

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 3, 2018

MERITOR, INC.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction  
of incorporation)

1-15983

(Commission  
File No.)

38-3354643

(IRS Employer  
Identification No.)

2135 West Maple Road

Troy, Michigan

(Address of principal executive offices)

48084-7186

(Zip code)

Registrant's telephone number, including area code: (248) 435-1000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

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.

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**Item 2.02. Results of Operations and Financial Condition**

On May 3, 2018, Meritor, Inc. ("Meritor") issued a press release, and will hold a conference call regarding its financial results for the second quarter ended March 31, 2018. The release is furnished as Exhibit 99-a to this Form 8-K. The presentation by Meritor accompanying the above-referenced conference call will be posted on the Meritor website ([www.meritor.com](http://www.meritor.com)).

The information in item 2.02 of this Form 8-K and the exhibit attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

**Item 9.01. Financial Statements and Exhibits**

(d) Exhibits

99-a – [Press release of Meritor, Inc., dated May 3, 2018](#)

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**SIGNATURES**

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

MERITOR, INC.

By: /s/ April Miller Boise  
April Miller Boise  
Senior Vice President, Chief Legal Officer &  
Corporate Secretary

Date: May 3, 2018



**CONTACTS:**

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## **Meritor Reports Second-Quarter Fiscal Year 2018 Results**

### ***Raises Full Year Outlook***

**TROY, Mich. (May 3, 2018)** - Meritor, Inc. (NYSE: **MTOR**) today reported financial results for its second fiscal quarter ended March 31, 2018.

#### **Second-Quarter Highlights**

- Sales of \$1,066 million
- Net income attributable to the company and net income from continuing operations attributable to the company of \$57 million, or \$0.63 per diluted share
- Adjusted income from continuing operations attributable to the company of \$68 million, or \$0.75 per adjusted diluted share
- Adjusted EBITDA of \$122 million and adjusted EBITDA margin of 11.4 percent

#### **Second-Quarter Results**

For the second quarter of fiscal year 2018, Meritor posted sales of \$1,066 million, up \$260 million or approximately 32 percent, from the same period last year. The increase in revenue was

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primarily driven by higher production in all of our major markets. Sales for the quarter were also favorably impacted by new business wins and favorable foreign currency.

Net income attributable to the company and net income from continuing operations attributable to the company were \$57 million, or \$0.63 per diluted share, compared to \$22 million, or \$0.24 per diluted share, in the same period last year. Higher net income year over year was driven primarily by conversion on increased revenue.

Adjusted income from continuing operations attributable to the company in the second quarter of fiscal year 2018 was \$68 million, or \$0.75 per adjusted diluted share, compared to \$32 million, or \$0.35 per adjusted diluted share, in the same period last year.

Adjusted EBITDA was \$122 million, compared to \$82 million in the second quarter of fiscal year 2017. Adjusted EBITDA margin for the second quarter of fiscal year 2018 was 11.4 percent, compared to 10.2 percent in the same period last year. Higher adjusted EBITDA and adjusted EBITDA margin year over year were driven primarily by conversion on higher revenue, \$11 million of lower pension and retiree medical benefits and a one-time \$10 million legal charge related to a dispute with a joint venture in the prior year that did not repeat. These increases were partially offset by incremental environmental reserves of \$8 million principally related to a legacy site and \$5 million of lower affiliate earnings arising from the sale of the company's interest in the Meritor WABCO joint venture in the previous year.

Cash flow provided by operating activities in the second quarter of fiscal year 2018 was \$39 million, a decrease of \$5 million from the same period a year ago. Free cash flow was \$22 million compared to \$21 million in the same period last year.

### **Reportable Segment Changes**

On March 12, 2018, the company's reportable segments were modified. As of the second quarter of fiscal year 2018, Meritor's reportable segments are:

- Commercial Truck & Trailer
- Aftermarket & Industrial

Prior year reportable segment financial results have been recast for these changes.

### **Second-Quarter Segment Results**

Commercial Truck & Trailer sales for the second quarter of fiscal year 2018 were \$854 million, up \$236 million or 38 percent, compared to the same period last year. The increase in sales was

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primarily driven by higher production in all of our major markets. Higher sales in the quarter were also driven by the continued benefits from new business wins, as well as favorable foreign currency.

