# Fiscal Year 2016 First Quarter Earnings Presentation

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MERITOR

# Forward-Looking Statements

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 original equipment manufacturer (“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, in the event one or more countries exit the European monetary union; risks inherent in operating abroad (including foreign currency exchange rates, implications of foreign regulations relating to pensions and potential disruption of production and supply due to terrorist attacks or acts of aggression); rising costs of pension and other postemployment benefits; the ability to achieve the expected benefits of 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 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 or asbestos-related matters; possible changes in accounting rules; 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. 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.

# First Quarter 2016 Financial Highlights

## Strong Financial Performance [1][2]

- Adjusted EBITDA margin of 9.4% (prior year of 9.0%)
- Adjusted Diluted EPS from Continuing Operations of $0.33

## New Business Wins

- Standard position on rear axles and drivelines with PACCAR
- Secured ~ 90% of M2016 new business win target

## Capital Allocation

- Repurchased 3.9 million common shares
- Reduced common shares outstanding by 7% since December 2014

M2016 align. achieve. advance.

## On Track for M2016 Targets

1. See Appendix – "Non-GAAP Financial Information."
2. GAAP net income attributable to Meritor, Inc. was $26 million for Q1 FY 2016 and $29 million for Q1 FY 2015. GAAP income from continuing operations attributable to Meritor, Inc. was $28 million for Q1 FY 2016 and $32 million for Q1 FY 2015. GAAP diluted earnings per share from continuing operations attributable to Meritor, Inc. were $0.30 for Q1 FY 2016 and $0.32 for Q1 FY 2015.

# North America Market[1] (units in 000s)

## Class 8 Meritor Estimates

| FY16 Q1 | FY16 Q2 | FY16 Q3 | FY16 Q4 | | FY16 | Prior Outlook |
|---|---|---|---|---|---|---|
| 72 | 67 | 64 | 62 | | ~265 | 275-290 |
| | CY16 Q1 | CY16 Q2 | CY16 Q3 | CY16 Q4[2] | CY16 | |
| | 67 | 64 | 62 | 56-60 | ~250 | |

## NA Class 8 Market Sensitivities

| Revenue | EBITDA[3] |
|---|---|
| For every 5,000 production units, revenue impact is ~ $20 million | Normal incremental conversion (upside and downside) expected to be maintained at ~15-20% |

**Lower Class 8 market assumptions result in a modest impact on earnings and free cash flow outlook**

1. Prior and FY16 Outlook based on Meritor estimates. Actual results may differ materially from projections as a result of risk and uncertainties. Please see "Forward Looking Statements."
2. CY16 Q4 estimate is average of ACT CY16 Q4 North America Class 8 truck forecast of 56 (published Jan. 2016) and FTR CY15 Q4 Class 8 truck forecast of 60 (published Jan. 2016)
3. See Appendix – "Non-GAAP Financial Information."

# FY16 Global Market Outlook[1] (units in 000s)

## North America

| Production | Prior Outlook | FY16 Outlook |
|---|---|---|
| Heavy Duty (Class 8) | 275-290 | ~265 |
| Medium Duty (Class 5-7) | 210-220 | Unchanged |
| U.S. Trailers | 295-305 | Unchanged |

- Net order intake softening
- Inventory levels increasing
- Backlog decreasing

**Lower Class 8 Market**

## Western Europe

| Production | Prior Outlook | FY16 Outlook |
|---|---|---|
| Medium and Heavy Duty | 410-420 | Unchanged |

- Economic indicators trending positive
- Truck registrations increasing
- Freight fundamentals improving

**Moderate Growth**

## India

| Production | Prior Outlook | FY16 Outlook |
|---|---|---|
| Medium and Heavy Duty | 290-300 | Unchanged |

- Strong GDP growth
- Increased demand for higher tonnage vehicles

**Growing Market**

## South America

| Production | Prior Outlook | FY16 Outlook |
|---|---|---|
| Medium and Heavy Duty | 70-80 | Unchanged |

- GDP continues to contract
- Political uncertainty persists
- Less favorable financing subsidies

