MERITOR INC
Form 10-K
November 16, 2018

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 September 30, 2018
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 or organization)	(I.R.S. Employer identification no)
2135 West Maple Road Troy, Michigan	48084-7186
(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, every Interactive Data File required to be submitted 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 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	ý	Accelerated filer	¨
Non-accelerated filer	¨	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]

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2018 (the last business day of the most recently completed second fiscal quarter) was approximately $1,766,433,323

84,876,805 shares of the registrant's Common Stock, par value $1 per share, were outstanding on November 14, 2018.

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, 2019 is incorporated by reference into Part III.

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 2018 were approximately $4.2 billion. Our ten largest customers accounted for approximately 75 percent of fiscal year 2018 sales from continuing operations. Sales from operations outside North America accounted for approximately 38 percent of total sales from continuing operations in fiscal year 2018. Our continuing operations also participated in four unconsolidated joint ventures, which we accounted for under the equity method of accounting and that generated revenues of approximately $1.1 billion in fiscal year 2018.

Our fiscal year ends on the Sunday nearest to September 30. Fiscal year 2018 ended on September 30, 2018, fiscal year 2017 ended on October 1, 2017, and fiscal year 2016 ended on October 2, 2016. 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 & Trailer segment supplies drivetrain systems and components, including axles, drivelines and braking and suspension systems, primarily for medium- and heavy-duty trucks and other applications in North America, South America, Europe and Asia Pacific. It also supplies a variety of undercarriage products and systems for trailer applications in North America. This segment also includes the company's aftermarket businesses in Asia Pacific and South America.
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The Aftermarket & Industrial segment supplies axles, brakes, drivelines, suspension parts and other replacement parts to commercial vehicle and industrial aftermarket customers, primarily in North America and Europe. In addition, this segment supplies drivetrain systems and certain components, including axles, drivelines, brakes and suspension systems for military, construction, bus and coach, fire and emergency and other applications in North America and Europe.

Business Strategies

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; and
- Consolidation and globalization of OEMs and their suppliers.

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 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, environmental and other legal proceedings, the long-term solvency of our insurance carriers, and the potential for higher-than-anticipated costs resulting from environmental liabilities, including those related to site remediation;
- Significant pension costs; 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

As we look forward to completing the last year of our M2019 plan, we made significant progress in fiscal year 2018 toward our objectives. The financial targets we set for this plan are the following:

- Grow revenue at 20 percent cumulatively above market levels, measured from the end of fiscal year 2015
- Increase adjusted diluted earnings per share from continuing operations by $1.25, measured from fiscal year 2015
- 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 remain 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 2018, Daimler Trucks North America awarded four Meritor production sites with Masters of Quality Awards. An additional three facilities earned the PACCAR's 10 PPM Quality Award that is given to suppliers who meet or exceed its rigorous standard of 10 or fewer defective parts for every 1 million parts shipped to this customer.

We want to continue the excellent delivery performance we have demonstrated at greater than 99 percent. This year, we were proud to receive the 100 Percent Delivery Award from Hino Motors Manufacturing U.S.A., Inc. for perfect on-time delivery of dressed drive and steer axles. Meritor builds the drive and front steer axles for all of Hino's medium-duty conventional cab models in North America. On-time delivery is critical because axles are among the first parts placed on the manufacturer's truck assembly line.

In addition to recognition from our customers for outstanding quality and delivery, we also received a Gold Award from Ashok Leyland in India for new product development for the design of a unique slipper suspension for haulage trucks and assisting the truck manufacturer with the migration to a new emission standard. This new suspension has unique and patented design features that include a lighter-weight design compared to conventional suspensions, and offers a significant reduction in service time and maintenance costs with less tire wear due to more efficient axle alignment. And in Australia, we earned the Penske Supplier of the Year Award for outstanding sales, customer service and marketing support, and maintaining a consistently high fill rate of 95 percent. These recognitions reflect our focus on maintaining excellent 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, it is important that we generate profitable 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 increased the pace of product introduction, which is a key component to growing revenue. Prior to our M2016 plan, we launched approximately three major programs annually. 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 2018, we launched the following six products:

- 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.

- 79000 Series 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.

- ZL50+ Loader Axle - Designed for the off-highway construction market in China, specifically for loaders.

- MT-610 Hub Reduction Axle - DAF Trucks, subsidiary of PACCAR, has equipped its next-generation, heavy-duty lineup for European long-haul and off-road applications with a hub-reduction tandem axle developed by Meritor. Designed for extreme applications, the axle's fast ratios allow the engine to run at lower rpms, improving fuel efficiency for end-users.

- DuaLite 156 Axle - Specifically produced for the China bus market with low noise and high efficiency design.

- MTC-3203 Transfer Case - Designed for the medium-duty all-wheel drive market and launched with Navistar and Chevrolet.

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. Last year, we 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. We also support Volvo in Thailand and India.

During fiscal year 2018, we delivered strong operational execution, won new business and increased market share with key customers in major markets. Meritor was awarded important new contracts with customers globally including front and rear axles for MAN's new delivery truck, axle business with Mercedes Benz and Iveco for school buses in South America, axle and suspension business with Tata, Kenworth and Ashok Leyland in Asia Pacific, and several new awards for Meritor's hub reduction axle around the world. In our Defense business, we have a new contract with Mack Defense for a rear beam and front drive steer axle, as well as drivelines and transfer cases for approximately 700 trucks.

In the electric vehicle space, Meritor currently has 22 active programs across the globe on applications including school buses, yard tractors, medium duty trucks, urban buses and refuse trucks. In addition to supporting these programs with core Meritor content, including front and rear suspensions, wheel ends, drum and disc brakes and gearboxes, Meritor is also offering its proprietary eAxle and other products now part of its portfolio as a result of our strategic alliance with TransPower. In fiscal year 2018, we earned new business in the electric space with customers including Daimler Trucks North America (DTNA) for its innovation fleet, and with Thomas Built Bus, a subsidiary of DTNA, Ashok Leyland, Kalmar and Peterbilt. For Peterbilt, we will supply all-electric drivetrain systems for two vehicle platforms that will include 12 all-electric Class 8 day cab tractors and three refuse trucks.

As we strive to grow our aftermarket business, we took various actions this year to better serve our customers, including launching the North America Authorized Rebuilder Program for drive axle carriers, including our 145, 14X TM and 160 products. We are partnering with exceptional rebuilders that share our commitment to helping fleets maximize uptime with coast-to-coast, 24-hour guaranteed delivery of highly reliable, rebuilt carriers which meet original performance specifications, Also this year, we launched a comprehensive portfolio of products designed to deliver the right parts, performance and price for each life stage of trucks, trailers and buses. As an example, the MachTM parts brand is designed for customers seeking high-value, delivering quality all-makes parts that improve uptime at affordable prices, while the Meritor® and Euclid® brands offer top-quality aftermarket parts at more affordable prices. Meritor Genuine brand is designed for newer vehicles still under warranty or for customers who want to maintain original performance and maximize uptime with OEM production parts. Meritor is one of the few suppliers that manufactures or approves for sale lifecycle aftermarket parts that include support and availability.

While we are planning for the majority of Meritor's 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 we acquired substantially all of the assets of AA Gear & Manufacturing, Inc. and its subsidiaries. This transaction provides our components business with a suite of process engineering and production capabilities for gear and shaft components that will enable us to offer new products and applications. In August, we announced a new five-year contract for a near-net forged part in which Meritor will produce more than three million pieces. Start of production is 2020.

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 2018, we achieved an overall case rate of 0.72 injuries per 200,000 hours. Our safety rate in fiscal year 2018 was slightly unfavorable to fiscal year 2017. This was due in large part to the 15-percent increase in hours worked in our manufacturing facilities this year due to peak markets in North America and high production demand globally. Even with the significant increase in hours, sixteen of our 40 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. In an effort to continually improve our safety rate, we will maintain our diligence through training and education of our employees, reducing certain behaviors that are known to create safety issues and continue to maximize risk identification and hazard assessment.

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 continued the leadership development programs for managers, directors and senior leaders around the world. For managers, we offered eLearning modules and courses that address important areas for advancement including accountability, delegation, and providing and receiving feedback. For certain director-level employees, we led our second annual 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 certain senior-level leaders, we continued 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 2018, 2017 and 2016, 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:

	Fiscal Year Ended September 30,		
	2018	2017	2016
Axles, Undercarriage and Drivelines	74 %	73 %	73 %
Brakes and Brake-Related Components	24 %	25 %	25 %
Other	2 %	2 %	2 %
Total	100%	100%	100%

Axles, Undercarriage & Drivelines

We believe we are one of the world's leading independent suppliers of axles for medium- and heavy-duty commercial vehicles, with the leading market position in axle manufacturing in North America, South America and Europe, and are one of the major axle manufacturers in the Asia-Pacific region. Our extensive truck axle product line includes a wide range of front steer axles and rear drive axles. Our front steer and rear drive axles can be equipped with our cam, wedge or air disc brakes, automatic slack adjusters, and complete wheel-end equipment such as hubs, rotors and drums.

