

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended October 3, 2021

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1 Par Value	MTOR	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 ☒ 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 ☒

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 ☒ 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 (§ 232.405 of this chapter) during the preceding twelve months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

Yes ☐ No ☒

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2021 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$2,088,013,296

70,076,049 shares of the registrant's Common Stock, par value \$1 per share, were outstanding on November 16, 2021.

**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 27, 2022 is incorporated by reference into Part III.

	Page No.
<u>PART I.</u>	
Item 1. Business	1
Item 1A. Risk Factors	13
Item 1B. Unresolved Staff Comments	22
Item 2. Properties	23
Item 3. Legal Proceedings	23
Item 4. Mine Safety Disclosures	23
Item 4A. Information About Our Executive Officers	23
<u>PART II.</u>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6. [Reserved]	27
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	46
Item 8. Financial Statements and Supplementary Data	48
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	110
Item 9A. Controls and Procedures	110
Item 9B. Other Information	112
<u>PART III.</u>	
Item 10. Directors, Executive Officers and Corporate Governance	112
Item 11. Executive Compensation	112
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	112
Item 13. Certain Relationships and Related Transactions, and Director Independence	113
Item 14. Principal Accountant Fees and Services	113
<u>PART IV.</u>	
Item 15. Exhibits and Financial Statement Schedules	113
Item 16. Form 10-K Summary	119
Signatures	120

## PART I

### Item 1. **Business.**

#### Overview

Meritor, Inc., 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, drivelines, brakes, and suspension systems. 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 2021 were approximately \$4 billion. Our ten largest customers accounted for approximately 75 percent of fiscal year 2021 sales from continuing operations. Sales from operations outside North America accounted for approximately 40 percent of total sales from continuing operations in fiscal year 2021. 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 billion in fiscal year 2021.

Our fiscal year ends on the Sunday nearest to September 30. Fiscal year 2021 ended on October 3, 2021, fiscal year 2020 ended on September 27, 2020, and fiscal year 2019 ended on September 29, 2019. 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** 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 includes our aftermarket businesses in Asia Pacific and South America.
- 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 regarding the duration and severity of the COVID-19 pandemic and its effects on public health, the global economy, financial markets, and our operations and customers, including additional expense related to enhancing safety measures for our employees;
- Uncertainty around the global market outlook;
- Volatility in price and availability of steel, components, labor, transportation costs and other commodities, including energy;
- Potential for disruptions in the financial markets and their impact on the availability and cost of credit;
- Technological changes in our industry as a result of the trends toward electrified drivetrains and the integration of advanced electronics and their impact on the demand for our products and services;
- Impact of currency exchange rate volatility; and
- Consolidation and globalization of OEMs and their suppliers.

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 execute and implement strategic initiatives, including the ability to launch a significant number of new products, potential product quality issues, and obtain new business;
- Ability to manage possible adverse effects on European markets or our European operations, or financing arrangements related thereto, or in the event one or more countries exit the European monetary union;
- Ability to further implement planned productivity, cost reduction and other margin improvement initiatives;
- Ability to work with our customers to manage rapidly changing production volumes, including in the event of production interruptions affecting us, our customers or our suppliers;
- Competitively driven price reductions to our customers or 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 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.

## M2022 Plan

With fiscal year 2021 complete, we have one year remaining in our M2022 Plan that began in fiscal year 2020. The financial targets we established for that plan are the following:

- +\$300 million in new business
  - 12.5 percent adjusted EBITDA margin
  - \$4.00 adjusted diluted earnings per share
  - 75 percent free cash flow conversion (free cash flow / adjusted income from continuing operations)
- (see *Non-GAAP Financial Measures* in Item 7)

To achieve these aggressive targets, we are focused on four main areas:

- Drive Innovation
- Protect and Grow
- Exceed Customer Expectations
- Enable the Business

## Drive Innovation

For 110 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. During the M2022 cycle, we targeted the introduction of several new advanced technology products. Our introduction of the Blue Horizon technology brand formalized our portfolio of advanced solutions for medium and heavy commercial vehicles. With our long history of technical innovation, the product pipeline we expect to bring to market has the potential to transform the value we deliver to customers. Our Blue Horizon brand represents a product portfolio that offers advanced efficiency, connectivity and electric solutions for our customers. It leverages our legacy as a proven partner, yet opens up new possibilities as we evolve.

As the demand for efficiency accelerates, we have developed, or are in the process of developing, several new products including:

- Dis-engageable tandem drive axle that provides the efficiency of a 6x2 with traction of 6x4
- Air disc brake positive pad retraction and frame centering that eliminates drag for increased fuel economy and pad life
- High efficiency axles with high efficiency hypoid gearing, faster axle ratios and lower oil churning losses

We also believe connectivity offers many benefits to end users, vehicle manufacturers and Tier 1 suppliers like us. Similar to the increase in demand for smart home devices, our engineers are finding more areas where we can transform our offerings into smart products. The two main areas we are exploring include:

- Real time information to monitor and record product performance of axles, brakes and wheel-ends for various duty cycles
- Intelligent prognostics that give advanced warning when maintenance is needed

We are developing an electronic lube level monitoring device that eliminates the need for certain maintenance procedures saving time and money. For tire inflation, we are using sensors and related electronics that increase safety and improve efficiency via optimized tire pressure. And as manufacturers explore platooning, pairing and autonomous driving, knowing what is happening within the vehicle's braking system is especially critical. The systems we are developing build upon our current pad wear sensor system and will monitor overall brake health, allowing strategic maintenance decisions as well as safer overall operation.

Meritor's expanding range of next-generation technologies includes comprehensive solutions for standard axles, remote-mount configurations and fully electric powertrain systems which furthers our goal of becoming the electric drivetrain supplier of choice. Our 14Xe™ ePowertrain is based on the proven 14X axle design which maintains existing axle mounting hardware for ease of OEM integration. The modular system enables the interchangeability of key components, including electric motors, transmissions, gearing, brakes, wheel ends and housings. The 14Xe™ is designed for scalability and can be adapted to fit various powertrain needs based on the vehicle application and duty cycle. We announced the expansion of our electric drivetrain solutions by introducing the 12Xe™ powertrain for Class 4, 5, 6 and 7 applications and the 17Xe™ powertrain for heavy-duty 4x2 and 6x2 trucks.

The 14Xe™ ePowertrain has already received acclaims in the industry. We were recognized as a PACEpilot Honoree by Automotive News for our solutions to power Class 4 through 8 trucks and buses with electric powertrains instead of diesel-based systems, in addition to Diesel Progress' Achievement of the Year and Electric Application of the Year awards in 2020.

To help us achieve our objectives in this important area, in fiscal year 2020 we acquired all outstanding common shares of Transportation Power, Inc. ("TransPower"), a California-based company that supplies integrated drive systems, full electric truck solutions and energy-storage subsystems to major manufacturers of trucks, school buses, refuse vehicles and terminal tractors. TransPower has focused exclusively on developing electric drive solutions since its inception in 2010. With this acquisition, we are advancing our M2022 plan priorities through increased investment in next-generation technologies.

Representing the first Class 8 production contract for electric drivetrains in the industry, we secured an agreement with PACCAR to be its non-exclusive supplier of ePowertrains for its Kenworth T680 and Peterbilt 579 and 520 battery-electric vehicles. We will be the initial launch partner and primary supplier for the integration of functional battery-electric systems on these refuse and heavy-duty chassis. Production is targeted to begin in calendar year 2021. We believe we will be the first supplier to begin production of electric powertrains for Class 8 electric vehicles, and we anticipate additional production contracts in the future.

With the industry recognition we have already received for this product, and our growing number of contracts and collaboration agreements, we are highly confident that Meritor's electric powertrain represents game-changing technology for commercial vehicles. The new contracts shown below reflect the application flexibility we have designed into our electric powertrain portfolio and the growing demand for Meritor's solution.

- Five-year agreement to supply Meritor's 14Xe™ electric powertrain for Autocar's refuse vehicles
- Three-year agreement to supply our heavy-duty tandem electric powertrain for Lion Electric's 8-ton tractor
- Meritor's 14Xe™ will be equipped on the Volta Zero, a full-electric, 16-ton commercial vehicle designed for inner city parcel and freight distribution
- Hexagon Purus Systems will integrate Meritor's 14Xe™ into its Class 6, Class 7 box and Class 8 (6x4) vehicles starting in 2021
- Five-year relationship with Hylion in which Meritor will be the preferred powertrain supplier for Hylion's Hypertruck ERX platform
- Hino Motors will evaluate Meritor's ePowertrain for its development path to zero emission vehicles
- An equity investment in SEA Electric in which we will be working together on electric-powered chassis opportunities for India and North America markets in the near term

With market adoption growing for our 14Xe™, we are designing and developing the 17Xe™ electric powertrain in Europe. This year, we were a grant recipient from the Advanced Propulsion Centre in the United Kingdom. This grant will partially fund the development of Meritor's 17Xe™. After a months-long nomination and consideration process, we were selected – along with our consortium partners Danfoss Editron and Electra Commercial Vehicles. The grant, totaling almost 16 million pounds sterling, will rapidly accelerate development of this product that is designed for multiple vehicle platforms and extends our ability to offer Meritor's ePowertrain solution for European vehicles. We believe demand for this product will grow because of EU 2025 CO2 reduction targets. Stricter targets will start applying in 2030, and by 2040 all new trucks sold in Europe will need to be fossil free to reach carbon-neutrality by 2050.

## **Protect and Grow**

We know that despite changes and volatility in global market conditions, it is important that we generate profitable top-line growth. We designed the M2022 plan to enable us to achieve the growth we are targeting while operating in a cyclical industry that can be greatly impacted by economic factors. We are increasing our market share with key customers, renewing long-term contracts and winning new business in all of our end markets around the globe across both of our reportable segments.

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

We achieved major milestones in fiscal year 2021 related to next-generation technologies engineered to fit multiple vehicle applications for customers' needs now and in the future. Through new business awards with global manufacturers and evolution of our Blue Horizon™ powertrain solutions, we are establishing Meritor as a leader in transformative technologies for the commercial vehicle industry.

In fiscal 2021, we earned additional axle contracts with Ashok Leyland and Daimler India for medium and heavy-duty vehicles. We also now have standard position with Terex for front and rear drive axles and brakes on concrete mixers. We will supply an existing customer with independent front suspensions for recreational vehicles, and we entered a new three-year agreement with John Deere for 100 percent of its applicator axles. We also extended our agreement with Navistar through 2026 that provides opportunity for future growth in Meritor's axles, brakes and drivelines product categories. In Europe, we completed a new agreement with Iveco through 2024 that includes the supply of single reduction axles. With Navistar and Iveco complete, most of our long-term agreements with major customers have been renewed well past the 2022 timeframe.

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. We last published our annual sustainability report in March 2021 to share the work we have done in the areas of advanced technologies; environment, health and safety; manufacturing initiatives; human capital, social responsibility and corporate governance.

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 those made by other brake manufacturers. We believe our EX+ air disc brakes are among the highest performing brakes in the marketplace. We previously announced the launch of our lightweight, single-piston EX+™ LS air disc brake, a next-generation braking solution designed and engineered for linehaul and trailer applications. This brake, which was recognized by Heavy Duty Trucking magazine as a Top 20 Product, launched in fiscal year 2021. With this brake, we are in standard position on Daimler's Freightliner Cascadia through 2025.

We designed the EX+ LS air disc brake to meet fleet expectations for efficiency, safety and weight reduction. Built with exceptional taper wear control, the new air disc brake is designed and validated to perform like a twin-piston brake. Approximately 9 million of our air disc brakes are in operation globally.

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 lifecycle 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.

## **Exceed Customer Expectations**

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 M2022 plan, we set an overall quality target of less than 20 parts per million ("PPM"). In fiscal year 2021, Meritor achieved a quality score of 23 PPM. Also this fiscal year, four of our facilities and three of our joint ventures received the Daimler Master of Quality Award. In 2020, during an unprecedented year of supply constraints and severe workforce challenges, six of our facilities received the PACCAR 10 PPM award. We believe this level of quality further differentiates us in the commercial vehicle industry.

In fiscal year 2021, we also continued our excellent OE delivery performance this year at 96 percent. Despite the impact of the COVID-19 pandemic globally and the challenges it created for the entire supply chain, we maintained a high delivery rate. Our customers rely on us for this level of delivery performance and it differentiates us from our peers.

We will maintain our focus on driving down operating costs through material cost-reduction and labor and burden improvements with a target achievement of 2 percent improvement per year. We 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.

## **Enable the Business**

### *COVID-19 Pandemic*

The global impact of the COVID-19 pandemic has been significant. Since the pandemic began, we took every action possible to protect our employees while still serving our role as an important part of the supply chain in maintaining the flow of commercial vehicle original equipment and aftermarket products, as well as products required for the manufacturing of specialty and defense vehicles.

We developed a Safe Start plan to protect our employees. It outlined specific policies that were audited at each of our sites including preventative measures in entry and common areas, heat mapping to identify areas that required modifications, personal protective equipment (PPE), wellness checks, visual indicators and the addition of social distance coaches. Safety is our first priority and we will take all necessary precautions to safeguard our employees – in each of our manufacturing plants, labs, distribution centers and offices. To ensure that we followed best practices across the industry, our general auditor assumed the additional role of Chief Safety Compliance Officer.

Every day, 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 under the M2022 plan is to achieve a case rate of less than 0.55. In fiscal year 2021, we achieved an overall total recordable case rate of 0.61 injuries per 200,000 hours worked, compared to 0.57 in the prior year. Fifty percent of our facilities reported no recordable workplace injuries during fiscal year 2021.

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 under the M2016 and M2019 plans. We will also continue to focus on strengthening the diversity and inclusiveness of 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. For managers, we offer Management Essentials & Leadership Fundamentals cohort development programs and eLearning modules that address important areas for advancement including accountability, delegation, and providing and receiving feedback.

For director-level employees, we offer a leadership development program through our eLearning platform that includes leadership learning modules, live instructor-led leader camps and live key-note speaker events, that align with our Meritor Code Leadership Model. For certain director-level employees, we offer Leadership Edge - a 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 offer the Summit leadership development program, which provides executive coaching, the opportunity to attend 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.



To enhance our commitment to inclusiveness, we have partnered with the Center of Automotive Diversity, Inclusion, & Advancement (CADIA) to provide professional development, tools, networks, insights and practical advice to create avenues for success with driving a diverse and inclusive culture. Several of our HR professionals have received Diversity, Equity, & Inclusion certifications. Team members are given the opportunity to gain awareness about DEI through the CADIA Academy. CADIA is conducting workshops for all people leaders to define why Diversity, Equity, and Inclusion are important to them personally and to the organization. They will explore the priorities and measures required to set themselves and the organization up for transformation and sustainable success. Inclusive culture training is being rolled out in all U.S. plants and a diverse mentoring program has been launched. Longer term, we will explore fast-track programs for employees to ensure that we are retaining diverse talent and providing aggressive career tracks.

## 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 2021, 2020 and 2019, 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:

	Year Ended September 30,		
	2021	2020	2019
Axles, Suspension Systems and Drivelines	73 %	70 %	73 %
Brakes and Brake-Related Components	21 %	25 %	25 %
Other	6 %	5 %	2 %
Total	100 %	100 %	100 %

### *Axles, Suspension Systems & 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 and Europe. These products are designed to tolerate high tonnage and operate under extreme conditions. 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 also supply transfer cases for use in specialty vehicles in North America, Turkey and Europe. In addition, we supply trailer air suspension systems and products with an increasing market presence in North America. We supply transfer cases and drivelines for use in military tactical wheeled vehicles, principally in North America and Europe. In addition, we also supply advanced suspension modules for use in light-, medium- and heavy-duty military tactical wheeled vehicles, principally in North America, Turkey and Europe.

### *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 are used in military tactical wheeled vehicles, principally in North America, Turkey and Europe. We 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 and air and hydraulic brakes for off-highway vehicles in North America and Europe.

### *Electric Vehicle and Other Products*

We supply electric drive systems that include an electric motor and inverter, power electronics, battery pack, electrified accessories, and all associated software and controls for terminal tractors and medium and heavy-duty trucks and buses.

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 2021. Sales to customers that accounted for 10 percent or more of our total sales in fiscal year 2021 included AB Volvo, Daimler AG and PACCAR, representing approximately 24 percent, 16 percent and 13 percent, respectively. No other customer accounted for 10 percent or more of our total sales in fiscal year 2021.

#### *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, Traton Group, CNH Industrial, Ashok Leyland, XCMG, Wabash National, and Gillig.

#### *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, US Gear, AxleTech 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, Allison, ZF Friedrichshafen in Europe, and Hande, Fuwa and Ankaï in China. Our major competitors for brakes are Bendix/Knorr Bremse, ZF and, in certain markets, OEMs that manufacture brakes for use in their own products. Our major competitors for industrial applications are MAN, 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.

Acquisitions and divestitures are discussed in Note 3 of the Notes to the Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data*.

Restructuring actions are discussed in Note 7 of the Notes to the Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data*.

### 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, 2021, 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

Aggregate sales of our non-consolidated joint ventures were \$1,011 million, \$696 million and \$1,231 million in fiscal years 2021, 2020 and 2019, 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 12 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 \$76 million in fiscal year 2021, \$74 million in fiscal year 2020 and \$75 million in fiscal year 2019 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 India.

### 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 15 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below.

## **Employees**

At September 30, 2021, we had approximately 9,600 employees composed of approximately 7,900 hourly and salaried employees, 750 employees from our joint ventures, and 950 other employees. At September 30, 2021, 47 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 employees.

We believe that our ability to compete in the global market depends on the engagement of every one of our employees, and that a high-performing team is critical to the level of performance we want to achieve. By maintaining relationships with leading universities, we are able to identify and recruit top talent. In order to attract the best candidates, we offer market competitive compensation and benefits around the globe, annual incentive programs for salaried and hourly employees, long-term incentive programs for executives and health and wellness benefits. To retain top talent, we encourage professional development through internal and external training opportunities, in addition to a leadership fundamentals program for managers, the Leadership Edge program for high potential leaders and the Summit for senior level leaders.

To ensure we provide a rich experience for our employees, we measure organizational culture and engagement to build on the competencies that are important for our future success. We routinely engage independent third parties to conduct cultural and employee engagement surveys. These include corporate culture assessments, as well as real-time feedback on employee engagement and a holistic approach survey on employee well-being focused on physical, emotional, social and financial health.

In addition, we aim to diversify our workforce because we recognize the value of engaging different opinions and backgrounds in a global company. We are committed to recruiting, developing and retaining a high-performing and diverse workforce. We have recently initiated a mentoring program for diverse employees, implemented various recruitment initiatives, refreshed mandatory unconscious bias training, and are targeting efforts to attract qualified women and underrepresented minorities for positions at all levels of the company and employee led resource groups, including the African American Resource Group, the Women's Employee Resource Group and the LGBT Resource Group.

## **Environmental Matters**

Environmental matters are discussed in Note 22 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data*.

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 Interim 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 impact of compliance with future requirements.

## **Seasonality; Cyclicity**

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 generally experience seasonally higher demand in the quarter ending March 31.

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 but do tend to be correlated to general economic trends.

See *Trends and Uncertainties* in Item 7. *Management's Discussion and Analysis of Financial Conditions and Results of Operations* 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](http://www.Meritor.com)), as soon as reasonably practicable after they are filed. The information contained on our 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 outlooks, 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 the duration and severity of the COVID-19 pandemic and its effects on public health, the global economy, and financial markets, as well as our industry, customers, operations, workforce, supply chains, distribution systems and demand for our products; 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, transportation and labor, and our ability to manage or recover such costs; technological changes in our industry as a result of the trends toward electrified drivetrains and the integration of advanced electronics and their impact on the demand for our products and services; our ability to manage possible adverse effects on European markets or our European operations, or financing arrangements related thereto in the event one or more countries exit the European monetary union; risks inherent in operating abroad (including foreign currency exchange rates, 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; 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., AxleTech and Transportation Power, 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; rising costs of pension benefits; 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.

### **Industry and Operational Risks**

***The ongoing coronavirus pandemic is having, and is expected to continue to have, an adverse effect on our business.***

The COVID-19 pandemic is adversely affecting, and is expected to continue adversely affecting public health, the global economy and financial markets, as well as our industry, customers, operations, workforce, supply chains, distribution systems and the availability of manufacturing inputs, potentially throughout 2022. We have experienced, and expect to continue to experience, unpredictable reductions in demand for certain of our products, as well as the potential for restrictions on our ability to operate. In response to the COVID-19 pandemic, government health officials recommended and mandated at times precautions to mitigate the spread of the virus, including shelter-in-place orders, prohibitions on public gatherings, travel restrictions and other similar measures. As a result, we and certain of our customers and suppliers temporarily closed select manufacturing locations during the second half of fiscal year 2020. It is currently unclear if further closures may be necessary in the future. Our results will be adversely impacted by any such closures and may be adversely impacted by other actions taken to contain the spread or mitigate the impact of the COVID-19 pandemic. There are numerous uncertainties that have arisen from the COVID-19 pandemic, including the severity of the disease, the duration of the outbreak, the likelihood of resurgences of the outbreak, including due to the emergence and spread of variants, actions that may be taken by governmental authorities in response to the disease, the timing, distribution, efficacy and public acceptance of vaccines, and unintended consequences of the foregoing. As a result, the ultimate impact on our business, financial condition or operating results cannot be reasonably estimated at this time. The situation continues to evolve and additional impacts, which we are unable to predict or plan for, including expenses related to subsequent commercial or employment related litigation, may arise.