Segment adjusted EBITDA for the Commercial Truck & Trailer segment was \$96 million for the quarter, up \$44 million from the second quarter of fiscal year 2017. Segment adjusted EBITDA margin was 11.2 percent, up from 8.4 percent in the same period last year. The increase in segment adjusted EBITDA was driven primarily by conversion on higher revenue, a one-time legal charge related to a dispute with a joint venture in the prior year that did not repeat and the favorable impact of changes to retiree medical benefits, partially offset by higher variable compensation and lower affiliate earnings arising from the sale of the company's interest in the Meritor WABCO joint venture in the previous year.

The Aftermarket & Industrial segment posted sales of \$256 million, up \$30 million from the same period a year ago. The increase in sales was primarily driven by higher sales in our Industrial business, which included sales from the business that was acquired in the fourth quarter of fiscal year 2017.

Segment adjusted EBITDA for Aftermarket & Industrial was \$36 million for the quarter, up \$4 million from the second quarter of fiscal year 2017. Segment adjusted EBITDA margin decreased to 14.1 percent from 14.2 percent in the same period last year. The increase in segment adjusted EBITDA was driven primarily by the favorable impact of changes to retiree medical benefits, partially offset by higher material and freight costs.

### **Outlook for Fiscal Year 2018**

The company's guidance for fiscal year 2018 has been revised from the prior quarter as follows:

- Revenue to be in the range of \$4.0 billion to \$4.1 billion.
- Net income attributable to the company to be in the range of \$130 million to \$145 million.
- Adjusted EBITDA margin to be approximately 11.2 percent.
- Adjusted diluted earnings per share from continuing operations to be in the range of \$2.70 to \$2.85.
- Operating cash flow to be in the range of \$220 million to \$235 million.
- Free cash flow to be in the range of \$120 million to \$135 million.

"With the revenue tailwinds we expect to continue in the second half, in addition to new business and market share wins, our full year guidance has improved measurably," said Jay Craig, CEO and

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president. "We believe that our performance in fiscal 2018 will put us very close to achieving our M2019 earnings per share target a year early."

### **Second-Quarter Fiscal Year 2018 Conference Call**

Meritor, Inc. will host a conference call and webcast to discuss the company's second-quarter results for fiscal year 2018 on Thursday, May 3 at 9 a.m. ET.

To participate, call (844) 412-1003 (within the United States) or (216) 562-0450 (international) at least 10 minutes prior to the start of the call. Please reference conference ID 6496728 when registering. Investors can also listen to the conference call in real time or access a recording of the call for seven days after the event by visiting the Investors page on meritor.com.

A replay of the call will be available starting at 12 p.m. ET on May 3, until 12 p.m. ET on May 10 by calling (855) 859-2056 (within the United States) or (404) 537-3406 for international calls. Please refer to replay conference ID 6496728. To access the listen-only audio webcast, visit meritor.com and select the webcast link from the Investors page.

### **About Meritor**

Meritor, Inc. is a leading global supplier of drivetrain, mobility, braking and aftermarket solutions for commercial vehicle and industrial markets. With more than a 100-year legacy of providing innovative products that offer superior performance, efficiency and reliability, the company serves commercial truck, trailer, off-highway, defense, specialty and aftermarket customers around the world. Meritor is based in Troy, Mich., United States, and is made up of approximately 8,200 diverse employees who apply their knowledge and skills in manufacturing facilities, engineering centers, joint ventures, distribution centers and global offices in 19 countries. Meritor common stock is traded on the New York Stock Exchange under the ticker symbol MTOR. For important information, visit the company's website at [www.meritor.com](http://www.meritor.com).

### **Forward-Looking Statement**

*This release contains statements relating to future results of the Company 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*

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*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. and AA Gear Mfg., 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 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 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; the actual impacts of our modifications to benefits provided to certain former union employee retirees on the company's balance sheet, earnings and amount of cash payments; possible changes in accounting rules; ineffective internal controls; and other substantial costs, risks and uncertainties, including but not limited to those detailed in our Annual Report on Form 10-K for the year ended September 30, 2017, as amended 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. 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 generally 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.*

### **Non-GAAP Financial Measures**

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

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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 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 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.

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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.

