

MERITOR INC  
Form 10-Q  
August 03, 2017  
Index

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

FORM 10-Q

QUARTERLY REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended July 2, 2017  
Commission File No. 1-15983

MERITOR, INC.

(Exact name of registrant as specified in its charter)

Indiana 38-3354643  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification  
organization) No.)

2135 West Maple Road, Troy, Michigan 48084-7186  
(Address of principal executive offices) (Zip Code)  
(248) 435-1000

(Registrant's telephone number, including area code)

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

Large accelerated filer X 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 X

88,565,934 shares of Common Stock, \$1.00 par value, of Meritor, Inc. were outstanding on July 31, 2017.



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MERITOR, INC.

## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
	2017	2016	2017	2016
	(Unaudited)			
Sales	\$920	\$841	\$2,425	\$2,471
Cost of sales	(778 )	(714 )	(2,073 )	(2,119 )
<b>GROSS MARGIN</b>	142	127	352	352
Selling, general and administrative	(73 )	(59 )	(192 )	(175 )
Restructuring costs	—	(6 )	(4 )	(9 )
Other operating expense, net	—	—	(5 )	(3 )
<b>OPERATING INCOME</b>	69	62	151	165
Other income (expense), net	1	—	1	(1 )
Equity in earnings of affiliates	14	9	32	26
Interest expense, net	(21 )	(20 )	(63 )	(63 )
<b>INCOME BEFORE INCOME TAXES</b>	63	51	121	127
Provision for income taxes	(11 )	(8 )	(30 )	(22 )
<b>INCOME FROM CONTINUING OPERATIONS</b>	52	43	91	105
<b>LOSS FROM DISCONTINUED OPERATIONS, net of tax</b>	(1 )	(1 )	(1 )	(4 )
<b>NET INCOME</b>	51	42	90	101
Less: Net income attributable to noncontrolling interests	(3 )	(1 )	(5 )	(2 )
<b>NET INCOME ATTRIBUTABLE TO MERITOR, INC.</b>	\$48	\$41	\$85	\$99
<b>NET INCOME ATTRIBUTABLE TO MERITOR, INC.</b>				
Net income from continuing operations	\$49	\$42	\$86	\$103
Loss from discontinued operations	(1 )	(1 )	(1 )	(4 )
Net income	\$48	\$41	\$85	\$99
<b>BASIC EARNINGS (LOSS) PER SHARE</b>				
Continuing operations	\$0.55	\$0.47	\$0.98	\$1.13
Discontinued operations	(0.01 )	(0.01 )	(0.01 )	(0.04 )
Basic earnings per share	\$0.54	\$0.46	\$0.97	\$1.09
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>				
Continuing operations	\$0.52	\$0.46	\$0.94	\$1.10
Discontinued operations	(0.01 )	(0.01 )	(0.01 )	(0.04 )
Diluted earnings per share	\$0.51	\$0.45	\$0.93	\$1.06
Basic average common shares outstanding	88.4	89.8	87.9	91.2
Diluted average common shares outstanding	93.3	92.0	91.4	93.1

See notes to condensed consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)  
(in millions)

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
	(Unaudited)			
Net income	\$51	\$42	\$90	\$101
Other comprehensive income (loss):				
Foreign currency translation adjustments:				
Attributable to Meritor, Inc.	17	(10)	8	(6)
Attributable to noncontrolling interest	—	—	(1)	—
Pension and other postretirement benefit related adjustments	11	7	33	25
Unrealized gain (loss) on investments and foreign exchange contracts	(2)	3	—	5
Other comprehensive income, net of tax	26	—	40	24
Total comprehensive income	77	42	130	125
Less: Comprehensive income attributable to noncontrolling interest	(3)	(1)	(4)	(2)
Comprehensive income attributable to Meritor, Inc.	\$74	\$41	\$126	\$123

See notes to condensed consolidated financial statements.

MERITOR, INC.

## CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	June 30, 2017	September 30, 2016
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 231	\$ 160
Receivables, trade and other, net <sup>(1)</sup>	500	396
Inventories <sup>(1)</sup>	360	316
Other current assets	37	33
<b>TOTAL CURRENT ASSETS</b>	<b>1,128</b>	<b>905</b>
<b>NET PROPERTY <sup>(1)</sup></b>	<b>430</b>	<b>439</b>
<b>GOODWILL <sup>(1)</sup></b>	<b>391</b>	<b>390</b>
<b>OTHER ASSETS</b>	<b>763</b>	<b>760</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,712</b>	<b>\$ 2,494</b>
<b>LIABILITIES, MEZZANINE EQUITY AND EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term debt	\$ 132	\$ 14
Accounts and notes payable <sup>(1)</sup>	602	475
Other current liabilities	277	268
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,011</b>	<b>757</b>
<b>LONG-TERM DEBT</b>	<b>858</b>	<b>982</b>
<b>RETIREMENT BENEFITS</b>	<b>667</b>	<b>703</b>
<b>OTHER LIABILITIES</b>	<b>220</b>	<b>238</b>
<b>TOTAL LIABILITIES</b>	<b>2,756</b>	<b>2,680</b>
<b>COMMITMENTS AND CONTINGENCIES (See Note 20)</b>		
<b>MEZZANINE EQUITY:</b>		
Convertible debt with cash settlement	12	—
<b>EQUITY (DEFICIT):</b>		
Common stock (June 30, 2017 and September 30, 2016, 101.4 and 99.6 shares issued and 88.6 and 86.8 shares outstanding, respectively)	101	99
Additional paid-in capital	875	876
Accumulated deficit	(156)	(241)
Treasury stock, at cost (at both June 30, 2017 and September 30, 2016, 12.8 shares)	(136)	(136)
Accumulated other comprehensive loss	(768)	(809)
Total deficit attributable to Meritor, Inc.	(84)	(211)
Noncontrolling interests <sup>(1)</sup>	28	25
<b>TOTAL DEFICIT</b>	<b>(56)</b>	<b>(186)</b>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND DEFICIT</b>	<b>\$ 2,712</b>	<b>\$ 2,494</b>