On November 4, 2021, the United States Occupational Safety and Health Administration ("OSHA") filed an Emergency Temporary Standard ("ETS") with the Office of the Federal Registrar mandating that employers with more than 100 employees must ensure that their employees are either fully vaccinated or subject to weekly COVID-19 testing and mask wearing by January 4, 2022. It is currently not possible to predict with certainty the enforceability of the OSHA ETS or the impact it will have on our workforce. Additional vaccine mandates may be announced in jurisdictions in which our business operates. Our implementation of these requirements may result in attrition, including attrition of critically skilled labor, and difficulty securing future labor needs, which could have a material adverse effect on our business, financial condition, and results of operations.

***We may not be able to execute our M2022 Plan.***

In the first quarter of fiscal 2019, we announced our M2022 plan, a multi-year plan to drive growth, expand margins, expand earnings per share, and generate cash and value. In connection with the plan, we established certain financial goals relating to securing new revenue, profit improvement and cash flow generation. The M2022 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 costs, and that demand for our products is not further affected by the COVID-19 pandemic and any price increases in raw materials or other manufacturing costs 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 M2022 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 2021, sales to customers that accounted for 10 percent or more of our total sales included AB Volvo, Daimler AG and PACCAR, which represented approximately 24 percent, 16 percent and 13 percent, respectively. No other customer accounted for 10 percent or more of our total sales in fiscal year 2021.

The amount 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 have a material adverse effect on our results of operations, financial condition and cash flows.***

The COVID-19 pandemic led to a significant downturn in the global economy, which adversely affected our results of operations, financial condition and cash flows during fiscal year 2021. Although there have been signs of a recovery, there is still uncertainty around the duration and breadth of the COVID-19 pandemic, and as a result the ultimate impact on our business, financial condition or operating results cannot be reasonably estimated at this time. In addition, past recessions have had a significant adverse impact on our business, customers and suppliers. Our cash and liquidity needs are impacted by the level, variability and timing of our customers' worldwide vehicle production and other factors outside of our control. If the global economy experiences another significant decline in the future, our results of operations, financial condition and cash flow would be materially adversely affected.

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 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 cash flows from operations, we would look to our cash balances and 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, 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 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 standards, 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 and 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 generally experience seasonally higher demand in the quarter ending March 31.

***Rising prices for raw materials, as well as labor and transportation costs, are adversely affecting, and are expected to continue adversely affecting, our business and financial results.***

Prices of raw materials, primarily steel, for our manufacturing needs and costs of labor and transportation have risen sharply over the past year. These steel price increases, along with increasing labor and transportation costs, are creating pressure on profit margins, and they are expected to continue unfavorably impacting 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. We are also experiencing ongoing labor shortages in the certain geographies and increased competition for qualified candidates. These shortages could adversely affect our ability to meet customer demand and are increasing labor costs, which reduce our profitability. 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.***

To a certain extent, pricing pressure by OEMs is a characteristic of the commercial vehicle industry. Virtually all OEMs have 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.

***Technological changes in our industry could materially reduce the demand for our products and services.***

The commercial vehicle market is 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 and the amount of capital we need to invest to develop these new technologies, as well as an increase in the amount of competition we face from technology focused new market entrants. We are investing in the development of new products and technologies, but the future market acceptance and investment returns for these products are uncertain. If we misjudge the amount of capital to invest or are otherwise unable to continue providing products that meet our customers' needs in this environment of rapid technological change, our market competitiveness could be adversely affected as demand for our current products and services is reduced.

***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 conditions 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 2021, approximately 46 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 in the event one or more 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 or future restructuring will not exceed our estimates, or that we will be able to achieve the intended benefits of these restructurings.

***Shifting trade policies, including the imposition of tariffs and the resulting consequences, could adversely affect our results of operations.***

In recent years, the U.S. government has attempted to renegotiate or terminate certain existing bilateral or multi-lateral trade agreements. It also imposed tariffs on certain foreign goods, including steel and certain commercial vehicle parts, which

resulted in increased costs for goods imported into the U.S. In response to these tariffs, a number of U.S. trading partners imposed retaliatory tariffs on a wide range of U.S. products, making 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 results of operations could be materially adversely affected. In addition, further tariffs or other trade restrictions could be implemented on a broader range of products or raw materials. Any resulting environment of retaliatory trade or other practices could have a material adverse effect on our business, results of operations, customers, suppliers and the global economy.

## **Financial Risks**

***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 June 2024. 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 15, 2021, 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, 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 businesses would be negatively impacted, which could result in further restructuring, insolvency 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, including covenants in our senior secured revolving 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 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 financial covenant based on 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. 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 comply with 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.

***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 years 2019 and 2020, our reported financial results were adversely affected by appreciation of the U.S. dollar against foreign currencies. For fiscal year 2021, our reported financial results were positively affected by depreciation of the U.S. dollar against foreign currencies.

#### **Environmental, Tax, Asbestos and Other Regulatory Risks**

***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 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 U.S. and foreign federal, state and local 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.

***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 FASB ASC Topic 740, "Income Taxes" ("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 ASC Topic 740 could significantly change.***

ASC Topic 740 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."***

Sections 382 and 383 of the U.S. Internal Revenue Code of 1986, as amended, limit 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 Sections 382 or 383 were to occur, our ability to utilize tax attributes in the future may be limited.

***We are exposed to asbestos litigation liability.***

We, along with many other companies, have 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 claims 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.

**Intellectual Property, Information Security and Pension Risks**

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

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, copyrights, 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 U.S., 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 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 us 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.

***We are exposed to the rising cost of pension benefits.***

The commercial vehicle industry, like other industries, continues to be impacted by the cost of pension benefits. In estimating our expected obligations under our pension plans, we make certain assumptions as to economic and demographic factors, such as discount rates and investment returns. If actual experience with these factors is worse than our assumptions, our obligations could be larger than estimated which could in turn increase the amount of mandatory contributions to these plans in the coming years. Our pension plans were overfunded by \$51 million as of September 30, 2021.

**Item 1B. Unresolved Staff Comments.**

None.



**Item 2. Properties.**

At September 30, 2021, 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	22	9
Aftermarket & Industrial	10	6
Other	—	4
Total	32	19

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 15 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.

**Item 3. Legal Proceedings.**

- See Note 22 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 and environmental proceedings, which is incorporated herein by reference.
- Various other lawsuits, claims and proceedings have been or may be instituted or asserted against the company or its subsidiaries relating to the conduct of our business, including those pertaining to product liability, tax, warranty or recall claims; intellectual property; safety and health; commercial 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 Interim 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. Information About Our Executive Officers.**

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 17, 2021, are as follows:

**Jeffrey A. Craig**, 61 (Caucasian/White Male) - Executive Chairman of the Board since March 2021. In November 2021, the Company announced that Mr. Craig will retire as Executive Chairman of the Board effective December 31, 2021. Prior to serving as Executive Chairman of the Board, he was Chief Executive Officer and President from April 2015 until March 2021; Director of Meritor since April 2015; President and Chief Operating Officer from June 2014 until April 2015; Senior Vice President and President of 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, Craig was President and Chief Executive Officer of General Motors Acceptance Corporation ("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.

**Chris Villavarayan**, 51 (Indian/South Asian Male) - Chief Executive Officer and President since March 2021. Prior to serving as CEO, he was Executive Vice President and Chief Operating Officer with oversight of the company's global operations for both business segments - Commercial Truck and Aftermarket & Industrial from January 2020 to March 2021; Senior Vice President and President of Global Truck from January 2018 to January 2020; Senior Vice President and President for 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; and Site Manager of the Meritor St. Thomas, Ontario, facility from June 2000 until September 2001.

**Carl D. Anderson II**, 52 (Caucasian/White Male) - Senior Vice President and Chief Financial Officer since March 2019. Prior to serving as Senior Vice President and Chief Financial Officer, he was Group Vice President of Finance from March 2018 until March 2019; Vice President and Treasurer from February 2012 until March 2018; Assistant Treasurer from August 2009 until February 2012; Director of Capital Markets from September 2006 until August 2009. Prior to joining Meritor, Anderson held progressive leadership positions with GMAC and First Chicago NBD.

**Timothy Bowes**, 58 (Caucasian/White Male) - Senior Vice President and President of Electrification, Industrial and North America Aftermarket since March 2021. Prior to serving as Senior Vice President and President of Electrification, Industrial and North America Aftermarket, he was Group Vice President and President of Industrial and North America Aftermarket from March 2020 until March 2021. Prior to rejoining Meritor, Bowes was Senior Vice President, Executive Officer and President of American Axle's casting business from 2015 until 2020. Prior to that, he was CEO and president of Transtar Corporation from 2012 until 2014. Bowes was previously with Meritor from 2005-2013, during which time he was responsible for Defense, Specialty, Off-Highway and the Asia Pacific region. In 2011, he assumed responsibility for the Commercial Truck business as Executive Officer and President. Before that, he held senior executive positions in sales and marketing at Hilite International and Westcast Industries, as well as positions with Intermet Corporation and ITT Automotive.

**Ken Hogan**, 52 (Caucasian/White Male) - Senior Vice President and President of Truck, Europe and Asia Pacific since March 2021. Prior to serving as Senior Vice President and President of Truck, Europe and Asia Pacific, he was Vice President of Europe, China and Japan from February 2020 until March 2021; Vice President of China, Japan and the ASEAN Region, based out of Shanghai, China, from January 2018 until January 2020; Vice President of Rear Drivetrain from October 2015 until December 2018; General Manager of North America Axles from January 2013 until October 2015; General Manager of Front Axles and Drivelines from July 2011 until December 2012; Director of Corporate Development from September 2009 until July 2011. Before joining Meritor, Hogan held progressive leadership positions with Booz Allen Hamilton, Deloitte, Falding Capital Group and Detroit Diesel.

**John Nelligan**, 56 (Caucasian/White Male) - Senior Vice President and President of Truck, Americas since March 2021. Prior to serving as Senior Vice President and President of Truck, Americas, he was Group Vice President and President of North America Truck from March 2020 until March 2021; Vice President of Global Sales and Service from January 2018 until March 2020; Vice President of Original Equipment Manufacturer (OEM) Sales and National Accounts from July 2011 until March 2020; Director of Field Sales and Service for Meritor's Canadian region from February 2010 until June 2011. Prior to joining Meritor, Nelligan was Dealer Principal and General Manager of Harper Truck Centres, Inc. from September 2005 until October 2009. He also held positions with increasing responsibility at Daimler Trucks North America, including Vice President and General Manager of the Canadian region's Sterling Trucks and Western Star brands, and General Manager of Canadian Sales and Marketing and Fleet Sales Manager with Western Star Trucks Inc. from November 1997 until September 2005.

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 and trades under the symbol "MTOR." On November 16, 2021, there were 8,878 shareholders of record of Meritor's Common Stock.

Our senior secured revolving credit facility permits us to pay up to \$65 million towards dividends and the repurchase of common stock shares in any fiscal year provided that at the date of declaration or payment no default or unmatured default has occurred and is continuing and the total leverage ratio would not exceed 2.65 to 1.00, in each case as defined in the senior secured revolving credit facility. The company may exceed the \$65 million limit in any fiscal year provided that the amount does not exceed a contractual limitation of \$535 million during the term of the senior revolving credit facility. The current amount available under this provision as of September 30, 2021 is estimated at \$359 million.

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 \$120 million per fiscal year (with a carryover to the next fiscal year of up to \$120 million if unused in the current fiscal year); and
- If after giving effect to the dividend, the total leverage ratio, as defined in the indentures, 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, 2021:

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 <sup>(1)</sup>
July 1- 31, 2021	1,467,867	\$ 23.14	1,467,867	\$ —
August 1- 31, 2021	—	—	—	—
September 1- 30, 2021	—	—	—	—
Total	1,467,867		1,467,867	

<sup>(1)</sup> On November 7, 2019, the Board of Directors authorized the repurchase of up to \$325 million of our Common Stock from time to time through open market purchases, privately negotiated transactions or otherwise, subject to compliance with legal and regulatory requirements and the company's debt covenants. This authorization was completed in fiscal year 2021.

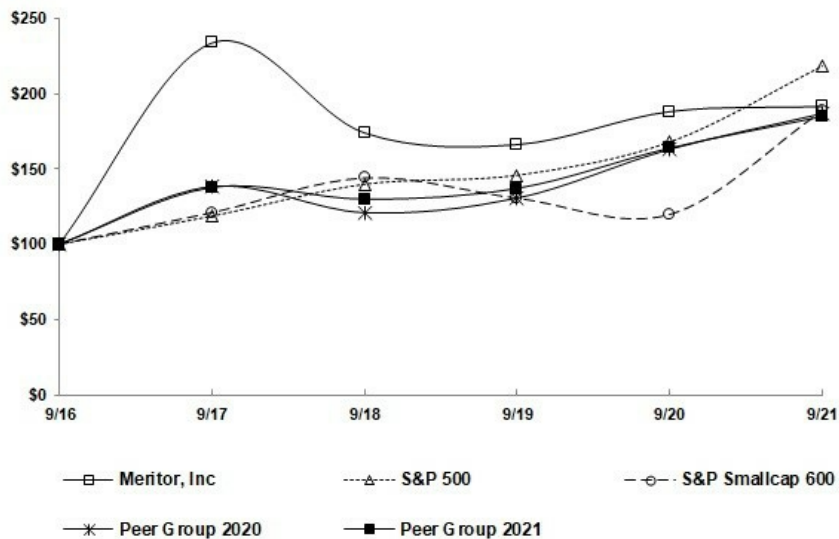
The independent trustee of our 401(k) plans purchases shares in the open market to fund investments by employees in our Common Stock, one of the investment options available under such plans, and any matching contributions in company stock we provide under certain of such plans. In addition, our stock 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 Annual 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 2021.

## Shareholder Return Performance Presentation

The line graph below compares the cumulative total shareholder return of the S&P 500, the S&P Smallcap 600, Meritor, Inc. and the peer group of companies for the period from September 30, 2016 to September 30, 2021, assuming a fixed investment of \$100 at the respective closing prices on the last day of each fiscal year and reinvestment of cash dividends.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Meritor, Inc., the S&P 500 Index, the S&P Smallcap 600 Index, Peer Group 2020 and Peer Group 2021



\*\$100 invested on 9/30/16 in stock or index, including reinvestment of dividends.  
Fiscal year ending September 30.

Copyright© 2021 Standard & Poor's, a division of S&P Global. All rights reserved.

	9/16	9/17	9/18	9/19	9/20	9/21
Meritor, Inc.	100.00	233.69	173.94	166.22	188.14	191.46
S&P 500	100.00	118.61	139.85	145.80	167.89	218.27
S&P Smallcap 600	100.00	121.05	144.14	130.67	119.84	188.92
Peer Group 2020 <sup>(1)</sup>	100.00	138.39	121.05	130.67	163.23	187.00
Peer Group 2021 <sup>(2)</sup>	100.00	137.63	129.86	137.06	163.80	184.69

<sup>(1)</sup> The 2020 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 and Stoneridge, Inc.

<sup>(2)</sup> The 2021 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, Allison Transmission Holdings Inc. and SAF-Holland SA.

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.

**Item 6. [Reserved]**

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Overview**

Meritor, Inc. (the "company," "our," "we" or "Meritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated products, systems, modules and components to original equipment manufacturers ("OEMs") and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, military, bus and coach, construction, and other industrial OEMs and certain aftermarkets. Meritor common stock is traded on the New York Stock Exchange under the ticker symbol MTOR.

**COVID-19 Pandemic Update**

The COVID-19 pandemic adversely affected our financial performance throughout most of fiscal year 2020 and the beginning of fiscal year 2021, however the direct adverse impacts of the pandemic on our operations and financial performance started to dissipate over the course of the third fiscal quarter of fiscal year 2021. All of our facilities have been fully operational since the end of fiscal year 2020 and our salaried employees have begun returning to work in person, in each case under enhanced safety guidelines. Although we are optimistic that the worst of the pandemic is behind us, the progression of the pandemic, and its direct and indirect impacts on our markets, customers, operations and financial performance, have been unpredictable. As a result of this continued uncertainty, there may still be impacts on our industry, customers, operations, workforce, supply chains, distribution systems and availability of manufacturing inputs in the future which cannot be reasonably estimated at this time.

**Change in Non-GAAP Measures**

Beginning in the second quarter of fiscal year 2021, we revised our presentation of two non-GAAP measures, adjusted income (loss) from continuing operations attributable to the company and adjusted diluted earnings (loss) per share from continuing operations, to better align with the SEC's guidance. An adjustment for non-cash tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carryforwards or tax credits will no longer be included in these two non-GAAP measures; however the underlying availability and the benefits of the tax attributes to offset future taxable income has not changed. For comparability, references to prior period non-GAAP measures have been updated to show the effect of omitting this adjustment from adjusted income (loss) from continuing operations attributable to the company and adjusted diluted earnings (loss) per share from continuing operations.

**Fiscal Year 2021 Results**

Our sales for fiscal year 2021 were \$3,833 million, an increase from \$3,044 million in the prior year. The increase in sales was driven primarily by higher global truck production in all markets.

Net income attributable to Meritor for fiscal years 2021 and 2020 was \$199 million and \$245 million, respectively. The decrease in net income year over year was driven primarily by income, net of tax, associated with the termination of the company's distribution arrangement with WABCO Holdings, Inc. ("WABCO") in fiscal 2020 and higher freight, steel and electrification costs in fiscal year 2021, partially offset by conversion on higher revenue.

Net income from continuing operations attributable to the company for fiscal years 2021 and 2020 was \$200 million and \$244 million, respectively. Adjusted income from continuing operations attributable to the company for fiscal years 2021 and 2020 was \$195 million and \$73 million, respectively (see *Non-GAAP Financial Measures* below).

Adjusted EBITDA (see *Non-GAAP Financial Measures* below) for fiscal year 2021 was \$411 million compared to \$272 million in fiscal year 2020. Our adjusted EBITDA margin (see *Non-GAAP Financial Measures* below) in fiscal year 2021 was 10.7 percent compared to 8.9 percent in the same period a year ago. The increase in adjusted EBITDA and adjusted EBITDA

margin year over year were driven primarily by higher sales volumes, partially offset by higher freight, steel and electrification costs.

Cash flows provided by operating activities were \$197 million in fiscal year 2021 compared to \$265 million in the prior fiscal year. The decrease in cash provided by operating activities was driven primarily by \$265 million of cash received in fiscal year 2020 from the termination of the distribution arrangement with WABCO and an increase in fiscal year 2021 working capital requirements.

#### *Capital Markets Transactions*

During the first quarter of fiscal year 2021, we issued \$275 million of 4.50 percent notes due 2028 (the "4.50 Percent Notes"). Net proceeds from the offering of the 4.50 Percent Notes, as well as cash on hand, were used to repay \$275 million of the outstanding \$450 million aggregate principal amount of our 6.25 percent notes due 2024 (the "6.25 Percent Notes due 2024"). The redemption price was equal to 102.083% of the principal amount of the 6.25 Percent Notes due 2024 redeemed, plus accrued and unpaid interest. These redemptions were accounted for as an extinguishment of debt, and we recognized a loss on debt extinguishment of \$8 million.

During the first quarter of fiscal year 2021, we issued a notice of redemption for all of the outstanding \$23 million aggregate principal amount of our 7.875 percent convertible notes due 2026 (the "7.875 Percent Convertible Notes"). All remaining outstanding 7.875 Percent Convertible Notes were surrendered in November 2020 for conversion and were settled in cash up to the accreted principal amount and the remainder of the conversion obligation. The conversion of the 7.875 Percent Convertible Notes was settled for \$53 million, of which \$23 million represented principal repayment and \$30 million represented the payment of conversion in excess of the accreted principal. There was no loss on extinguishment. As of December 31, 2020, the 7.875 Percent Convertible Notes were fully redeemed.

During the third quarter of fiscal year 2021, we redeemed all of the outstanding \$175 million aggregate principal amount of our 6.25 Percent Notes due 2024 using cash on hand. The redemption price was equal to 101.042% of the principal amount of the 6.25 Percent Notes due 2024 redeemed, plus accrued and unpaid interest. This redemption was accounted for as an extinguishment of debt, and we recognized a loss on debt extinguishment of \$3 million. As of June 30, 2021, the 6.25 Percent Notes due 2024 were fully redeemed.