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MERITOR, INC.  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)  
(In millions, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Sales	\$ 1,066	\$ 806	\$ 1,969	\$ 1,505
Cost of sales	(888)	(685)	(1,651)	(1,295)
<b>GROSS MARGIN</b>	<b>178</b>	<b>121</b>	<b>318</b>	<b>210</b>
Selling, general and administrative	(74)	(66)	(141)	(119)
Restructuring costs	(1)	(4)	(3)	(4)
Other operating expense, net	(11)	(2)	(12)	(5)
<b>OPERATING INCOME</b>	<b>92</b>	<b>49</b>	<b>162</b>	<b>82</b>
Other expense, net	—	—	(1)	—
Equity in earnings of affiliates	6	8	11	18
Interest expense, net	(16)	(21)	(40)	(42)
<b>INCOME BEFORE INCOME TAXES</b>	<b>82</b>	<b>36</b>	<b>132</b>	<b>58</b>
Provision for income taxes	(22)	(13)	(105)	(19)
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>60</b>	<b>23</b>	<b>27</b>	<b>39</b>
<b>LOSS FROM DISCONTINUED OPERATIONS, net of tax</b>	<b>—</b>	<b>—</b>	<b>(1)</b>	<b>—</b>
<b>NET INCOME</b>	<b>60</b>	<b>23</b>	<b>26</b>	<b>39</b>
Less: Net income attributable to noncontrolling interests	(3)	(1)	(5)	(2)
<b>NET INCOME ATTRIBUTABLE TO MERITOR, INC.</b>	<b>\$ 57</b>	<b>\$ 22</b>	<b>\$ 21</b>	<b>\$ 37</b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.</b>				
Net income from continuing operations	\$ 57	\$ 22	\$ 22	\$ 37
Loss from discontinued operations	—	—	(1)	—
Net income	\$ 57	\$ 22	\$ 21	\$ 37
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>				
Continuing operations	\$ 0.63	\$ 0.24	\$ 0.24	\$ 0.41
Discontinued operations	—	—	(0.01)	—
Diluted earnings per share	\$ 0.63	\$ 0.24	\$ 0.23	\$ 0.41
<b>Diluted average common shares outstanding</b>	<b>91.2</b>	<b>92.0</b>	<b>91.3</b>	<b>90.2</b>

MERITOR, INC.  
CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)  
(in millions)

	March 31, 2018	September 30, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 100	\$ 88
Restricted cash	9	—
Receivables, trade and other, net <sup>(1)</sup>	581	789
Inventories <sup>(1)</sup>	455	378
Other current assets	41	43
<b>TOTAL CURRENT ASSETS</b>	<b>1,186</b>	<b>1,298</b>
NET PROPERTY <sup>(1)</sup>	459	474
GOODWILL <sup>(1)</sup>	418	414
OTHER ASSETS <sup>(1)</sup>	532	596
<b>TOTAL ASSETS</b>	<b>\$ 2,595</b>	<b>\$ 2,782</b>
<b>LIABILITIES, MEZZANINE EQUITY AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term debt	\$ 77	\$ 288
Accounts and notes payable <sup>(1)</sup>	692	622
Other current liabilities	249	272
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,018</b>	<b>1,182</b>
LONG-TERM DEBT	728	750
RETIREMENT BENEFITS	291	314
OTHER LIABILITIES	244	239
<b>TOTAL LIABILITIES</b>	<b>2,281</b>	<b>2,485</b>
<b>MEZZANINE EQUITY:</b>		
Convertible debt with cash settlement	2	2
<b>EQUITY:</b>		
Common stock (March 31, 2018 and September 30, 2017, 102.1 and 101.4 shares issued and 87.9 and 88.6 shares outstanding, respectively)	102	101
Additional paid-in capital	775	765
Retained earnings	104	83
Treasury stock, at cost (March 31, 2018 and September 30, 2017, 14.2 and 12.8 shares, respectively)	(169)	(136)
Accumulated other comprehensive loss	(530)	(545)
<b>Total equity attributable to Meritor, Inc.</b>	<b>282</b>	<b>268</b>
Noncontrolling interests <sup>(1)</sup>	30	27
<b>TOTAL EQUITY</b>	<b>312</b>	<b>295</b>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY</b>	<b>\$ 2,595</b>	<b>\$ 2,782</b>

<sup>(1)</sup> As of March 31, 2018, Assets and liabilities held for sale consisted of \$3 million Net property. As of September 30, 2017, Assets and liabilities held for sale were: (i) \$1 million Cash and cash equivalents; (ii) \$13 million Receivables, trade and other, net; (iii) \$2 million Inventories; (iv) \$3 million Net property; (v) \$1 million Goodwill; (vi) \$1 million Other assets; (vii) \$12 million Accounts and notes payable; and (viii) \$2 million Noncontrolling interests.