**Recession**

## China

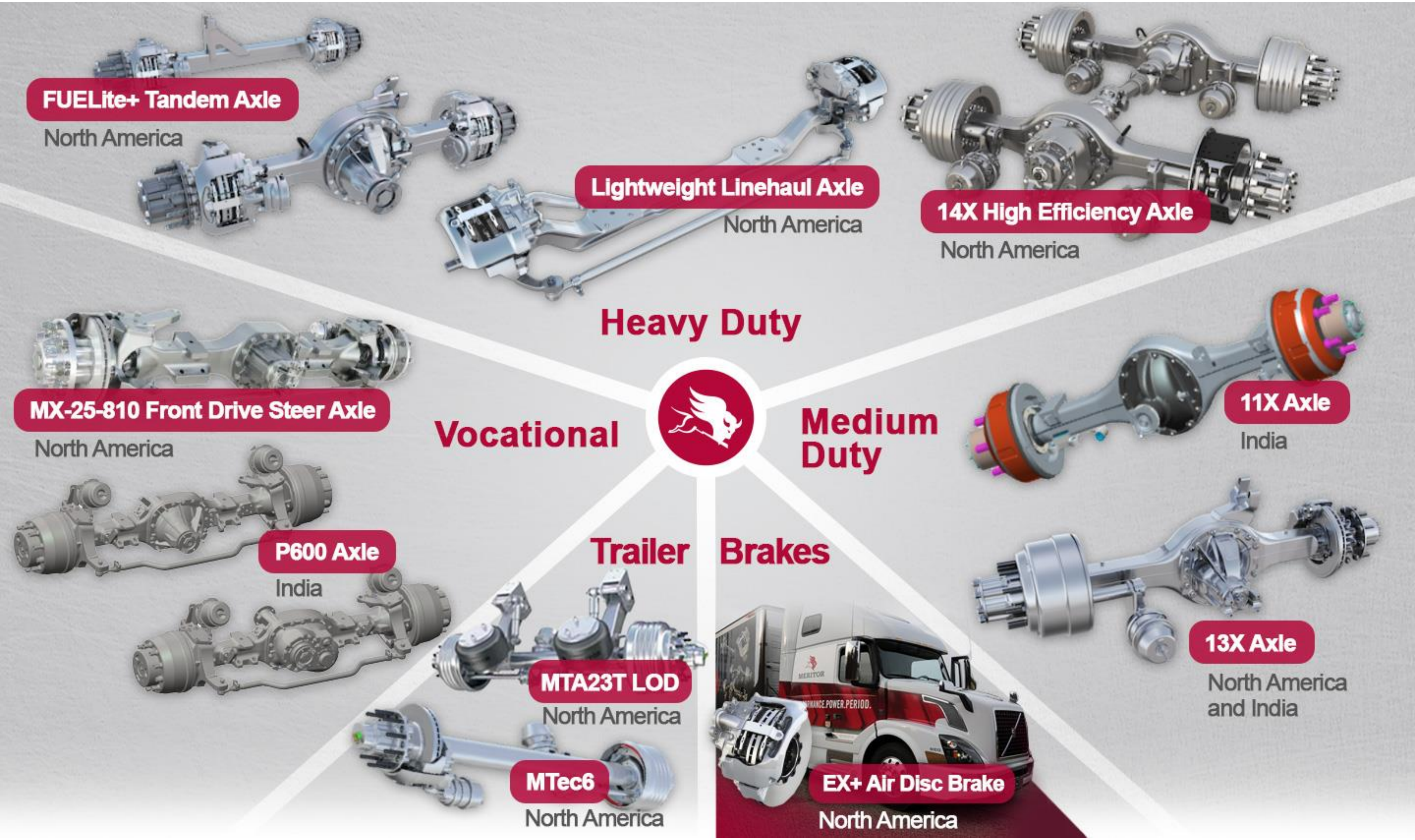
| | Prior Outlook | FY16 Outlook |
|---|---|---|
| **Revenue** (Incl. exports) | ~$100M | Unchanged |

- Construction and mining markets remain challenged
- GDP growth uncertainty
- Bus and coach market stable

**Flat**

1. Prior and FY16 Outlooks based on Meritor estimates. Actual results may differ materially from projections as a result of risk and uncertainties. Please see "Forward Looking Statements."