#### *Equity Repurchase Authorization*

During fiscal year 2021, we repurchased 2.4 million shares of common stock for \$59 million pursuant to the November 2019 equity repurchase authorization described in the *Liquidity* section below, completing the existing equity repurchase authorization.

On July 28, 2021, the Board of Directors authorized the repurchase of an additional \$250 million of the company's common stock. Repurchases can be made from time to time through open market purchases, privately negotiated transactions or otherwise, subject to compliance with legal and regulatory requirements and the company's debt covenants. As of September 30, 2021, the amount remaining available for repurchases under this common stock repurchase authorization was \$250 million.

## Trends and Uncertainties

### Industry Production Volumes

The following table reflects estimated on-highway commercial truck production volumes for selected original equipment (OE) markets based on available sources and management's estimates.

	Year Ended September 30,				
	2021	2020	2019	2018	2017
Estimated Commercial Truck production (in thousands):					
North America, Heavy-Duty Trucks	262	218	359	307	237
North America, Medium-Duty Trucks	235	222	287	264	246
Western Europe, Heavy- and Medium-Duty Trucks	409	337	485	484	469
South America, Heavy- and Medium-Duty Trucks	151	98	109	102	73
India, Heavy- and Medium-Duty Trucks	281	131	376	464	315

Across most regions, we are expecting production build to increase in fiscal year 2022, as discussed below.

#### North America:

Production volumes in fiscal year 2021 increased from the production levels experienced in fiscal year 2020. We expect fiscal 2022 Heavy-Duty Truck production volumes to increase compared with the levels experienced in fiscal year 2021.

#### Western Europe:

During fiscal year 2021, production volumes in Western Europe significantly increased from the production levels experienced in fiscal year 2020. We expect fiscal year 2022 production volumes to remain consistent with the levels experienced in fiscal year 2021.

#### South America:

During fiscal year 2021, production volumes in South America significantly increased from the levels experienced in fiscal year 2020. We expect fiscal year 2022 production volumes to remain consistent with the levels experienced in fiscal year 2021.

#### China:

During fiscal year 2021, production volumes in China remained consistent with the levels experienced in fiscal year 2020. We expect fiscal year 2022 production volumes in China to remain consistent with the levels experienced in fiscal year 2021.

#### India:

During fiscal year 2021, production volumes in India significantly increased from the levels experienced in fiscal year 2020. We expect fiscal year 2022 production volumes in India to increase from the levels experienced in fiscal year 2021.

### Industry-Wide and Other Significant Issues

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

- Uncertainty regarding the duration and severity of the COVID-19 pandemic and its effects on public health, the global economy, financial markets, and our operations and customers, including additional expense related to enhancing safety measures for our employees;
- Uncertainty around the global economic outlook;
- Volatility in price and availability of steel, components, labor, transportation costs and other commodities, including energy;

- Potential for disruptions in the financial markets and their impact on the availability and cost of credit;
- Technological changes in our industry as a result of the trends toward electrified drivetrains and the integration of advanced electronics and their impact on the demand for our products and services;
- Impact of currency exchange rate volatility; and
- Consolidation and globalization of OEMs and their suppliers.

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 execute and implement strategic initiatives, including the ability to launch a significant number of new products, potential product quality issues, and obtain new business;
- Ability to manage possible adverse effects on European markets or our European operations, or financing arrangements related thereto, or in the event one or more countries exit the European monetary union;
- Ability to further implement planned productivity, cost reduction and other margin improvement initiatives;
- Ability to work with our customers to manage rapidly changing production volumes, including in the event of production interruptions affecting us, our customers or our suppliers;
- Competitively driven price reductions to our customers or 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).

## NON-GAAP FINANCIAL MEASURES

In addition to the results reported in accordance with accounting principles generally accepted in the United States ("GAAP"), we have provided information regarding non-GAAP financial measures. These non-GAAP financial measures include adjusted income (loss) from continuing operations attributable to the company, adjusted diluted earnings (loss) per share from continuing operations, adjusted EBITDA, adjusted EBITDA margin, segment adjusted EBITDA, segment adjusted EBITDA margin, free cash flow and free cash flow conversion.

Adjusted income (loss) from continuing operations attributable to the company and adjusted diluted earnings (loss) per share from continuing operations are defined as reported income (loss) from continuing operations and reported diluted earnings (loss) per share from continuing operations before restructuring expenses, asset impairment charges and other special items as determined by management. Adjusted EBITDA is defined as income (loss) from continuing operations before interest, income taxes, depreciation and amortization, noncontrolling interests in consolidated joint ventures, loss on sale of receivables, restructuring expenses, asset impairment charges and other special items as determined by management. Adjusted EBITDA margin is defined as adjusted EBITDA divided by consolidated sales from continuing operations. Segment adjusted EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, noncontrolling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense, asset impairment charges and other special items as determined by management. Segment adjusted EBITDA excludes unallocated legacy and corporate expense (income), net. Segment adjusted EBITDA margin is defined as segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment as applicable. Free cash flow is defined as cash flows provided by (used for) operating activities less capital expenditures. Free cash flow conversion is defined as free cash flow over adjusted income from continuing operations attributable to the company. Beginning in the second quarter of



fiscal year 2021, the company no longer includes an adjustment for non-cash tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carryforwards or tax credits in adjusted income (loss) from continuing operations attributable to the company and adjusted diluted earnings (loss) per share from continuing operations.

Management believes these non-GAAP financial measures are useful to both management and investors in their analysis of the company's financial position and results of operations. In particular, adjusted EBITDA, adjusted EBITDA margin, segment adjusted EBITDA, segment adjusted EBITDA margin, adjusted income (loss) from continuing operations attributable to the company, adjusted diluted earnings (loss) per share from continuing operations and free cash flow conversion are meaningful measures of performance to investors as they are commonly utilized to analyze financial performance in our industry, perform analytical comparisons, measure value creation, benchmark performance between periods and measure our performance against externally communicated targets.

Free cash flow is used by investors and management to analyze our ability to service and repay debt and return value directly to shareholders. Free cash flow conversion is a specific financial measure of our M2022 plan used to measure the company's ability to convert earnings to free cash flow and provides useful information about our ability to achieve strategic goals.

Management uses the aforementioned non-GAAP financial measures for planning and forecasting purposes, and segment adjusted EBITDA is also used as the primary basis for the Chief Operating Decision Maker ("CODM") to evaluate the performance of each of our reportable segments.

Our Board of Directors uses adjusted EBITDA margin, free cash flow, adjusted diluted earnings (loss) per share from continuing operations and free cash flow conversion as key metrics to determine management's performance under our performance-based compensation plans, provided that, solely for this purpose, adjusted diluted earnings (loss) per share from continuing operations also includes an adjustment for the use of deferred tax assets in jurisdictions with net operating loss carryforwards or tax credits.

Adjusted income (loss) from continuing operations attributable to the company, adjusted diluted earnings (loss) per share from continuing operations, adjusted EBITDA, adjusted EBITDA margin, segment adjusted EBITDA, segment adjusted EBITDA margin and free cash flow conversion should not be considered a substitute for the reported results prepared in accordance with GAAP and should not be considered as an alternative to net income or cash flow conversion calculations as an indicator of our financial performance. Free cash flow and free cash flow conversion should not be considered a substitute for cash provided by (used for) operating activities, or other cash flow statement data prepared in accordance with GAAP, or as a measure of financial position or liquidity. In addition, these non-GAAP cash flow measures do not reflect cash used to repay debt or cash received from the divestitures of businesses or sales of other assets and thus do not reflect funds available for investment or other discretionary uses. These non-GAAP financial measures, as determined and presented by the company, may not be comparable to related or similarly titled measures reported by other companies. Set forth below are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

Adjusted income (loss) from continuing operations attributable to the company and adjusted diluted earnings (loss) per share from continuing operations are reconciled to income (loss) from continuing operations attributable to the company and diluted earnings (loss) per share from continuing operations below (in millions, except per share amounts).

	Year Ended September 30,		
	2021	2020	2019
Income from continuing operations attributable to the company	\$ 200	\$ 244	\$ 296
Restructuring costs	13	27	8
Loss on debt extinguishment	11	—	—
Asset impairment charges	—	8	10
U.S. tax reform impacts <sup>(1)</sup>	—	—	(3)
Tax valuation allowance reversal, net and other <sup>(2)</sup>	—	—	(3)
Transaction costs <sup>(3)</sup>	—	5	6
Income from WABCO distribution termination	—	(265)	—
Brazilian VAT credit	(22)	—	—
Asbestos related items <sup>(4)</sup>	—	—	(31)
Tax initiatives	(10)	—	—
Income tax expense <sup>(5)</sup>	3	54	2
Adjusted income from continuing operations attributable to the company	\$ 195	\$ 73	\$ 279
Diluted earnings per share from continuing operations	\$ 2.74	\$ 3.23	\$ 3.36
Impact of adjustments on diluted earnings per share	(0.06)	(2.26)	(0.13)
Adjusted diluted earnings per share from continuing operations	\$ 2.68	\$ 0.97	\$ 3.23

<sup>(1)</sup> The year ended September 30, 2019 includes a one time net charge of \$9 million recorded for an election made that will allow for future tax-free repatriation of cash to the United States and \$12 million of non-cash tax benefit related to the one time deemed repatriation of accumulated foreign earnings.

<sup>(2)</sup> The year ended September 30, 2019 includes a \$3 million decrease in valuation allowances for certain U.S. state jurisdictions.

<sup>(3)</sup> Represents acquisition transaction fees and inventory step-up amortization.

<sup>(4)</sup> The year ended September 30, 2019 includes \$31 million related to the remeasurement of the Maremont net asbestos liability based on the Maremont plan of reorganization (see Note 22 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data).

<sup>(5)</sup> The year ended September 30, 2021 includes \$7 million of income tax expense related to the Brazilian VAT Credit, \$2 million of income tax benefits related to restructuring and \$2 million of income tax benefits for the loss on debt extinguishment. The year ended September 30, 2020 includes \$62 million of income tax expense related to the WABCO distribution arrangement termination, \$6 million of income tax benefits related to restructuring, \$1 million of income tax benefits related to transaction costs and \$1 million of income tax benefits related to asset impairment charges. The year ended September 30, 2019 includes \$2 million of income tax benefits related to restructuring, \$2 million of income tax benefits related to asset impairment and \$6 million income tax expense related to asbestos related items.

Free cash flow is reconciled to cash flows provided by operating activities below (in millions).

	Year Ended September 30,					
	2021		2020		2019	
Cash provided by operating activities	\$	197	\$	265	\$	256
Capital expenditures		(90)		(85)		(103)
Free cash flow <sup>(1)</sup>	\$	107	\$	180	\$	153
Free cash flow / Net income from continuing operations attributable to the company		54 %		74 %		53 %
Free cash flow conversion (Free cash flow / Adjusted income from continuing operations attributable to the company)		55 %		247 %		55 %

<sup>(1)</sup> The year ended September 30, 2020 includes \$265 million of cash received from termination of the WABCO distribution arrangement. The year ended September 30, 2019 includes a \$48 million contribution of cash to fund the Maremont 524(g) trust, as well as \$2 million of Maremont cash.

Adjusted EBITDA and segment adjusted EBITDA are reconciled to net income attributable to Meritor, Inc. below (dollars in millions).

	Year Ended September 30,		
	2021	2020	2019
Net income attributable to Meritor, Inc.	\$ 199	\$ 245	\$ 291
Less: Income (loss) from discontinued operations, net of tax, attributable to Meritor, Inc.	1	(1)	(1)
Income from continuing operations, net of tax, attributable to Meritor, Inc.	\$ 200	\$ 244	\$ 290
Interest expense, net	79	66	57
Provision for income taxes	24	78	82
Depreciation and amortization	103	101	87
Restructuring costs	13	27	8
Asbestos related items	—	—	(31)
Transaction costs	—	5	6
Loss on sale of receivables	4	4	6
Asset impairment charges	—	8	10
Income from WABCO distribution termination	—	(265)	—
Brazilian VAT credit	(22)	—	—
Noncontrolling interests	10	4	5
Adjusted EBITDA	\$ 411	\$ 272	\$ 520
Adjusted EBITDA margin <sup>(1)</sup>	10.7 %	8.9 %	11.9 %
Unallocated legacy and corporate expense (income), net <sup>(2)</sup>	(13)	(6)	(3)
Segment adjusted EBITDA	\$ 398	\$ 266	\$ 517
Commercial Truck			
Segment adjusted EBITDA	\$ 259	\$ 116	\$ 342
Segment adjusted EBITDA margin <sup>(3)</sup>	8.6 %	5.3 %	9.9 %
Aftermarket & Industrial			
Segment adjusted EBITDA	\$ 139	\$ 150	\$ 175
Segment adjusted EBITDA margin <sup>(3)</sup>	14.1 %	15.3 %	15.9 %

<sup>(1)</sup> Adjusted EBITDA margin equals adjusted EBITDA divided by consolidated sales from continuing operations.

<sup>(2)</sup> Unallocated legacy and corporate expense (income), net represents items that are not directly related to the company's business segments. These items primarily include asbestos-related charges and settlements, pension and retiree medical costs associated with sold businesses, and other legacy costs for environmental and product liability.

<sup>(3)</sup> Segment adjusted EBITDA margin equals segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment as applicable.

#### Non-Consolidated Joint Ventures

At September 30, 2021, our continuing operations included investments in joint ventures that are not majority owned or controlled and are accounted for under the equity method of accounting. Our investments in non-consolidated joint ventures totaled \$132 million and \$107 million at September 30, 2021 and 2020, respectively.

These strategic alliances provide for sales, product design, development and/or manufacturing in certain product and geographic areas. Aggregate sales of our non-consolidated joint ventures were \$1,011 million, \$696 million and \$1,231 million in fiscal years 2021, 2020 and 2019, respectively.

Our equity in the earnings of affiliates was \$34 million, \$14 million and \$31 million in fiscal years 2021, 2020 and 2019, respectively. The increase in equity in earnings of affiliates for fiscal year 2021 compared to fiscal year 2020 was primarily attributable to higher production volumes at our joint ventures. We received cash dividends from our affiliates of \$7 million, \$10 million and \$23 million in fiscal years 2021, 2020 and 2019, respectively.

For more information about our non-consolidated joint ventures, see Note 12 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

## Results of Operations

### Fiscal Year 2021 Compared to Fiscal Year 2020

A detailed comparison of the Company's fiscal year 2020 operating results to its fiscal year 2019 operating results can be found in the Management's Discussion and Analysis of Financial Condition and Results of Operations section in the Company's fiscal year 2020 Annual Report on Form 10-K filed November 12, 2020.

#### Sales

The following table reflects total company and business segment sales for fiscal years 2021 and 2020 (dollars in millions). The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales.

	2021	2020	Dollar Change	% Change	Dollar Change Due To		
					Currency	Volume/ Other	
Sales:							
Commercial Truck							
North America	\$ 1,517	\$ 1,181	\$ 336	28 %	\$ —	\$ 336	
Europe	649	465	184	40 %	45	139	
South America	315	169	146	86 %	(25)	171	
China	128	134	(6)	(4) %	11	(17)	
India	146	71	75	106 %	(1)	76	
Other	111	60	51	85 %	5	46	
Total External Sales	\$ 2,866	\$ 2,080	\$ 786	38 %	\$ 35	\$ 751	
Intersegment Sales	142	110	32	29 %	11	21	
Total Sales	\$ 3,008	\$ 2,190	\$ 818	37 %	\$ 46	\$ 772	
Aftermarket & Industrial							
North America	\$ 792	\$ 803	\$ (11)	(1) %	\$ 4	\$ (15)	
Europe	171	156	15	10 %	10	5	
Other	4	5	(1)	(20) %	—	(1)	
Total External Sales	\$ 967	\$ 964	\$ 3	— %	\$ 14	\$ (11)	
Intersegment Sales	22	17	5	29 %	6	(1)	
Total Sales	\$ 989	\$ 981	\$ 8	1 %	\$ 20	\$ (12)	
Total External Sales	\$ 3,833	\$ 3,044	\$ 789	26 %	\$ 49	\$ 740	

**Commercial Truck** sales were \$3,008 million in fiscal year 2021, up 37 percent from fiscal year 2020. Higher sales were driven by higher global truck production in all markets.

**Aftermarket & Industrial** sales were \$989 million in fiscal year 2021, up 1 percent from fiscal year 2020. Consistent year over year sales were primarily driven by higher volumes across the segment, partially offset by the termination of the WABCO distribution arrangement.

	Year Ended September 30,			
	2021	2020	Increase (Decrease)	% Change
Sales	\$ 3,833	\$ 3,044	\$ 789	26 %
Cost of sales	(3,328)	(2,716)	612	23 %
GROSS PROFIT	505	328	177	54 %
Selling, general and administrative	(270)	(221)	49	22 %
Income from WABCO distribution termination	—	265	(265)	N/A
Other operating expense, net	(17)	(40)	(23)	(58) %
OPERATING INCOME	218	332	(114)	(34) %
Other income, net	61	46	15	33 %
Equity in earnings of affiliates	34	14	20	143 %
Interest expense, net	(79)	(66)	13	20 %
INCOME BEFORE INCOME TAXES	234	326	(92)	(28) %
Provision for income taxes	(24)	(78)	(54)	(69) %
INCOME FROM CONTINUING OPERATIONS	210	248	(38)	(15) %
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1)	1	(2)	200 %
NET INCOME	209	249	(40)	(16) %
Less: Net income attributable to noncontrolling interests	(10)	(4)	6	150 %
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$ 199	\$ 245	\$ (46)	(19) %

### Cost of Sales and Gross Profit

Cost of sales primarily represents material, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for fiscal year 2021 was \$3,328 million, compared to \$2,716 million in the prior year, representing a 23 percent increase, primarily driven by increased market volumes. Total cost of sales was approximately 87 percent of sales for fiscal year 2021, compared to approximately 89 percent for the prior fiscal year.

The following table summarizes significant factors contributing to the changes in costs of sales during fiscal year 2021 compared to the prior fiscal year (in millions):

	Cost of Sales
Fiscal year ended September 30, 2020	\$ 2,716
Volumes, mix and other, net	576
Foreign exchange	36
Fiscal year ended September 30, 2021	\$ 3,328

Changes in the components of cost of sales year over year are summarized as follows (in millions):

	Change in Cost of Sales
Higher material costs	\$ 499
Higher labor and overhead costs	120
Other, net	(7)
Total change in cost of sales	\$ 612

**Material costs** represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs increased by \$499 million compared to the prior fiscal year primarily due to increased volumes and higher freight and steel costs.

**Labor and overhead costs** increased by \$120 million compared to the prior fiscal year primarily due to higher volumes in our markets.

**Gross profit** for fiscal year 2021 was \$505 million, compared to \$328 million in fiscal year 2020. Gross margin, as a percentage of sales, was 13.2 percent and 10.8 percent for fiscal years 2021 and 2020, respectively.

#### **Other Income Statement Items**

**Selling, general and administrative expenses** ("SG&A") were \$270 million in fiscal year 2021, compared to \$221 million in fiscal year 2020, an increase of \$49 million. The increase was primarily due to higher incentive compensation costs and electrification costs, partly offset by headcount reductions and reduced travel expenditures.

**Other operating expense, net** for fiscal year 2021 was \$17 million, compared to \$40 million in fiscal year 2020. The decrease in other operating expense was primarily driven primarily by lower restructuring expense.

**Other income, net** for fiscal year 2021 was \$61 million, compared to \$46 million in fiscal year 2020. The increase was primarily driven by the recognition of \$10 million of other income related to VAT credits in our wholly-owned Brazilian subsidiary during the second quarter of fiscal year 2021. During fiscal year 2021, the company recognized a \$22 million pre-tax loss recovery, net of legal expenses, on the overpayment of value added taxes in Brazil. Of the amount recognized, \$15 million was recognized in Sales consistent with the company's VAT policy, \$10 million in Other income, net and \$3 million as expense in Selling, general and administrative.

**Equity in earnings of affiliates** was \$34 million in fiscal year 2021, compared to \$14 million in the prior year. The increase was primarily attributable to improved earnings at our joint ventures and the recognition of a VAT credit of \$6 million at our joint venture in Brazil during the first quarter of fiscal year 2021.

**Interest expense, net** was \$79 million in fiscal year 2021, compared to \$66 million in fiscal year 2020. The increase in interest expense was primarily attributable to higher interest costs year over year as well as \$11 million of debt extinguishment costs incurred in fiscal year 2021.

**Provision for income taxes** was \$24 million in fiscal year 2021, compared to \$78 million in fiscal year 2020. The decrease in tax expense was primarily related to the tax effect of the proceeds received from the termination of the WABCO distribution arrangement during the second quarter of fiscal year 2020, partially offset by increased earnings in jurisdictions which do not have a tax valuation allowance.