MERITOR, INC.  
ADJUSTED EBITDA AND SEGMENT ADJUSTED EBITDA-RECONCILIATION  
Non-GAAP  
AND  
CONSOLIDATED BUSINESS SEGMENT SALES INFORMATION  
(Unaudited)  
(dollars in millions)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income attributable to Meritor, Inc.	\$ 57	\$ 22	\$ 21	\$ 37
Loss from discontinued operations, net of tax, attributable to Meritor, Inc.	—	—	1	—
Income from continuing operations, net of tax, attributable to Meritor, Inc.	\$ 57	\$ 22	\$ 22	\$ 37
Interest expense, net	16	21	40	42
Provision for income taxes	22	13	105	19
Depreciation and amortization	21	20	42	37
Noncontrolling interests	3	1	5	2
Loss on sale of receivables	—	1	2	2
Asset impairment charges	2	—	2	3
Restructuring costs	1	4	3	4
Adjusted EBITDA	\$ 122	\$ 82	\$ 221	\$ 146
Adjusted EBITDA margin <sup>(1)</sup>	11.4%	10.2%	11.2%	9.7%
Unallocated legacy and corporate expense (income), net <sup>(2)</sup>	10	2	12	2
Segment adjusted EBITDA	\$ 132	\$ 84	\$ 233	\$ 148
<b>Commercial Truck &amp; Trailer <sup>(3)</sup></b>				
Segment adjusted EBITDA	\$ 96	\$ 52	\$ 165	\$ 92
Segment adjusted EBITDA margin <sup>(4)</sup>	11.2%	8.4%	10.5%	8.0%
<b>Aftermarket &amp; Industrial <sup>(3)</sup></b>				
Segment adjusted EBITDA	\$ 36	\$ 32	\$ 68	\$ 56
Segment adjusted EBITDA margin <sup>(4)</sup>	14.1%	14.2%	14.0%	13.3%
<b>Sales <sup>(3)</sup></b>				
Commercial Truck & Trailer	\$ 854	\$ 618	\$ 1,567	\$ 1,155
Aftermarket & Industrial	256	226	485	422
Intersegment Sales	(44)	(38)	(83)	(72)
Total Sales	\$ 1,066	\$ 806	\$ 1,969	\$ 1,505

<sup>(1)</sup> Adjusted EBITDA margin equals adjusted EBITDA divided by consolidated sales from continuing operations.

<sup>(2)</sup> 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.

<sup>(3)</sup> Amounts for the three and six months ended March 31, 2017 have been recast to reflect reportable segment changes.

<sup>(4)</sup> Segment adjusted EBITDA margin equals segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment as applicable.

MERITOR, INC.  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited, in millions)

	Six Months Ended March 31,	
	2018	2017
<b>OPERATING ACTIVITIES</b>		
Income from continuing operations	\$ 27	\$ 39
Adjustments to income from continuing operations to arrive at cash provided by operating activities:		
Depreciation and amortization	42	37
Deferred income tax expense	84	12
Restructuring costs	3	4
Loss on debt extinguishment	8	—
Equity in earnings of affiliates	(11)	(18)
Asset impairment charges	2	3
Pension and retiree medical expense (income)	(16)	7
Other adjustments to income from continuing operations	9	8
Dividends received from equity method investments	6	13
Pension and retiree medical contributions	(14)	(19)
Restructuring payments	(4)	(7)
Changes in off-balance sheet accounts receivable securitization and factoring programs	19	19
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(83)	(68)
Operating cash flows provided by continuing operations	72	30
Operating cash flows provided by discontinued operations	—	—
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>72</b>	<b>30</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(35)	(40)
Proceeds from prior year sale of equity method investment	250	—
Cash paid for investment in Transportation Power, Inc.	(3)	—
Proceeds from sale of a business	4	—
Net investing cash flows provided by discontinued operations	—	2
<b>CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>216</b>	<b>(38)</b>
<b>FINANCING ACTIVITIES</b>		
Borrowings and securitization	(60)	—
Redemption of notes	(181)	—
Debt issuance costs	—	(4)
Other financing activities	(2)	(11)
Net change in debt	(243)	(15)
Repurchase of common stock	(33)	—
<b>CASH USED FOR FINANCING ACTIVITIES</b>	<b>(276)</b>	<b>(15)</b>
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	1
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>12</b>	<b>(22)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>88</b>	<b>160</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 100</b>	<b>\$ 138</b>

