

MERITOR INC  
Form 10-K  
November 16, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended October 1, 2017  
Commission file number 1-15983

MERITOR, INC.  
(Exact name of registrant as specified in its charter)  
Indiana 38-3354643  
(State or other jurisdiction of incorporation (I.R.S. Employer  
or organization) identification no)

2135 West Maple Road 48084-7186  
Troy, Michigan  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (248) 435-1000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class Name of each exchange on which registered  
Common Stock, \$1 Par Value New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ X ] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [ X ]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ X ] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ X ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "accelerated filer," "large accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2017 (the last business day of the most recently completed second fiscal quarter) was approximately \$1,487,830,039

88,583,473 shares of the registrant's Common Stock, par value \$1 per share, were outstanding on November 14, 2017.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the definitive Proxy Statement for the Annual Meeting of Shareholders of the registrant to be held on January 24, 2018 is incorporated by reference into Part III.

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## PART I

### Item 1. Business.

#### Overview

Meritor, Inc. ("we", "us" or "our"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers ("OEMs") and the aftermarket for the commercial vehicle, transportation and industrial sectors. We serve commercial truck, trailer, military, bus and coach, construction, and other industrial OEMs and certain aftermarkets. Our principal products are axles, undercarriages, drivelines and brakes.

Meritor was incorporated in Indiana in 2000 in connection with the merger of Meritor Automotive, Inc. and Arvin Industries, Inc. As used in this Annual Report on Form 10-K, the terms "company," "Meritor," "we," "us" and "our" include Meritor, its consolidated subsidiaries and its predecessors unless the context indicates otherwise.

Meritor serves a broad range of customers worldwide, including medium- and heavy-duty truck OEMs, specialty vehicle manufacturers, certain aftermarkets, and trailer producers. Our total sales from continuing operations in fiscal year 2017 were approximately \$3.3 billion. Our ten largest customers accounted for approximately 74 percent of fiscal year 2017 sales from continuing operations. Sales from operations outside the United States (U.S.) accounted for approximately 47 percent of total sales from continuing operations in fiscal year 2017. Our continuing operations also participated in five unconsolidated joint ventures, which we accounted for under the equity method of accounting and that generated revenues of approximately \$1.2 billion in fiscal year 2017.

Our fiscal year ends on the Sunday nearest to September 30. Fiscal year 2017 ended on October 1, 2017, fiscal year 2016 ended on October 2, 2016, and fiscal year 2015 ended on September 27, 2015. All year and quarter references relate to our fiscal year and fiscal quarters unless otherwise stated. For ease of presentation, September 30 is utilized consistently throughout this report to represent the fiscal year end.

Whenever an item in this Annual Report on Form 10-K refers to information under specific captions in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations or Item 8. Financial Statements and Supplementary Data, the information is incorporated in that item by reference.

References in this Annual Report on Form 10-K to our belief that we are a leading supplier or the world's leading supplier, and other similar statements as to our relative market position are based principally on calculations we have made. These calculations are based on information we have collected, including company and industry sales data obtained from internal and available external sources as well as our estimates. In addition to such quantitative data, our statements are based on other competitive factors such as our technological capabilities, engineering, research and development efforts, innovative solutions and the quality of our products and services, in each case relative to that of our competitors in the markets we address.

#### Our Business

Our reporting segments are as follows:

The Commercial Truck & Industrial segment supplies drivetrain systems and components, including axles, drivelines, brakes and suspension systems, for medium- and heavy-duty trucks, off-highway, military, construction, bus and coach, fire and emergency and other applications in North America, South America, Europe and Asia Pacific. This segment also includes the company's aftermarket businesses in Asia Pacific and South America; and

The Aftermarket & Trailer segment supplies axles, brakes and braking systems, drivelines, suspension parts and other replacement and remanufactured parts to commercial vehicle aftermarket customers in North America and Europe.

This segment also supplies a wide variety of undercarriage products and systems for trailer applications in North America.

See Note 25 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for financial information by segment for continuing operations for each of the last three fiscal years, including information on sales and assets by geographic area. The heading "Products" below includes information on certain product sales for each of the last three fiscal years.