**Income from continuing operations** (before noncontrolling interests) was \$210 million for fiscal year 2021, compared to \$248 million for fiscal year 2020. The reasons for the decrease are discussed above.

**Net income attributable to Meritor, Inc.** was \$199 million for fiscal year 2021, compared to \$245 million for fiscal year 2020. Various factors that contributed to the decrease in net income are discussed above.

#### **Segment Adjusted EBITDA and Segment Adjusted EBITDA Margins**

The following table reflects segment adjusted EBITDA and segment adjusted EBITDA margins for fiscal years 2021 and 2020 (dollars in millions).

	Segment adjusted EBITDA			Segment adjusted EBITDA Margins		
	2021	2020	Change	2021	2020	Change
Commercial Truck	\$ 259	\$ 116	\$ 143	8.6 %	5.3 %	3.3 pts
Aftermarket & Industrial	139	150	(11)	14.1 %	15.3 %	(1.2) pts
Segment adjusted EBITDA	<u>\$ 398</u>	<u>\$ 266</u>	<u>\$ 132</u>	<u>10.4 %</u>	<u>8.7 %</u>	<u>1.7 pts</u>

Significant items impacting year-over-year segment adjusted EBITDA include the following (in millions):

	Commercial Truck	Aftermarket & Industrial	Total
Segment adjusted EBITDA - Year Ended September 30, 2020	\$ 116	\$ 150	\$ 266
Volume, mix, performance and other	141	(2)	139
Higher earnings from unconsolidated affiliates	20	—	20
Higher short- and long-term variable compensation	(31)	(11)	(42)
Impact of foreign currency exchange rates	13	2	15
Segment adjusted EBITDA - Year Ended September 30, 2021	<u>\$ 259</u>	<u>\$ 139</u>	<u>\$ 398</u>

**Commercial Truck** Segment adjusted EBITDA was \$259 million in fiscal year 2021, compared to \$116 million in the prior fiscal year. Segment adjusted EBITDA margin increased to 8.6 percent in fiscal year 2021 from 5.3 percent in the prior fiscal year. The increase in segment adjusted EBITDA and segment adjusted EBITDA margin was primarily driven by conversion to higher revenue, partially offset by higher steel and freight costs, incentive compensation, and electrification costs in fiscal year 2021.

**Aftermarket & Industrial** Segment adjusted EBITDA was \$139 million in fiscal year 2021, compared to \$150 million in the prior fiscal year. Segment adjusted EBITDA margin decreased to 14.1 percent in fiscal year 2021 from 15.3 percent in fiscal year 2020. The decrease in segment adjusted EBITDA and segment adjusted EBITDA margin was primarily driven by the impact from higher freight and incentive compensation costs, partially offset by cost reduction actions.

**Cash Flows (in millions)**

	Year Ended September 30,		
	2021	2020	2019
<b>OPERATING CASH FLOWS</b>			
Income from continuing operations	\$ 210	\$ 248	\$ 295
Depreciation and amortization	103	101	87
Loss on debt extinguishment, net	11	—	—
Deferred income tax expense (income)	(13)	38	40
Pension and retiree medical income	(53)	(42)	(37)
Asset impairment charges	—	8	10
Equity in earnings of affiliates	(34)	(14)	(31)
Stock compensation expense	20	7	18
Restructuring costs	13	27	8
Dividends received from equity method investments	7	10	23
Pension and retiree medical contributions	(10)	(15)	(16)
Asbestos related liability remeasurement	—	—	(31)
Contribution to Maremont trust	—	—	(48)
Restructuring payments	(13)	(25)	(5)
Decrease (increase) in working capital	(86)	61	(14)
Changes in off-balance sheet receivable securitization and factoring programs	13	(77)	(18)
Other, net	30	(62)	(25)
Operating cash flows provided by continuing operations	<u>198</u>	<u>265</u>	<u>256</u>
Operating cash flows used for discontinued operations	<u>(1)</u>	<u>—</u>	<u>—</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 197</u>	<u>\$ 265</u>	<u>\$ 256</u>



**Cash provided by operating activities** for fiscal year 2021 was \$197 million, compared to \$265 million in fiscal year 2020 and \$256 million in fiscal year 2019. The decrease in cash flow provided by operating activities in fiscal year 2021 was driven primarily by \$265 million of cash received in fiscal year 2020 from the termination of the distribution arrangement with WABCO and an increase in fiscal year 2021 working capital requirements. The increase in cash flows provided by operating activities in fiscal year 2020 compared to fiscal year 2019 was driven primarily by \$265 million of cash received from the termination of the distribution arrangement with WABCO in fiscal year 2020, largely offset by 2020 lower revenues as a result of significantly lower market volumes due to the impact of the COVID-19 pandemic.

	Year Ended September 30,		
	2021	2020	2019
<b>INVESTING CASH FLOWS</b>			
Capital expenditures	\$ (90)	\$ (85)	\$ (103)
Cash paid for business acquisitions, net of cash received	—	—	(168)
Cash paid for investment in Transportation Power, Inc.	—	(13)	(6)
Other investing activities	(8)	9	6
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>\$ (98)</b>	<b>\$ (89)</b>	<b>\$ (271)</b>

**Cash used for investing activities** was \$98 million in fiscal year 2021, compared to cash used for investing activities of \$89 million in fiscal year 2020 and cash used for investing activities of \$271 million in fiscal year 2019. The increase in cash used for investing activities in the fiscal year 2021 was primarily driven by higher capital expenditure activity in fiscal year 2021 as compared to fiscal year 2020. The decrease in cash used for investing activities in fiscal year 2020 compared to fiscal year 2019 was primarily driven by acquisition activity in fiscal year 2019 as compared to fiscal year 2020. Capital expenditures were \$90 million in fiscal year 2021, compared to \$85 million in fiscal year 2020 and \$103 million in fiscal year 2019.

	Year Ended September 30,		
	2021	2020	2019
<b>FINANCING CASH FLOWS</b>			
Term loan payments	\$ (13)	\$ (8)	\$ —
Securitization	—	(8)	(38)
Borrowings against revolving line of credit	—	304	190
Repayments of revolving line of credit	—	(304)	(190)
Term loan borrowings	—	—	175
Proceeds from debt issuances	275	300	—
Repurchase of convertible notes	(53)	—	—
Redemption of notes	(458)	—	(24)
Debt issuance costs	(5)	(5)	(4)
Other financing activities	(1)	(2)	(2)
Net change in debt	(255)	277	107
Repurchase of common stock	(59)	(241)	(96)
<b>CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>\$ (314)</b>	<b>\$ 36</b>	<b>\$ 11</b>

**Cash used for financing activities** was \$314 million in fiscal year 2021, compared to cash provided by financing activities of \$36 million in fiscal year 2020 and cash provided by financing activities of \$11 million in fiscal year 2019. The increase in cash used for financing activities in fiscal year 2021 compared to fiscal year 2020 was primarily related to the redemption of our 6.25 Percent Notes due 2024 and our 7.875 Percent Convertible Notes (see Note 15 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*), partially offset by the proceeds from the issuance of our 4.50 Percent Notes (see Note 15 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*). The increase in cash provided by financing activities in fiscal year 2020 compared to fiscal year 2019 was primarily related to the proceeds from the issuance of the \$300 million principal amount of our 6.25 percent notes due 2025, partially offset by the repurchase of 10.4 million shares of our common stock for \$241 million.

## Contractual Obligations

As of September 30, 2021, we are contractually obligated to make payments as follows (in millions):

	Total	2022	2023	2024	2025 <sup>(2)</sup>	2026	Thereafter <sup>(3)(4)</sup>
Total debt <sup>(1)</sup>	\$ 1,053	\$ 18	\$ 13	\$ 122	\$ 300	\$ —	\$ 600
Operating leases	83	16	14	10	8	5	30
Interest payments on long-term debt	328	42	42	42	35	23	144
Total	\$ 1,464	\$ 76	\$ 69	\$ 174	\$ 343	\$ 28	\$ 774

<sup>(1)</sup> Total debt excludes unamortized discount on convertible notes of \$23 million and unamortized issuance costs of \$13 million.

<sup>(2)</sup> Includes the 6.25 percent senior notes due 2025, which contain a call feature that allows for early redemption (refer to Note 15 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*).

<sup>(3)</sup> Includes the 3.25 percent convertible notes due 2037, which contain a put and call feature that allows for early redemption beginning in 2025 (refer to Note 15 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*).

<sup>(4)</sup> Includes the 4.50 percent senior notes due 2028, which contain a call feature that allows for early redemption (refer to Note 15 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*).

We also sponsor defined benefit pension plans that cover certain of our U.S. employees and certain non-U.S. employees. Our funding practice provides that annual contributions to the pension trusts will be at least equal to the minimum amounts required by ERISA in the U.S. and the actuarial recommendations or statutory requirements in other countries. Management expects funding for our retirement pension plans of approximately \$5 million in fiscal year 2022.

We also sponsor retirement medical plans that cover certain of our U.S. and non-U.S. employees and retirees, including certain employees of divested businesses, and provide for medical payments to eligible employees and dependents upon retirement. Management expects gross retiree medical plan benefit payments of approximately \$5 million, \$5 million, \$4 million, \$3 million and \$3 million in fiscal years 2022, 2023, 2024, 2025 and 2026, respectively, before consideration of any Part D reimbursement from the U.S. government.

Contractual obligations identified in the table above do not include liabilities associated with uncertain tax positions of \$52 million due to the high degree of uncertainty regarding the future cash outflows associated with these amounts. For additional discussion of uncertain tax positions, refer to Note 21 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

## Liquidity

Our outstanding debt, net of discounts and unamortized debt issuance costs where applicable, is summarized below (in millions). For a detailed discussion of terms and conditions related to this debt, see Note 15 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

	September 30,	
	2021	2020
Fixed-rate debt securities	\$ 566	\$ 741
Fixed-rate convertible notes	321	343
Term loan	153	166
Unamortized discount on convertible notes	(23)	(29)
Other borrowings	10	6
Total debt	\$ 1,027	\$ 1,227

**Overview** – Our principal operating and capital requirements are for working capital needs, capital expenditure requirements, debt service requirements, funding of pension and retiree medical costs, restructuring and product development programs. We expect fiscal year 2022 capital expenditures to be approximately \$100 million - \$120 million.

We generally fund our operating and capital needs with cash on hand, cash flow from operations, our various accounts receivable securitization and factoring arrangements and availability under our revolving credit facility. Cash in excess of local operating needs is generally used to reduce amounts outstanding, if any, under our revolving credit facility or U.S. accounts receivable securitization program. 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. We continuously evaluate our capital structure to ensure the most appropriate and optimal structure and may, from time to time, retire, repurchase, exchange or redeem outstanding indebtedness or common equity, issue new equity or debt securities or enter into new financing arrangements if conditions warrant.

In November 2020, we filed a shelf registration statement with the Securities and Exchange Commission, registering an indeterminate amount of debt and/or equity securities that we may offer in one or more offerings on terms to be determined at the time of sale.

We believe our current financing arrangements provide us with the financial flexibility required to maintain our operations during the uncertain times of the COVID-19 pandemic and fund future growth, including actions required to improve our market share and support continued internal investments, through the term of our revolving credit facility, which matures in June 2024.

Sources of liquidity as of September 30, 2021, in addition to cash on hand, are as follows (in millions):

	Total Facility Size	Utilized as of 9/30/21	Readily Available as of 9/30/21	Current Expiration
<i>On-balance sheet arrangements:</i>				
Senior secured revolving credit facility <sup>(1)</sup>	\$ 685	\$ —	\$ 601	June 2024
Committed U.S. accounts receivable securitization <sup>(2)</sup>	110	3	70	March 2024
Total on-balance sheet arrangements	795	3	671	
<i>Off-balance sheet arrangements: <sup>(2)</sup></i>				
Committed Swedish Factoring Facility <sup>(3)(4)</sup>	\$ 179	\$ 88	\$ —	March 2024
Committed U.S. Factoring Facility <sup>(3)</sup>	75	49	—	February 2023
Uncommitted U.K. Factoring Facility	29	2	—	February 2022
Uncommitted Italy Factoring Facility	35	17	—	June 2022
Other uncommitted factoring facilities <sup>(5)</sup>	N/A	17	N/A	None
Total off-balance sheet arrangements	318	173	—	
Total available sources	\$ 1,113	\$ 176	\$ 671	

<sup>(1)</sup> The availability under the senior secured revolving credit facility is subject to a priority debt-to-EBITDA ratio covenant, as measured on the last day of the quarter based on trailing twelve month EBITDA as defined in the credit agreement. Availability was constrained on the last day of the fourth quarter of fiscal year 2021 due primarily to lower EBITDA in the first quarter of fiscal year 2021, which was impacted by the COVID-19 pandemic. The company has full availability until the next measurement point at the end of the first quarter of fiscal year 2022.

<sup>(2)</sup> Availability subject to adequate eligible accounts receivable available for sale.

<sup>(3)</sup> Actual amounts may exceed bank's commitment at bank's discretion.

<sup>(4)</sup> The facility is backed by a 364-day liquidity commitment from Nordea Bank which extends through June 22, 2022.

<sup>(5)</sup> There is no explicit facility size under the factoring agreement, but the counterparty approves the purchase of receivable tranches at its discretion.

**Cash and Liquidity Needs** – At September 30, 2021, we had \$101 million in cash and cash equivalents. We plan to repatriate approximately \$50 million of cash held by subsidiaries outside of the United States, with respect to which no withholding taxes are expected to be owed. \$23 million of cash and cash equivalents is held in jurisdictions where the cash is not freely transferable to the U.S. without intervention by the foreign jurisdiction or minority joint venture partner. We plan to utilize ongoing cash flow from domestic operations and external borrowings, to meet our liquidity needs in the U.S.

On March 31, 2021, the U.S. accounts receivable securitization facility with PNC bank was increased from \$95 million to \$110 million.

Our availability under the senior secured revolving credit facility is subject to a priority debt-to-EBITDA ratio covenant, as defined in the credit agreement, which may limit our borrowings under such agreement as of each quarter end. As long as we are in compliance with this covenant as of the quarter end, we have full availability under the senior secured revolving credit facility every other day during the quarter. Our future liquidity is subject to a number of factors, including access to adequate funding under our senior secured revolving credit facility, access to other borrowing arrangements such as factoring or securitization facilities, vehicle production schedules and customer demand. Even taking into account these and other factors, management expects to have sufficient liquidity to fund our operating requirements through the term of our senior secured revolving credit facility. At September 30, 2021, we were in compliance with the priority debt to EBITDA ratio covenant with a ratio of approximately 0.54x.

**Equity and Debt Repurchase Authorization** – Refer to Note 17 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

**Redemption of 7.875 Percent Convertible Notes due 2026, Redemption of 6.25 Percent Notes due 2024, Senior Secured Revolving Credit Facility, and Issuance of 4.50 Percent Notes due 2028** – Refer to Note 15 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

**U.S. Securitization Program** – Refer to Note 8 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

**Finance Leases** – We had \$10 million and \$6 million of outstanding finance lease arrangements as of September 30, 2021 and 2020, respectively.

**Other** – One of our consolidated joint ventures in China participates in a bills of exchange program to settle its obligations with its trade suppliers. These programs are common in China and generally require the participation of local banks. Under these programs, our joint venture issues notes payable through the participating banks to its trade suppliers. If the issued notes payable remain unpaid on their respective due dates, this could constitute an event of default under our revolving credit facility if the defaulted amount exceeds \$35 million per bank. As of September 30, 2021 and 2020, we had \$25 million and \$16 million, respectively, outstanding under this program at more than one bank.

**Credit Ratings** – At November 15, 2021, 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.

**Subsidiary Guarantees of Debt** – Certain of the company's 100% owned subsidiaries, as defined in the credit agreement for the senior secured revolving credit facility (collectively, the "Guarantors") irrevocably and unconditionally guarantee amounts outstanding under the senior secured revolving credit facility on a joint and several basis. Similar subsidiary guarantees are provided for the benefit of the holders of the notes outstanding under the company's indentures. The notes are guaranteed on a senior unsecured basis by each of the company's subsidiaries from time to time guaranteeing its senior secured revolving credit facility, as it may be amended, extended, replaced or refinanced, or any subsequent credit facility. The guarantees remain in effect until the earlier to occur of payment in full of the notes or termination or release of the applicable corresponding guarantee under the company's senior secured revolving credit facility, as it may be amended, extended, replaced or refinanced, or any subsequent credit facility. The guarantees rank equally with existing and future senior unsecured indebtedness of the Guarantors and are effectively subordinated to all of the existing and future secured indebtedness of the Guarantors, to the extent of the value of the assets securing such indebtedness.

The following represents summarized financial information, in millions, of Meritor, Inc. ("Parent") and the Guarantors (collectively, the "Combined Entities"). The information has been prepared on a combined basis and excludes any investments of the Parent or Guarantors in non-guarantor subsidiaries. Intercompany transactions and amounts between the Combined Entities have been eliminated. Equity income from continuing operations of subsidiaries has been eliminated.

Statement of Operations Information	Year Ended	
	September 30, 2021	September 30, 2020
Net Sales	\$ 2,159	\$ 1,863
Gross profit	223	188
Net income from continuing operations	27	190
Net income	26	191
Net income attributable to Meritor, Inc.	26	191

Balance Sheet Information	September 30,	
	2021	2020
Current Assets	\$ 519	\$ 566
Non-current Assets	990	1,053
Current Liabilities	496	413
Non-current Liabilities	1,342	1,639

Redeemable Preferred Stock	—	—
Noncontrolling Interest	—	—

At September 30, 2021 and 2020, amounts owed by the Combined Entities to non-guarantor entities totaled approximately \$52 million and \$100 million, respectively, and amounts owed to the Combined Entities from non-guarantor entities totaled approximately \$87 million and \$156 million, respectively. For the years ended September 30, 2021 and 2020, intercompany sales from the Combined Entities to non-guarantor subsidiaries were \$102 million and \$79 million, respectively. For the years ended September 30, 2021 and 2020, intercompany sales from non-guarantor subsidiaries to the Combined Entities were \$161 million and \$102 million, respectively.

#### Off-Balance Sheet Arrangements

**Accounts Receivable Factoring Arrangements** – We participate in accounts receivable factoring programs with total amounts utilized at September 30, 2021 of \$173 million, of which \$137 million was attributable to committed factoring facilities involving the sale of AB Volvo accounts receivables. The remaining amount of \$36 million was related to factoring by certain of our European subsidiaries under uncommitted factoring facilities with financial institutions. The receivables under all of these programs are sold at face value and are excluded from the Consolidated Balance Sheet. Total facility size, utilized amounts, readily available amounts and expiration dates for each of these programs are shown in the table above under *Liquidity*.

Our Swedish factoring facility, which is backed by a 364-day liquidity commitment from Nordea Bank, was renewed through June 22, 2022. Commitments under all of our factoring facilities are subject to standard terms and conditions for these types of arrangements (including, in case of the U.K. and Italy commitments, a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the respective programs).

**Letter of Credit Facilities** – Refer to Note 15 of the Notes to the Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*. There were \$11 million and \$8 million of off-balance sheet letters of credit outstanding through letter of credit facilities as of September 30, 2021 and 2020, respectively.

#### Contingencies

Contingencies related to environmental, asbestos and other matters are discussed in Note 22 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

#### Critical Accounting Policies

Critical accounting policies are those that are most important to the portrayal of our financial condition and results of operations. These policies require management's most difficult, subjective or complex judgments in the preparation of the

financial statements and accompanying notes. Management makes estimates and assumptions about the effect of matters that are inherently uncertain, relating to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Our most critical accounting policies are discussed below.

**Pensions** — Our defined benefit pension plans and retirement medical plans are accounted for on an actuarial basis, which requires the selection of various assumptions, including the mortality of participants. Our pension obligations are determined annually and were measured as of September 30, 2021 and 2020.

The mortality assumptions for participants in our U.S. plans incorporates future mortality improvements from tables published by the Society of Actuaries ("SOA"). We periodically review the mortality experience of our U.S. plans' participants against these assumptions. We reviewed the new SOA mortality and mortality improvement tables and utilized our actuary to conduct a study based on our plan participants.

The U.S. plans include a qualified and non-qualified pension plan. In fiscal years 2021 and 2020, the only significant non-U.S. plan is a pension plan located in the U.K. The following are the significant assumptions used in the measurement of the projected benefit obligation ("PBO") and net periodic pension expense:

	2021		2020	
	U.S.	U.K.	U.S.	U.K.
Assumptions as of September 30:				
Discount rate	2.80% - 2.85%	2.10%	2.50% - 2.60%	1.70%
Assumed return on plan assets (beginning of the year) <sup>(1)</sup>	7.75%	5.00%	7.75%	5.75%

<sup>(1)</sup> The assumed return on plan assets for fiscal year 2022 is 7.75 percent for the U.S. plan and 5.00 percent for the U.K. plan.