<sup>(1)</sup> As of June 30, 2017, Assets and Liabilities held for sale were: (i) \$1 million Cash and cash equivalents; (ii) \$11 million Receivables, trade and other, net; (iii) \$2 million Inventories; (iv) \$3 million Net property; (v) \$1 million Goodwill; (vi) \$10 million Accounts and notes payable; and (vii) \$2 million Noncontrolling interests. As of September 30, 2016, Assets and Liabilities held for sale were: (i) \$1 million Cash and cash equivalents; (ii) \$8 million Receivables, trade and other, net; (iii) \$1 million Inventories; (iv) \$5 million Net property; (v) \$5 million Accounts and notes payable; and (vi) \$3 million Noncontrolling interests.

See notes to condensed consolidated financial statements.



MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(in millions)

	Nine Months Ended June 30, 2017 2016 (Unaudited)	
<b>OPERATING ACTIVITIES</b>		
CASH PROVIDED BY OPERATING ACTIVITIES (See Note 10)	\$136	\$144
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(52 )	(66 )
Other investing activities	—	3
Net investing cash flows provided by discontinued operations	2	4
CASH USED FOR INVESTING ACTIVITIES	(50 )	(59 )
<b>FINANCING ACTIVITIES</b>		
Repayment of notes	—	(55 )
Debt issuance costs	(4 )	—
Other financing activities	(12 )	(15 )
Net change in debt	(16 )	(70 )
Repurchase of common stock	—	(81 )
CASH USED FOR FINANCING ACTIVITIES	(16 )	(151 )
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1	2
CHANGE IN CASH AND CASH EQUIVALENTS	71	(64 )
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	160	193
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$231	\$129

See notes to condensed consolidated financial statements.



MERITOR, INC.

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)

(In millions)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Other Comprehensive Loss	Total Accumulated Deficit Attributable to Meritor, Inc.	Noncontrolling Interests	Total
Beginning balance at September 30, 2016	\$ 99	\$ 876	\$ (241 )	\$(136 )	\$ (809 )	\$ (211 )	\$ 25	\$(186)
Comprehensive income	—	—	85	—	41	126	4	130
Equity based compensation expense	—	12	—	—	—	12	—	12
Vesting of equity based awards	2	(2 )	—	—	—	—	—	—
Stock option exercises	—	2	—	—	—	2	—	2
Convertible debt with cash settlement	—	(12 )	—	—	—	(12 )	—	(12 )
Noncontrolling interest dividend	—	—	—	—	—	—	(1 )	(1 )
Other equity adjustments	—	(1 )	—	—	—	(1 )	—	(1 )
Ending Balance at June 30, 2017	\$ 101	\$ 875	\$ (156 )	\$(136 )	\$ (768 )	\$ (84 )	\$ 28	\$(56 )
Beginning balance at September 30, 2015	\$ 99	\$ 865	\$ (814 )	\$(55 )	\$ (766 )	\$ (671 )	\$ 25	\$(646)
Comprehensive income	—	—	99	—	24	123	2	125
Equity based compensation expense	—	8	—	—	—	8	—	8
Repurchase of common stock	—	—	—	(81 )	—	(81 )	—	(81 )
Noncontrolling interest dividends	—	—	—	—	—	—	(2 )	(2 )
Ending Balance at June 30, 2016	\$ 99	\$ 873	\$ (715 )	\$(136 )	\$ (742 )	\$ (621 )	\$ 25	\$(596)

See notes to condensed consolidated financial statements.

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MERITOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 1. Basis of Presentation

Meritor, Inc. (the “company” or “Meritor”), 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. The company serves commercial truck, trailer, military, bus and coach, construction and other industrial OEMs and certain aftermarkets. The condensed consolidated financial statements are those of the company and its consolidated subsidiaries.

Certain businesses are reported in discontinued operations in the condensed consolidated statement of operations, condensed consolidated statement of cash flows and related notes for all periods presented. Additional information regarding discontinued operations is discussed in Note 4.

In the opinion of the company, the unaudited condensed consolidated financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company’s audited consolidated financial statements and notes thereto included in the company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as amended. The condensed consolidated balance sheet data as of September 30, 2016 was derived from audited financial statements but does not include all annual disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the three and nine months ended June 30, 2017 are not necessarily indicative of the results for the full year.

The company’s fiscal year ends on the Sunday nearest September 30, and its fiscal quarters generally end on the Sundays nearest December 31, March 31 and June 30. The third quarter of fiscal years 2017 and 2016 ended on July 2, 2017 and July 3, 2016, respectively. All year and quarter references relate to the company’s fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 and June 30 are used consistently throughout this report to represent the fiscal year end and third fiscal quarter end, respectively.

## 2. Earnings per Share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during each period. The diluted earnings (loss) per share calculation includes the impact of dilutive common stock options, restricted shares, restricted share units, performance share unit awards and convertible securities, if applicable.

A reconciliation of basic average common shares outstanding to diluted average common shares outstanding is as follows (in millions):

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
Basic average common shares outstanding	88.4	89.8	87.9	91.2