



# FISCAL YEAR 2020 SECOND QUARTER EARNINGS PRESENTATION

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*Jay Craig – CEO & President*

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April 30, 2020



# FORWARD-LOOKING Statements

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This presentation contains statements relating to future results of the company (including certain outlooks, 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 the duration and severity of the COVID-19 pandemic and its effects on public health, the global economy, financial markets and operations; 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 European markets or 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 benefits; the ability to achieve the expected benefits of strategic initiatives and restructuring actions; our ability to successfully integrate the products and technologies of Fabco Holdings, Inc., AA Gear Mfg., Inc., AxleTech and Transportation Power, Inc. and future results of such acquisitions, including their generation of revenue and their being accretive; the demand for commercial and specialty vehicles for which we supply products; whether our liquidity will be affected by declining vehicle production 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 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 proceedings or related liabilities with respect to environmental, asbestos-related, or other matters; possible changes in accounting rules; and other substantial costs, risks and uncertainties, including but not limited to those detailed in our Annual Report or Form 10-K for the year ended September 30, 2019 and from time to time in other filings of the company with the SEC. 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.

This presentation also contains certain financial measures that are not reported in accordance with accounting principles generally accepted in the United States ("GAAP"), including 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 and free cash flow. For more information on these non-GAAP financial measures, please see the Appendix - "Non-GAAP Financial Information."

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.

# SECOND QUARTER FY2020 Financial Results

## COVID-19 Operations Impact

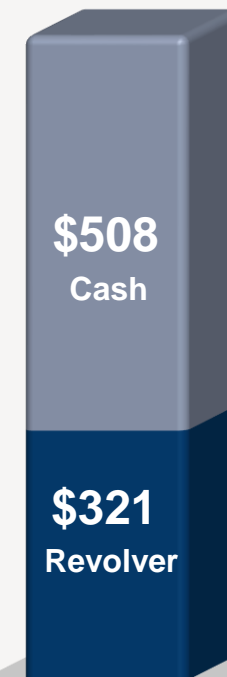
- Commercial Truck operations were impacted as follows:
  - Production suspended at most global locations (excluding China) in late March
  - China production was suspended in mid-January and resumed production in mid-February
- Results were impacted due to changes in customer demand and the impact of government mandates due to COVID-19

## Q2 FY2020 Highlights

Sales	\$871M
Net income from cont. operations attributable to Meritor, Inc.	\$240M <sup>(1)</sup>
Adj. EBITDA Margin	12.3%
Adjusted diluted EPS from cont. operations	\$0.74

## Liquidity

(\$M as of 3/31/20)



- Total liquidity of \$829M
- Liquidity represents approximately 20% of trailing 12-month sales
- Inclusive of \$265M in proceeds from termination of WABCO distribution arrangement

1. Includes \$203 million of after-tax income received from WABCO for termination of distribution arrangement

# SAFE START Protocol in Place

## Site Entry and Common Areas

- Reduce possibility of infected individuals being admitted to Meritor sites
- Lessen risk of transmission in densely populated and high-touch areas



## Operational Heat Maps

- Addressed working conditions where 6' social distancing is difficult
- Implemented protocol for masks and face shields in assembly processes



## Health and Safety Audit

- Preventative health and safety measures audited prior to restart
- Ensured critical supplies and PPE onsite
- Sites will be continually audited to ensure procedures are followed
- Monitor emerging safety requirements and develop best practices



**Jim Misiak**  
Appointed Chief Safety  
Compliance Officer

**Global application for manufacturing, distribution centers, administrative offices and test labs**

## Operational Status

- Supported critical infrastructure throughout crisis:
  - Aftermarket operations continued to run
  - Maintained supply of critical components for fire and rescue, defense and electric terminal tractor customers
- Current:
  - Majority of operations in North America and Europe now running limited production
  - Expect operations in India and South America to begin limited production in early May
  - China is fully operational

## Cost Actions Taken Due to COVID-19

- Pay reductions initiated for salaried employees and board members in April
- Temporary layoffs in place while plants were idled
- Discretionary spending reduced indefinitely
- Reduced capital expenditures for fiscal year 2020
- Stock buyback program suspended