We supply heavy-duty axles in certain global regions for use in numerous off-highway vehicle applications, including construction, material handling, and mining. We also supply axles for use in military tactical wheeled vehicles, principally in North America. These products are designed to tolerate high tonnage and operate under extreme conditions. In addition, we have other off-highway vehicle products that are currently in development for certain other regions. We also supply axles for use in buses, coaches and recreational vehicles, fire trucks and other specialty vehicles in North America, Asia Pacific and Europe, and we believe we are a leading supplier of bus and coach axles in North America.

We are one of the major manufacturers of heavy-duty trailer axles in North America. Our trailer axles are available in more than 40 models in capacities from 20,000 to 30,000 pounds for virtually all heavy trailer applications and are available with our broad range of suspension modules and brake products, including drum brakes and disc brakes.

We supply universal joints and driveline components, including our Permalube™ universal joint and RPL Permalube™ driveline, which are maintenance free, permanently lubricated designs used often in the high mileage on-highway market. We supply drivelines in North America for use in numerous on-highway vehicle applications. We supply transfer cases and drivelines for use in military tactical wheeled vehicles, principally in North America. We also supply transfer cases for use in specialty vehicles in North America. In addition, we supply trailer air suspension systems and products with an increasing market presence in North America. We also supply advanced suspension modules for use in light-, medium- and heavy-duty military tactical wheeled vehicles, principally in North America.

Brakes and Brake-Related Components

We believe we are one of the leading independent suppliers of air brakes to medium- and heavy-duty commercial vehicle manufacturers in North America and Europe. In Brazil, we believe that Master Sistemas Automotivos Limitada, our 49%-owned joint venture with Randon S. A. Implementos e Participações, is a leading supplier of brakes and brake-related products.

Through manufacturing facilities located in North America, Asia Pacific and Europe, we manufacture a broad range of foundation air brakes, as well as automatic slack adjusters for brake systems. Our foundation air brake products include cam drum brakes, which offer improved lining life and tractor/trailer interchangeability; wedge drum brakes, which are lightweight and provide automatic internal wear adjustment; air disc brakes, which provide enhanced stopping distance and improved fade resistance for demanding applications; and wheel-end components such as hubs, drums and rotors.

Our brakes and brake system components also are used in military tactical wheeled vehicles, principally in North America. We also supply brakes for use in buses, coaches and recreational vehicles, fire trucks and other specialty vehicles in North America and Europe, and we believe we are the leading supplier of bus and coach brakes in North America. We also supply brakes for commercial vehicles, buses and coaches in Asia Pacific.

Other Products

In addition to the products discussed above, we sell other complementary products, including third-party and private label items, through our aftermarket distribution channels. These products are generally sold under master distribution or similar agreements with outside vendors and include brake shoes and friction materials; automatic slack adjusters; yokes and shafts; wheel-end hubs and drums; ABS and stability control systems; shock absorbers and air springs; and air brakes.

Customers; Sales and Marketing

We have numerous customers worldwide and have developed long-standing business relationships with many of these customers. Our ten largest customers accounted for approximately 75 percent of our total sales in fiscal year 2018. Sales to our largest three customers, AB Volvo, Daimler AG and PACCAR, represented approximately 23 percent, 17 percent and 12 percent, respectively, of our sales in fiscal year 2018. No other customer accounted for 10 percent or more of our total sales in fiscal year 2018.

Original Equipment Manufacturers (OEMs)

In North America, we design, engineer, market and sell products principally to OEMs, dealers and distributors. While our North American sales are typically direct to OEMs, our ultimate commercial truck customers include trucking and transportation fleets. Fleet customers may specify our components and integrated systems for installation in the vehicles they purchase from OEMs. We employ what we refer to as a "push-pull" marketing strategy. We "push" for being the standard product at the OEM. At the same time, our district field managers then call on fleets and OEM dealers to "pull-through" our components on specific truck purchases. For all other markets, we specifically design, engineer, market and sell products principally to OEMs for their market-specific needs or product specifications.

For certain large OEM customers, our supply arrangements are negotiated on a long-term contract basis for a multi-year period that may require us to provide annual cost reductions through price reductions or other cost benefits for the OEMs. If we are unable to generate sufficient cost savings in the future to offset such price reductions, our gross margins will be adversely affected. Sales to other OEMs are typically made through open order releases or purchase orders at market-based prices that do not require the purchase of a minimum number of products. The customer typically has the right to cancel or delay these orders on reasonable notice. We typically compete to either retain business or try to win new business from OEMs when long-term contracts expire.

We have established leading positions in many of the markets we serve as a global supplier of a broad range of drivetrain systems, brakes and components. Based on available industry data and internal company estimates, our market-leading positions include independent truck drive axles (i.e., those manufactured by an independent, non-captive supplier) in North America, Europe, South America and India through a joint venture; truck drivelines in North America; truck air brakes in North America and South America (through a joint venture); and military wheeled vehicle drivetrains, suspensions and brakes in North America.

Our global customer portfolio includes AB Volvo, Daimler AG, PACCAR, Navistar International Corporation, Oshkosh, MAN, CNH Industrial, Ashok Leyland, Scania, XCMG, Wabash National, Gillig and Ford.

Aftermarket

We market and sell truck, trailer, off-highway and other products principally to, and service such products principally for, OEMs, their parts marketing operations, their dealers and other independent distributors and service garages within the aftermarket industry. Our product sales are generated through long-term agreements with certain of our OEM customers and distribution agreements and sales to independent dealers and distributors. Sales to other OEMs are typically made through open order releases or purchase orders at market-based prices, which do not require the purchase of a minimum number of products. The customer typically has the right to cancel or delay these orders on reasonable notice.

Our product offerings allow us to service all stages of our customers’ vehicle ownership lifecycle. In North America, we stock and distribute thousands of parts from top national brands to our customers or what we refer to as our "all makes" strategy. Our district field managers call on our OEM's, OEM dealers, fleet customers and independent customers to market our full product line capabilities on a regular basis to seek to ensure that we satisfy our customers’ needs. Our aftermarket business sells products under the following brand names: Meritor, Euclid, Trucktechnic and Mach.

Based on available industry data and internal company estimates, we believe our North America aftermarket business has the overall market leadership position for the portfolio of products that we offer.

Competition

We compete worldwide with a number of North American and international providers of components and systems, some of which are owned by or associated with some of our customers. The principal competitive factors are price, quality, service, product performance, design and engineering capabilities, new product innovation and timely delivery. Certain OEMs manufacture their own components that compete with the types of products we supply.

Our major competitors for axles are Dana Incorporated and, in certain markets, OEMs that manufacture axles for use in their own products. Emerging competitors for axles include DTNA’s Detroit Axle, ZF Friedrichshafen in Europe, and Hande, Fuwa and Ankai in China. Our major competitors for brakes are Bendix/Knorr Bremse, WABCO and, in certain markets, OEMs that manufacture brakes for use in their own products. Our major competitors for industrial applications are MAN, AxleTech International, Oshkosh, AM General, Marmon-Herrington, Dana Incorporated, Knorr Bremse, Kessler & Co., Carraro, NAF, Sisu and, in certain markets, OEMs that manufacture industrial products for use in their own vehicles. Our major competitors for trailer applications are Fuwa, Hendrickson and SAF-Holland.

Raw Materials and Suppliers

Our purchases of raw materials and parts are concentrated over a limited number of suppliers. We are dependent upon our suppliers' ability to meet cost performance targets, quality specifications and delivery schedules. The inability of a supplier to meet these requirements, the loss of a significant supplier, or work stoppages could have an adverse effect on our ability to meet our customers' delivery requirements.

The cost of our core products is susceptible to changes in overall steel commodity prices, including ingredients used for various grades of steel. We have generally structured our major steel supplier and customer contracts to absorb and pass on normal index-related market fluctuations in steel prices. While we have had steel pricing adjustment programs in place with most major OEMs, the price adjustment programs tend to lag behind the movement in steel costs and have generally not contemplated non-steel index related increases.

Significant future volatility in the commodity markets or a deterioration in product demand may require us to pursue customer price increases through surcharges or other pricing arrangements. In addition, if suppliers are inadequate for our needs, or if prices remain at current levels or increase and we are unable to either pass these prices to our customer base or otherwise mitigate the costs, our operating results could be further adversely affected.

We continuously work to address these competitive challenges by reducing costs and, as needed, restructuring operations. We manage supplier risk by conducting periodic assessments for all major suppliers and more frequent rigorous assessments of high-risk suppliers. On an ongoing basis, we monitor third-party financial statements, conduct surveys through supplier questionnaires, and conduct site visits. We have developed a supplier improvement process where we identify and develop actions to address ongoing financial, quality and delivery issues to further mitigate potential risk. We are proactive in managing our supplier relationships to avoid supply disruption. Our process employs dual sourcing and resourcing trigger points that cause us to take aggressive actions and then monitor the progress closely.