# Strong Product Investment Continues



# First Quarter 2016 Income Statement

| (in millions, except per share amounts) | 1st Quarter 2016 | 1st Quarter 2015[3] | Change |
|---|---|---|---|
| Sales | $ 809 | $ 879 | $ (70) |
| Gross Margin | 104 | 115 | (11) |
| SG&A | (56) | (65) | 9 |
| Restructuring Costs | (1) | (3) | 2 |
| Other Operating Income | - | 1 | (1) |
| Operating Income | 47 | 48 | (1) |
| Equity in Earnings of Affiliates | 10 | 9 | 1 |
| Interest Expense, net | (22) | (19) | (3) |
| Other Income, net | 1 | 2 | (1) |
| Income Before Income Taxes | 36 | 40 | (4) |
| Provision for Income Taxes | (7) | (7) | - |
| Noncontrolling Interests | (1) | (1) | - |
| Income From Continuing Operations Attributable to Meritor, Inc. | $ 28 | $ 32 | $ ( 4) |
| Total adjustments | 3 | 4 | (1) |
| **Adjusted Income From Continuing Operations**[1] | **$ 31** | **$ 36** | **$ (5)** |
| | | | |
| **Adjusted Diluted Earnings Per Share From Continuing Operations**[1][2] | **$ 0.33** | **$ 0.36** | **$ (0.03)** |

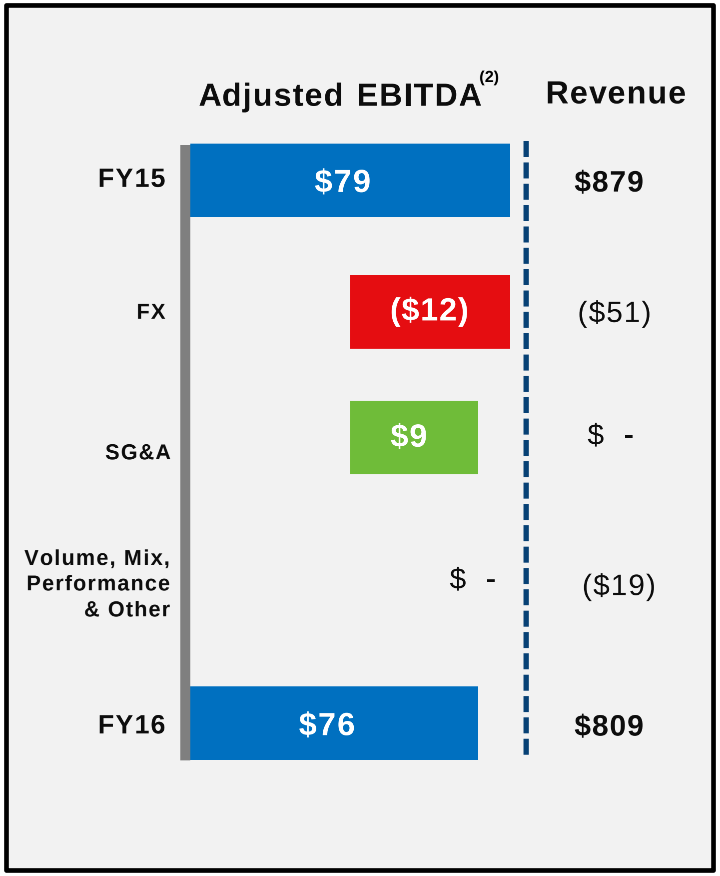
1. See Appendix – "Non-GAAP Financial Information".
2. GAAP diluted earnings per share from continuing operations attributable to Meritor, Inc. was $0.30 for Q1 FY16 and $0.32 for Q1 FY15.
3. The three months ended December 31, 2014 have been recast to reflect non-cash tax expense.

# First Quarter 2016 Financial Results

## Three Months Ended December 31,

| *(in millions, except per share amounts)* | 2015 | 2014 |
|---|---|---|
| **Sales** | | |
| Commercial Truck & Industrial | $633 | $703 |
| Aftermarket & Trailer | 203 | 208 |
| Intersegment Sales | (27) | (32) |
| **Total Sales** | **$809** | **$879** |
| **EBITDA** | | |
| Commercial Truck & Industrial | $52 | $56 |
| Aftermarket & Trailer | 20 | 25 |
| **Segment EBITDA[1]** | **$72** | **$81** |
| Unallocated legacy and corporate costs, net | 4 | (2) |
| **Adjusted EBITDA[2]** | **$76** | **$79** |
| **Adjusted EBITDA Margin[2]** | **9.4%** | **9.0%** |