**Operating cash flow is near-term financial focus**

# SECOND QUARTER FY2020 Financial Results

## Company Results

<i>(in millions, except per share amounts)</i> <b>GAAP MEASURES</b>	Three Months Ended March 31,	
	2020	2019
Sales	\$871	\$1,156
Gross Margin	\$114	\$174
Gross Margin %	13.1%	15.1%
Net Income from Continuing Operations <sup>(1)(2)</sup>	\$240	\$73
Cash Provided by Operating Activities <sup>(3)</sup>	\$309	\$40
<b>NON-GAAP MEASURES</b>		
Adjusted EBITDA <sup>(4)</sup>	\$107	\$139
Adjusted EBITDA Margin %	12.3%	12.0%
Adjusted Income from Continuing Operations <sup>(1)(5)</sup>	\$56	\$88
Adjusted Diluted EPS from Continuing Operations <sup>(6)</sup>	\$0.74	\$1.03
Diluted Shares Outstanding	75.3	85.6
Free Cash Flow <sup>(3)</sup>	\$292	\$19

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

2. Three months ended March 31, 2020 includes \$203 million of after-tax income received from WABCO for termination of distribution arrangement

3. Three months ended March 31, 2020 includes \$265 million received from WABCO for termination of distribution arrangement

4. Three months ended March 31, 2020 excludes \$265 million of pre-tax income received from WABCO for termination of distribution arrangement

5. Three months ended March 31, 2020 excludes \$203 million of after-tax income received from WABCO for termination of distribution arrangement

6. GAAP diluted earnings per share from continuing operations attributable to Meritor, Inc. was \$3.19 for Q2 FY20 and \$0.85 for Q2 FY19

## Segment Results

<b>FY20 Q2 vs. FY19 Q2</b> <i>3 Months Ended March 31 (in millions)</i>	Commercial Truck		Aftermarket, Industrial & Trailer	
	2020	2019	2020	2019
Sales	\$588	\$876	\$319	\$329
Segment Adjusted EBITDA	\$55	\$88	\$49	\$52
% of Sales	9.4%	10.0%	15.4%	15.8%

### Commercial Truck

- Sales decrease primarily driven by lower market volumes in most regions including the impact of COVID-19
- Segment adjusted EBITDA and EBITDA margin decrease primarily driven by lower volumes, partially offset by lower incentive compensation costs and material, labor and burden costs

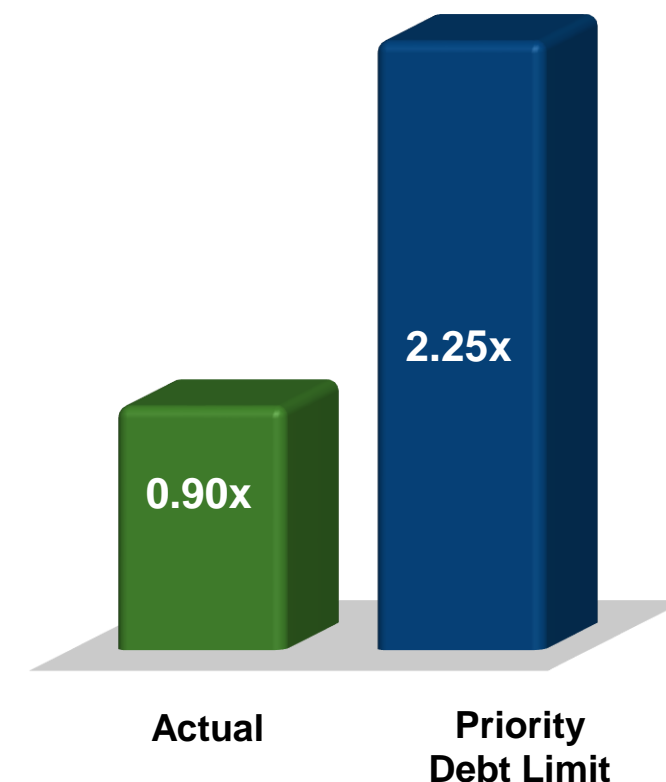
### Aftermarket, Industrial & Trailer

- Sales decrease primarily driven by lower volumes across the segment including the impact of COVID-19, partially offset by sales generated from AxleTech business acquired in Q4 FY19
- Segment adjusted EBITDA and EBITDA margin decrease primarily due to lower volumes, partially offset by lower incentive compensation costs

# DEBT COVENANT and Compliance

- Priority Debt Ratio is sole financial debt covenant in revolving credit facility
- Priority Debt Ratio cannot exceed more than 2.25 times trailing 12-month Compliance EBITDA
- Compliance EBITDA includes income on termination of WABCO distribution arrangement

Priority Debt (\$ millions)		TTM Compliance EBITDA (\$ millions)	
Outstanding Revolver Debt	\$304	Consolidated Net Income	\$408
Term Loan	171	Plus: Interest & Taxes	175
Secured Liens (Capital Leases)	6	Plus: Depreciation & Amortization	94
US Factoring & Securitization	152	Plus/(Minus): Other Gains <sup>(1)</sup>	24
<b>Total Priority Debt</b>	<b>\$633</b>	<b>Total TTM Compliance EBITDA</b>	<b>\$701</b>