Acquisitions, Divestitures and Restructuring

As described above, our business strategies are focused on enhancing our market position by continuously evaluating the competitive differentiation of our product portfolio, focusing on our strengths and core competencies, and growing the businesses that offer the most attractive returns. Implementing these strategies involves various types of strategic initiatives.

As part of our M2019 plan, we are evaluating acquisition opportunities that fit strategically with our core competencies and growth initiatives and regularly review the prospects of our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued. In fiscal year 2018, we completed a $6 million strategic investment in Transportation Power, Inc. ("TransPower") (see Note 13 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below). In the third quarter of fiscal year 2018, we completed the acquisition of substantially all of the assets of AA Gear & Manufacturing, Inc. (see Note 7 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below). In the second quarter of fiscal year 2018, we completed the sale of our equity interest in Meritor Huayang Vehicle Braking Company Ltd. (see Note 7 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below). In the fourth quarter of fiscal year 2017, we closed on the sale of our interest in Meritor WABCO Vehicle Control Systems to a subsidiary of our joint venture partner, WABCO Holdings Inc. (see Note 14 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below). In the fourth quarter of fiscal year 2017, we also completed the acquisition of the product portfolio and related technologies of Fabco Holdings, Inc. (see Note 7 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below).

Restructuring Actions

Segment Realignment Program: On March 12, 2018, we announced a realignment of operations to further drive long-term strategic objectives while also assigning new responsibilities as part of our commitment to leadership development. As a part of this program, we approved various labor restructuring actions in the Aftermarket & Industrial segment. We recorded $3 million of restructuring costs during fiscal year 2018 in connection with this program. These actions were substantially complete as of September 30, 2018.
Other Restructuring Actions: During fiscal year 2018, we recorded restructuring costs of $3 million primarily associated with labor reduction programs in the Commercial Truck & Trailer segment and Aftermarket & Industrial segment.
Fiscals 2017 & 2016 Aftermarket Actions: During the third quarter of fiscal year 2016, we approved various restructuring plans in the North American and European Aftermarket businesses. We recorded $5 million of restructuring costs during the third quarter of fiscal year 2016 and $4 million of restructuring costs during fiscal year 2017. Restructuring actions associated with these plans were substantially complete as of September 30, 2017.
Fiscal 2016 Market Related Actions: In response to the decline in revenue in North America and South America, during the fourth quarter of fiscal year 2016, we approved various headcount reduction plans targeting different areas of the business. During the fourth quarter of fiscal year 2016, we incurred a total of $5 million in restructuring costs in the Commercial Truck & Trailer segment, $1 million in the Aftermarket & Industrial segment and $2 million related to their corporate locations. Restructuring actions associated with these plans were substantially complete as of September 30, 2017.
Other Fiscal 2016 Actions: During the first half of fiscal year 2016, we recorded restructuring costs of $3 million primarily associated with a labor reduction program in China in the Commercial Truck & Trailer segment and a labor reduction program in the Aftermarket & Industrial segment. Restructuring actions associated with these plans were

substantially complete as of September 30, 2016.

Joint Ventures

As the industries in which we operate have become more globalized, joint ventures and other cooperative arrangements have become an important element of our business strategies. These strategic alliances provide for sales, product design, development and manufacturing in certain product and geographic areas. As of September 30, 2018, our continuing operations participated in the following non-consolidated joint ventures:

	Key Products	Country
Master Sistemas Automotivos Limitada	Braking systems	Brazil
Sistemas Automotrices de Mexico S.A. de C.V.	Axles, drivelines and brakes	Mexico
Ege Fren Sanayii ve Ticaret A.S.	Braking systems	Turkey
Automotive Axles Limited	Rear drive axle assemblies and braking systems	India

In the fourth quarter of fiscal year 2017, we closed on the sale of our interest in Meritor WABCO Vehicle Control Systems to a subsidiary of our joint venture partner, WABCO Holdings Inc.

Aggregate sales of our non-consolidated joint ventures were $1,101 million, $1,156 million and $1,101 million in fiscal years 2018, 2017 and 2016, respectively.

In accordance with accounting principles generally accepted in the United States, our consolidated financial statements include the financial position and operating results of those joint ventures in which we have control. For additional information on our unconsolidated joint ventures and percentage ownership thereof see Note 14 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Research and Development

We have significant research, development, engineering and product design capabilities. We spent $73 million in fiscal year 2018, $69 million in fiscal year 2017 and $68 million in fiscal year 2016 on company-sponsored research, development and engineering. We employ professional engineers and scientists globally and have additional engineering capabilities through contract arrangements in low-cost countries. We also have advanced technical centers in North America, South America, Europe and Asia Pacific (primarily in India and China).

Patents and Trademarks

We own or license many United States and foreign patents and patent applications in our engineering and manufacturing operations and other activities. While in the aggregate these patents and licenses are considered important to the operation of our businesses, management does not believe that the loss or termination of any one of them would materially affect a business segment or Meritor as a whole.

Our registered trademarks for Meritor® and the Bull design are important to our business. Other significant trademarks owned by us include Euclid® and Trucktechnic® for aftermarket products.

Substantially all of our U.S.-held intellectual property rights are subject to a first-priority perfected security interest securing our obligations to the lenders under our credit facility. See Note 17 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Employees

At September 30, 2018, we had approximately 8,600 full-time employees (which includes consolidated joint ventures). At that date, 23 employees in the United States were covered by collective bargaining agreements. Most of our facilities outside of the United States and Canada are unionized. We strive to foster and maintain positive relationships with our hourly and salaried employees.

Environmental Matters

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes and other activities affecting the environment have, and will continue to have, an impact on our operations. We record liabilities for environmental issues in the accounting period in which they are considered to be probable and the cost can be reasonably estimated. At environmental sites in which more than one potentially responsible party has been identified, we record a liability for our allocable share of costs related to our involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which we are the only potentially responsible party, we record a liability for the total estimated costs of remediation before consideration of recovery from insurers or other third parties.

We have been designated as a potentially responsible party at ten Superfund sites, excluding sites as to which our records disclose no involvement or as to which our liability has been finally determined. These sites include a location in Grenada, Mississippi that was designated as a Superfund site by the U.S. Environmental Protection Agency in September of 2018. In addition to Superfund sites, various other lawsuits, claims and proceedings have been asserted against us, alleging violations of federal, state and local environmental protection requirements or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. We have established reserves for these liabilities when they are considered to be probable and reasonably estimable. See Note 24 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below for information as to our estimates of the total reasonably possible costs we could incur and the amounts recorded as a liability as of September 30, 2018, and as to changes in environmental accruals during fiscal year 2018.

The process of estimating environmental liabilities is complex and dependent on physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies. The actual amount of costs or damages for which we may be held responsible could materially exceed our current estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with Meritor's Chief Legal Officer and with outside advisors who specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, we believe that our expenditures for environmental capital investment and remediation necessary to comply with present regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material adverse effect on our business, financial condition or results of operations. In addition, in future periods, new laws and regulations, changes in remediation plans, advances in technology and additional information about the ultimate clean-up remedy could significantly change our estimates. Management cannot assess the possible effect of compliance with future requirements.

Seasonality; Cyclicality

We may experience seasonal variations in the demand for our products, to the extent OEM vehicle production fluctuates. Historically, for most of our operations, demand has been somewhat lower in the quarters ended September 30 and December 31, when OEM plants may close for summer shutdowns and holiday periods or when there are fewer selling days during the quarter. Our aftermarket business and our operations in India and China generally experience seasonally higher demand in the quarters ending March 31 and June 30.

In addition, the industries in which we operate have been characterized historically by periodic fluctuations in overall demand for trucks, trailers and other specialty vehicles for which we supply products, resulting in corresponding fluctuations in demand for our products. Production and sales of the vehicles for which we supply products generally depend on economic conditions and a variety of other factors that are outside of our control, including freight tonnage, customer spending and preferences, vehicle age, labor relations and regulatory requirements. See Item 1A. Risk Factors below. Cycles in the major vehicle industry markets of North America and Europe are not necessarily concurrent or related. It is part of our strategy to continue to seek to expand our operations globally to help mitigate the effect of periodic fluctuations in demand of the vehicle industry in one or more particular countries.

See Trends and Uncertainties in Item 7. Management's Discussion and Analysis for estimated commercial truck production volumes for selected original equipment markets based on available sources and management's estimates.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and other filings we make with the Securities and Exchange Commission ("SEC") are available free of charge on our website (www.Meritor.com), as soon as reasonably practicable after they are filed. The information contained on the company's website is not included in, or incorporated by reference into, this Annual Report on Form 10-K.

