business, “Customers; Sales and Marketing”; “Competition”; “Raw Materials and Supplies”; “Employees”; “Environmental Matters”; “International Operations”; and “Seasonality; Cyclicity”; Item 1A. Risk Factors; Item 3. Legal Proceedings; and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements are made only as of the date hereof, and the company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

All earnings per share amounts are on a diluted basis. The company’s fiscal year ends on the Sunday nearest Sept. 30, and its fiscal quarters end on the Sundays nearest Dec. 31, March 31 and June 30. All year and quarter references relate to the company’s fiscal year and fiscal quarters, unless otherwise stated.

# Third Quarter 2017 Financial Highlights

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## Financial Performance<sup>(1)(2)</sup>



- Sales of \$920M (\$2,425M fiscal YTD)
  - Adjusted EBITDA margin of 11.2% (10.3% fiscal YTD)
  - Adj. diluted EPS from con. ops. of \$0.64 (\$1.25 fiscal YTD)
  - Free cash flow of \$94M (\$84M fiscal YTD)
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## Raising Revenue, Earnings and Free Cash Flow Guidance

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## Driving Toward M2019 Targets

- New business wins
  - Received several industry awards
  - Continuing to invest in new products and technologies
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1. See Appendix – “Non-GAAP Financial Information.”

2. GAAP net income attributable to Meritor, Inc. was \$48 million for Q3 FY17 and \$41 million for Q3 FY16. GAAP income from continuing operations attributable to Meritor, Inc. was \$49 million for Q3 FY17 and \$42 million for Q3 FY16. GAAP diluted earnings per share from continuing operations attributable to Meritor, Inc. was \$0.52 for Q3 FY17 and \$0.46 for Q3 FY16.

# Revenue Outperformance

## Securing Our Base

# IVECO

- 4-year agreements to supply axles in Europe



- Supply fully-dressed axle assemblies for bus, fire and specialty vehicles

## Winning New Business

- Executing on new revenue opportunities that should contribute another \$45 million of revenue outperformance in 2019
  - All regions
  - Both business segments



# Globally Recognized for Quality and Delivery

## DAIMLER

### Masters of Quality Award

- Six of the 48 plants that received awards are Meritor facilities
- Suppliers must have fewer than 50 rejected parts for every 1M shipped to Daimler while achieving a certain overall supplier score



### Gold Award for Delivery

- Received Gold Award for on-time delivery performance, including support for sudden ramp-up in construction dump truck demand

## PACCAR

### Quality Achievement Award

- Recognizes suppliers that meet or exceed rigorous, near-perfect standard of 10 or fewer defective parts for every 1M parts shipped to PACCAR



### Quality Improvement Award

- Recognizes Meritor's commitment to quality performance
- Meritor has been a supplier of key components to Hino in North America since 2003

# Fiscal Year 2017 Global Market Outlook<sup>(1)</sup> (units in 000s)

## North America

Production	FY17 Outlook	Prior Outlook
Heavy Duty (Class 8)	~230 <i>Increased</i>	205-215
Medium Duty (Class 5-7)	235-245 <i>Tightened Range</i>	230-250
U.S. Trailers	265-275 <i>Increased</i>	240-260

- Strong second half production
- Improving freight environment
- Aftermarket expected to be flat in FY17

**Class 8 Market Strengthening**

## Western Europe

Production	FY17 Outlook	Prior Outlook
Medium and Heavy Duty	450-460 <i>Tightened Range</i>	440-460

- Eurozone economic growth increasing
- Stable trend in truck registrations
- Replacement demand increasing

**Market Strengthening**

## China

Revenue (Including exports)	FY17 Outlook	Prior Outlook
	~\$125M <i>Increased</i>	~\$100M

- Construction market trending positively
- New product launches

**Revenue Increasing**

## India

Production	FY17 Outlook	Prior Outlook
Medium and Heavy Duty	~310 <i>Decreased</i>	330-350

- Q3 production impacted by new emission regulations
- Strong GDP growth

**Market Remains Strong**

## South America

Production	FY17 Outlook	Prior Outlook
Medium and Heavy Duty	60-70	60-70

- Slight GDP growth expected in FY17
- Inflation beginning to decline

**Slight Recovery**

1. FY17 Outlook based on Meritor estimates. Actual results may differ materially from projections as a result of risk and uncertainties. Please see "Forward Looking Statements".