## FY16 Q1 vs. FY15 Q1[1]




1. Meritor uses Segment 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."

# First Quarter 2016 Business Results

*(in millions)*

## Commercial Truck and Industrial

| | 1st Quarter 2016 | 1st Quarter 2015 | Better/(Worse) $ | Better/(Worse) % |
|---|---|---|---|---|
| Sales | $633 | $703 | $(70) | (10%) |
| Segment EBITDA[1] | $52 | $56 | $(4) | (7%) |
| % of Sales[2] | 8.2% | 8.0% | 0.2 pts | |

### Performance Drivers

**Sales Decrease:**

- Primarily driven by FX translation headwinds in Brazil and Europe and lower production in Brazil

**EBITDA Margin Increase**:

- Primarily driven by lower material, labor and burden costs

## Aftermarket and Trailer

| | 1st Quarter 2016 | 1st Quarter 2015 | Better/(Worse) $ | Better/(Worse) % |
|---|---|---|---|---|
| Sales | 203 | 208 | $(5) | (2%) |
| Segment EBITDA[1] | $20 | $25 | $(5) | (20%) |
| % of Sales[2] | 9.9% | 12.0% | (2.1) pts | |

### Performance Drivers

**Sales Decrease:**

- Primarily driven by FX translation headwinds impacting European aftermarket business

**EBITDA Margin Decrease:**

- Primarily driven by FX impacts and launch costs associated with a new warehouse system

1. Meritor uses Segment EBITDA as the primary basis for the chief operating decision maker to evaluate the performance of each of the company's reportable segments.
2. Segment EBITDA margin is defined as Segment EBITDA divided by consolidated segment sales.

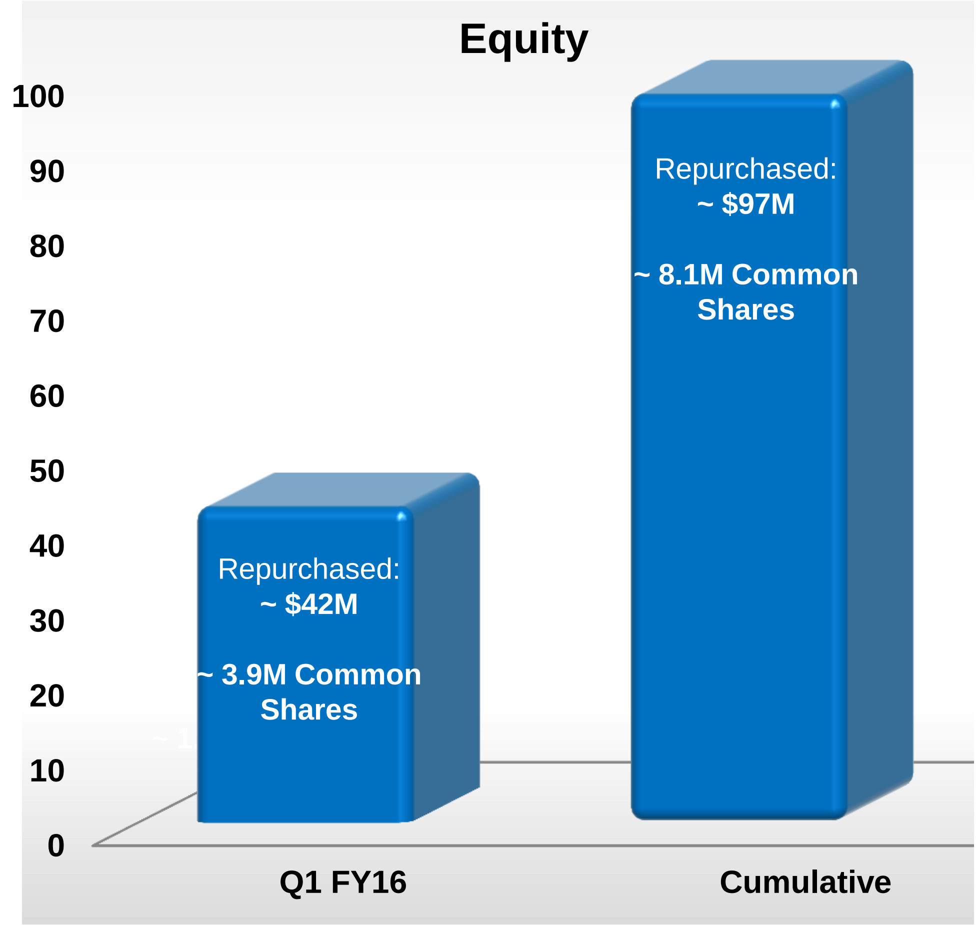
# Free Cash Flow[1]