#### Business Strategies

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We are currently a premier global supplier of a broad range of integrated systems, modules and components to OEMs and the aftermarket for the commercial vehicle, transportation and industrial sectors, and we believe we have market-leading positions in many of the markets we serve. We are working to enhance our leadership positions and capitalize on our existing customer, product and geographic strengths. For additional market related discussion, see the Trends and Uncertainties section in Item 7.

Our business continues to address a number of challenging industry-wide issues including the following:

• Uncertainty around the global market outlook;

• Volatility in price and availability of steel, components and other commodities;

• Potential for disruptions in the financial markets and their impact on the availability and cost of credit;

• Volatile energy and transportation costs;

• Impact of currency exchange rate volatility;

• Consolidation and globalization of OEMs and their suppliers; and

• Significant pension costs.

Other

Other significant factors that could affect our results and liquidity include:

• Significant contract awards or losses of existing contracts or failure to negotiate acceptable terms in contract renewals;

• Ability to successfully launch a significant number of new products, including potential product quality issues, and obtain new business;

• 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;

• Ability to further implement planned productivity, cost reduction, and other margin improvement initiatives;

• Ability to successfully execute and implement strategic initiatives;

• Ability to work with our customers to manage rapidly changing production volumes;

• Ability to recover, and timing of recovery of, steel price and other cost increases from our customers;

• Any unplanned extended shutdowns or production interruptions by us, our customers or our suppliers;

• A significant deterioration or slowdown in economic activity in the key markets in which we operate;

• Competitively driven price reductions to our customers;

• Potential price increases from our suppliers;

• Additional restructuring actions and the timing and recognition of restructuring charges, including any actions associated with the prolonged softness in markets in which we operate;

• Higher-than-planned warranty expenses, including the outcome of known or potential recall campaigns;

• Uncertainties of asbestos claim and other litigation, including the outcome of litigation with insurance companies regarding scope of asbestos coverage, and the long-term solvency of our insurance carriers; and

• Restrictive government actions (such as restrictions on transfer of funds and trade protection measures, including import and export duties, quotas and customs duties and tariffs).

Our specific business strategies are influenced by these industry factors and global trends and are focused on leveraging our resources to continue to develop and produce competitive product offerings. We believe the following strategies will allow us to

maintain a balanced portfolio of commercial truck, industrial and aftermarket businesses covering key global markets. See Item 1A. Risk Factors below for information on certain risks that could have an impact on our business, financial condition or results of operations in the future.

#### M2019 Growth-Focused Plan

With our M2019 plan well underway, we made significant progress in fiscal year 2017 toward our objectives. The financial targets we set for this plan are the following:

- Grow revenue at 20 percent cumulatively above market levels
- Increase Adjusted diluted earnings per share from continuing operations by \$1.25
- Reduce the ratio of Net debt to Adjusted EBITDA to less than 1.5

(see Non-GAAP Financial Measures in Item 7)

To achieve these targets, we are focused on three main priorities:

- Exceeding customer expectations
- Transforming to a growth-oriented organization
- Continuing to invest in employees

#### Exceed Customer Expectations

For more than 100 years, our products have evolved to meet the changing needs of our customers in major regions of the world. As technology has advanced, we have designed products that are more fuel efficient, lighter weight, safer, more durable and more reliable. The Meritor brand is well established globally and reflects a broad and growing portfolio of high-quality products for various applications.

Over the past years, we worked hard to become an innovation partner to our customers. From concept to launch, we work closely together to ensure we are designing reliable and high quality products that meet or exceed their expectations now and in the future. In addition to technology and product collaboration, we also meet regularly with our customers to review our performance in a number of other areas including quality, delivery and cost.

In our M2019 plan, we set an overall quality target of 25 parts per million ("PPM"). We believe this will further differentiate us in the commercial vehicle industry. In fiscal year 2017, a number of strategic customers, including PACCAR, Hino Motors Manufacturing U.S.A., and Daimler Trucks North America, recognized several of Meritor's manufacturing facilities for outstanding quality.

