

# MERITOR

## realigning strategy to changing market conditions globally

**Meritor Inc., is a leading global supplier of a broad range of integrated systems, modules and components to OEMs and the aftermarket for the commercial vehicle, transportation and industrial segments. Over the years, the American powerhouse has developed market leader positions in many of the markets it serves.**

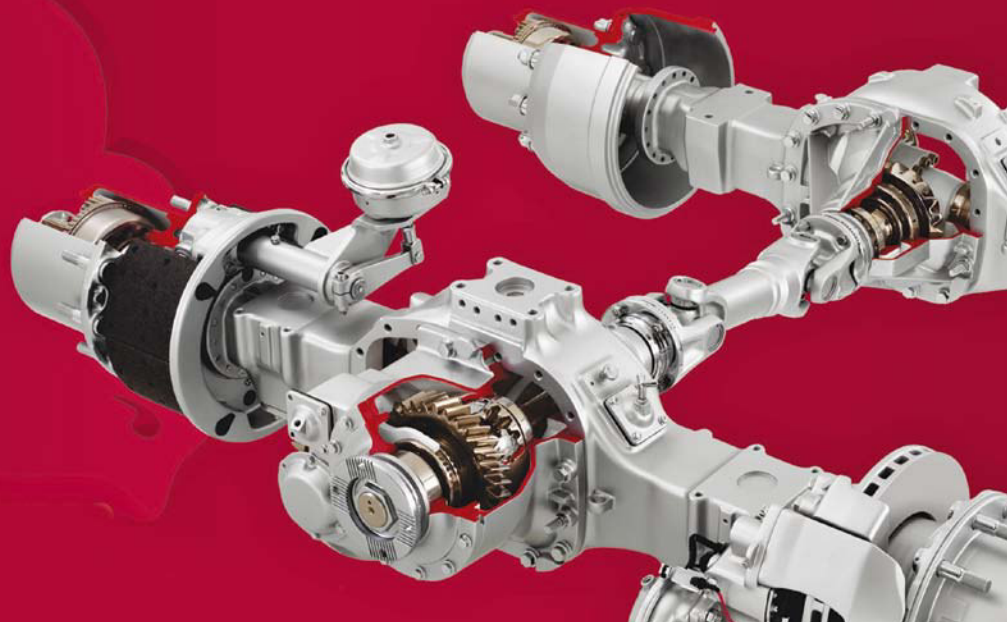
The company sales report for the year ended September 30, 2013, indicates that the unprecedented challenges in the last few years in its credit markets, deterioration and then rapid upturn in the commercial vehicle market and a worldwide recession have forced it to align its business and operating strategies to the new business conditions globally and to better position it for the future. At the same time, Meritor is working on enhancing its leadership positions and capitalize on its existing customer,

product and geographic strengths.

During FY14, the company expects a slight increase in production volumes in North America compared to the levels

registered in FY13. While it anticipates a slight fall in production volumes in South America resulting from continued economic uncertainty during FY14, production volumes in

Europe are expected to ramp up in the first quarter of FY14 in advance of the new commercial truck emission standard requirements, with a decline in production expected in the



remainder of the year.

Production volumes in the Asia-Pacific region, more specifically China, are expected to remain unchanged compared to the levels recorded in FY13. Meritor expects the market in India to be down another eight per cent in FY14, given the current economic climate. Moreover, it is not certain as to when the volumes in the Asia-Pacific region will return to the levels attained in 2011.

The sales for Meritor's primary military program were at their peak in the third quarter of FY12 and began to wind down beginning in FY13 and will terminate by the end of FY14. The company is working to secure participation in new military programs with various OEMs. However, failure to secure new military contracts could have a longer-term negative impact on its Commercial Truck and Industrial Segment. In addition, even if sales of its military programs do return to historic levels, the levels of profitability on these sales could be lower than in the past.

**Segment-wise analysis**

Meritor's commercial truck & industrial sales

clocked \$2,920 million in FY13, down 19 per cent from FY12, primarily reflecting lower commercial truck production globally. The North American industry-wide production volumes for heavy-duty trucks decreased by 18 per cent in FY13 as compared to the prior year, while industry-wide production volumes in Europe were down by eight per cent. Sales in China and India declined 46 per cent and 41 per cent respectively, as production declined sharply in the regions.

In addition, Meritor's military business decreased due to the fall in FMTV production. The industry-wide production volumes for South America increased by 13 per cent. However, the favorable impact of production volumes in this region was largely

offset by the depreciation of the Brazilian Real.

Meritor's aftermarket & trailer sales closed at \$898 million in FY13, down four per cent from FY12. The fall in sales was primarily due to lower sales of core aftermarket replacement products, primarily in North America, partially offset by pricing actions in its aftermarket business.

Despite the slowdown in most markets worldwide, Meritor, as a global market leader, continues to maintain its focus on R&D and innovation. The company has significant research, development, engineering and product design capabilities and continues to improve them by spending \$71 million in FY13 and \$73 million in FY12 and FY11 on company-sponsored research, development and engineering.

Meritor employs professional engineers and

scientists globally, and has additional engineering capabilities through contract arrangements in low cost countries. It also has advanced technical centers in North America, South America, Europe and Asia Pacific, primarily in India and China.

**M2016 Strategy**

In 2013, Meritor launched M2016, a three-year plan to drive value for its shareholders, customers and employees. It defines specific financial measures of success for improved EBITDA margin, reduced debt (including retirement liabilities) and increased revenue through organic growth. The company expects that M2016 will be its roadmap until 2016.

To ensure success for its financial measures, the plan focuses on four priorities – driving operational excellence, focusing on customer value, reducing the product cost and investing in a high-performing team. ♦