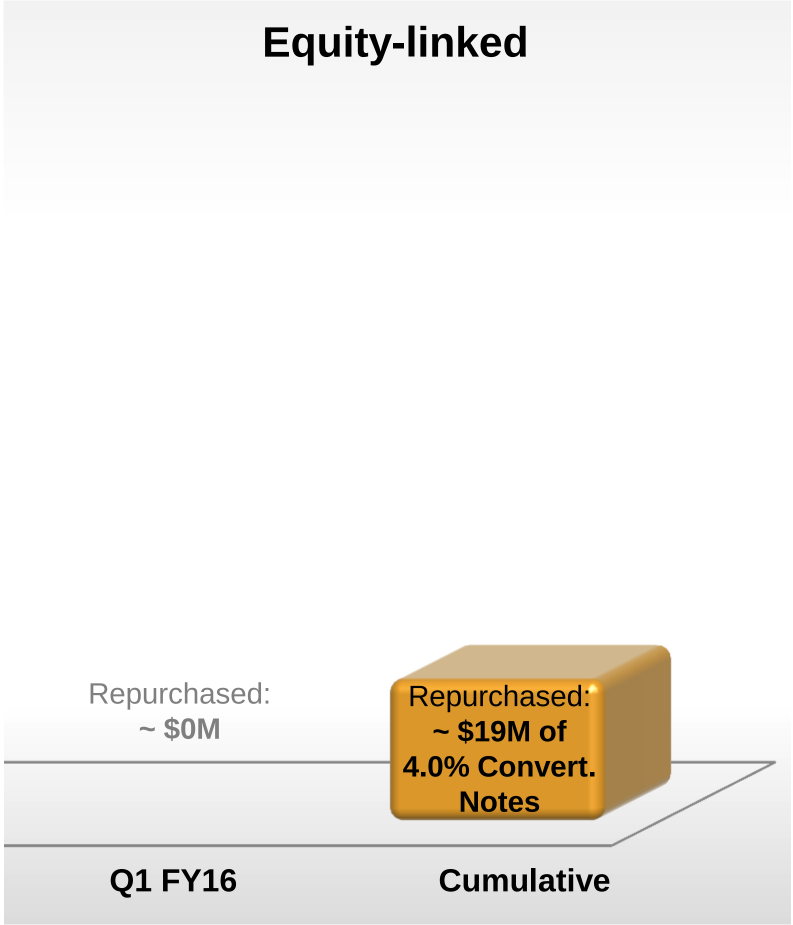
| | Three Months Ended December 31, | |
|---|---|---|
| *(in millions)* | 2015 | 2014 |
| Income From Continuing Operations | $29 | $33 |
| Net Capital Spending (D&A less Capital Expenditures) | (7) | 3 |
| Pension and Retiree Medical, net of expense | (8) | (7) |
| Performance Working Capital[2] | (18) | (1) |
| Asbestos Insurance Proceeds | 12 | - |
| Incentive Compensation, net of expense | (24) | (29) |
| Other | (11) | (20) |
| **Free Cash Flow [1]** | **$(27)** | **$(21)** |
| Memo: Cash Flow Used For Operations | $(5) | $(9) |

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.

# Equity Repurchase Program

*(in millions)*




**Cumulative repurchases of ~$116M**
**On track to complete $210M program this fiscal year**

# Fiscal Year 2016 Outlook

| **Continuing Operations** (in millions, except per share amounts) | **FY16 Current Outlook**[1][2] | **FY16 Previous Outlook**[1] |
|---|---|---|
| Sales | ~ $3,400 | $3,400 – $3,500 |
| Adjusted EBITDA Margin | 10.0% | 10.0% |
| Adjusted Diluted EPS from Continuing Operations | $1.65 - $1.75 | $1.70 - $1.80 |
| Free Cash Flow[3] | ~$110M | ~ $115M |

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

# Delivering M2016 – Transition to M2019 Strategy

## M2016

**Drive Operational Excellence**

**Focus on Customer Value**

**Sustainable Financial Strength**[1]

Achieve 10% Adjusted EBITDA margin[4]

Reduce net debt by $400 million to <$1.5 billion[2]

Incremental booked revenue of $500 million per year (at run-rate)[3]