**Expect to have full access to revolving credit facility and to be in compliance with Priority Debt Ratio covenant for remainder of year**

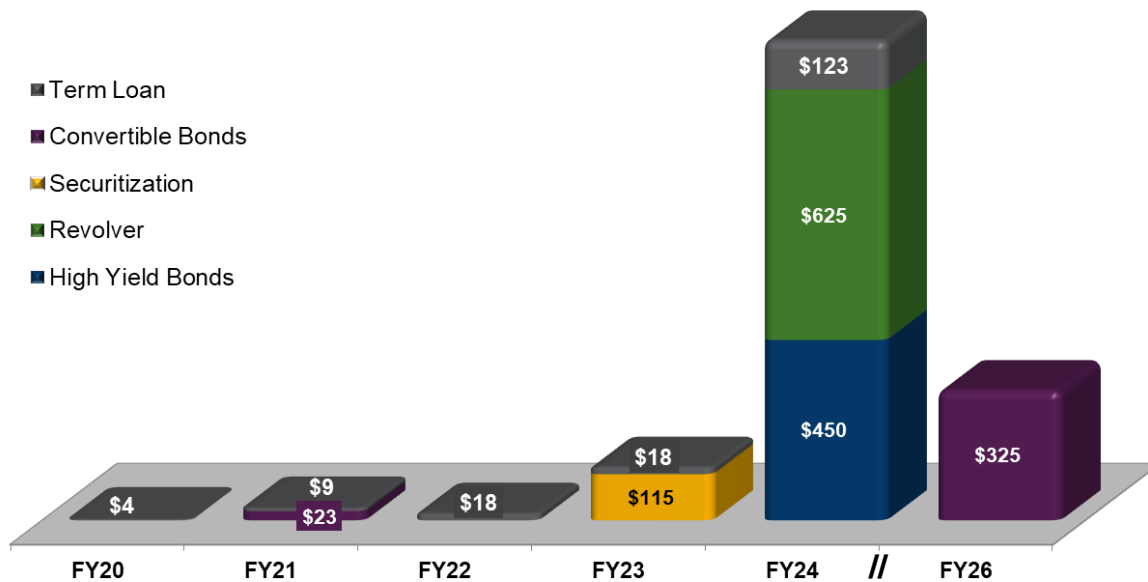
(1) Other gains include extraordinary gains, gains on sale of a business, and any special non-recurring non-cash gains.

# DEBT MATURITY PROFILE and Retirement Obligations

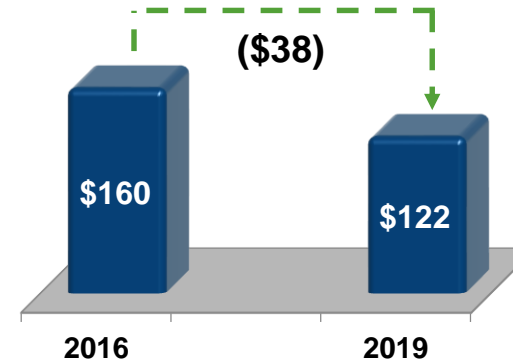
## Debt Maturity Profile<sup>(1)</sup>

As of 03/31/20  
(\$ millions)

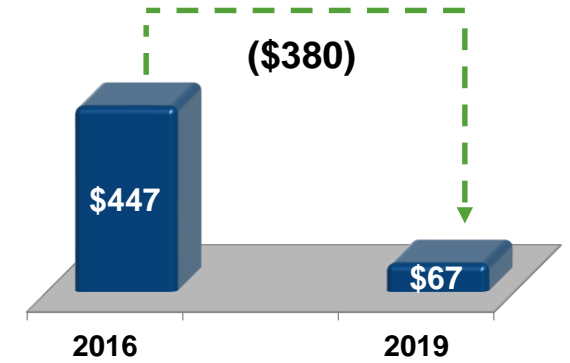
- Term Loan
- Convertible Bonds
- Securitization
- Revolver
- High Yield Bonds



## Net Pension Liability (\$ millions)



## Total OPEB Liability (\$ millions)



- Combined liabilities significantly reduced since 2016
- Limited near-term pension cash contributions expected
- Estimated global pension funded status improved since FY19, driven by a combination of strong U.S. asset returns (up over 10% YTD) and higher discount rates

(1) Amounts shown represent principal amount due (a) at maturity for high yield bonds and (b) on the call/put date for convertible notes. Total size of revolver and securitization facility shown.