# OPEB Litigation Update

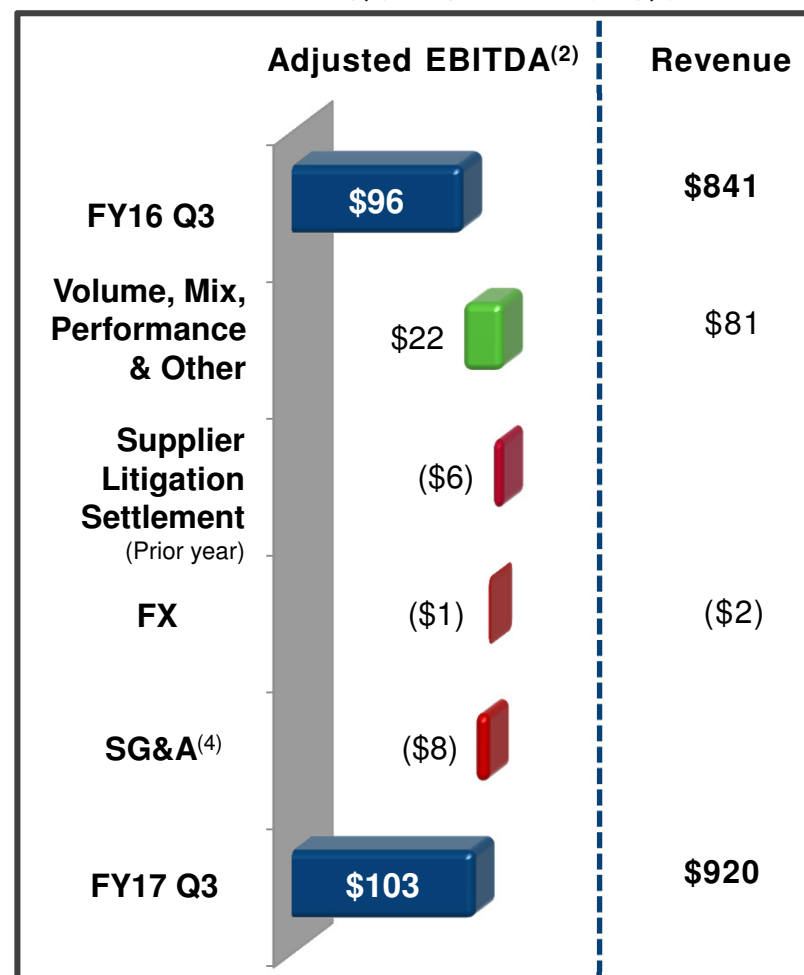
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- On April 20, 2017, the Sixth Circuit held in Meritor's favor and reversed the lower court ruling which had earlier found that the *Cole* class retiree healthcare benefits were vested
- On July 10, 2017, the Sixth Circuit issued a mandate returning the *Cole* case to the District Court for "any further proceedings" necessary to carry out the Sixth Circuit's judgment
- Retiree healthcare benefits cannot be amended until the 2006 injunction is lifted by the District Court
- Plaintiffs have until September 21, 2017 to file an appeal with the U.S. Supreme Court (could be extended 60 days)
- We plan to provide a more detailed update on the potential financial impact if and when the injunction is lifted

# Third Quarter 2017 Financial Results

(in millions, except per share amounts) GAAP Measures	Three Months Ended June 30,	
	2017	2016
Sales	\$920	\$841
Gross Margin <i>Gross Margin %</i>	\$142 15.4%	\$127 15.1%
Net Income from Continuing Operations <sup>(1)</sup>	\$49	\$42
Non-GAAP Measures <sup>(2)</sup>		
Adjusted EBITDA <i>Adjusted EBITDA Margin %</i>	\$103 11.2%	\$96 11.4%
Adjusted Income from Continuing Operations <sup>(1)</sup>	\$60	\$52
Adjusted Diluted EPS from Continuing Operations <sup>(3)</sup> <i>Diluted Shares Outstanding</i>	\$0.64 93.3	\$0.57 92.0

## FY17 Q3 vs. FY16 Q3



1. Amounts represent Continuing Operations Attributable to Meritor, Inc.

2. See Appendix – “Non-GAAP Financial Information.”

3. GAAP diluted earnings per share from continuing operations attributable to Meritor, Inc. was \$0.52 for Q3 FY17 and \$0.46 for Q3 FY16