We want to continue the excellent delivery performance we have demonstrated at greater than 99 percent. This year, we were proud to receive the first-ever gold award from Ashok Leyland for on-time delivery performance. Meritor's manufacturing facility in Mysore, India supplies almost 65 percent of the axles and half of the brakes for this major manufacturer of commercial vehicles. We were also honored to be in the top two percent of suppliers to Navistar in fiscal year 2017. For this performance, we were recognized with Navistar's Diamond Supplier award for helping to improve customer uptime and for exceeding expectations in quality, delivery, technology and cost. XCMG is another important customer to Meritor, in addition to being our key joint venture partner in China. XCMG honored us this year with its Excellent Supplier Award that recognizes top suppliers in delivery, quality and product performance. These recognitions are a critical element to maintaining our customer relationships globally and will continue to be an area to which we devote significant attention.

We will maintain our focus on driving down operating costs through material cost-reduction and labor and burden improvements with a target achievement of 1.5 percent improvement per year. We are continuing to drive material performance with three different approaches: commercial negotiations, best-cost-country sourcing and technical innovation. And, we are improving in labor and burden by addressing several areas simultaneously including better equipment utilization, reduced changeover time, elimination of waste, improved shift and asset utilization, investing in equipment to improve cycle time and flexibility and employee involvement.



We believe we effectively manage complexity for low volumes and support our customers' needs during periods of peak volumes. The quality, durability and on-time delivery of our products has earned us strong positions in the markets we support. As we seek to extend and expand our business with existing customers and establish relationships with new ones, our objective is to ensure we are getting a fair value for the recognized benefits of our products and services and the strong brand equity we hold in the marketplace.

#### Transform to a Growth-Oriented Organization

We know that despite changes and volatility in global market conditions, we must generate top-line growth. We have designed the M2019 plan to enable us to achieve the growth we are targeting while operating in a cyclical industry that can be greatly impacted by economic and political factors. We are increasing our market share with key customers, renewing long-term contracts and winning new business in all of our regions around the globe across both of our reportable segments.

We have rapidly increased the pace of product introduction, which is a key component to growing revenue. Prior to our M2016 plan, we launched approximately three programs annually. During the M2019 timeframe, we expect to introduce seven or more programs per year across our product portfolio and geographic regions. We are developing these jointly with our customers for their future product programs, and we have line of sight to revenue streams for each of these products. In fiscal year 2017, we launched the following eight products:

1. 14X HE (High-Efficiency) Tandem Drive Axle - This axle demonstrates efficiency improvement up to 1.5 percent while also reducing weight by 30 pounds over the previous industry-leading 14X design for linehaul applications. The use of laser welding to manufacture components helped drive this efficiency improvement. It also comes standard with high-efficiency bearings, the Meritor Lube Management system and precision-finished gearing.

2. 13X Medium-Duty Drive Axle - Engineered for a variety of medium-duty applications including pick-up and delivery, beverage, utility, school bus, construction and ambulance, the single, rear-drive 13X utilizes the best technologies of Meritor's proven 14X platform.

3. PACCAR 40 Tandem Axle - An ultra-high efficiency tandem axle developed as a proprietary product solution for a major strategic customer.

4. MFS+™ Steer Axle - The MFS+ front saves up to 85 pounds from the previous offering due to a new gooseneck beam design and an offset knuckle with integrated torque plate and tie-rod arms. This product earned Heavy Duty Trucking (HDT) magazine's 2017 Top 20 Product Award for being one of the most innovative and significant new products that address industry issues and help linehaul fleets improve their bottom line.

5. Two Off-Highway Planetary Axles - Built to operate in extreme conditions, these two new off-highway axles are designed for higher levels of durability and reliability. Both off-highway axles launched this year can be used in a variety of applications that serve construction, mining, and oil and gas segments.

6. MX-25-810 Front Drive Steer Axle - Reliable, cost-efficient front drive steer axle re-engineered for the construction, severe-service and utility applications. Design enhancements include a new housing and new wheel ends. This axle was originally engineered for the defense Mine-Resistant Ambush Protected ("MRAP") segment and is now available in three different housings with options for disc and drum brakes.