The **discount rate** is used to calculate the present value of the PBO at the balance sheet date and net periodic pension expense for the subsequent fiscal year. The rate used reflects a rate of return on high-quality fixed income investments that match the duration of expected benefit payments. Generally we use a portfolio of long-term corporate AA/Aa bonds that match the duration of the expected benefit payments, except for our U.K. pension plan which uses an annualized yield curve to establish the discount rate for this assumption.

The **assumed return on plan assets** is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. An incremental amount for diversification, rebalancing and active management, where appropriate, is included in the rate of return assumption. The return assumptions are reviewed annually.

These assumptions reflect our historical experience and our best judgments regarding future expectations. The effects of the indicated increase and decrease in selected assumptions, assuming no changes in benefit levels and no amortization of gains or losses for the plans in 2021, are shown below (in millions):

Assumption:	Effect on All Plans - September 30, 2021			
	Percentage Point Change	Increase (Decrease) in PBO		Increase (Decrease) in Pension Expense
Discount rate	-0.5 pts	\$	106	\$ —
	+0.5 pts		(95)	—
Assumed return on plan assets	-1.0 pts		N/A <sup>(1)</sup>	14
	+1.0 pts		N/A <sup>(1)</sup>	(14)

<sup>(1)</sup> Not Applicable

Accounting guidance applicable to pensions does not require immediate recognition of the effects of a deviation between actual and assumed experience and the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted and disclosed as an unrecognized gain or loss in Accumulated other comprehensive loss. Based on the September 30, 2021 and 2020 measurement dates, we had an unrecognized loss of \$708 million and \$676 million, respectively. A portion of this loss is amortized into earnings each fiscal year. Unrecognized losses for the U.S. and U.K. plans are being amortized into net periodic pension expense over the average life expectancy of the inactive participants of approximately 15 years and 25 years, respectively.

In recognition of the long-term nature of the liabilities of the pension plans, we have targeted an asset allocation strategy designed to promote asset growth while maintaining an acceptable level of risk over the long term. Asset-liability studies are performed periodically to validate the continued appropriateness of these asset allocation targets. The asset allocation ranges for the U.S. plans are 20–50 percent equity investments, 30–60 percent fixed income investments and 10–30 percent alternative investments. Alternative investments include private equity, real estate, hedge funds and partnership interests. The target asset allocation ranges for the non-U.S. plans are 15–35 percent equity investments, 30–40 percent fixed income investments, 0–15 percent real estate and 15–35 percent alternative investments. The asset class mix and the percentage of securities in any asset class or market may vary as the risk/return characteristics of either individual market or asset classes vary over time.

The investment strategies for the pension plans are designed to achieve an appropriate diversification of investments as well as safety and security of the principal invested. Assets invested are allocated to certain global sub-asset categories within prescribed ranges in order to promote international diversification across security type, issuer type, investment style, industry group, and economic sector. Assets of the plans are both actively and passively managed. Policy limits are placed on the percentage of plan assets that can be invested in a security of any single issuer and minimum credit quality standards are established for debt securities. Meritor securities did not comprise any of the value of our worldwide pension assets as of September 30, 2021.

Based on current assumptions, the fiscal year 2022 net pension income is estimated to be \$32 million.

**Product Warranties** — Our business segments record estimated product warranty costs at the time of shipment of products to customers. Liabilities for product recall campaigns are recorded at the time our obligation is known and can be reasonably estimated. Product warranties, including recall campaigns, not expected to be paid within one year are recorded as a non-current liability.

Significant factors and information used by management when estimating product warranty liabilities include:

- Past claims experience;
- Sales history;
- Product manufacturing and industry developments; and
- Recoveries from third parties, where applicable.

**Asbestos** — Contingencies for asbestos related matters are discussed in Note 22 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*. The amounts recorded for the asbestos-related reserves and recoveries from insurance companies are based upon assumptions and estimates derived from currently known facts. All such estimates of liabilities and recoveries for asbestos-related claims are subject to considerable uncertainty because such liabilities and recoveries are influenced by variables that are difficult to predict. The future litigation environment could change significantly from its past experience, due, for example, to changes in the mix of claims filed in terms of plaintiffs' law firm, jurisdiction and disease; legislative or regulatory developments; the company's approach to defending claims; or payments to plaintiffs from other defendants. Estimated recoveries are influenced by coverage issues among insurers and the continuing solvency of various insurance companies. If the assumptions with respect to the estimation period, the nature of pending 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 the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

**Income Taxes** — Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If it is more likely than not that the deferred tax asset will be realized, no valuation allowance is recorded. Management's judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the net deferred tax assets. The valuation allowance would need to be adjusted in the event future taxable income is materially different than amounts estimated. Significant judgments, estimates and factors considered by management in its determination of the probability of the realization of deferred tax assets include:

- Historical operating results;
- Expectations of future earnings;

- Tax planning strategies; and
- The extended period of time over which retirement medical and pension liabilities will be paid.

Refer to Note 21 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*, for additional information on income tax related matters.

**New Accounting Pronouncements** — New Accounting Pronouncements are discussed in Note 2 of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to certain global market risks, including foreign currency exchange risk and interest rate risk associated with our debt.

As a result of our substantial international operations, we are exposed to foreign currency risks that arise from our normal business operations, including in connection with our transactions that are denominated in foreign currencies. In addition, we translate sales and financial 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 2021, our reported financial results were positively affected by depreciation of the U.S. dollar against foreign currencies. For fiscal year 2020, our reported financial results were adversely affected by appreciation of the U.S. dollar against foreign currencies.

We use foreign currency forward contracts to minimize the earnings exposures arising from foreign currency exchange risk on foreign currency purchases and sales. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts. Under this cash flow hedging program, we designate the foreign currency contracts as cash flow hedges of underlying foreign currency forecasted purchases and sales. Changes in the fair value of these contracts are recorded in Accumulated other comprehensive loss in the Consolidated Statement of Equity and is recognized in operating income when the underlying forecasted transaction impacts earnings. These contracts have varying terms that extend through fiscal year 2025.

We use option contracts to mitigate foreign exchange exposure on expected future foreign currency-denominated purchases. We did not elect hedge accounting for these derivatives. Changes in fair value associated with these contracts are recorded in cost of sales in the Consolidated Statement of Operations.

We use option contracts to mitigate the risk of volatility in the translation of foreign currency earnings to U.S. dollars. These option contracts did not qualify for a hedge accounting election. Changes in fair value associated with these contracts are recorded in the Consolidated Statement of Operations in other income, net.

Interest rate risk relates to the gain/increase or loss/decrease we could incur in our debt balances and interest expense associated with changes in interest rates. To manage this risk, we enter into interest rate swaps from time to time to economically convert portions of our fixed-rate debt into floating rate exposure, ensuring that the sensitivity of the economic value of debt falls within our corporate risk tolerances. It is our policy not to enter into derivative instruments for speculative purposes, and therefore, we hold no derivative instruments for trading purposes.



Included below is a sensitivity analysis to measure the potential gain (loss) in the fair value of financial instruments with exposure to market risk (in millions). The model assumes a 10% hypothetical change (increase or decrease) in exchange rates and instantaneous, parallel shifts of 50 basis points in interest rates.

Market Risk	Assuming a 10% Increase in Rates	Assuming a 10% Decrease in Rates	Change In
<i>Foreign Currency Sensitivity:</i>			
Forward contracts in USD <sup>(1)</sup>	(3.2)	3.2	Fair Value
Forward contracts in Euro <sup>(1)</sup>	(2.0)	2.0	Fair Value
Foreign currency denominated debt <sup>(2)</sup>	0.9	(0.9)	Fair Value
Foreign currency option contracts in USD	—	—	Fair Value
Foreign currency option contracts in Euro	(0.2)	1.3	Fair Value
<i>Interest Rate Sensitivity:</i>			
	Assuming a 50 BPS Increase in Rates	Assuming a 50 BPS Decrease in Rates	Change In
Debt - fixed rate <sup>(3)</sup>	\$ (34.3)	\$ 36.3	Fair Value
Debt - variable rate	(0.8)	0.8	Cash Flow

<sup>(1)</sup> Includes only the risk related to the derivative instruments and does not include the risk related to the underlying exposure. The analysis assumes overall derivative instruments and debt levels remain unchanged for each hypothetical scenario.

<sup>(2)</sup> At September 30, 2021, the fair value of outstanding foreign currency denominated debt was \$8.9 million. A 10% decrease in quoted currency exchange rates would result in a decrease of \$0.9 million in foreign currency denominated debt. At September 30, 2021, a 10% increase in quoted currency exchange rates would result in an increase of \$0.9 million in foreign currency denominated debt.

<sup>(3)</sup> At September 30, 2021, the fair value of outstanding debt was \$1,100 million. A 50 basis points decrease in quoted interest rates would result in an increase of \$36.3 million in the fair value of fixed rate debt. A 50 basis points increase in quoted interest rates would result in a decrease of \$34.3 million in the fair value of fixed rate debt.

**Item 8. Financial Statements and Supplementary Data.**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Meritor, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Meritor, Inc. and subsidiaries (the "Company") as of October 3, 2021 and September 27, 2020, the related consolidated statements of operations, comprehensive income, equity, and cash flows, for each of the three years in the period ended October 3, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 3, 2021 and September 27, 2020, and the results of its operations and its cash flows for each of the three years in the period ended October 3, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of October 3, 2021, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 17, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Contingencies — Asbestos-related reserves —Rockwell —Refer to Note 22 to the financial statements**

*Critical Audit Matter Description*

Reserves related to these claims consist of the projected indemnity and defense costs of pending and future asbestos-related claims. The Company engaged a third-party advisor with experience in assessing asbestos-related liabilities to conduct a study to estimate its potential undiscounted liability for pending and future asbestos-related claims. As of October 3, 2021, the best estimate of the company's obligation for asbestos-related claims over the next 37 years is \$60 million.

We identified asbestos-related reserves for Rockwell as a critical audit matter because estimating projected indemnity and defense costs of pending and future asbestos-related claims involves significant estimation by management due to variables that are difficult to predict. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our actuarial specialists, when performing audit procedures to evaluate whether the asbestos-related reserves were appropriately recorded as of October 3, 2021.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the asbestos-related reserves for Rockwell included the following, among others:

- We tested the effectiveness of controls related to asbestos-related reserves, including management's controls over estimating projected indemnity and defense costs of pending and future asbestos-related claims.
- We assessed the qualifications, experience, and objectivity of management's third-party advisor.
- We tested the underlying data that served as the basis for the actuarial analysis, including historical claims, to test the inputs to the actuarial estimate for completeness and accuracy.
- We compared management's prior-year projected indemnity and defense costs of pending and future asbestos-related claims to actuals incurred during the current year to identify potential bias in the determination of the reserve, as well as to assess management's ability to estimate the reserve.
- With the assistance of our actuarial specialists that have experience in the area of asbestos-related reserves, we assessed the reasonableness of the valuation methodology and significant assumptions.

/s/ DELOITTE & TOUCHE LLP  
DELOITTE & TOUCHE LLP

Detroit, Michigan  
November 17, 2021

We have served as the Company's auditor since 1996.

**MERITOR, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(in millions, except per share amounts)

	Year Ended September 30,		
	2021	2020	2019
Sales	\$ 3,833	\$ 3,044	\$ 4,388
Cost of sales	(3,328)	(2,716)	(3,748)
<b>GROSS PROFIT</b>	<b>505</b>	<b>328</b>	<b>640</b>
Selling, general and administrative	(270)	(221)	(256)
Income from WABCO distribution termination	—	265	—
Other operating expense, net	(17)	(40)	(21)
<b>OPERATING INCOME</b>	<b>218</b>	<b>332</b>	<b>363</b>
Other income, net	61	46	40
Equity in earnings of affiliates	34	14	31
Interest expense, net	(79)	(66)	(57)
<b>INCOME BEFORE INCOME TAXES</b>	<b>234</b>	<b>326</b>	<b>377</b>
Provision for income taxes	(24)	(78)	(82)
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>210</b>	<b>248</b>	<b>295</b>
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1)	1	1
<b>NET INCOME</b>	<b>209</b>	<b>249</b>	<b>296</b>
Less: Net income attributable to noncontrolling interests	(10)	(4)	(5)
<b>NET INCOME ATTRIBUTABLE TO MERITOR, INC.</b>	<b>\$ 199</b>	<b>\$ 245</b>	<b>\$ 291</b>
<b>NET INCOME ATTRIBUTABLE TO MERITOR, INC.</b>			
Net income from continuing operations	\$ 200	\$ 244	\$ 290
Income (loss) from discontinued operations	(1)	1	1
<b>Net income</b>	<b>\$ 199</b>	<b>\$ 245</b>	<b>\$ 291</b>
<b>BASIC EARNINGS PER SHARE</b>			
Continuing operations	\$ 2.79	\$ 3.30	\$ 3.49
Discontinued operations	(0.01)	0.01	0.01
<b>Basic earnings per share</b>	<b>\$ 2.78</b>	<b>\$ 3.31</b>	<b>\$ 3.50</b>
<b>DILUTED EARNINGS PER SHARE</b>			
Continuing operations	\$ 2.74	\$ 3.23	\$ 3.36
Discontinued operations	(0.01)	0.01	0.01
<b>Diluted earnings per share</b>	<b>\$ 2.73</b>	<b>\$ 3.24</b>	<b>\$ 3.37</b>
Basic average common shares outstanding	71.7	74.0	83.2
<b>Diluted average common shares outstanding</b>	<b>72.8</b>	<b>75.6</b>	<b>86.3</b>

*See Notes to Consolidated Financial Statements.*

**MERITOR, INC.**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(in millions)

	Year Ended September 30,		
	2021	2020	2019
Net income	\$ 209	\$ 249	\$ 296
Other comprehensive income:			
Foreign currency translation adjustments	24	(21)	(18)
Pension and other postretirement benefit related adjustments (net of tax of \$ 5, \$27 and \$22 for the year ended September 30, 2021, 2020 and 2019, respectively)	(43)	89	(96)
Unrealized gain (loss) on cash flow hedges	1	—	(2)
Total comprehensive income	191	317	180
Less: Comprehensive income attributable to noncontrolling interest	(10)	(5)	(4)
Comprehensive income attributable to Meritor	<u>\$ 181</u>	<u>\$ 312</u>	<u>\$ 176</u>

*See Notes to Consolidated Financial Statements.*

**MERITOR, INC.**  
**CONSOLIDATED BALANCE SHEET**  
(In millions)

	September 30,	
	2021	2020
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 101	\$ 315
Receivables, trade and other, net	534	479
Inventories	601	435
Other current assets	50	54
TOTAL CURRENT ASSETS	1,286	1,283
NET PROPERTY	517	515
GOODWILL	507	501
OTHER ASSETS	628	585
TOTAL ASSETS	\$ 2,938	\$ 2,884
<b>LIABILITIES AND EQUITY</b>		
CURRENT LIABILITIES:		
Short-term debt	\$ 19	\$ 39
Accounts and notes payable	573	423
Other current liabilities	308	264
TOTAL CURRENT LIABILITIES	900	726
LONG-TERM DEBT	1,008	1,188
RETIREMENT BENEFITS	191	196
OTHER LIABILITIES	224	279
TOTAL LIABILITIES	2,323	2,389
COMMITMENTS AND CONTINGENCIES (NOTE 22)		
EQUITY:		
Common stock (September 30, 2021 and 2020, 104.0 and 103.7 shares issued and 70.1 and 72.3 shares outstanding, respectively)	105	105
Additional paid-in capital	798	808
Retained earnings	935	736
Treasury stock, at cost (September 30, 2021 and September 30, 2020, 33.9 and 31.4 shares, respectively)	(632)	(573)
Accumulated other comprehensive loss	(632)	(614)
Total equity attributable to Meritor, Inc.	574	462
Noncontrolling interests	41	33
TOTAL EQUITY	615	495
TOTAL LIABILITIES AND EQUITY	\$ 2,938	\$ 2,884

*See Notes to Consolidated Financial Statements.*

**MERITOR, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In millions)

	Year Ended September 30,		
	2021	2020	2019
<b>OPERATING ACTIVITIES</b>			
CASH PROVIDED BY OPERATING ACTIVITIES (see Note 24)	\$ 197	\$ 265	\$ 256
<b>INVESTING ACTIVITIES</b>			
Capital expenditures	(90)	(85)	(103)
Cash paid for business acquisitions, net of cash received	—	—	(168)
Cash paid for investment in Transportation Power, Inc.	—	(13)	(6)
Other investing activities	(8)	9	6
CASH USED FOR INVESTING ACTIVITIES	(98)	(89)	(271)
<b>FINANCING ACTIVITIES</b>			
Securitization	—	(8)	(38)
Proceeds from debt issuances	275	300	—
Repurchase of convertible notes	(53)	—	—
Borrowings against revolving line of credit	—	304	190
Repayments of revolving line of credit	—	(304)	(190)
Term loan borrowings	—	—	175
Redemption of notes	(458)	—	(24)
Term loan payments	(13)	(8)	—
Debt issuance costs	(5)	(5)	(4)
Other financing activities	(1)	(2)	(2)
Net change in debt	(255)	277	107
Repurchase of common stock	(59)	(241)	(96)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(314)	36	11
<b>EFFECT OF CHANGES IN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	<b>1</b>	<b>(5)</b>	<b>(3)</b>
CHANGE IN CASH AND CASH EQUIVALENTS	(214)	207	(7)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	315	108	115
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 101	\$ 315	\$ 108

*See Notes to Consolidated Financial Statements.*

**MERITOR, INC.**  
**CONSOLIDATED STATEMENT OF EQUITY**  
(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity Attributable to Meritor, Inc.	Non- controlling Interests	Total
<i>Beginning balance at September 30, 2020</i>	\$ 105	\$ 808	\$ 736	\$ (573)	\$ (614)	\$ 462	\$ 33	\$ 495
Comprehensive income (loss)	—	—	199	—	(18)	181	10	191
Repurchase of convertible notes	—	(30)	—	—	—	(30)	—	(30)
Equity based compensation expense	—	20	—	—	—	20	—	20
Repurchase of common stock	—	—	—	(59)	—	(59)	—	(59)
Non-controlling interest dividends	—	—	—	—	—	—	(2)	(2)
<i>Ending balance at September 30, 2021</i>	<u>\$ 105</u>	<u>\$ 798</u>	<u>\$ 935</u>	<u>\$ (632)</u>	<u>\$ (632)</u>	<u>\$ 574</u>	<u>\$ 41</u>	<u>\$ 615</u>
<i>Beginning balance at September 30, 2019</i>	\$ 104	\$ 803	\$ 491	\$ (332)	\$ (681)	\$ 385	\$ 30	\$ 415
Comprehensive income	—	—	245	—	67	312	5	317
Vesting of restricted stock	1	(1)	—	—	—	—	—	—
Equity based compensation expense	—	7	—	—	—	7	—	7
Repurchase of common stock	—	—	—	(241)	—	(241)	—	(241)
Non-controlling interest dividends	—	—	—	—	—	—	(2)	(2)
Other	—	(1)	—	—	—	(1)	—	(1)
<i>Ending balance at September 30, 2020</i>	<u>\$ 105</u>	<u>\$ 808</u>	<u>\$ 736</u>	<u>\$ (573)</u>	<u>\$ (614)</u>	<u>\$ 462</u>	<u>\$ 33</u>	<u>\$ 495</u>
<i>Beginning balance at September 30, 2018</i>	\$ 102	\$ 787	\$ 200	\$ (236)	\$ (566)	\$ 287	\$ 30	\$ 317
Comprehensive income (loss)	—	—	291	—	(115)	176	4	180
Vesting of restricted stock	2	(2)	—	—	—	—	—	—
Equity based compensation expense	—	18	—	—	—	18	—	18
Repurchase of common stock	—	—	—	(96)	—	(96)	—	(96)
Non-controlling interest dividends	—	—	—	—	—	—	(4)	(4)
<i>Ending balance at September 30, 2019</i>	<u>\$ 104</u>	<u>\$ 803</u>	<u>\$ 491</u>	<u>\$ (332)</u>	<u>\$ (681)</u>	<u>\$ 385</u>	<u>\$ 30</u>	<u>\$ 415</u>

See Notes to Consolidated Financial Statements.



## MERITOR, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF PRESENTATION

Meritor, Inc. (the "company" or "Meritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers ("OEMs") and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, military, bus and coach, construction and other industrial OEMs and certain aftermarkets. The Consolidated Financial Statements are those of the company and its consolidated subsidiaries.

The company's fiscal year ends on the Sunday nearest September 30. The 2021, 2020 and 2019 fiscal years ended on October 3, 2021, September 27, 2020 and September 29, 2019, respectively. All year and quarter references relate to the company's fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 is used consistently throughout this report to represent the fiscal year end.