4. SG&A excludes prior year supplier litigation settlement of \$6M



# Third Quarter 2017 Segment Results

(in millions)

Commercial Truck and Industrial				
	Three Months Ended June 30,		Better/(Worse)	
	2017	2016	\$	%
	Sales	\$728	\$640	\$88
Segment Adjusted EBITDA <sup>(1)(2)</sup>	\$75	\$61	\$14	23%
% of Sales <sup>(3)</sup>	10.3%	9.5%	0.8 pts	

Aftermarket and Trailer				
	Three Months Ended June 30,		Better/(Worse)	
	2017	2016	\$	%
	Sales	\$228	\$227	\$1
Segment Adjusted EBITDA <sup>(1)(2)</sup>	\$26	\$38	(\$12)	(32%)
% of Sales <sup>(3)</sup>	11.4%	16.7%	(5.3) pts	

## Performance Drivers

### Sales Increase:

- Primarily driven by increased production in North America, Europe, and China and by new business wins

### Segment Adjusted EBITDA Margin Increase:

- Primarily driven by higher revenue and continued material performance partially offset by higher allocated variable compensation accruals

## Performance Drivers

### Sales Increase:

- Revenue up slightly compared to last year

### Segment Adjusted EBITDA Margin Decrease:

- Primarily driven by a supplier litigation settlement recognized in Q3 2016 that did not repeat as well as higher allocated variable compensation accruals and higher net steel costs

1. Meritor uses Segment adjusted EBITDA as the primary basis for the chief operating decision maker to evaluate the performance of each of the company's reportable segments.

2. See Appendix – "Non-GAAP Financial Information."

3. Segment adjusted EBITDA margin equals Segment adjusted EBITDA divided by total segment sales.

# Third Quarter 2017 Free Cash Flow

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Income From Continuing Operations	\$ 52	\$ 43
Net Capital Spending (D&A less Capital Expenditures)	6	(2)
Pension and Retiree Medical, net of expense	(5)	(5)
Performance Working Capital <sup>(2)</sup>	(2)	28
Deferred Income Tax Expense	7	1
Other	36	21
<b>Free Cash Flow <sup>(1)</sup></b>	<b>\$ 94</b>	<b>\$ 86</b>
<i>Memo: Cash Provided by Operating Activities</i>	<i>\$ 106</i>	<i>\$ 105</i>

1. See Appendix – “Non-GAAP Financial Information.”

2. Change in payables less changes in receivables and inventory. Also includes changes in off-balance sheet accounts receivable securitization and factoring.

# Fiscal Year 2017 Outlook

	FY17 Outlook <sup>(1)</sup>	FY17 Previous Outlook <sup>(1)</sup>
Sales (in millions)	~\$3,250	~\$3,100
Adjusted EBITDA Margin <sup>(2)</sup>	~10.2%	~10.0%
Adjusted Diluted EPS from Continuing Operations <sup>(2)</sup>	~\$1.70	~\$1.40
Free Cash Flow <sup>(2)(3)</sup> (in millions)	\$80 - \$90	\$50 - \$70

## Raising Guidance

1. Based on management's planning assumptions and other factors. Actual results may differ materially from projections as a result of risks and uncertainties. Please see "Forward Looking Statements."
2. See Appendix – "Non-GAAP Financial Information."
3. Free cash flow includes operating cash flows provided by (used for) discontinued operations.

**Note:** Guidance for fiscal year 2017 on a GAAP basis as follows: Net income attributable to Meritor to be approximately \$110 million. Diluted earnings per share to be approximately \$1.20. Net income from continuing operations attributable to Meritor to be approximately \$110 million. Diluted earnings per share from continuing operations to be approximately \$1.20. Operating cash flow to be approximately \$165 million to \$175 million.

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# Appendix



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# FY17 Planning Assumptions

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<i>(in millions)</i>	FY17
<b>Continuing Operations</b>	Estimate <sup>(1)</sup>
Capital Expenditures	~\$85
Interest Expense	\$80 - \$85
Cash Interest	\$70 - \$75
Cash Taxes	\$20 - \$25

1. Based on management's planning assumptions and other factors. Actual results may differ materially from projections as a result of risks and uncertainties. Please see slide "Forward Looking Statements."