MERITOR, INC.  
**ADJUSTED INCOME AND EARNINGS PER SHARE — RECONCILIATION**  
Non-GAAP  
(Unaudited)  
(in millions, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Income from continuing operations attributable to Meritor, Inc.	\$ 57	\$ 22	\$ 22	\$ 37
Adjustments:				
Restructuring costs	1	4	3	4
Loss on debt extinguishment	—	—	8	—
Asset impairment charges, net of noncontrolling interests	2	—	2	2
Non-cash tax expense <sup>(1)</sup>	9	6	14	11
US. tax reform impacts <sup>(2)</sup>	(1)	—	76	—
Income tax benefits	—	—	(2)	—
Adjusted income from continuing operations attributable to Meritor, Inc.	<u>\$ 68</u>	<u>\$ 32</u>	<u>\$ 123</u>	<u>\$ 54</u>
Diluted earnings per share from continuing operations	\$ 0.63	\$ 0.24	\$ 0.24	\$ 0.41
Impact of adjustments on diluted earnings per share	0.12	0.11	1.11	0.19
Adjusted diluted earnings per share from continuing operations	<u>\$ 0.75</u>	<u>\$ 0.35</u>	<u>\$ 1.35</u>	<u>\$ 0.60</u>
Diluted average common shares outstanding	91.2	92.0	91.3	90.2

<sup>(1)</sup> Represents tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carry forwards.

<sup>(2)</sup> The six months ended March 31, 2018 include \$42 million of non-cash tax expense related to the revaluation of our deferred tax assets and liabilities as a result of the U.S. tax reform and \$34 million of non-cash tax expense related to the one-time deemed repatriation of accumulated foreign earnings, which has no cash tax impact due to the use of foreign tax credits.

**MERITOR, INC.**  
**FREE CASH FLOW — RECONCILIATION**  
**Non-GAAP**  
**(Unaudited, in millions)**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Cash provided by operating activities	\$ 39	\$ 44	\$ 72	\$ 30
Capital expenditures	(17)	(23)	(35)	(40)
Free cash flow	\$ 22	\$ 21	\$ 37	\$ (10)

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MERITOR, INC.  
OUTLOOK FOR FISCAL YEAR 2018— RECONCILIATIONS  
Non-GAAP  
(Unaudited)  
(in millions, except per share amounts)

	Fiscal Year 2018 Outlook <sup>(1)</sup>
Net income attributable to Meritor, Inc.	\$130-\$145
Loss from Discontinued Operations, net of tax, attributable to Meritor, Inc.	—
Income from Continuing Operations, net of tax, attributable to Meritor, Inc.	\$130-\$145
Interest expense, net	~65
Provision for income taxes	~140
Depreciation and amortization	~85
Restructuring	~5
Other (noncontrolling interests, loss on sale of receivables, etc.)	~20
<b>Adjusted EBITDA</b>	<b>\$445-\$460</b>
Sales	\$4,000-\$4,100
Adjusted EBITDA margin <sup>(2)</sup>	~11.2%
Diluted earnings per share from continuing operations	\$1.40-\$1.55
Adjustments:	
Restructuring costs	~0.05
Loss on debt extinguishment	~0.10
Non-cash tax expense <sup>(3)</sup>	~1.15
Adjusted diluted earnings per share from continuing operations	\$2.70-\$2.85
Diluted average common shares outstanding	~91.5
Cash flows provided by operating activities	\$220-\$235
Capital expenditures	~(100)
Free cash flow	\$120-\$135

<sup>(1)</sup> Amounts are approximate.

<sup>(2)</sup> Adjusted EBITDA margin equals adjusted EBITDA divided by consolidated sales from continuing operations.

<sup>(3)</sup> Represents tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carry forwards and the Tax Cuts and Jobs Act impact.

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