Cautionary Statement

This Annual Report on Form 10-K 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 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 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 production 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 proceedings or related liabilities with respect to environmental, asbestos-related, or other 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.

Item 1A. Risk Factors

Our business, financial condition and results of operations can be impacted by a number of risks, including those described below and elsewhere in this Annual Report on Form 10-K, any one of which could cause our actual results to vary materially from recent results or from anticipated future results. Any of these individual risks could materially and adversely affect our business, financial condition and results of operations. This effect could be compounded if multiple risks were to occur.

We may not be able to execute our M2019 Plan.

At the beginning of fiscal 2016, we announced our M2019 plan, a multi-year plan to drive growth and increase shareholder value. In connection with the plan, we established certain financial goals relating to revenue growth, profit improvement and capital allocation. The M2019 plan is based on our current planning assumptions, and achievement of the plan is subject to a number of risks. Our plan includes assumptions that we are able to successfully launch new products, secure new business wins, expand our current customer relationships, reduce debt, reduce costs, and that any increases in raw materials prices are substantially offset by customer recovery mechanisms. If our assumptions are incorrect, if management is not able to execute the plan or if our business suffers from any number of additional risks set forth herein, we may not be able to achieve the financial goals we have announced for the M2019 plan.

We depend on large OEM customers, and loss of sales to these customers or failure to negotiate acceptable terms in contract renewal negotiations, or to obtain new customers, could have an adverse impact on our business.

We are dependent upon large OEM customers with substantial bargaining power with respect to price and other commercial terms. In addition, we have long-term contracts with certain of these customers that are subject to renegotiation and renewal from time to time. Loss of all or a substantial portion of sales to any of our large volume customers for whatever reason (including, but not limited to, loss of contracts or failure to negotiate acceptable terms in contract renewal negotiations, loss of market share by these customers, insolvency of such customers, reduced or delayed customer requirements, plant shutdowns, strikes or other work stoppages affecting production by such customers), continued reduction of prices to these customers, or a failure to obtain new customers, could have a significant adverse effect on our financial results. There can be no assurance that we will not lose all or a portion of sales to our large volume customers, or that we will be able to offset any reduction of prices to these customers with reductions in our costs or by obtaining new customers.

During fiscal year 2018, sales to our three largest customers, AB Volvo, Daimler AG and PACCAR represented approximately 23 percent, 17 percent and 12 percent, respectively. No other customer accounted for 10 percent or more of our total sales in fiscal year 2018.

The level of our sales to large OEM customers, including the realization of future sales from awarded business or obtaining new business or customers, is inherently subject to a number of risks and uncertainties, including the number of vehicles that these OEM customers actually produce and sell. Several of our significant customers have major union contracts that expire periodically and are subject to renegotiation. Any strikes or other actions that affect our customers' production during this process would also affect our sales. Further, to the extent that the financial condition, including bankruptcy or market share, of any of our largest customers deteriorates or their sales otherwise continue to decline, our financial position and results of operations could be adversely affected. In addition, our customers generally have the right to replace us with another supplier under certain circumstances. Accordingly, we may not in fact realize all of the future sales represented by our awarded business. Any failure to realize these sales could have a material adverse effect on our financial condition and results of operations.

Our ability to manage rapidly changing production and sales volume in the commercial vehicle market may adversely affect our results of operations.

Production and sales in the commercial vehicle market have historically been volatile. Our business may experience difficulty in adapting to rapidly changing production and sales volumes. In an upturn of the cycle, when demand increases for production, we may have difficulty in meeting such extreme or rapidly increasing demand. This difficulty may include not having sufficient manpower or working capital to meet the needs of our customers or relying on other suppliers who may not be able to respond quickly to a changed environment when demand increases rapidly. In addition, certain volume requirements can necessitate premium freight and the associated costs to support the customer demand. In contrast, in the downturn of the cycle, we may have difficulty sustaining profitability given fixed costs (as further discussed below).

A downturn in the global economy could materially adversely affect our results of operations, financial condition and cash flows.

Past recessions have had a significant adverse impact on our business, customers and suppliers. Our cash and liquidity needs were impacted by the level, variability and timing of our customers' worldwide vehicle production and other factors outside of our control. If the global economy were to take another significant downturn, depending upon the length, duration and severity of another recession, our results of operations, financial condition and cash flow would be materially adversely affected again.

Our levels of fixed costs can make it difficult to adjust our cost base to the extent necessary, or to make such adjustments on a timely basis, and continued volume declines can result in non-cash impairment charges as the value of certain long-lived assets is reduced. As a result, our financial condition and results of operations have been and would be expected to continue to be adversely affected during periods of prolonged declining production and sales volumes in the commercial vehicle markets.

The negative impact on our financial condition and results of operations from continued volume declines could also have negative effects on our liquidity. If cash flows are not available from our operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs; however, we cannot predict whether that funding will be available at all or on commercially reasonable terms. In addition, in the event of reduced sales, levels of receivables would decline, which would lead to a decline in funding available under our U.S. receivables facilities or under our European factoring arrangements.

Our working capital requirements may negatively affect our liquidity and capital resources.

Our working capital requirements can vary significantly, depending in part on the level, variability and timing of our customers' worldwide vehicle production and the payment terms with our customers and suppliers. As production volumes increase, our working capital requirements to support the higher volumes generally increase. If our working capital needs exceed our other cash flows from operations, we would look to our cash balances and availability for borrowings under our borrowing arrangements to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms or in adequate amounts.

In addition, since many of our accounts receivable factoring programs support our working capital requirements in Europe, any dissolution of the European monetary union, if it were to occur, or any other termination of our European factoring agreements could have a material adverse effect on our liquidity if we were unable to renegotiate such agreements or find alternative sources of liquidity.

One of our consolidated joint ventures in China participates in bills of exchange programs to settle accounts receivable from its customers and obligations to its trade suppliers. These programs are common in China and generally require the participation of local banks. Any disruption in these programs, if it were to occur, could have an adverse effect on our liquidity if we were unable to find alternative sources of liquidity.

We operate in an industry that is cyclical and that has periodically experienced significant year-to-year fluctuations in demand for vehicles; we also experience seasonal variations in demand for our products.

The industries in which we operate have been characterized historically by significant periodic fluctuations in overall demand for medium- and heavy-duty trucks and other vehicles for which we supply products, resulting in corresponding fluctuations in demand for our products. The length and timing of any cycle in the vehicle industry cannot be predicted with certainty.

Production and sales of the vehicles for which we supply products generally depend on economic conditions and a variety of other factors that are outside our control, including freight tonnage, customer spending and preferences, vehicle age, labor relations and regulatory requirements. In particular, demand for our Commercial Truck & Trailer segment products can be affected by a pre-buy before the effective date of new regulatory requirements, such as changes in emissions standards. Historically, implementation of new, more stringent, emissions standards has increased heavy-duty truck demand prior to the effective date of the new regulations, and correspondingly decreased this demand after the new standards are implemented. In addition, any expected increase in the heavy-duty truck demand prior to the effective date of new emissions standards may be offset by instability in the financial markets and resulting economic contraction in the U.S. and worldwide markets.

Sales from the aftermarket portion of our Aftermarket & Industrial segment depend on overall levels of truck ton miles and gross domestic product (GDP), among other things, and may be influenced by times of slower economic growth or economic contraction based on the average age of commercial truck fleets.

We may also experience seasonal variations in the demand for our products to the extent that vehicle production fluctuates. Historically, for most of our business, demand has been somewhat lower in the quarters ended September 30 and December 31, when OEM plants may close during model changeovers and vacation and holiday periods or when there are fewer selling days during the quarter. In addition, our aftermarket business and our operations in India and China generally experience seasonally higher demand in the quarters ending March 31 and June 30.

Continued fluctuation in the prices of raw materials and transportation costs has adversely affected our business and, together with other factors, will continue to pose challenges to our financial results.

Prices of raw materials, primarily steel, for our manufacturing needs and costs of transportation have fluctuated sharply in past years, including rapid increases which had a negative impact on our operating income for certain periods. These steel price increases, along with increasing transportation costs, created pressure on profit margins, and as they recur in the future, they could unfavorably impact our financial results going forward. While we have had steel pricing adjustment programs in place with most major OEMs, the price adjustment programs typically lag the increase in steel costs and have generally not contemplated all non-index-related increases in steel costs. Raw material price fluctuation, together with the volatility of the commodity markets, which can be impacted by a variety of factors, including changes in trade laws and tariffs, will continue to pose risks to our financial results. If we are unable to pass price increases on to our customer base or otherwise mitigate the costs, our operating income could be adversely affected.

Escalating price pressures from customers may adversely affect our business.