##### *COVID-19 Pandemic Update*

The COVID-19 pandemic adversely affected the company's financial performance in the second, third and fourth quarters of fiscal year 2020 and the beginning of fiscal year 2021. In response to the COVID-19 pandemic, government health officials recommended and mandated precautions to mitigate the spread of the virus, including shelter in-place orders, prohibitions on public gatherings and other similar measures. As a result, the company and certain of the company's customers and suppliers temporarily closed select manufacturing locations beginning late in the second quarter of fiscal year 2020, continuing into the third quarter of fiscal year 2020. All of the company's facilities have been fully operational since the end of fiscal year 2020 and its salaried employees have begun returning to work in person. Production volume levels continued to increase through the fourth quarter of fiscal year 2020 and into fiscal year 2021. There is uncertainty around the duration and breadth of the COVID-19 pandemic, as well as the impact it will have on the company's industry, customers, operations, workforce, supply chains, distribution systems and availability of manufacturing inputs. As a result, the ultimate impact on the company's business, financial condition or operating results cannot be reasonably estimated at this time.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires the use of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from these estimates. Significant estimates and assumptions were used to review goodwill and other long-lived assets for impairment (see Notes 6 and 10), environmental liabilities (see Notes 13, 14 and 22), product warranty liabilities (see Note 13 and 14), long-term incentive compensation plan obligations (see Note 18), retiree medical and pension obligations (see Notes 19 and 20), income taxes (see Note 21), and contingencies, including asbestos (see Note 22).

##### *Concentration of Credit Risk*

In the normal course of business, the company provides credit to customers. The company limits its credit risk by performing ongoing credit evaluations of its customers and maintaining reserves for potential credit losses and through accounts receivable factoring programs. The company's accounts receivables are generally due from medium- and heavy-duty truck OEMs, specialty vehicle manufacturers, aftermarket customers, and trailer producers. The company's ten largest customers accounted for 75 percent, 69 percent and 77 percent of sales in fiscal years 2021, 2020 and 2019, respectively. Sales to the company's top three customers were 53 percent, 50 percent and 54 percent of total sales in fiscal years 2021, 2020 and 2019, respectively. At September 30, 2021 and 2020, 20 percent and 25 percent, respectively, of the company's trade accounts receivable were from the company's three largest customers.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### *Consolidation and Joint Ventures*

The Consolidated Financial Statements include the accounts of the company and those subsidiaries in which the company has control. All intercompany balances and transactions are eliminated in consolidation. The results of operations of controlled subsidiaries are included in the Consolidated Financial Statements and are offset by a related noncontrolling interest recorded for the noncontrolling partners' ownership. Investments in affiliates that are not controlled are reported using the equity method of accounting (see Note 12).

### *Foreign Currency*

Local currencies are generally considered the functional currencies for operations outside the U.S. For operations reporting in local currencies, assets and liabilities are translated at year-end exchange rates with cumulative currency translation adjustments included as a component of Accumulated Other Comprehensive Loss in the Consolidated Balance Sheet. Income and expense items are translated at average rates of exchange during the year.

### *Impairment of Long-Lived Assets*

Long-lived assets, excluding goodwill, to be held and used are reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset group is not recoverable, based on undiscounted cash flows over the remaining useful life of the primary asset of the group, and the long lived asset group's carrying value exceeds the fair value.

Long-lived assets held for sale are recorded at the lower of their carrying amount or estimated fair value less cost to sell.

### *Allowance for Doubtful Accounts*

The company's allowance for credit losses on accounts receivable reflects management's estimate of credit losses, measured primarily using historical experience as well as current economic conditions and forecasts that affect the collectability of the reported amount. Changes in expected credit losses on accounts receivable during the period are recognized in the income statement.

### *Earnings per Share*

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

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

	Year Ended September 30,		
	2021	2020	2019
Basic average common shares outstanding	71.7	74.0	83.2
Impact of restricted shares, restricted share units and performance share units	1.1	0.8	2.2
Impact of convertible notes	—	0.8	0.9
Diluted average common shares outstanding	72.8	75.6	86.3

In November 2020, the Board of Directors approved a grant of 0.3 million performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$26.98, which was the company's share price on the grant date of December 1, 2020. The Board of Directors also approved a grant of 0.3 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$26.98, which was the company's share price on the grant date of December 1, 2020.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2020 to September 30, 2023, measured at the end of the performance period. The number of performance share units that vest will depend on adjusted EBITDA margin and adjusted diluted earnings per share from continuing operations (which, solely for purposes of our long-term incentive plan, includes an adjustment for the value of deferred tax assets in jurisdictions with net operating loss carry forwards or tax credits) which are each weighted at 50%. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.3 million performance share units.

In November 2019, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$25.25, which was the company's share price on the grant date of December 1, 2019. The Board of Directors also approved a grant of 0.3 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$25.25, which was the company's share price on the grant date of December 1, 2019.

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2019 to September 30, 2022, measured at the end of the performance period. The number of performance share units that vest will depend on adjusted EBITDA margin, new business wins, free cash flow conversion and adjusted diluted earnings per share from continuing operations, each of which is weighted at 25%. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.4 million performance share units.

In November 2018, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the company's long-term incentive plan. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$16.50, which was the company's share price on the grant date of December 1, 2018. The Board of Directors also approved a grant of 0.4 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$16.50, which was the company's share price on the grant date of December 1, 2018.

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2018 to September 30, 2021, measured at the end of the performance period. The number of performance share units that vest will depend on adjusted EBITDA margin and adjusted diluted earnings per share from continuing operations at the following weights: 50% associated with achieving an adjusted EBITDA margin target and 50% associated with achieving an adjusted diluted earnings per share from continuing operations target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.5 million performance share units.

On December 1, 2020, in response to retention and attrition concerns resulting from the COVID-19 pandemic's impact on the company's incentive compensation plans, and to continue to incentivize executive performance in a difficult and uncertain environment, the Compensation Committee of the Board of Directors adjusted the threshold level of the performance metrics required to be achieved for payout for the fiscal 2019-2021 performance cycle. The target and maximum levels were not modified. The impact of this adjustment did not have a material impact on the company's Consolidated Financial Statements.

### *Other*

Other significant accounting policies are included in the related notes, specifically, goodwill (Note 6), inventories (Note 9), property and depreciation (Note 10), product warranties (Note 13), financial instruments (Note 16), equity based compensation (Note 18), retirement medical plans (Note 19), retirement pension plans (Note 20), income taxes (Note 21) and environmental and asbestos-related liabilities (Note 22).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### *Accounting standards implemented during fiscal year 2021*

On October 1, 2020, the company implemented Accounting Standards Update ("ASU") 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including accounts receivable. The ASU also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The guidance had an impact on the company's accounting policies and procedures related to calculation of allowance for doubtful accounts receivable but did not have a material impact on its Consolidated Financial Statements.

On October 1, 2020, the company implemented ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU add, modify, and eliminate certain disclosure requirements on fair value measurements in Topic 820. The guidance did not have a material impact on the company's Consolidated Financial Statements.

### *Accounting standards to be implemented*

The following represent the standards that may result in a significant change in practice and/or have a significant financial impact on the company.

In August 2020, the FASB issued ASU 2020-06, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (Subtopic 815-40). The ASU simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASC 470-20 outlines five models to allocate the proceeds attributable to the issuance of a convertible debt instrument. This ASU removes from U.S. GAAP the separation models for convertible debt with a cash conversion feature (CCF) and convertible debt with a beneficial conversion feature (BCF). As a result of adopting this ASU, entities are not required to separately present in equity an embedded conversion feature in such debt. Instead, they should account for a convertible debt instrument wholly as debt. Applying the separation models in ASC 470-20 to convertible instruments with a CCF or BCF involved the recognition of a debt discount, which is amortized to interest expense. The elimination of CCF and BCF models will reduce reported interest expense and increase reported net income for convertible instruments issued within the scope of those models before the adoption of ASU 2020-06. The amendments in this update are required to be adopted by public business entities in fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal year beginning after December 15, 2020, including interim periods within those fiscal years. Entities are permitted to adopt the guidance through either a modified retrospective method of transition or a fully retrospective method of transition.

The company will early adopt the ASU in the first quarter of fiscal year 2022 on a modified retrospective basis. Upon adoption, additional paid in capital is expected to be reduced by approximately \$41 million and the 3.25 percent convertible notes due 2037 (the "3.25 Percent Convertible Notes") is expected to be increased by approximately \$23 million for the recombination of the equity conversion component of our convertible debt remaining outstanding, which was initially separated and recorded in equity. The net effect of these adjustments will be recorded as an increase in the balance of opening retained earnings as of October 1, 2021.

Adoption of the ASU will result in the reduction of interest expense for the year ending September 30, 2022 and until the 3.25 Percent Convertible Notes are settled. The reduction in interest expense will increase both basic and diluted earnings per share. The required use of the if-converted method is not expected to have a significant impact on the calculation of common share equivalents included in the measure of our diluted earnings per share for the company's 3.25 Percent Convertible Notes. The adoption of the ASU will have no impact on the Consolidated Statement of Cash Flows.

## 3. ACQUISITIONS AND DIVESTITURE

### *Acquisition of TransPower Business*

On January 16, 2020, Meritor acquired 100 percent of the voting equity interest of Transportation Power, Inc. ("TransPower") for a cash purchase price of approximately \$15 million, subject to certain purchase price adjustments. Prior to

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the acquisition, the fair value of the company's investment in TransPower was \$ 12 million. The TransPower acquisition was accounted for as a business combination.

As of March 31, 2021, the company finalized all measurement period adjustments related to the TransPower acquisition. Since completion of initial estimates in the fourth quarter of fiscal year 2020, the company recorded a net \$2 million measurement period adjustment to decrease the fair value of identifiable net assets acquired in the TransPower transaction, resulting in a corresponding \$2 million increase to goodwill. These adjustments were made to reflect additional available information and updated valuation results, which included valuation of technology and customer relationships. All goodwill resulting from the acquisition of TransPower was assigned to the Commercial Truck reportable segment (see Note 6). Recorded goodwill consists largely of the synergies and economies of scale expected from combining the operations of the company and TransPower.

	Estimated Fair Value		
	As of September 30, 2020	Measurement Period Adjustments	As of September 30, 2021
Purchase price	\$ 15	\$ —	\$ 15
Investments in TransPower	12	—	12
	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ 27</u>
Assets acquired and liabilities assumed:			
Cash	2	—	2
Receivables, net	5	—	5
Inventories, net	8	—	8
PP&E	9	(5)	4
Identifiable intangible assets	11	1	12
Other assets	(1)	—	(1)
Accounts payable	(3)	—	(3)
Other current liabilities	(17)	2	(15)
Total identifiable net assets acquired	<u>14</u>	<u>(2)</u>	<u>12</u>
Goodwill and other intangible assets resulting from the acquisition of TransPower	13	2	15
	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ 27</u>

### Sale of Ownership Interest in Meritor WABCO JV

In the fourth quarter of fiscal year 2017, Meritor, Inc. closed on the sale of its interest in Meritor WABCO Vehicle Control Systems ("Meritor WABCO") to a subsidiary of its joint venture partner, WABCO Holdings Inc. ("WABCO"). The total purchase price for the sale was \$250 million.

The company remained the exclusive distributor of a certain range of WABCO's aftermarket products in the United States and Canada and the non-exclusive distributor of these products in Mexico for a period of up to 10 years following the completion of the transaction. The purchase agreement included a provision regarding certain future options of the parties to terminate the distribution arrangement at certain points during the first three and a half years after the closing at an exercise price of between \$225 million and \$265 million based on the earnings of the business. On September 13, 2019, the company gave notice of its intention to exercise its option to terminate the aftermarket distribution arrangement with WABCO. On March 13, 2020 the company closed on the transaction and received \$265 million, from WABCO in connection with the termination of the arrangement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### 4. LEASES

The company's lease portfolio is comprised of leases of real estate, including manufacturing and office facilities, and leases of personal property, including machinery and other equipment and IT equipment. Operating leases with an initial term of 12 months or less are not recorded in the Consolidated Balance Sheet and related lease expense is recognized on a straight-line basis over the lease term. Short-term lease costs and variable lease costs were insignificant in the twelve months ended September 30, 2021 and September 30, 2020.

For all asset classes, the company has elected to adopt the practical expedient under ASC 842 to not separate lease and non-lease components in contracts that contain both. These lease agreements are accounted for as a single lease component for all classes of underlying assets. The company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As the discount rate implicit in the lease is typically unknown, the discount rate used to determine the lease liability for the majority of our leases is the collateralized incremental borrowing rate in the applicable geographic area for a similar term and amount as the lease agreement.

*Components of lease expense (in millions)*

	September 30,	
	2021	2020
Finance lease costs	\$ 3	\$ 3
Operating lease costs	19	20
Total lease costs	<u>\$ 22</u>	<u>\$ 23</u>

The following table provides a summary of the location and amounts related to finance leases recognized in the Consolidated Balance Sheet (in millions).

	Classification	September 30,	
		2021	2020
Finance lease right-of-use assets	Net Property	\$ 9	\$ 5
Finance lease liabilities	Short-term debt	1	3
Finance lease liabilities	Long-term debt	9	3

The following table provides a summary of the location and amounts related to operating leases recognized in the Consolidated Balance Sheet (in millions).

	Classification	September 30,	
		2021	2020
Operating lease right-of-use assets	Other assets	\$ 62	\$ 70
Operating lease liabilities	Other current liabilities	13	15
Operating lease liabilities	Other liabilities	53	59

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables summarize additional information related to our lease agreements.

### *Supplemental cash flow information related to leases (in millions)*

	September 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used for operating leases	\$ 19	\$ 19
Operating cash flows used for finance leases	1	—
Financing cash flows used for finance leases	1	2
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	7	8
Finance leases	6	3

### *Supplemental balance sheet information related to leases*

	September 30,	
	2021	2020
Weighted-average remaining lease term (years):		
Operating leases	8.32	8.55
Finance leases	9.82	2.21
Weighted-average discount rate:		
Operating leases	4.6 %	4.5 %
Finance leases	10.1 %	5.0 %

### *Maturities (in millions)*

	Operating Leases	Finance Leases
2022	16	2
2023	14	1
2024	10	1
2025	8	1
Thereafter	35	13
Total lease payments	83	18
Less: Impact of discounting future lease payments	(17)	(8)
Present value of lease liabilities	\$ 66	\$ 10

## 5. REVENUE

Revenue is measured based on the consideration to which the company expects to be entitled, and is presented net of any estimates of customer sales allowances, incentives, rebates, and returns. The company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control of a product has transferred to a customer are accounted for as a fulfillment cost, as opposed to a distinct performance obligation, and are included in cost of sales.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### *Nature of goods and services*

The following is a description of principal activities - separated by reportable segments - from which the company generates its revenue.

The Commercial Truck 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.

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.

Although the company may enter into long-term supply arrangements with its major customers, the prices and volumes are not fixed over the term of the arrangements and a contract does not exist under the scope of Topic 606 until prices and volumes are known. As such, individual customer releases or purchase orders represent the contract with the customer.

The company accounts for individual products and services separately if they are distinct (i.e., if a product or service is separately identifiable from other items and if a customer can benefit from it on its own or with other resources that are readily available to the customer). The company has identified certain performance obligations related to brake pad fitting and axle dressing where it is acting as an agent and, therefore, recognizes revenue on a net basis for satisfaction of those performance obligations.

The company recognizes revenue for the sale of goods at the point in time when the customer takes control of the goods. As such, revenue is recognized upon shipment of product and transfer of ownership to the customer. The amount of revenue recognized is based on the purchase order price and adjusted for variable consideration (i.e., customer sales allowances, incentives, rebates, and returns). Provisions for customer sales allowances, incentives, rebates, and returns are recorded as a reduction of sales at the time of revenue recognition based primarily on historical experience. The company's payment terms with customers are customary and vary by customer and geography but typically range from 30 to 90 days.

The company provides warranties on some of its products. The company records estimated product warranty costs at the time of shipment of products to customers (see Note 13 and Note 14).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### Disaggregation of revenue

In the following tables, revenue is disaggregated for each of our reportable segments by primary geographical market for the year ended September 30, 2021 and 2020.

Primary Geographical Market	Year Ended September 30, 2021		
	Commercial Truck	Aftermarket & Industrial	Total
U.S.	\$ 1,342	\$ 715	\$ 2,057
Canada	—	55	55
Mexico	175	22	197
Total North America	1,517	792	2,309
Sweden	276	—	276
Italy	222	18	240
United Kingdom	142	11	153
Other Europe	9	142	151
Total Europe	649	171	820
Brazil	315	2	317
China	128	2	130
India	146	—	146
Other Asia-Pacific	111	—	111
Total sales	\$ 2,866	\$ 967	\$ 3,833

Primary Geographical Market	Year Ended September 30, 2020		
	Commercial Truck	Aftermarket & Industrial	Total
U.S.	\$ 1,052	\$ 731	\$ 1,783
Canada	—	54	54
Mexico	129	18	147
Total North America	1,181	803	1,984
Sweden	202	—	202
Italy	153	13	166
United Kingdom	105	9	114
Other Europe	5	134	139
Total Europe	465	156	621
Brazil	170	2	172
China	134	1	135
India	70	2	72
Other Asia-Pacific	60	—	60
Total sales	\$ 2,080	\$ 964	\$ 3,044

### Contract balances

As of September 30, 2021 and September 30, 2020, Trade receivables, net, which are included in Receivables, trade and other, net, on the Consolidated Balance Sheet, were \$471 million and \$421 million, respectively.

For the year ended September 30, 2021, the company had \$1 million of bad-debt expense and there were no material contract assets, contract liabilities or deferred contract costs recorded on the Consolidated Balance Sheet as of September 30, 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### *Contract costs*

The company applies the practical expedient provided in Topic 606 and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the company otherwise would have recognized is one year or less. The costs which are not capitalized are included in cost of sales.

## 6. GOODWILL

In accordance with ASC Topic 350-20, "Intangibles – Goodwill and Other", goodwill is reviewed for impairment annually during the fourth quarter of the fiscal year or more frequently if certain indicators arise. If business conditions or other factors cause the operating results and cash flows of a reporting unit to decline, the company may be required to record impairment charges for goodwill at that time. The company tests goodwill for impairment at a level of reporting referred to as a reporting unit, which is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. When two or more components of an operating segment have similar economic characteristics, the components are aggregated and deemed a single reporting unit. An operating segment is deemed to be a reporting unit if all of its components are similar, if none of its components are a reporting unit, or if the segment comprises only a single component.

### *Annual Impairment Analysis*

ASC Topic 350 allows entities to perform an initial qualitative evaluation to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the quantitative impairment test. As allowed by the revised guidance, the company has elected to bypass the qualitative assessment for fiscal year 2021 and proceed directly to the quantitative impairment test.

Excluding the qualitative evaluation discussed above, the quantitative goodwill impairment review is a comparison of the fair value of a reporting unit with its carrying amount. Estimates of fair value are primarily determined by using discounted cash flows and market multiples on earnings. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge based on that difference will be recorded. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment charge recorded. Discounted cash flow methods are dependent upon assumptions of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted.

For fiscal year 2021, the fair value of all of the company's reporting units exceeded their carrying values.

### *Realignment of Reporting Units*

The company realigned its operations in the second quarter of the fiscal year 2021, resulting in a change to its operating segments. The company's reportable segments remained unchanged. As a result of the change in operating segments, the company's goodwill reporting units changed. The Commercial Truck segment contains two reporting units. The Aftermarket & and Industrial segment contains three reporting units.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A summary of the changes in the carrying value of goodwill is presented below (in millions):

	Commercial Truck	Aftermarket & Industrial	Total
Goodwill	\$ 287	\$ 206	\$ 493
Accumulated impairment losses	—	(15)	(15)
Balance at September 30, 2019	287	191	478
AxleTech measurement period adjustment	—	5	5
Goodwill acquired from TransPower acquisition (see Note 3)	13	—	13
Foreign currency translation	4	1	5
Balance at September 30, 2020	304	197	501
TransPower measurement period adjustment (see Note 3)	2	—	2
Foreign currency translation	3	1	4
Balance at September 30, 2021	\$ 309	\$ 198	\$ 507

## 7. RESTRUCTURING COSTS

At September 30, 2021 and 2020, \$6 million and \$10 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the Consolidated Balance Sheet.