**Reduce Product Cost**

**Invest in a High-Performing Team**

## M2019

**GROW REVENUE**[1]

**>20%** above market (cumulative)

**IMPROVE PROFIT**[1] [4]

**+$1.25** increase in adjusted diluted EPS

**ALLOCATE CAPITAL**[1] [4]

**<1.5** Net debt to adjusted EBITDA

Return 25% of free cash flow to shareholders

1. Based on management's current 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."
2. Debt plus retirement benefit liabilities, less cash and cash equivalents, expected to decrease by $400 million (compared to fiscal 2012 ending balance) to less than $1.5 billion by the end of FY16.
3. Expected incremental business secured between the beginning of FY13 and the end of FY16 from new products or new customers. Although the $500 million in new business is expected to be secured prior to the end of FY16, roughly half of this business is not expected to materialize into revenue until after FY16. This measure of incremental revenue is 'gross', before consideration of any business existing at the beginning of FY13 that may subsequently be lost and which could offset the benefit of this expected new business.
4. See Appendix – "Non-GAAP Financial Information."



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# Appendix

# Fiscal Year 2016 Planning Assumptions

| *(in millions)*<br>***Continuing Operations*** | **FY16 Current Estimate[1]** | **FY16 Prior Estimate[1]** |
|---|---|---|
| Capital Expenditures | ~$90 | ~$90 |
| Interest Expense | $80 - $90 | $80 - $90 |
| Cash Interest | $65 - $75 | $65 - $75 |
| Effective Tax Rate | ~15% | ~15% |

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

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, Adjusted diluted earnings (loss) per share from continuing operations, Adjusted EBITDA, Adjusted EBITDA margin, and Free cash flow.

Adjusted income (loss) from continuing operations and Adjusted diluted earnings (loss) per share from continuing operations are defined as reported income or 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. 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, management believes that Adjusted EBITDA, Adjusted EBITDA margin and Adjusted diluted earnings (loss) per share from continuing operations are meaningful measures of performance as they are commonly utilized by management and the investment community to analyze operating performance in our industry. Further, management uses these non-GAAP financial measures for planning and forecasting future periods. Management believes that Free cash flow is useful in analyzing our ability to service and repay debt and return value directly to shareholders.

Adjusted income (loss) from continuing operations, Adjusted diluted earnings (loss) per share from continuing operations and Adjusted EBITDA 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 operating performance or to cash flows as a measure of liquidity. 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, these non-GAAP cash flow measures do not reflect cash used to repay debt or cash received from the divestitures of businesses or sales of other assets and thus do 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

*(in millions)*

| | Three Months Ended December 31, 2015 | 2014 |
|---|---|---|
| Adjusted EBITDA | $ 76 | $ 79 |
| Interest Expense, net | (22) | (19) |
| Provision for Income Taxes | (7) | (7) |
| Depreciation and Amortization | (15) | (15) |
| Loss on Sale of Receivables | (2) | (2) |
| Restructuring Costs | (1) | (3) |
| Noncontrolling Interests | (1) | (1) |
| Income From Continuing Operations Attributable to Meritor, Inc. | $ 28 | $ 32 |
| | | |
| Loss from Discontinued Operations Attributable to Meritor, Inc. | (2) | (3) |
| Net Income attributable to Meritor, Inc. | $ 26 | $ 29 |
| | | |
| Adjusted EBITDA Margin[1] | 9.4% | 9.0% |

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

# Non-GAAP Financial Information

## Income from Continuing Operations Reconciliation

*(in millions, except per share amounts)*

| | Three Months Ended December 31, | |
|---|---|---|
| | 2015 | 2014 [1] |
| INCOME FROM CONTINUING OPERATIONS ATTRIBUTABLE TO MERITOR, INC. | $ 28 | $ 32 |
| Adjustments: | | |
| Restructuring Costs, net of tax | 1 | 3 |
| Non-cash tax expense | 2 | 1 |
| Adjusted Income From Continuing Operations | $ 31 | $ 36 |
| Adjusted Diluted Earnings Per Share From Continuing Operations | $ 0.33 | $ 0.36 |
| | | |
| Diluted Shares Outstanding | 94.3 | 101.2 |

1. The three months ended December 31, 2014 have been recast to reflect non-cash tax expense.

# Non-GAAP Financial Information

## Free Cash Flow Reconciliation

*(in millions)*

| | Three Months Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Cash used for operating activities | $(5) | $(9) |
| Capital expenditures | (22) | (12) |
| Free cash flow | $(27) | $(21) |

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