Pricing pressure by OEMs is a characteristic, to a certain extent, of the commercial vehicle industry. Virtually all OEMs have aggressive price reduction initiatives and objectives each year with their suppliers, and such actions are expected to continue in the future. Accordingly, we must be able to reduce our operating costs in order to maintain our current margins. Price reductions have impacted our margins and may do so in the future. There can be no assurance that we will be able to avoid future customer price reductions or offset future customer price reductions through improved operating efficiencies, new manufacturing processes, sourcing alternatives or other cost reduction initiatives.

We operate in a highly competitive industry.

Each of Meritor's businesses operates in a highly competitive environment. We compete worldwide with a number of North American and international providers of components and systems, some of which are owned by or associated with some of our customers. Certain OEMs manufacture products for their own use that compete with the types of products we supply, and any future increase in this activity could displace Meritor's sales. In addition, cost reduction strategies in our industry have led to an increase in the consolidation and globalization of OEMs and their suppliers, which could increase the amount of competition or displacement we face from OEMs that manufacture products similar to ours for their own use or from suppliers that are affiliated with or otherwise supported by OEMs.

The commercial vehicle market is also experiencing a period of significant technological change as a result of the trends toward electrified drivetrains and the integration of advanced electronics into traditional products. These trends have led to an increase in the significance of technology to our current and future products, as well as an increase in the amount of competition we face from technology focused new market entrants. If we are unable to continue providing products that meet our customers’ needs in this environment of rapid technological change, our market competitiveness could be adversely affected.

Exchange rate fluctuations could adversely affect our financial condition and results of operations.

As a result of our substantial international operations, we are exposed to foreign currency risks that arise from our normal business operations, including risks in connection with our transactions that are denominated in foreign currencies. While we employ financial instruments to hedge certain of our foreign currency exchange risks relating to these transactions, our efforts to manage these risks may not be successful. In addition, we translate sales and other results denominated in foreign currencies into U.S. dollars for purposes of our consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on our reported revenues and operating income, while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating income. For fiscal year 2016, our reported financial results were adversely affected by appreciation of the U.S. dollar against foreign currencies. For fiscal years 2018 and 2017, our reported financial results benefited from depreciation of the U.S. dollar against foreign currencies.

A disruption in supply of raw materials or parts could impact our production and increase our costs.

Some of our significant suppliers have experienced weak financial condition in the past. In addition, some of our significant suppliers are located in developing countries. We are dependent upon the ability of our suppliers to meet performance and quality specifications and delivery schedules. The inability of a supplier to meet these requirements, the loss of a significant supplier, or any labor issues or work stoppages at a significant supplier could disrupt the supply of raw materials and parts to our facilities and could have an adverse effect on us.

Work stoppages or similar difficulties could significantly disrupt our operations.

A work stoppage at one or more of our manufacturing facilities could have a material adverse effect on our business. In addition, if a significant customer were to experience a work stoppage, that customer could halt or limit purchases of our products, which could result in shutting down the related manufacturing facilities. Also, a significant disruption in the supply of a key component due to a work stoppage at one of our suppliers could result in shutting down manufacturing facilities, which could have a material adverse effect on our business.

Our international operations are subject to a number of risks.

We have a significant number of facilities and operations outside the United States, including investments and joint ventures in developing countries. During fiscal year 2018, approximately 45 percent of our sales from continuing operations were generated outside of the United States. Our strategy to grow in emerging markets may put us at risk due to the risks inherent in operating in such markets. Our international operations are subject to a number of risks inherent in operating abroad, including, but not limited to:

- risks with respect to currency exchange rate fluctuations (as more fully discussed above);
- risks to our liquidity if the European monetary union were to dissolve and we were unable to renegotiate European factoring agreements or find alternative sources of liquidity;
- risks arising from the United Kingdom's decision to exit the European Union, or in the event one or more other countries exit the European monetary union;
- local economic and political conditions;
- disruptions of capital and trading markets;
- possible terrorist attacks or acts of aggression that could affect vehicle production or the availability of raw materials or supplies;
- restrictive governmental actions (such as restrictions on transfer of funds and trade protection measures, including import and export duties, quotas and customs duties and tariffs);
- changes in legal or regulatory requirements;
- import or export licensing requirements;
- limitations on the repatriation of funds;
- difficulty in obtaining distribution and support;
- nationalization;
- the laws and policies of the United States and foreign governments affecting trade, foreign investment and loans;
- the ability to attract and retain qualified personnel;
- tax laws; and
- labor disruptions.

There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

Certain of our operations are conducted through joint ventures, which have unique risks.

We conduct certain of our operations through joint ventures, many of which act as our suppliers, pursuant to the terms of the agreements that we entered into with our partners. We may share management responsibilities and information with one or more partners that may not share our goals and objectives. Additionally, one or more partners may fail to satisfy contractual obligations, conflicts may arise between us and any of our partners, the ownership of one of our partners may change or our ability to control decision making or compliance with applicable rules and regulations may be limited. Additionally, our ability to sell our interest in a joint venture may be subject to contractual and other limitations. Accordingly, any of the foregoing could adversely affect our results of operations, financial condition and cash flow.

Our strategic initiatives may be unsuccessful, may take longer than anticipated, or may result in unanticipated costs.

The success and timing of any future divestitures and acquisitions will depend on a variety of factors, many of which are not within our control. If we engage in acquisitions, we may finance these transactions by borrowing or issuing additional debt or equity securities. The additional debt from any such acquisitions, if consummated, could increase our debt to capitalization ratio. In addition, the ultimate benefit of any acquisition would depend on our ability to successfully integrate the acquired entity or assets into our existing business and to achieve any projected synergies. There is also no assurance that the total costs associated with any current and future restructuring will not exceed our estimates, or that we will be able to achieve the intended benefits of these restructurings.

Our liquidity, including our access to capital markets and financing, could be constrained by limitations in the overall credit market, our credit ratings, our ability to comply with financial covenants in our debt instruments, and our suppliers suspending normal trade credit terms on our purchases, or by other factors beyond our control.

Our current senior secured revolving credit facility matures in March 2022. Upon expiration of this facility, we will require a new or renegotiated facility (which may be smaller and have less favorable terms than our current facility) or other financing arrangements. Our ability to access additional capital in the long term will depend on availability of capital markets and pricing on commercially reasonable terms as well as our credit profile at the time we are seeking funds, and there is no guarantee that we will be able to access additional capital.

On November 14, 2018, our Standard & Poor’s corporate credit rating and senior unsecured credit rating were BB and BB-, respectively, and our Moody’s Investors Service corporate credit rating and senior unsecured credit rating were Ba3 and B1, respectively. Any lowering of our credit ratings could increase our cost of future borrowings and could reduce our access to capital markets and result in lower trading prices for our securities.

Our liquidity could also be adversely impacted if our suppliers were to suspend normal trade credit terms and require more accelerated payment terms, including payment in advance or payment on delivery of purchases. If this were to occur, we would be dependent on other sources of financing to bridge the additional period between payment of our suppliers and receipt of payments from our customers.

Disruptions in the financial markets could impact the availability and cost of credit which could negatively affect our business.

Disruptions in the financial markets, including the bankruptcy, insolvency or restructuring of certain financial institutions, and the lack of liquidity generally could impact the availability and cost of incremental credit for many companies and may adversely affect the availability of credit already arranged. Such disruptions could adversely affect the U.S. and world economy, further negatively impacting consumer spending patterns in the transportation and industrial sectors. In addition, as our customers and suppliers respond to rapidly changing consumer preferences, they may require access to additional capital. If that capital is not available or its cost is prohibitively high, their business would be negatively impacted, which could result in further restructuring or even reorganization under bankruptcy laws. Any such negative impact, in turn, could negatively affect our business either through loss of sales to any of our customers so affected or through inability to meet our commitments (or inability to meet them without excess expense) because of loss of supplies from any of our suppliers so affected. There are no assurances that government responses to these disruptions would restore consumer confidence or improve the liquidity of the financial markets.

In addition, disruptions in the capital and credit markets could adversely affect our ability to draw on our senior secured revolving credit facility or our U.S. accounts receivable securitization facility. Our access to funds under the facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from Meritor and other borrowers within a short period of time. Longer-term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged.

A violation of the financial covenants in our senior secured revolving credit facility could result in a default thereunder and could lead to an acceleration of our obligations under this facility and, potentially, other indebtedness.

Our ability to borrow under our existing financing arrangements depends on our compliance with covenants in the related agreements and on our performance against covenants in our bank credit facility that require compliance with certain financial ratios as of the end of each fiscal quarter. To the extent that we are unable to maintain compliance with these requirements or to perform against the financial ratio covenants due to one or more of the various risk factors discussed herein or otherwise, our ability to borrow, and our liquidity, would be adversely impacted. Availability under the senior secured revolving credit facility is subject to a collateral test, performed quarterly, pursuant to which borrowings on the senior secured revolving credit facility cannot exceed 1.0x the collateral test value. Availability under the senior secured revolving credit facility is also subject to certain financial covenants based on (i) the ratio of our priority debt (consisting principally of amounts outstanding under the senior secured revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of not more than 2.25 to 1.00 as of the last day of each fiscal quarter through maturity.