The following table summarizes changes in restructuring reserves (in millions):

	Employee Termination Benefits	Plant Shutdown & Other	Total
Balance at September 30, 2018	\$ 4	\$ —	\$ 4
Activity during the period:			
Charges	8	—	8
Cash payments	(5)	—	(5)
Other	1	—	1
Balance at September 30, 2019	8	—	8
Activity during the period:			
Charges	27	—	27
Cash payments	(25)	—	(25)
Balance at September 30, 2020	10	—	10
Activity during the period:			
Charges	8	5	13
Cash payments	(13)	—	(13)
Other	—	(4)	(4)
Total restructuring reserves, end of year	5	1	6
Less: non-current restructuring reserves	(1)	—	(1)
Restructuring reserves – current, at September 30, 2021	\$ 4	\$ 1	\$ 5

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Restructuring costs attributable to the company's business segments during fiscal years 2021, 2020 and 2019 are as follows (in millions):

	Commercial Truck	Aftermarket & Industrial	Total
<b>Fiscal year 2021</b>			
Footprint Actions	\$ —	\$ 10	\$ 10
Global Restructuring Program 2020	3	—	3
Total restructuring costs	\$ 3	\$ 10	\$ 13
<b>Fiscal year 2020:</b>			
Global Restructuring Program 2020	\$ 7	\$ 3	\$ 10
Global Restructuring Program 2019	11	2	13
AxleTech	—	2	2
Other	1	1	2
Total restructuring costs	\$ 19	\$ 8	\$ 27
<b>Fiscal year 2019:</b>			
Global Restructuring Program 2019	\$ 6	\$ 1	\$ 7
AxleTech	—	3	3
Other	(1)	(1)	(2)
Total restructuring costs	\$ 5	\$ 3	\$ 8

*Footprint Actions:* On November 11, 2020, the company approved a restructuring plan to close three U.S. manufacturing plants and one European administration office in its Aftermarket & Industrial segment and consolidate their operations into existing facilities. The site closures include:

- Chicago, Illinois
- Livermore, California
- Livonia, Michigan
- Zurich, Switzerland

The closures impact approximately 150 hourly and salaried workers. These restructuring plans are intended to optimize the company's manufacturing footprint, reduce costs and increase efficiencies. With this restructuring plan, the company expects to incur approximately \$14 million in restructuring charges in the Aftermarket & Industrial segment, consisting of impairment of long-lived assets of \$ 3 million, severance related costs of \$5 million and other associated costs of \$ 6 million. During the first twelve months of fiscal year 2021, the company incurred \$10 million in restructuring costs related to this plan. Restructuring actions associated with this plan are expected to be substantially complete by the end of the first quarter of fiscal year 2022.

*Global Restructuring Programs:* On June 2, 2020, the company approved and began executing a restructuring plan to reduce labor costs and align with current market forecasts. Under this program, the company expects to incur approximately \$13 million in employee severance costs in connection with approximately eight percent of its global salaried positions, and will eliminate certain hourly roles. During fiscal year 2020, the company incurred \$10 million in restructuring costs related to this program, of which \$ 7 million was in the Commercial Truck segment and \$3 million was in the Aftermarket & Industrial segment. During the first twelve months of fiscal year 2021, the company incurred \$3 million in restructuring costs related to this plan in the Commercial Truck segment. Restructuring actions associated with this plan are substantially complete.

On September 27, 2019, the company approved and began executing a restructuring plan to reduce salaried and hourly headcount globally. This restructuring plan was intended to reduce labor costs in response to an anticipated decline in most global truck and trailer market volumes. During the fourth quarter of fiscal year 2019, the company incurred \$6 million in restructuring costs in the Commercial Truck segment and \$1 million in the Aftermarket & Industrial segment. During fiscal

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

year 2020, the company incurred \$11 million in restructuring costs in the Commercial Truck segment and \$2 million in the Aftermarket & Industrial segment. Restructuring actions associated with this plan are complete.

**AxleTech:** On July 29, 2019, shortly after acquiring AxleTech, the company approved a restructuring plan related to the integration of the AxleTech business. This restructuring plan was intended to realize certain targeted synergies, primarily from the elimination of cost overlap. During the fourth quarter of fiscal year 2019, the company recorded \$3 million of severance related restructuring costs in the Aftermarket & Industrial segment. During fiscal year 2020, the company recorded \$2 million of severance related restructuring costs in the Aftermarket & Industrial segment. Restructuring associated with severance actions are complete.

### 8. ACCOUNTS RECEIVABLE FACTORING AND SECURITIZATION

The company has a U.S. accounts receivable securitization facility with PNC Bank and participates in various accounts receivable factoring programs, primarily with Nordea Bank for trade receivables from AB Volvo as follows (in millions):

	Current Expiration	Total Facility Size as of 9/30/21		Utilized as of 9/30/21		Utilized as of 9/30/20	
		EUR	USD	EUR	USD	EUR	USD
On-balance sheet arrangement:							
(1) Committed U.S. accounts receivable securitization	March 2024	N/A	\$ 110	N/A	\$ 3	N/A	\$ 3
Total on-balance sheet arrangement		N/A	\$ 110	N/A	\$ 3	N/A	\$ 3
Off-balance sheet arrangements:							
Committed Swedish factoring facility (2)(3)	March 2024	€ 155	\$ 179	€ 75	\$ 88	€ 86	\$ 100
Committed U.S. factoring facility (2)	February 2023	N/A	75	N/A	49	N/A	30
Uncommitted U.K. factoring facility	February 2022	25	29	2	2	1	1
Uncommitted Italy factoring facility	June 2022	30	35	14	17	8	9
Other uncommitted factoring facilities (4)	None	N/A	N/A	15	17	12	14
Total off-balance sheet arrangements		€ 210	\$ 318	€ 106	\$ 173	€ 107	\$ 154

(1) Availability subject to adequate eligible accounts receivable available for sale. The utilized amount includes \$3 million of letters of credit as of each of September 30, 2021 and September 30, 2020.

(2) Actual amounts may exceed the bank's commitment at the bank's discretion.

(3) The facility is backed by a 364-day liquidity commitment from Nordea Bank which extends through June 22, 2022.

(4) There is no explicit facility size under the factoring agreement, but the counterparty approves the purchase of receivable tranches at its discretion.

#### *On-balance sheet arrangement*

**U.S. Securitization Facility:** As of September 30, 2020, the U.S. accounts receivables securitization facility with PNC bank had a facility size of \$95 million. On March 31, 2021, the company increased the size of the facility to \$ 110 million. The maximum permitted priority debt-to-EBITDA ratio as of the last day of each fiscal quarter under the facility is 2.25 to 1.00. This program is provided by PNC Bank, National Association, as Administrator and Purchaser, and the other Purchasers and Purchaser Agents party to the agreement from time to time (participating lenders). Under this program, the company has the ability to sell an undivided percentage ownership interest in substantially all of its trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. accounts receivable factoring facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation ("ARC"), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for the company's U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the Consolidated Balance Sheet. As of September 30, 2021, there were no borrowings outstanding under this program, and \$3 million was outstanding under related letters of credit. As of September 30, 2020, there were no borrowings

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

outstanding under this program, and \$3 million was outstanding under related letters of credit. This securitization program contains a cross-default to the revolving credit facility. At certain times during any given month, the company may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, the company would then typically utilize the cash received from customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, the company may borrow under this program in amounts exceeding the amounts shown as outstanding at fiscal year ends.

### *Off-balance sheet arrangements*

Total costs associated with all of the off-balance sheet arrangements described above were \$ 4 million, \$4 million and \$6 million in fiscal years 2021, 2020 and 2019, respectively, and are included in selling, general and administrative expenses in the Consolidated Statement of Operations.

## 9. INVENTORIES

Inventories are stated at the lower of cost (using FIFO or average methods) or market (determined on the basis of estimated realizable values) and are summarized as follows (in millions):

	September 30,	
	2021	2020
Finished goods	\$ 137	\$ 119
Work in process	47	38
Raw materials, parts and supplies	417	278
Total	\$ 601	\$ 435

## 10. NET PROPERTY

Property is stated at cost. Depreciation of property is based on estimated useful lives, generally using the straight-line method. Estimated useful lives for buildings and improvements range from 10 to 50 years and estimated useful lives for machinery and equipment range from 3 to 25 years. Significant improvements are capitalized, and disposed or replaced property is written off. Maintenance and repairs are charged to expense in the period they are incurred. Company-owned tooling is classified as property and depreciated over the shorter of its expected life or the life of the production contract, generally not to exceed three years.

In accordance with the FASB guidance on property, plant and equipment, the company reviews the carrying value of long-lived assets, excluding goodwill, to be held and used, for impairment whenever events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Net property is summarized as follows (in millions):

	September 30,	
	2021	2020
Property at cost:		
Land and land improvements	\$ 41	\$ 32
Buildings	231	228
Machinery and equipment	1,051	1,002
Company-owned tooling	164	151
Construction in progress	63	63
Total	1,550	1,476
Less: Accumulated depreciation	(1,033)	(961)
Net property	\$ 517	\$ 515

### 11. OTHER ASSETS

Other assets are summarized as follows (in millions):

	September 30,	
	2021	2020
Prepaid pension costs (see Note 20)	\$ 191	\$ 179
Deferred income tax assets (see Note 21)	42	30
Investments in non-consolidated joint ventures (see Note 12)	132	107
Other	263	269
Other assets	\$ 628	\$ 585

The company holds a variable interest in a joint venture that is a variable interest entity ("VIE") accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture on a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At September 30, 2021 and September 30, 2020, the company's investment in the joint venture was \$69 million and \$65 million, respectively.

### 12. INVESTMENTS IN NON-CONSOLIDATED JOINT VENTURES

The company's non-consolidated joint ventures and related direct ownership interest are as follows:

	September 30,		
	2021	2020	2019
Master Sistemas Automotivos Ltda.	49 %	49 %	49 %
Sistemas Automotrices de Mexico S.A. de C.V.	50 %	50 %	50 %
Ege Fren Sanayii ve Ticaret A.S.	49 %	49 %	49 %
Automotive Axles Limited	36 %	36 %	36 %

The company's investments in non-consolidated joint ventures are \$132 million as of September 30, 2021 and \$107 million as of September 30, 2020. The company's equity in earnings of non-consolidated joint ventures are \$34 million and \$14 million for the fiscal years ended September 30, 2021 and September 30, 2020, respectively. The results of the company's non-consolidated joint ventures are included in the Commercial Truck reporting segment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The summarized financial information presented below represents the combined accounts of the company's non-consolidated joint ventures related to its continuing operations (in millions):

	September 30,	
	2021	2020
Current assets	\$ 456	\$ 308
Non-current assets	214	200
Total assets	<u>\$ 670</u>	<u>\$ 508</u>
Current liabilities	\$ 293	\$ 209
Non-current liabilities	112	87
Total liabilities	<u>\$ 405</u>	<u>\$ 296</u>

	Year Ended September 30,		
	2021	2020	2019
Sales	\$ 1,011	\$ 696	\$ 1,231
Gross profit	119	76	147
Net income	72	30	63

Dividends received from the company's non-consolidated joint ventures were \$ 7 million in fiscal year 2021, \$10 million in fiscal year 2020 and \$23 million in fiscal year 2019.

The company had sales to its non-consolidated joint ventures of approximately \$ 8 million, \$9 million and \$9 million in fiscal years 2021, 2020 and 2019, respectively. These sales exclude sales of \$133 million, \$92 million and \$193 million in fiscal years 2021, 2020 and 2019, respectively, to a joint venture in the company's Commercial Truck segment, which are eliminated as the company purchases these components back after value add provided by the joint venture. The company had purchases from its non-consolidated joint ventures of approximately \$744 million, \$509 million and \$940 million in fiscal years 2021, 2020 and 2019, respectively. Additionally, the company leases space and provides certain administrative and technical services to various non-consolidated joint ventures. The company collected \$9 million, \$14 million and \$12 million for such leases and services during fiscal years 2021, 2020 and 2019, respectively.

Amounts due from the company's non-consolidated joint ventures were \$ 24 million and \$23 million at September 30, 2021 and 2020, respectively, and are included in Receivables, trade and other, net in the Consolidated Balance Sheet. Amounts due to the company's non-consolidated joint ventures were \$97 million and \$56 million at September 30, 2021 and 2020, respectively, and are included in Accounts and notes payable in the Consolidated Balance Sheet.

The fair value of the company's investment in its Automotive Axles Limited joint venture was approximately \$ 90 million and \$54 million at September 30, 2021 and 2020, respectively, based on quoted market prices, as this joint venture is listed and publicly traded on the Bombay Stock Exchange in India.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### 13. OTHER CURRENT LIABILITIES

Other current liabilities are summarized as follows (in millions):

	September 30,	
	2021	2020
Compensation and benefits	\$ 125	\$ 91
Income taxes	17	6
Product warranties	15	19
Other	151	148
Other current liabilities	<u>\$ 308</u>	<u>\$ 264</u>

The company records estimated product warranty costs at the time of shipment of products to customers. Warranty reserves are primarily based on factors that include past claims experience, sales history, product manufacturing and engineering changes and industry developments. Liabilities for product recall campaigns are recorded at the time the company's obligation is probable and can be reasonably estimated. Policy repair actions to maintain customer relationships are recorded as other liabilities at the time an obligation is probable and can be reasonably estimated. Product warranties, including recall campaigns, not expected to be paid within one year are recorded as a non-current liability.

A summary of the changes in product warranties is as follows (in millions):

	September 30,		
	2021	2020	2019
Total product warranties – beginning of year	\$ 54	\$ 50	\$ 54
Accruals for product warranties	16	25	23
Payments	(17)	(19)	(20)
Change in estimates and other	(10)	(2)	(7)
Total product warranties – end of year	<u>43</u>	<u>54</u>	<u>50</u>
Less: non-current product warranties (see Note 14)	<u>(28)</u>	<u>(35)</u>	<u>(32)</u>
Product warranties – current	<u>\$ 15</u>	<u>\$ 19</u>	<u>\$ 18</u>

### 14. OTHER LIABILITIES

Other liabilities are summarized as follows (in millions):

	September 30,	
	2021	2020
Asbestos-related liabilities (see Note 22)	\$ 52	\$ 67
Liabilities for uncertain tax positions (see Note 21)	52	73
Product warranties (see Note 13)	28	35
Other	92	104
Other liabilities	<u>\$ 224</u>	<u>\$ 279</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### 15. LONG-TERM DEBT

Long-term debt, net of discounts where applicable, is summarized as follows (in millions):

	September 30,	
	2021	2020
3.25 percent convertible notes due 2037 <sup>(1)</sup>	\$ 321	\$ 320
7.875 percent convertible notes due 2026 <sup>(3)</sup>	—	23
4.50 percent notes due 2028 <sup>(2)</sup>	270	—
6.25 percent notes due 2025 <sup>(2)(4)</sup>	296	295
6.25 percent notes due 2024 <sup>(5)</sup>	—	446
Term loan due 2024	153	166
Finance lease obligation	10	6
Unamortized discount on convertible notes <sup>(6)</sup>	(23)	(29)
Subtotal	1,027	1,227
Less: current maturities	(19)	(39)
Long-term debt	\$ 1,008	\$ 1,188

<sup>(1)</sup> The 3.25 percent convertible notes due 2037 contain a put and call feature, which allows for early redemption beginning in 2025. The 3.25 percent convertible notes due 2037 are presented net of \$4 million and \$5 million unamortized issuance costs as of September 30, 2021 and September 30, 2020, respectively.

<sup>(2)</sup> The 4.50 percent notes due 2028 and 6.25 percent notes due 2025 contain a call option, which allows for early redemption by the company. The 4.50 percent notes due 2028 are presented net of \$5 million unamortized issuance costs as of September 30, 2021.

<sup>(3)</sup> The 7.875 percent convertible notes due 2026 are presented net of an insignificant amount of unamortized issuance costs and original issuance discount as of September 30, 2020.

<sup>(4)</sup> The 6.25 percent notes due 2025 are presented net of \$4 million and \$5 million unamortized issuance costs as of September 30, 2021 and September 30, 2020, respectively.

<sup>(5)</sup> The 6.25 percent notes due 2024 are presented net of \$4 million unamortized issuance costs as of September 30, 2020.

<sup>(6)</sup> The carrying amount of the equity component related to convertible debt.

#### Redemption of 7.875 Percent Convertible Notes

On October 16, 2020, the company announced that it had issued a notice of redemption for all of the outstanding \$ 23 million aggregate accreted principal amount of its 7.875 percent convertible notes due 2026 (the "7.875 Percent Convertible Notes"). As a result of the issuance of the notice of redemption, the 7.875 Percent Convertible Notes were convertible at any time prior to the close of business on November 30, 2020 at a rate of 83.3333 shares of common stock per \$1,000 original principal amount of the 7.875 Percent Convertible Notes. All remaining outstanding 7.875 Percent Convertible Notes were surrendered in November 2020 for conversion and were settled in cash up to the accreted principal amount of the 7.875 Percent Convertible Notes and also settled in cash for the remainder of the conversion obligation in excess of the accreted principal amount, in accordance with the provisions of the indenture that governed the 7.875 Percent Convertible Notes. The conversion of the 7.875 Percent Convertible Notes was settled for \$53 million, of which \$23 million represented principal repayment and \$30 million represented the payment of conversion in excess of the accreted principal. There was no loss on extinguishment. As of December 31, 2020, the 7.875 Percent Convertible Notes were fully redeemed. The 7.875 Percent Convertible Notes were classified as current as of September 30, 2020.

#### Redemption of 6.25 Percent Notes due 2024

On December 16, 2020, the company redeemed \$275 million of the outstanding \$450 million aggregate principal amount of its 6.25 percent notes due 2024 (the "6.25 Percent Notes due 2024") for an aggregate purchase price of \$287 million (including accrued interest of \$6 million). The redemption price was equal to 102.083% of the principal amount of the 6.25 Percent Notes due 2024 redeemed, plus accrued and unpaid interest thereon up to but excluding the redemption date of December 16, 2020.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

This redemption was accounted for as an extinguishment of debt, and accordingly the company recognized a loss on debt extinguishment of \$8 million. The loss on extinguishment is recorded in the Consolidated Statement of Operations within Interest expense, net.

On June 3, 2021, the company redeemed the remaining \$175 million principal amount of the 6.25 Percent Notes due 2024 for an aggregate purchase price of \$180 million (including accrued interest of \$3 million). The redemption price was equal to 101.042% of the principal amount of the 6.25 Percent Notes due 2024, plus accrued and unpaid interest thereon up to but excluding the redemption date of June 3, 2021. The redemption was accounted for as an extinguishment of debt, and accordingly the company recognized a loss on debt extinguishment of \$3 million. The loss on extinguishment is recorded in the Consolidated Statement of Operations within Interest expense, net.

### 4.50 Percent Notes due 2028

On December 1, 2020, the company completed the offering and sale of \$ 275 million aggregate principal amount of its 4.5 percent notes due 2028 (the "4.50 Percent Notes"), including related guarantees by the subsidiaries of the company who from time to time guarantee the company's senior secured revolving credit facility as it may be amended, extended, replaced or refinanced, or any subsequent credit facility, to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to non-U.S. persons in offshore transactions outside the United States in reliance on Regulation S under the Securities Act in a private placement exempt from the registration requirements of the Securities Act.

The net proceeds to the company from the sale of the 4.50 Percent Notes after deducting estimated offering expenses payable by the company were approximately \$270 million. The company used the net proceeds from the offering, together with cash on hand, to redeem \$275 million of the outstanding \$450 million aggregate principal amount of its 6.25 Percent Notes due 2024, as described above.

The 4.50 Percent Notes will mature on December 15, 2028 and bear interest at a fixed rate of 4.500% per annum. The company will pay interest on the 4.50 Percent Notes from December 1, 2020 semi-annually, in arrears, on June 15 and December 15 of each year, beginning June 15, 2021. The 4.50 Percent Notes constitute senior unsecured obligations of the company and rank equally in right of payment with its existing and future senior unsecured indebtedness, and effectively junior to its existing and future secured indebtedness to the extent of the security therefor.

The 4.50 Percent Notes provide that, prior to December 15, 2023, the company may redeem, at its option, from time to time, the 4.50 Percent Notes, in whole or in part, at a redemption price equal to the sum of (i) 100% of the principal amount of the 4.50 Percent Notes to be redeemed, plus (ii) the applicable premium as of the redemption date on the 4.50 Percent Notes to be redeemed, plus (iii) accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the redemption date) on the 4.50 Percent Notes to be redeemed.

The 4.50 Percent Notes provide that, on or after December 15, 2023, the company may redeem, at its option, from time to time, the 4.50 Percent Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount of the 4.50 Percent Notes to be redeemed) set forth below, plus accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the redemption date) on the 4.50 Percent Notes to be redeemed, if redeemed during the 12-month period beginning on December 15 of the years indicated below:

Year	Redemption Price
2023	102.250 %
2024	101.125 %
2025 and thereafter	100.000 %

The 4.50 Percent Notes also provide that, prior to December 15, 2023, the company may redeem, at its option, from time to time, up to 35% of the aggregate principal amount of the 4.50 Percent Notes with the net cash proceeds of one or more public sales of the company's common stock at a redemption price equal to 104.500% of the principal amount of the 4.50 Percent Notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the redemption date) on the 4.50 Percent Notes to be redeemed so long as at least 65% of the aggregate principal amount of the 4.50 Percent Notes remains outstanding after each such redemption and notice of any such redemption is mailed within 90 days of any such sale of common stock.