7. MTec6™ - The industry's lightest trailer axle that offers greater weight savings and lower total cost of ownership. This 6-inch, large-diameter axle is 36 pounds lighter than the industry-standard 5-inch axle. The lighter axle reduces gross trailer weight to enhance fuel economy and available payload.

Also in fiscal year 2017, we announced the following new products that will start production in fiscal year 2018.

Optimized EX+ Air Disc Brake - Built to maximize productivity by reducing maintenance time and costs, the gear-synchronized, twin-piston design delivers even force across the brake pads simultaneously, resulting in better performance and uniform pad wear for tractors and trailers.

79000 Axle - Designed to help municipal transit fleets meet federal and industry durability guidelines. By more than tripling the durability of previous offerings, fleets may only need to replace the axle's carrier once instead of multiple times during the vehicle's service life in this heavy stop-and-go segment.

ProTec Series 50 Beam Axle - Expanding on the legacy of Meritor's ProTec lineup, the optimized axles for military-specific applications feature a new beam design and utilize theater-proven technologies to fulfill the mission at hand. By applying proven technologies, Meritor has also reduced lead times for quicker deliveries.

We expect to continue to broaden our relationships with our global strategic customers, earn the business of new customers, increase aftermarket share in our core product areas, expand our components business by utilizing our time-proven core competencies of forging, machining and gear manufacturing, and enter near adjacent markets and products that we believe will be a good match with our core competencies.

AB Volvo is Meritor's largest global customer with the majority of that business being in Europe. We recently extended our long-term agreement with Volvo for an additional three years to 2024. Under the terms of this agreement, Meritor will design and deliver a new family of heavy, single reduction rear axles for both Volvo and Renault brands. These newly designed products will feature fuel efficiency improvement, faster ratios and a higher gross combined weight rating to enable more payload per truck. This fiscal year, Volvo launched its new UD Quon truck in Japan which incorporates Meritor's global axle and air disc brake platforms. We also support Volvo in Thailand and India.

Also this year, we were awarded important new contracts with significant strategic customers in North America and Europe for the supply of various linehaul and heavy haul axles, as well as new business in China and India with companies including JAC Motors, Qingling and Tata Motors.

We also continue to grow our off-highway, specialty and defense businesses with wins that included a new contract to provide our P600 tandem axle to Kenworth for a heavy haul customer in the Middle East and to Navistar Defense for the Israeli Army HET and the MaxxPro Recovery Vehicle program. In our Specialty business, we announced a new standard supplier agreement with the REV Group in North America. Under the terms of the three-year agreement, REV Group will equip its bus, fire and specialty vehicles with Meritor's fully dressed axle assemblies.

As we strive to grow our aftermarket business, we took various actions this year to better serve our customers. We announced a new value brand, Mach™, that features all-makes products including suspension, steering, brake and drivetrain components designed and engineered to industry standards at affordable prices for second and third owners. End-users looking for lower price points from a proven Tier 1 supplier can now look to Mach-branded products.

We also took steps to reduce lead times for customers on the West Coast of the United States with the announcement of the establishment of a West Coast aftermarket distribution center in Santa Fe Springs, California. Through this center, we will fulfill aftermarket orders from warehouse distributors and dealers in 13 states in an effort to get our customers back on the road faster. The facility stocks the complete Meritor Aftermarket brand portfolio for customers in the Western U.S.

While we are planning for the majority of our growth to be organic, we anticipate allocating capital for targeted acquisitions that could be an accelerant in our growth trajectory. To that end, this year Meritor acquired the product portfolio and related technologies of Fabco Holdings, Inc. and its subsidiaries. With the addition of Fabco's suite of products, Meritor now has an expanded portfolio of complementary products, including transfer cases, specialty gear boxes, auxiliary transmissions and power take off units for medium, heavy and extra heavy vehicles for on- and off-highway, construction, defense, rail and other industrial applications. These products are available to both original equipment and aftermarket customers. This transaction allows us to offer global customers a wider breadth of capabilities and an expanded portfolio of complementary products. The acquisition is expected to also help us to diversify our customer base and expand into the rail and oil & gas industries not currently served by Meritor.