# THIRD QUARTER FY2020 Financial Outlook

## Operating Environment Assumptions<sup>(1)</sup>

- Approximately 50%-60% of revenue included in outlook is from China which restarted production in February, and business which continued to operate throughout COVID-19 including:
  - Aftermarket
  - Industrial & Defense
  - Trailer
- Commercial Truck production expected to resume in late April - early May for most global locations
- Large range of revenue outlook is driven primarily by uncertainty of production schedules in North America and Europe
- Cost containment measures implemented are expected to hold sequential Q3 downside earnings conversion to 20%-30%
- Operating cash flow is near-term financial focus

## Outlook

(in millions)	Q3 Outlook
<b>Sales</b>	<b>\$400-\$500</b>
<b>Cash Flow from Operations</b>	<b>(\$150)-(\$225)</b> <i>Includes one-time factoring impact of (\$125) – (\$175)</i>

(1) Changes in operating environment from given assumptions may have a material impact on our results

# LOOKING Ahead



- Health and safety of employees remain a top priority
- Meet global customer demand
- Manage company for expected lower volumes
- Evaluate and implement additional cost reduction actions



**Expect to provide a longer-term outlook on Q3 earnings call if market conditions stabilize**

# APPENDIX

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# 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 and free cash flow.

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, or tax credits 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, non-controlling 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.

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. Free cash flow over adjusted income from continuing operations is a specific financial measure of our M2022 plan used to measure the company's ability to convert earnings to free cash flow.

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 chief operating decision maker 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 free cash flow over adjusted income from continuing operations 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. 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 March 31,	
	2020	2019
Income from Continuing Operations Attributable to the Company	\$ 240	\$ 73
Adjustments:		
Restructuring	10	(1)
Non-cash tax expense <sup>(1)</sup>	8	16
Income from WABCO distribution termination	(265)	-
Transaction costs <sup>(2)</sup>	5	-
Income tax expense <sup>(3)</sup>	58	-
Adjusted Income From Continuing Operations Attributable to the Company	\$ 56	\$ 88
Diluted Earnings per Share from Continuing Operations	\$ 3.19	\$ 0.85
Impact of Adjustments on Diluted Earnings Per Share	(2.45)	0.18
Adjusted Diluted Earnings per Share from Continuing Operations	\$ 0.74	\$ 1.03
Diluted Average Common Shares Outstanding	75.3	85.6

1. Represents tax expense including the use of deferred tax assets in jurisdictions with net operating loss carry forwards or tax credits.

2. Represents transaction fees and inventory step-up amortization related to the acquisitions of AxleTech and TransPower.

3. The three months ended March 31, 2020 includes \$62 million of income tax expense related to the WABCO distribution termination, \$3 million of income tax benefits related to restructuring, and \$1 million of income tax benefits related to AxleTech transaction costs.

# NON-GAAP Financial Information

## Adjusted EBITDA and Segment Adjusted EBITDA Reconciliations

(in millions)

	Three Months Ended March 31,	
	2020	2019
Net Income Attributable to Meritor, Inc.	\$241	\$72
Loss (Income) from Discontinued Operations, net of tax, attributable to Meritor, Inc.	(1)	1
Income From Continuing Operations Attributable to Meritor, Inc.	\$240	\$73
Interest Expense, Net	16	15
Provision for Income Taxes	73	27
Depreciation and Amortization	26	21
Loss on Sale of Receivables	1	2
Restructuring	10	(1)
Income from WABCO distribution termination	(265)	-
Transaction costs	5	-
Noncontrolling Interests	1	2
Adjusted EBITDA	\$107	\$139
Adjusted EBITDA Margin	12.3%	12.0%
Unallocated legacy and corporate expense (income), net <sup>(1)</sup>	(3)	1
Segment Adjusted EBITDA	\$104	\$140
<b>Commercial Truck</b>		
Segment Adjusted EBITDA	\$55	\$88
Segment Adjusted EBITDA Margin	9.4%	10.0%
<b>Aftermarket, Industrial &amp; Trailer</b>		
Segment Adjusted EBITDA	\$49	\$52
Segment Adjusted EBITDA Margin	15.4%	15.8%

1. Unallocated legacy and corporate income (expense), 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.

# NON-GAAP Financial Information

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## Free Cash Flow Reconciliation

*(in millions)*

	Three Months Ended March 31,	
	2020	2019
Cash Provided by Operating Activities	\$ 309	\$ 40
Capital Expenditures	(17)	(21)
Free Cash Flow	<u>\$ 292</u>	<u>\$ 19</u>



**MERITOR**  
RUN WITH THE BULL