If an amendment or waiver is needed (in the event we do not meet one of these covenants) and not obtained, we would be in violation of that covenant, and the lenders would have the right to accelerate the obligations upon the vote of the lenders holding more than 50% of outstanding loans thereunder. A default under the senior secured revolving credit facility could also constitute a default under our outstanding convertible notes as well as our U.S. receivables facility and could result in the acceleration of these obligations. In addition, a default under our senior secured revolving credit facility could result in a cross-default or the acceleration of our payment obligations under other financing agreements. If our obligations under our senior secured revolving credit facility and other financing arrangements are accelerated as described above, our assets and cash flow may be insufficient to fully repay these obligations, and the lenders under our senior secured revolving credit facility could institute foreclosure proceedings against our assets.

We are exposed to environmental, health and safety and product liabilities.

Our business is subject to liabilities with respect to environmental, health and safety matters. In addition, we are required to comply with federal, state, local and foreign laws and regulations governing the protection of the environment and health and safety, and we could be held liable for damages arising out of human exposure to hazardous substances or other environmental or natural resource damages. Environmental, health and safety laws and regulations are complex, change frequently and tend to be increasingly stringent. As a result, our future costs to comply with such laws and regulations may increase significantly. There is also an inherent risk of exposure to warranty and product liability claims, as well as product recalls, in the commercial vehicle industry if our products fail to perform to specifications or are alleged to cause property damage, injury or death.

With respect to environmental liabilities, we have been designated as a potentially responsible party at ten Superfund sites (excluding sites as to which our records disclose no involvement or as to which our liability has been finally determined). In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against us alleging violations of federal, state and local and foreign environmental protection requirements or seeking remediation of alleged environmental impairments. We establish reserves for these liabilities when we determine that the company has a probable obligation and we can reasonably estimate it, but the process of estimating environmental liabilities is complex and dependent on evolving physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies. The actual amount of costs or damages for which we may be held responsible could materially exceed our current estimates because of these and other uncertainties which make it difficult to predict actual costs accurately. In future periods, new laws and regulations, changes in remediation plans, advances in technology and additional information about the ultimate clean-up remedy could significantly change our estimates and have a material impact on our financial position and results of operations. Management cannot assess the possible effect of compliance with future requirements.

We are exposed to asbestos litigation liability.

One of our subsidiaries, Maremont Corporation, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. We acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. We, along with many other companies, have also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of products of Rockwell International Corporation ("Rockwell"). Liability for these claims was transferred to us at the time of the spin-off of Rockwell's automotive business to Meritor in 1997.

The uncertainties of asbestos claim and other litigation, including the outcome of litigation with insurance companies regarding the scope of asbestos coverage and the long-term solvency of our insurance carriers, make it difficult to predict accurately the ultimate resolution of asbestos claims. The possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process increases that uncertainty. Although we have established reserves to address asbestos liability and corresponding receivables for recoveries from our insurance carriers, if our assumptions with respect to the nature of pending and future claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for asbestos-related claims, and the effect on us, could differ materially from our current estimates and, therefore, could have a material impact on our financial position and results of operations.

We are exposed to the rising cost of pension benefits and uncertainty regarding the provision of postemployment benefits.

The commercial vehicle industry, like other industries, continues to be impacted by the cost of pension and other postemployment benefits. In estimating our expected obligations under our pension benefit plans, we make certain assumptions as to economic and demographic factors, such as discount rates, and investment returns. If actual experience of these factors is worse than our assumptions, our obligations could grow which could in turn increase the amount of mandatory contributions to these plans in the coming years. Our pension plans and other postemployment benefits were underfunded by $30 million and $86 million, respectively, as of September 30, 2018.

Changes in U.S. trade policy, including the imposition of tariffs and the resulting consequences, could adversely affect our results of operations.

The U.S. government has adopted a new approach to trade policy and in some cases has attempted to renegotiate or terminate certain existing bilateral or multi-lateral trade agreements. It has also imposed tariffs on certain foreign goods, including steel and certain commercial vehicle parts, which have begun to result in increased costs for goods imported into the U.S. In response to these tariffs, a number of U.S. trading partners, including China, the European Union and Canada, have imposed retaliatory tariffs on a wide range of U.S. products, which makes it more costly for us to export our products to those countries. If we are unable to pass price increases on to our customer base or otherwise mitigate the costs, or if demand for our exported products decreases due to the higher cost, our operating income could be adversely affected. In addition, further tariffs have been proposed by the U.S. and its trading partners and additional trade restrictions could be implemented on a broader range of products or raw materials. The resulting environment of retaliatory trade or other practices could have a significant adverse effect on our business, customers, suppliers and the global economy.

Impairment in the carrying value of long-lived assets and goodwill could negatively affect our operating results and financial condition.

We have a significant amount of long-lived assets and goodwill on our consolidated balance sheet. Under U.S. generally accepted accounting principles, long-lived assets, excluding goodwill, are required to be reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. If business conditions or other factors cause our operating results and cash flows to decline, we may be required to record non-cash impairment charges. Goodwill must be evaluated for impairment at least annually. If the carrying value of our reporting units exceeds their current fair value, the goodwill is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in impairment in the value of our long-lived assets and goodwill include changes impacting the industries in which we operate, particularly the impact of any downturn in the global economy, as well as competition and advances in technology, adverse changes in the regulatory environment, or other factors leading to reduction in expected long-term sales or operating results. If the value of long-lived assets or goodwill is impaired, our earnings and financial condition could be adversely affected.

The value of our deferred tax assets could become impaired, which could materially and adversely affect our results of operations and financial condition.

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 "Income Taxes," each quarter we determine the probability of the realization of deferred tax assets using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. If we determine in the future that there is not sufficient positive evidence to support the valuation of these assets, due to the risk factors described herein or other factors, we may be required to adjust the valuation allowance to reduce our deferred tax assets. Such a reduction could result in material non-cash expenses in the period in which the valuation allowance is adjusted and could have a material adverse effect on our results of operations and financial condition. In addition, future changes in laws or regulations could have a material impact on the company's overall tax position.

Our overall effective tax rate is equal to our total tax expense as a percentage of our total earnings before tax. However, tax expenses and benefits are determined separately for each tax paying component (an individual entity) or group of entities that is consolidated for tax purposes in each jurisdiction. Losses in certain jurisdictions that have valuation allowances against their deferred tax assets provide no current financial statement tax benefit unless required under the intra-period allocation requirements of ASC Topic 740. As a result, changes in the mix of projected earnings between jurisdictions, among other factors, could have a significant impact on our overall effective tax rate.

Our unrecognized tax benefits recorded in accordance with FASB ASC Topic 740 could significantly change.

FASB ASC Topic 740, "Income Taxes," defines the confidence level that a tax position must meet in order to be recognized in the financial statements. This topic requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more likely than not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. In the event that the more-likely-than-not threshold is not met, we would be required to change the relevant tax position which could have an adverse effect on our results of operations and financial condition.

We may be restricted on the use of tax attributes from a tax law "ownership change."

Section 382 of the U.S. Internal Revenue Code of 1986, as amended, limits the ability of a corporation that undergoes an "ownership change" to use its tax attributes, such as net operating losses and tax credits. In general, an "ownership change" occurs if shareholders owning five percent or more (applying certain look-through rules) of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than fifty percentage points within any three-year period over such shareholders' lowest percentage ownership during this period. If we were to issue new shares of stock, such new shares could contribute to such an "ownership change" under U.S. tax law. Moreover, not every event that could contribute to such an "ownership change" is within our control. If an "ownership change" under Section 382 were to occur, our ability to utilize tax attributes in the future may be limited.

Assertions against us or our customers relating to intellectual property rights could materially impact our business.

Our industry is characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. From time to time, third parties may assert against us and our customers and distributors their patents and other intellectual property rights to technologies that are important to our business.

Claims that our products or technology infringe third-party intellectual property rights, regardless of their merit or resolution, are frequently costly to defend or settle and divert the efforts and attention of our management and technical personnel. In addition, many of our supply agreements require us to indemnify our customers and distributors from third-party infringement claims, which have in the past and may in the future require that we defend those claims and might require that we pay damages in the case of adverse rulings. Claims of this sort also could harm our relationships with our customers and might deter future customers from doing business with us. We do not know whether we will prevail in these proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If any pending or future proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products or technology;

- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products or technology;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- enter into cross-licenses with our competitors, which could weaken our overall intellectual property portfolio;
- lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;

- pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology; or

- relinquish rights associated with one or more of our patent claims, if our claims are held invalid or otherwise unenforceable.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

We utilize a significant amount of intellectual property in our business. If we are unable to protect our intellectual property, our business could be adversely affected.