As industry trends continue to drive the need for equipment that complies with environmental and safety-related regulatory provisions, OEMs select suppliers based not only on the cost and quality of their products, but also on their ability to meet stringent environmental and safety requirements and to service and support the customer after the sale. We use our technological and market expertise to develop and engineer products that address mobility, safety, regulatory and environmental concerns.

Our commitment to designing and manufacturing braking solutions for the commercial vehicle market has resulted in more commercial vehicles in North America having Meritor brakes than any other brake manufacturer. We believe Meritor's EX+ air disc brakes are among the highest performing brakes in the marketplace. In Europe, a region where air disc brakes are much more widely adopted, we have sold more than 6 million ELSA air disc brakes - a testament to the quality, reliability and performance of this brake platform.

We believe the quality of our core product lines, our ability to service our products through our aftermarket capabilities, and our sales and service support teams give us a competitive advantage. An important element of being a preferred supplier is the ability to deliver service through the entire life cycle of the product. Also, as our industry becomes more international, our manufacturing footprint around the world and our ability to supply customers with regionally-tailored product solutions are competencies of increasing importance.

#### Invest in Employees

The safety of our employees is our top priority. Total case rate is a measure of recordable workplace injuries normalized per 100 employees per year. Our target for M2019 is to achieve a rate of less than 0.65. In fiscal year 2017, we achieved an overall case rate of 0.48 injuries per 200,000 hours, which we believe is world class for an industrial company like Meritor and is below our M2019 target. Eighteen of our 39 measured facilities had no recordable incidents in the entire fiscal year. We attribute this to the diligence of our employees and the safety programs and equipment we have instituted throughout our global operations to protect them.

We will also continue to drive the close alignment of our global Meritor team to M2019. Such alignment was a key driver of the success we experienced in our previous M2016 strategic plan. We believe that our strength to compete in the global market is dependent upon the engagement of every Meritor employee and that a high-performing team is critical to the level of performance we want to achieve. We have a strong and experienced leadership group and a committed team, both of which are focused on sustaining the strong foundation we built in M2016 and delivering on our M2019 performance objectives. We will also continue to diversify our workforce because we recognize the value of different opinions and backgrounds in a company as global as Meritor.

We have established various development and training programs to help our employees grow as we grow. This year, we executed leadership development programs for managers, directors and senior leaders around the world. For managers, we initiated E-Learning modules and two new courses that address important areas for advancement including accountability, delegation, and providing and receiving feedback. For director-level employees, we developed Leadership Edge - a 10-month program whose objective is to develop advanced leadership skills, prepare high-potential leaders for senior level positions and strengthen business acumen. And for senior-level leaders, we began the Summit, which provides executive coaching, the opportunity to attend specific executive training sessions tailored to each individual's background and career goals, participation in a MBA-level finance course, if needed, and engagement in mentorship opportunities with a member of Meritor's Board of Directors. To ensure we provide a rich experience for our employees, we will continue to measure employee engagement to build on the competencies that are important to our future.

#### Products

Meritor designs, develops, manufactures, markets, distributes, sells, services and supports a broad range of products for use in the transportation and industrial sectors. In addition to sales of original equipment systems and components, we provide our original equipment, aftermarket and remanufactured products to vehicle OEMs, their dealers (who in turn sell to motor carriers and commercial vehicle users of all sizes), independent distributors, and other end-users in certain aftermarkets.

The following chart sets forth, for each of the fiscal years 2017, 2016 and 2015, information about product sales comprising more than 10% of consolidated revenue in any of those years. A narrative description of our principal products follows the chart.

#### Product Sales:

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	Fiscal Year Ended		
	September 30,		
	2017	2016	2015
Axles, Undercarriage and Drivelines	73 %	73 %	74 %
Brakes and Brake-Related Components	25 %	25 %	25 %
Other	2 %	2 %	1 %
Total	100%	100%	