# Non-GAAP Financial Information

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In addition to the results reported in accordance with accounting principles generally accepted in the United States (“GAAP”), we have provided information regarding non-GAAP financial measures. These non-GAAP financial measures include Adjusted income (loss) from continuing operations attributable to the company, Adjusted diluted earnings (loss) per share from continuing operations, Adjusted EBITDA, Adjusted EBITDA margin, Segment adjusted EBITDA, Segment adjusted EBITDA margin, Free cash flow and Net debt.

Adjusted income (loss) from continuing operations attributable to the company and Adjusted diluted earnings (loss) per share from continuing operations are defined as reported income (loss) from continuing operations and reported diluted earnings (loss) per share from continuing operations before restructuring expenses, asset impairment charges, non-cash tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carry forwards, and other special items as determined by management. Adjusted EBITDA is defined as income (loss) from continuing operations before interest, income taxes, depreciation and amortization, non-controlling interests in consolidated joint ventures, loss on sale of receivables, restructuring expenses, asset impairment charges and other special items as determined by management. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by consolidated sales from continuing operations. Segment adjusted EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, noncontrolling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense, asset impairment charges and other special items as determined by management. Segment adjusted EBITDA excludes unallocated legacy and corporate expense (income), net. Segment adjusted EBITDA margin is defined as Segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment as applicable. Free cash flow is defined as cash flows provided by (used for) operating activities less capital expenditures. Net debt is defined as total debt less cash and cash equivalents.

Management believes these non-GAAP financial measures are useful to both management and investors in their analysis of the company's financial position and results of operations. In particular, Adjusted EBITDA, Adjusted EBITDA margin, Segment adjusted EBITDA, Segment adjusted EBITDA margin, Adjusted income (loss) from continuing operations attributable to the company and Adjusted diluted earnings (loss) per share from continuing operations are meaningful measures of performance to investors as they are commonly utilized to analyze financial performance in our industry, perform analytical comparisons, benchmark performance between periods and measure our performance against externally communicated targets.

Free cash flow is used by investors and management to analyze our ability to service and repay debt and return value directly to shareholders. Net debt over Adjusted EBITDA is a specific financial measure in our current M2019 plan used to measure the company's leverage in order to assist management in its assessment of appropriate allocation of capital.

Management uses the aforementioned non-GAAP financial measures for planning and forecasting purposes, and Segment adjusted EBITDA is also used as the primary basis for the CODM to evaluate the performance of each of our reportable segments.

Our Board of Directors uses Adjusted EBITDA margin, Free cash flow, Adjusted diluted earnings (loss) per share from continuing operations and Net debt over Adjusted EBITDA as key metrics to determine management's performance under our performance-based compensation plans.

Adjusted income (loss) from continuing operations attributable to the company, Adjusted diluted earnings (loss) per share from continuing operations, Adjusted EBITDA, Adjusted EBITDA margin, Segment adjusted EBITDA and Segment adjusted EBITDA margin should not be considered a substitute for the reported results prepared in accordance with GAAP and should not be considered as an alternative to net income as an indicator of our financial performance. Free cash flow should not be considered a substitute for cash provided by (used for) operating activities, or other cash flow statement data prepared in accordance with GAAP, or as a measure of financial position or liquidity. In addition, this non-GAAP cash flow measure does not reflect cash used to repay debt or cash received from the divestitures of businesses or sales of other assets and thus does not reflect funds available for investment or other discretionary uses. Net debt should not be considered a substitute for total debt as reported on the balance sheet. These non-GAAP financial measures, as determined and presented by the company, may not be comparable to related or similarly titled measures reported by other companies. Set forth below are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

# Non-GAAP Financial Information

## Adjusted Income from Continuing Operations Reconciliation

(in millions, except per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,
	2017	2016	2017
Income from Continuing Operations Attributable to the Company	\$ 49	\$ 42	\$ 86
Adjustments:			
Restructuring costs	-	6	4
Non-cash tax expense <sup>(1)</sup>	11	5	22
Asset impairment charges, net of noncontrolling interests	-	-	2
Income tax benefit	-	(1)	-
Adjusted Income From Continuing Operations Attributable to the Company	\$ 60	\$ 52	\$ 114
Diluted Earnings Per Share From Continuing Operations	\$ 0.52	\$ 0.46	\$ 0.94
Impact of Adjustments on Diluted Earnings Per Share	0.12	0.11	0.31
Adjusted Diluted Earnings Per Share From Continuing Operations	\$ 0.64	\$ 0.57	\$ 1.25
Diluted Shares Outstanding	93.3	92.0	91.4