Our success depends in part upon our ability to protect our intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trademarks and trade secrets, as well as customary contractual protections with our customers, distributors, employees and consultants, and security measures to protect our trade secrets. We cannot guarantee that:

- any of our present or future patents will not lapse or be invalidated, circumvented, challenged, abandoned or, in the case of third-party patents licensed or sub-licensed to us, be licensed to others;

- any of our pending or future patent applications will be issued or have the coverage originally sought;

- our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak; or

- any of the trademarks, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others.

In addition, we may not receive competitive advantages from the rights granted under our patents and other intellectual property rights. Our competitors may develop technologies that are similar or superior to our proprietary technologies, duplicate our proprietary technologies, or design around the patents we own or license. Our existing and future patents may be circumvented, blocked, licensed to others, or challenged as to inventorship, ownership, scope, validity or enforceability. Effective intellectual property protection may be unavailable or more limited in one or more relevant jurisdictions relative to those protections available in the United States, or may not be applied for in one or more relevant jurisdictions. If we pursue litigation to assert our intellectual property rights, an adverse decision in any of these legal actions could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations.

We are a party to a number of patent and intellectual property license agreements. Some of these license agreements require us to make one-time or periodic payments. We may need to obtain additional licenses or renew existing license agreements in the future. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms.

A breach or failure of our information technology infrastructure could adversely impact our business and operations.

We recognize the increasing volume of cyber-attacks and employ commercially practical efforts to provide reasonable assurance such attacks are appropriately mitigated. Each year, we evaluate the threat profile of our industry to stay abreast of trends and to provide reasonable assurance our existing countermeasures will address any new threats identified. Despite our implementation of security measures, our IT systems and those of our service providers are vulnerable to circumstances beyond our reasonable control including acts of malfeasance, acts of terror, acts of government, natural disasters, civil unrest, and denial of service attacks, any of which may lead to the theft of our intellectual property and trade secrets or business disruption. To the extent that any disruption or security breach results in a loss or damage to our data or an inappropriate disclosure of confidential information, it could cause significant damage to our reputation, affect our relationships with our customers, suppliers and employees, lead to claims against the company and ultimately harm our business. Additionally, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At September 30, 2018, our operating segments, including all consolidated joint ventures, had the following facilities in the United States, Europe, South America, Canada, Mexico and the Asia-Pacific region. For purposes of these numbers, multiple facilities in one geographic location are counted as one facility.

	Manufacturing and Distribution Facilities	Engineering Facilities, Sales Offices, Warehouses and Service Centers
Commercial Truck & Trailer	20	12
Aftermarket & Industrial	6	8
Other	—	4
Total	26	24

These facilities had an aggregate floor space of approximately 9.3 million square feet, substantially all of which is in use. We owned approximately 61 percent and leased approximately 39 percent of this floor space. Substantially all of our owned domestic plants and equipment are subject to liens securing our obligations under our revolving credit facility with a group of banks (see Note 17 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data). In the opinion of management, our properties have been well maintained, are in sound operating condition and contain all equipment and facilities necessary to operate at present levels.

A summary of floor space (in square feet) of these facilities at September 30, 2018, (including new space under construction) is as follows:

	Owned Facilities			Leased Facilities			
Location	Commercial Truck & Trailer	Aftermarket & Industrial	Other	Commercial Truck & Trailer	Aftermarket & Industrial	Other	Total
United States	1,611,763	1,186,565	417,800	669,515	608,137	—	4,493,780
Canada	—	—	—	—	40,517	—	40,517
Europe	1,870,150	—	—	528,076	75,578	12,376	2,486,180
Asia Pacific	406,941	—	—	1,055,819	30,178	—	1,492,938
Latin America	204,368	—	—	571,743	—	—	776,111
Total	4,093,222	1,186,565	417,800	2,825,153	754,410	12,376	9,289,526

Item 3. Legal Proceedings.

- See Note 24 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information with respect to litigation related to asbestos and product liability, which is incorporated herein by reference thereto.
- See Item 1. Business, "Environmental Matters" and Note 24 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information relating to environmental proceedings, which is incorporated herein by reference thereto.
- In March 2016, two virtually identical complaints were filed against our company and other defendants in the United States District Court for the Eastern District of Michigan. The complaints are proposed class actions alleging that we violated federal and state antitrust and other laws in connection with a former business of ours that manufactured and sold exhaust systems for automobiles. The first proposed class is composed of persons and entities that purchased or leased a passenger vehicle during a specified time period; the second is a purported class of automobile dealers. We accepted service of these complaints in July 2016. We settled both of these lawsuits for a total of $1 million. The

settlements were preliminarily approved by the court in June and September 2018. A third complaint on behalf of a proposed class of direct purchasers was filed against our company and other defendants in the same court in November 2016; we accepted service in April 2017. In December 2017, we were served with a similar suit naming the company as a defendant on behalf of a purported class of purchasers in Alberta, Canada, and were served with a nearly identical complaint in British Columbia, Canada in March 2018. In August 2017, our subsidiary, Meritor do Brasil Sistema Automotivos Ltda., received notice that it was made a formal party to an investigation by the antitrust authority of the Brazilian government relating to the alleged existence of a cartel in the exhaust systems and components market in Brazil. We intend to defend ourselves vigorously against the unsettled claims.

- Various other lawsuits, claims and proceedings have been or may be instituted or asserted against Meritor or our subsidiaries relating to the conduct of our business, including those pertaining to product liability, tax, warranty or recall claims, intellectual property, safety and health, contract and employment matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to Meritor, management believes, after consulting with Meritor's Chief Legal Officer, that the disposition of matters that are pending will not have a material effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 4A. Executive Officers of the Registrant.

The name, age, positions and offices held with Meritor and principal occupations and employment during the past five years of each of our executive officers as of November 15, 2018, are as follows:

Jeffrey A. Craig, 58 - Chief Executive Officer and President since April 2015 and President and Chief Operating Officer from June 2014 until April 2015. Mr. Craig has served as a director of Meritor since April 2015; Senior Vice President and President, Commercial Truck & Industrial from February 2013 until May 2014; Senior Vice President and Chief Financial Officer from May 2008 until January 2013; Acting Controller from May 2008 to January 2009; Senior Vice President and Controller from May 2007 until May 2008; Vice President and Controller from May 2006 until April 2007; Prior to joining Meritor, he was President and Chief Executive Officer of GMAC Commercial Finance (commercial lending service) from 2001 to May 2006 and President and Chief Executive Officer of GMAC’s Business Credit division from 1999 to 2001. He joined GMAC as general auditor in 1997 from Deloitte & Touche, where he served as an audit partner.

Kevin Nowlan, 46 - Senior Vice President and President, Trailer, Components and Chief Financial Officer since March 2018; Senior Vice President and Chief Financial Officer from May 2013 until March 2018; Vice President and Chief Financial Officer from February 2013 until April 2013; Vice President and Controller from December 2010 until February 2013 and Vice President and Treasurer from July 2009 until his appointment as Vice President and Controller. From July 2008 until July 2009, he served as Vice President and Assistant Treasurer and from March 2007 until July 2008, he served as Vice President of Shared Services. Prior to joining Meritor, Mr. Nowlan worked in various roles at GMAC and General Motors Corporation from 1995 through March 2007.

April Miller Boise, 50 - Senior Vice President, Chief Legal Officer and Corporate Secretary since August 2016. Prior to joining Meritor, Ms. Boise was Senior Vice President, General Counsel, Head of Global Mergers and Acquisitions and Corporate Secretary at Avintiv, Inc. (formerly known as The Polymer Group). From 2011 until 2015, she was Vice President, General Counsel, Corporate Secretary and Chief Privacy Officer at Veyance Technologies, Inc. (formerly known as Goodyear Engineered Products). From 1999 to 2010, Ms. Boise was an attorney with Thompson Hine LLP, where she held positions of increasing responsibility, including Managing Partner, Cleveland Office, Executive Committee Member and Hiring Partner, 2009-2010; Chair, Private Equity Group, 2007-2010; Co-Founder and Chair, Women’s Initiative, 2006-2009; and Partner, Corporate Transactions and Securities, 2002-2010.

Timothy Heffron, 54 - Senior Vice President, Human Resources and Chief Information Officer since August 2013; Vice President, Chief Information Officer and Shared Services from July 2011 until August 2013; Vice President of Shared Services from June 2008 until July 2011; Prior to joining Meritor, Mr. Heffron was Executive Vice President and Chief Information Officer of GMAC Commercial Finance from January 2002 until June 2008; Director of Reengineering for GMAC from December 1999 until December 2001, Director of Global Information Technology Audit for General Motors Corporation from June 1999 until November 1999; Assistant General Auditor for GMAC from March 1998 until May 1999. Prior to that, Mr. Heffron spent nine years in public accounting, most recently as an audit senior manager with Ernst & Young.

Chris Villavarayan, 48 - Senior Vice President and President, Global Truck since January 2018; Senior Vice President and President, Americas from February 2014 until January 2018; Vice President of Global Manufacturing and Supply Chain Management from June 2012 until February 2014; Managing Director of Meritor India and CEO of MHVSIL and Automotive Axles Ltd. (joint venture between Meritor and Kalyani Group of India) from December 2009 until June 2012; General Manager of European Operations and Worldwide Manufacturing Planning and Strategy from June 2007 until December 2009; Director of Manufacturing Performance Plus from November 2006 until June 2007; Regional Manager of Continuous Improvement from

July 2005 until November 2006; Industrialization Project Manager from September 2001 until July 2005; Site Manager of Meritor St. Thomas, Ontario facility from June 2000 until September 2001.

Joseph Plomin, 56 - Senior Vice President and President, Aftermarket, Industrial and Quality since March 2018; Senior Vice President and President, Aftermarket & Trailer and Quality from January 2018 until March 2018; Vice President and President, International from January 2014 until January 2018; Vice President of International from July 2013 until January 2014; Vice President of Global Brakes from June 2012 until January 2013; Vice President of Truck North America and South America from July 2011 until May 2012; Vice President of Commercial Vehicle Systems Truck from September 2007 until July 2011. Prior to joining Meritor, Mr. Plomin held a variety of executive positions at Delco Remy International, including Senior Vice President of Sales/Marketing/Product Line Management from October 2006 until September 2007; President of Electrical Aftermarket from February 2006 until October 2006; General Manager/Senior Vice President of Heavy Duty/Industrial Division from June 2001 until February 2006; and Senior Vice President of Sales and Marketing, Electrical Division from September 1998 until December 2000.

There are no family relationships, as defined in Item 401 of Regulation S-K, between any of the above executive officers and any director, executive officer or person nominated to become a director or executive officer. No officer of Meritor was selected pursuant to any arrangement or understanding between him or her and any person other than Meritor. All executive officers are elected annually.

PART II
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Meritor's common stock, par value $1 per share ("Common Stock"), is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "MTOR." On November 14, 2018, there were 10,470 shareholders of record of Meritor's Common Stock.

Our revolving credit facility permits us to declare and pay up to $40 million of dividends in any fiscal year provided that no default or unmatured default, as defined in the agreement, has occurred and is continuing at the date of declaration or payment.

Additionally, our indentures permit us to pay dividends under the following primary conditions:

- if a default on the notes, as defined in the indentures, has not occurred and is not continuing or shall not occur as a consequence of the payment;
- if the interest coverage ratio, as defined in the indentures, is greater than 2.00 to 1.00 after giving effect to the dividend;
- if the cumulative amount of the dividends paid does not exceed certain cumulative cash and earnings measurements;
- if the dividends are less than $60 million per fiscal year (with a carryover to the next fiscal year of up to $60 million if unused in the current fiscal year); and
- if after giving effect to the dividend, the total leverage ratio, as defined in the indenture, would not exceed 4.00 to 1.00.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information on securities authorized for issuance under equity compensation plans.

Issuer repurchases

The table below sets forth information with respect to purchases made by or on behalf of us of shares of our Common Stock during the three months ended September 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1- 31, 2018	—	$ —	—	$ 36,908,585
August 1- 31, 2018	1,019,537	$ 21.35	1,019,537	$ 15,144,491
September 1- 30, 2018	704,272	$ 21.38	704,272	$ —
Total	1,723,809		1,723,809	

(1) On July 21, 2016, the Board of Directors authorized the repurchase of up to $100 million of Common Stock and up to $150 million aggregate principal amount of any of the company’s debt securities (including convertible debt

securities), in each case from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and the company's debt covenants. Equity repurchases under these authorizations were complete as of September 30, 2018. On November 2, 2018, our Board of Directors authorized the repurchase of up to $200 million of our common stock and up to $100 million aggregate principal amount of any of our debt securities (including convertible debt securities), in each case from time to time through open market purchases, privately negotiated transactions or otherwise, subject to compliance with legal and regulatory requirements and our debt covenants. These authorizations supersede the prior July 2016 repurchase authorizations.

The independent trustee of our 401(k) plans purchases shares in the open market to fund investments by employees in our Common Stock, one of the investment options available under such plans, and any matching contributions in company stock we provide under certain of such plans. In addition, our stock incentive plans permit payment of an option exercise price by means of cashless exercise through a broker and permit the satisfaction of the minimum statutory tax obligations upon exercise of options and the vesting of restricted stock units through stock withholding. However, the company does not believe such purchases or transactions are issuer repurchases for the purposes of this Item 5 of this Report on Form 10-K. In addition, our stock incentive plans also permit the satisfaction of tax obligations upon the vesting of restricted stock through stock withholding. There were no shares withheld in fiscal year 2018.

Shareholder Return Performance Presentation

The line graph below compares the cumulative total shareholder return of the S&P 500, Meritor, Inc. and the peer group of companies for the period from September 30, 2013 to September 30, 2018, assuming a fixed investment of $100 at the respective closing prices on the last day of each fiscal year and reinvestment of cash dividends.

	9/13	9/14	9/15	9/16	9/17	9/18
Meritor, Inc.	100.00	138.04	135.24	141.60	330.92	246.31
S&P 500	100.00	119.73	119.00	137.36	162.92	192.10
Peer Group(1)	100.00	101.31	90.30	106.27	145.43	125.13

(1) The peer group consists of representative commercial vehicle suppliers of approximately comparable products to Meritor. The peer group consists of Commercial Vehicle Group, Inc., Cummins Inc., Dana Incorporated, Haldex AB, Modine Manufacturing Company, SAF-Holland SA, Stoneridge, Inc., and Wabco Holdings Inc.

The information included under the heading "Shareholder Return Performance Presentation" is not to be treated as "soliciting material" or as "filed" with the SEC, and is not incorporated by reference into any filing by the company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that is made on, before or after the date of filing of this Annual Report on Form 10-K.

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Item 6. Selected Financial Data.

The following sets forth selected consolidated financial data. The data should be read in conjunction with the information included under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data below.

	Year Ended September 30,				
	2018	2017	2016	2015	2014
	(in millions, except per share amounts)				
SUMMARY OF OPERATIONS					
Sales					
Commercial Truck & Trailer [1]	$3,325	$2,606	$2,465	$2,747	$2,957
Aftermarket & Industrial [1]	1,024	900	886	935	1,017
Intersegment Sales [1]	(171)	(159)	(152)	(177)	(208)
Total Sales	$4,178	$3,347	$3,199	$3,505	$3,766
Operating Income	$317	$207	$204	$128	$217
Income Before Income Taxes	278	381	155	67	315
Net Income Attributable to Noncontrolling Interests	(9)	(4)	(2)	(1)	(5)
Net Income Attributable to Meritor, Inc.:					
Income from Continuing Operations	$120	$325	$577	$65	$279
Loss from Discontinued Operations	(3)	(1)	(4)	(1)	(30)
Net Income	$117	$324	$573	$64	$249
BASIC EARNINGS (LOSS) PER SHARE					
Continuing Operations	$1.37	$3.69	$6.40	$0.67	$2.86
Discontinued Operations	(0.03)	(0.01)	(0.04)	(0.01)	(0.31)
Basic Earnings per Share	$1.34	$3.68	$6.36	$0.66	$2.55
DILUTED EARNINGS (LOSS) PER SHARE					
Continuing Operations	$1.31	$3.60	$6.27	$0.65	$2.81
Discontinued Operations	(0.03)	(0.01)	(0.04)	(0.01)	(0.30)
Diluted Earnings per Share	$1.28	$3.59	$6.23	$0.64	$2.51
FINANCIAL POSITION AT SEPTEMBER 30					
Total Assets [2]	$2,726	$2,782	$2,494	$2,195	$2,485
Short-term Debt	94	288	14	15	7
Long-term Debt [2]	730	750	982	1,036	948

(1) Fiscal years 2017, 2016, 2015 and 2014 have been recast to reflect reportable segment changes.
(2) Fiscal year 2014 has been recast to reflect the early adoption of ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.

Income (loss) from continuing operations attributable to Meritor, Inc. in the selected financial data presented above includes the following items specific to the period of occurrence (in millions):

	Year Ended September 30,				
	2018	2017	2016	2015	2014
Pretax items:					
Restructuring costs	$(6)	$(6)	$(16)	$(16)	$(10)
Asset impairment charges	(3)	(4)	—	(2)	—
Goodwill impairment charges	—	—	—	(15)	—
Impact of pension settlement losses and curtailment gain	(6)	—	—	(59)	15
Antitrust settlement with Eaton (including recovery of past legal fees)	—	—	—	—	209
Gain on sale of equity investment	—	243	—	—	—
Specific warranty contingency, net of supplier recovery	—	—	—	—	