1. Represents tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carry forwards.



# Non-GAAP Financial Information

<i>(In millions)</i>	Three Months Ended June 30,		Nine Months Ended June 30,
	2017	2016	2017
Net Income Attributable to Meritor, Inc.	\$48	\$41	\$85
Loss from Discontinued Operations	1	1	1
Income From Continuing Operations Attributable to Meritor, Inc.	\$49	\$42	\$86
Interest Expense, Net	21	20	63
Provision for Income Taxes	11	8	30
Depreciation and Amortization	18	17	55
Noncontrolling Interests	3	1	5
Loss on Sale of Receivables	2	2	4
Restructuring Costs	-	6	4
Asset Impairment Charge	(1)	-	2
Adjusted EBITDA	\$103	\$96	\$249
Adjusted EBITDA Margin <sup>(1)</sup>	11.2%	11.4%	10.3%
Unallocated legacy and corporate expense (income), net <sup>(2)</sup>	(2)	3	-
Segment Adjusted EBITDA	\$101	\$99	\$249
<b>Commercial Truck &amp; Industrial</b>			
Segment Adjusted EBITDA	\$75	\$61	\$171
Segment Adjusted EBITDA margin <sup>(3)</sup>	10.3%	9.5%	9.1%
<b>Aftermarket &amp; Trailer</b>			
Segment Adjusted EBITDA	\$26	\$38	\$78
Segment Adjusted EBITDA margin <sup>(3)</sup>	11.4%	16.7%	12.4%

1. Adjusted EBITDA margin equals Adjusted EBITDA divided by consolidated sales from continuing operations.

2. Unallocated legacy and corporate expense (income), net represents items that are not directly related to the company's business segments. These items primarily include asbestos-related charges and settlements, pension and retiree medical costs associated with sold businesses, and other legacy costs for environmental and product liability.

3. Segment adjusted EBITDA margin equals Segment adjusted EBITDA divided by total segment sales.

# Non-GAAP Financial Information

## Free Cash Flow Reconciliation

(in millions)

	Three Months Ended June 30,		Nine Months Ended June 30,
	2017	2016	2017
Cash provided by operating activities	\$ 106	\$ 105	\$ 136
Capital expenditures	(12)	(19)	(52)
Free cash flow	<u>\$ 94</u>	<u>\$ 86</u>	<u>\$ 84</u>

# Non-GAAP Financial Information

<i>(In millions, except per share amounts)</i>	Fiscal Year 2017 Outlook <sup>(1)(2)</sup>
Net Income attributable to Meritor, Inc.	\$ ~110
Loss from Discontinued Operations	-
Income from Continuing Operations Attributable to Meritor, Inc.	\$ ~110
Interest Expense, Net	~85
Provision for Income Taxes	~50
Depreciation and Amortization	~70
Restructuring	~5
Other (noncontrolling interests, loss on sale of receivables, etc.)	~10
Adjusted EBITDA	<u>\$ ~330</u>
Sales	\$ ~3,250
Adjusted EBITDA Margin <sup>(1)</sup>	<u>~10.2%</u>
Diluted earnings per share from Continuing Operations	\$ ~1.20
Adjustments:	
Restructuring Costs	~0.05
Non-Cash tax expense	~0.45
Adjusted diluted earnings per share from Continuing Operations	<u>\$ ~1.70</u>
Diluted average common shares outstanding	~92

1. Amounts are approximate.
2. Based on management's planning assumptions and other factors. Actual results may differ materially from projections as a result of risks and uncertainties. Please see "Forward Looking Statements."

# Non-GAAP Financial Information

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<i>(In millions)</i>	Fiscal Year 2017 Outlook <sup>(1)(2)</sup>
Free Cash Flow:	
Cash provided by operating activities	\$ 165 - 175
Capital expenditures	~(85)
Free cash flow	<u>\$ 80 - 90</u>

1. Amounts are approximate.

2. Based on management's planning assumptions and other factors. Actual results may differ materially from projections as a result of risks and uncertainties. Please see "Forward Looking Statements."

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