If a change of control (as defined in the ninth supplemental indenture under which the 4.50 Percent Notes were issued) occurs, unless the company has exercised its right to redeem the 4.50 Percent Notes, each holder of the 4.50 Percent Notes may require the company to repurchase some or all of such holder's 4.50 Percent Notes at a purchase price equal to 101% of the principal amount of the 4.50 Percent Notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the repurchase date (subject to the right of holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the repurchase date) on the 4.50 Percent Notes to be repurchased.

### 6.25 Percent Notes due 2025

On June 8, 2020, the company completed the offering and sale of \$ 300 million aggregate principal amount of its 6.25 percent notes due 2025 (the "6.25 Percent Notes due 2025") to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to non-U.S. persons in offshore transactions in reliance of Regulation S under the Securities Act in a private placement, exempt from the registration requirements of the Securities Act. The 6.25 Percent Notes due 2025 were issued pursuant to the company's indenture dated as of April 1, 1998, as supplemented. The net proceeds from the sale of the 6.25 Percent Notes due 2025 were \$295 million and were used to repay approximately \$295 million of the outstanding \$304 million balance under the company's senior secured revolving credit facility.

The 6.25 Percent Notes due 2025 will mature on June 1, 2025 and bear interest at a fixed rate of 6.25 percent per annum. The company will pay interest on the 6.25 Percent Notes due 2025 semi-annually, in arrears, on June 1 and December 1 of each year, beginning December 1, 2020. The 6.25 Percent Notes due 2025 will constitute senior unsecured obligations of the company and will rank equally in right of payment with its existing and future senior unsecured indebtedness, and effectively junior to its existing and future secured indebtedness to the extent of the security therefor.

The 6.25 Percent Notes due 2025 provide that, prior to June 1, 2022, the company may redeem, at its option, from time to time, the 6.25 Percent Notes due 2025, in whole or in part, at a redemption price equal to the sum of (i) 100 percent of the principal amount of the 6.25 Percent Notes due 2025 to be redeemed, plus (ii) the applicable premium as of the redemption date on the 6.25 Percent Notes due 2025 to be redeemed, plus (iii) accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the redemption date) on the 6.25 Percent Notes due 2025 to be redeemed. For purposes of such calculation, the "applicable premium" means, with respect to the 6.25 Percent Notes due 2025 at any redemption date, the greater of (i) 1.0 percent of the principal amount of such 6.25 Percent Notes due 2025 and (ii) the excess of (A) the present value at such redemption date of (1) 103.125 percent of the principal amount of such 6.25 Percent Notes due 2025 plus (2) all remaining required interest payments due on such 6.25 Percent Notes due 2025 through June 1, 2022 (excluding accrued and unpaid interest, if any, to the redemption date), computed using a discount rate equal to the treasury rate plus 50 basis points, over (B) 100 percent of the principal amount of such 6.25 Percent Notes due 2025.

The 6.25 Percent Notes due 2025 provide that, on or after June 1, 2022, the company may redeem, at its option, from time to time, the 6.25 Percent Notes due 2025, in whole or in part, at the redemption prices (expressed as percentages of the principal amount of the 6.25 Percent Notes due 2025 to be redeemed) set forth below, plus accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the redemption date) on the 6.25 Percent Notes due 2025 to be redeemed, if redeemed during the 12-month period beginning on June 1 of the years indicated below:

Year	Redemption Price
2022	103.125 %
2023	101.563 %
2024 and thereafter	100.000 %

The 6.25 Percent Notes due 2025 provide that, prior to June 1, 2022, the company may redeem, at its option, from time to time, up to 35 percent of the aggregate principal amount of the 6.25 Percent Notes due 2025 with the net cash proceeds of one

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

or more public sales of the company's common stock at a redemption price equal to 106.25 percent of the principal amount of the 6.25 Percent Notes due 2025 to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the redemption date) on the 6.25 Percent Notes due 2025 to be redeemed so long as at least 65 percent of the aggregate principal amount of the 6.25 Percent Notes due 2025 remains outstanding after each such redemption and notice of any such redemption is mailed within 90 days of any such sale of common stock.

If a Change of Control (as defined in the eighth supplemental indenture under which the 6.25 Percent Notes due 2025 were issued) occurs, unless the company has exercised its right to redeem the 6.25 Percent Notes due 2025, each holder of 6.25 Percent Notes due 2025 may require the company to repurchase some or all of such holder's 6.25 Percent Notes due 2025 at a purchase price equal to 101 percent of the principal amount of the 6.25 Percent Notes due 2025 to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the payment date (subject to the right of holders of record on the relevant regular record date to receive interest due on an interest payment date that is on or prior to the payment date) on the 6.25 Percent Notes due 2025 to be repurchased.

### *3.25 Percent Convertible Notes due 2037*

The 3.25 Percent Convertible Notes will mature on October 15, 2037, unless earlier redeemed, repurchased or converted, and bear interest at a fixed rate of 3.25% percent per annum. The company pays interest on the 3.25 Percent Notes due 2037 semi-annually, in arrears, on April 15 and October 15 of each year.

The 3.25 percent Convertible Notes are fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors. The 3.25 Percent Convertible Notes are the company's senior unsecured obligations and rank equally in right of payment with all of the company's existing and future senior unsecured indebtedness and effectively junior to any of the company's existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. The guarantee by each Guarantor ranks equally with existing and future senior unsecured indebtedness of such Guarantor and effectively junior to all of the existing and future secured indebtedness of such Guarantor, to the extent of the value of the assets securing such indebtedness.

The 3.25 Percent Convertible Notes will be convertible into cash up to the principal amount of the 3.25 Percent Convertible Notes surrendered for conversion and the company will pay or deliver, as the case may be, cash, shares of the company's common stock or a combination of cash and shares of the company's common stock, at the company's election, in respect of the remainder, if any, of the company's conversion obligation in excess of the principal amount of the notes being converted. The initial conversion rate, subject to adjustment, is 25.0474 shares of common stock per \$1,000 principal amount of the 3.25 Percent Convertible Notes (which represents an initial conversion price of \$39.92 per share). Holders may convert their notes, at their option, only under the following circumstances prior to the close of business on the business day immediately preceding July 15, 2037, other than during the period from and including July 15, 2025 to the close of business on the business day immediately preceding October 15, 2025:

- During any calendar quarter after the calendar quarter ending on December 31, 2017, if the closing sale price of the company's common stock for 20 or more trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on and including the last trading day of the immediately preceding calendar quarter equals or exceeds 130 percent of the applicable conversion price on each applicable trading day;
- During the five business day period after any five consecutive trading day period in which the trading price per \$ 1,000 principal amount of the 3.25 Percent Convertible Notes for each trading day during such five consecutive trading day period was less than 98 percent of the product of the closing price of the company's common stock and the conversion rate on each such trading day;
- If the company calls any of the 3.25 Percent Convertible Notes for redemption, at any time from the delivery of the redemption notice through the close of business on the scheduled trading day immediately preceding the redemption date; or
- Upon the occurrence of specified corporate transactions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

During the period from and including July 15, 2025 to the close of business on the business day immediately preceding October 15, 2025, and on or after July 15, 2037 until the close of business on the business day immediately preceding the maturity date, holders may convert 3.25 Percent Convertible Notes at any time, regardless of the foregoing circumstances.

On or after October 15, 2025, but prior to July 15, 2037, the company may redeem the 3.25 Percent Convertible Notes at the company's option, in whole or in part, at a redemption price in cash equal to 100 percent of the principal amount of the 3.25 Percent Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Further, holders may require the company to purchase all or a portion of their 3.25 Percent Convertible Notes at a purchase price in cash equal to 100 percent of the principal amount of the 3.25 Percent Convertible Notes to be purchased, plus accrued and unpaid interest to, but excluding, the repurchase date, on October 15, 2025 or upon certain fundamental changes. The maximum number of shares of common stock into which the 3.25 Percent Convertible Notes are convertible is approximately 8 million shares.

The following table summarizes the principal amounts and related unamortized discount on all convertible notes (in millions):

	September 30,	
	2021	2020
Principal amount of convertible notes	\$ 325	\$ 348
Unamortized discount on convertible notes and issuance costs	(27)	(34)
Net carrying value	\$ 298	\$ 314

The following table summarizes other information related to the convertible notes:

	Convertible Notes
	3.25%
Total amortization period for debt discount (in years):	8
Remaining amortization period for debt discount (in years):	4
Effective interest rates on convertible notes:	5.6 %

The following table summarizes interest costs recognized on convertible notes (in millions):

	Year Ended September 30,		
	2021	2020	2019
Contractual interest coupon	\$ 16	\$ 17	\$ 17
Amortization of debt discount	1	2	2
Repurchase of convertible notes	11	—	—
Total	\$ 28	\$ 19	\$ 19

### Senior Secured Revolving Credit Facility

On November 9, 2020, the senior secured revolving credit facility was increased by \$ 60 million to \$685 million through the addition of a new lender.

The availability under the senior secured revolving credit facility is subject to a financial covenant based on the ratio of the company's priority debt (consisting principally of amounts outstanding under the revolving credit facility, the U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA. The company is required to maintain a total priority-debt-to-EBITDA ratio, as defined in the revolving credit agreement, of 2.25 to 1.00 or less as of the last day of each fiscal quarter throughout the term of the agreement. Availability under the senior secured revolving credit facility was constrained to \$601 million on the last day of the fourth quarter of fiscal year 2021 due primarily to lower EBITDA in the first quarter of fiscal year 2021, which was impacted by the COVID-19 pandemic. The company has full availability until the next measurement point at the end of the first quarter of fiscal year 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Borrowings under the senior secured revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin and a commitment fee on undrawn amounts, both of which are based upon the company's current corporate credit rating. At September 30, 2021, the margin over LIBOR rate was 200 basis points, and the commitment fee was 30 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 100 basis points.

Certain of the company's 100% owned subsidiaries, as defined in the revolving credit agreement (collectively, the "Guarantors") irrevocably and unconditionally guarantee amounts outstanding under the senior secured revolving credit facility on a joint and several basis. Similar subsidiary guarantees are provided for the benefit of the holders of the notes outstanding under the company's indentures. The notes are guaranteed on a senior unsecured basis by each of the company's subsidiaries from time to time guaranteeing its senior secured revolving credit facility, as it may be amended, extended, replaced or refinanced, or any subsequent credit facility. The guarantees remain in effect until the earlier to occur of payment in full of the notes or termination or release of the applicable corresponding guarantee under the company's senior secured revolving credit facility, as it may be amended, extended, replaced or refinanced, or any subsequent credit facility. The guarantees rank equally with existing and future senior unsecured indebtedness of the Guarantors and are effectively subordinated to all of the existing and future secured indebtedness of the Guarantors, to the extent of the value of the assets securing such indebtedness.

No borrowings were outstanding under the senior secured revolving credit facility at September 30, 2021 and September 30, 2020. The amended and extended senior secured revolving credit facility includes \$100 million of availability for the issuance of letters of credit. At September 30, 2021 and September 30, 2020, there were no letters of credit outstanding under the senior secured revolving credit facility.

### *Debt Securities*

In November 2020, the company filed a shelf registration statement with the SEC registering an indeterminate amount of debt and/or equity securities that the company may offer in one or more offerings on terms to be determined at the time of sale. The November 2020 shelf registration statement superseded and replaced the company's shelf registration statement filed in December 2017.

### *Debt Maturities*

As of September 30, 2021, the company is contractually obligated to make payments as follows (in millions):

	Total	2022	2023	2024	2025 <sup>(2)</sup>	2026	Thereafter <sup>(3)(4)</sup>
Total debt <sup>(1)</sup>	\$ 1,053	\$ 18	\$ 13	\$ 122	\$ 300	\$ —	\$ 600

<sup>(1)</sup> Total debt excludes unamortized discount on convertible notes of \$23 million and unamortized issuance costs of \$13 million.

<sup>(2)</sup> Includes the 6.25 Percent Notes due 2025, which contain a call feature that allows for early redemption.

<sup>(3)</sup> Includes the 3.25 Percent Convertible Notes due 2037, which contain a put and call feature that allows for early redemption beginning in 2025.

<sup>(4)</sup> Includes the 4.50 Percent Notes due 2028, which contain a call feature that allows for early redemption.

### *Letter of Credit Facilities*

The company had \$14 million and \$11 million of letters of credit outstanding through letter of credit facilities as of September 30, 2021 and 2020, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### *Other*

One of the company's consolidated joint ventures in China participates in a bills of exchange program to settle its obligations with its trade suppliers. These programs are common in China and generally require the participation of local banks. Under these programs, the company's joint venture issues notes payable through the participating banks to its trade suppliers. If the issued notes payable remain unpaid on their respective due dates, this could constitute an event of default under the company's revolving credit facility if the unpaid amount exceeds \$35 million per bank. As of September 30, 2021 and 2020, the company had \$25 million and \$16 million, respectively, outstanding under this program at more than one bank.

## 16. FINANCIAL INSTRUMENTS

The company's financial instruments include cash and cash equivalents, short-term debt, long-term debt, and foreign exchange forward and options contracts. The company uses derivatives for hedging and non-trading purposes in order to manage its foreign exchange rate exposures.

### *Foreign Exchange Contracts*

As a result of the company's substantial international operations, it is exposed to foreign currency risks that arise from normal business operations, including in connection with transactions that are denominated in foreign currencies. In addition, the company translates sales and financial results denominated in foreign currencies into U.S. dollars for purposes of its Consolidated Financial Statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on 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.

The company has a foreign currency cash flow hedging program to reduce the company's exposure to changes in exchange rates on foreign currency purchases and sales. The company uses foreign currency forward contracts to manage the company's exposures arising from foreign currency exchange risk. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts. Under this foreign currency cash flow hedging program, the company has designated the foreign exchange contracts as cash flow hedges of underlying forecasted foreign currency purchases and sales. Changes in the fair value of these contracts are recorded in accumulated other comprehensive income (AOCI) in the Consolidated Balance Sheet and are recognized in operating income when the underlying forecasted transaction impacts earnings. The terms of these contracts generally require the company to place cash on deposit as collateral if the fair value of these contracts represents a liability for the company and exceeds the collateral threshold. The fair values of the foreign exchange derivative instruments and any related collateral cash deposits are presented on a net basis as the derivative contracts are subject to master netting arrangements.

At September 30, 2021, 2020 and 2019, the notional amount of the company's foreign exchange contracts outstanding under its foreign currency cash flow hedging program was \$107 million, \$65 million, and \$110 million, respectively. The company classifies the cash flows associated with these contracts in cash flows from operating activities in the Consolidated Statement of Cash Flows. This is consistent with the classification of the cash flows associated with the underlying hedged item.

From time to time the company hedges against foreign currency exposure related to translations to U.S. dollars of financial results denominated in foreign currencies. Changes in fair value associated with these contracts are recorded in other income (expense), net, in the Consolidated Statement of Operations. The company also uses option contracts to mitigate foreign currency exposure on expected future foreign currency-denominated purchases. Changes in fair value associated with these contracts are recorded in cost of sales in the Consolidated Statement of Operations.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the impact of the company's derivatives instruments on comprehensive income for fiscal years ended September 30 (in millions):

	Location of Gain (Loss)	2021	2020	2019
Derivatives designated as hedging instruments:				
Amount of gain recognized in AOCI	AOCI	\$ 3	\$ 4	\$ 1
Amount of gain (loss) reclassified from AOCI into income	Cost of Sales	1	(1)	
Derivatives not designated as hedging instruments:				
Amount of gain recognized in income	Other Income (expense)	(1)	1	

### Fair Value

Fair values of financial instruments are summarized as follows (in millions):

	September 30, 2021		September 30, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 101	\$ 101	\$ 315	\$ 315
Short-term debt	19	19	39	58
Long-term debt	1,008	1,082	1,188	1,259
Foreign currency option contracts (other assets)	—	—	1	1
Foreign exchange forward contracts (other assets)	1	1	—	—
Foreign exchange forward contracts (other liabilities)	—	—	1	1

**Cash and cash equivalents** — All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. The carrying value approximates fair value because of the short maturity of these instruments.

**Short- and long-term debt** — Fair values are based on transaction prices at public exchange for publicly traded debt. For debt instruments that are not publicly traded, fair values are based on interest rates that would be currently available to the company for issuance of similar types of debt instruments with similar terms and remaining maturities.

**Foreign exchange forward contracts** — The company uses foreign exchange forward purchase and sale contracts with varying terms that extend through fiscal year 2025 to hedge its exposure to changes in foreign currency exchange rates. As of September 30, 2021 and September 30, 2020, the notional amount of the company's foreign exchange contracts outstanding under its foreign currency cash flow hedging program was \$107 million and \$65 million, respectively. The fair value of foreign exchange forward contracts is based on a model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. For derivative instruments that are designated and qualify as cash flow hedges, changes in the fair value of the contracts are recorded in AOCI in the Consolidated Statement of Equity and is recognized in operating income when the underlying forecasted transaction impacts earnings.

**Foreign currency option contracts** — The company uses option contracts to mitigate foreign exchange exposure on expected future foreign currency-denominated purchases. As of September 30, 2021 and September 30, 2020, the notional amount of the foreign exchange option contracts outstanding was \$49 million and \$39 million, respectively. The company did not elect hedge accounting for these derivatives. Changes in fair value associated with these contracts are recorded in cost of sales in the Consolidated Statement of Operations.

The company uses option contracts to mitigate the risk of volatility in the translation of foreign currency earnings to U.S. dollars. As of September 30, 2021, the company had no option contracts outstanding. As of September 30, 2020, the notional amount of the company's option contracts outstanding was \$24 million. These option contracts did not qualify for a hedge accounting election. Changes in fair value associated with these contracts are recorded in the Consolidated Statement of Operations in other income, net.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of foreign exchange option contracts is based on third-party proprietary models, which incorporate inputs at varying unobservable weights of quoted spot rates, market volatility, forward rates and time utilizing market instruments with similar quality and maturity characteristics.

The following table reflects the offsetting of derivative assets and liabilities (in millions):

	September 30, 2021			September 30, 2020		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported
<b>Derivative Asset</b>						
Foreign currency option contract	—	—	—	1	—	1
Foreign exchange forward contracts	1	—	1	—	—	—
<b>Derivative Liabilities</b>						
Foreign exchange forward contract	—	—	—	1	—	1

### Fair Value

The current FASB guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical instruments (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 inputs use quoted prices in active markets for identical instruments.
- Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar instruments in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related instrument.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest priority level input that is significant to the valuation. The company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Fair value of financial instruments by the valuation hierarchy at September 30, 2021 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 101	\$ —	\$ —
Short-term debt	—	—	19
Long-term debt	—	937	145
Foreign exchange forward contracts (asset)	—	1	—

Fair value of financial instruments by the valuation hierarchy at September 30, 2020 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 315	\$ —	\$ —
Short-term debt	—	43	15
Long-term debt	—	1,103	156
Foreign exchange forward contracts (liability)	—	1	—
Foreign currency option contracts (other assets)	—	1	—

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### 17. SHAREHOLDERS' EQUITY

There were no dividends declared or paid by the company in fiscal years 2021, 2020 or 2019. The payment of cash dividends and the amount of any dividend are subject to review and change at the discretion of the company's Board of Directors.

The company is authorized to issue 500 million shares of common stock, with a par value of \$ 1 per share, and 30 million shares of preferred stock, without par value ("Preferred Stock"), of which 2 million shares are designated as Series A Junior Participating Preferred Stock ("Junior Preferred Stock"). No shares of Preferred Stock or Junior Preferred Stock have been issued.

In November 2020, the company filed a shelf registration statement with the SEC, registering an indeterminate amount of debt and/or equity securities that may be offered in one or more offerings on terms to be determined at the time of sale.

The company has reserved approximately 4 million shares of common stock in connection with its 2020 Long-Term Incentive Plan ("LTIP") for grants of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, restricted share units and stock awards to key employees and directors. At September 30, 2021, there were 3.5 million shares available for future grants under the LTIP.

#### *Repurchase Authorizations*

On July 28, 2021, the Board of Directors authorized the repurchase of up to \$ 250 million of the company's common stock. Repurchases can be made from time to time through open market purchases, privately negotiated transactions or otherwise, subject to compliance with legal and regulatory requirements and the company's debt covenants. As of September 30, 2021, the amount remaining available for repurchases was \$250 million under this common stock repurchase authorization.

On July 26, 2019, the Board of Directors authorized the repurchase of up to \$ 250 million of the company's common stock from time to time through open market purchases, privately negotiated transactions or otherwise, subject to compliance with legal and regulatory requirements and the company's debt covenants. This authorization superseded the remaining authority under the prior November 2018 equity repurchase authorization described below. On November 7, 2019, the Board of Directors increased the amount of the repurchase authorization to \$325 million. As of the end of fiscal year 2020, the company had repurchased 11.8 million shares of common stock for \$266 million (including commission costs) pursuant to this authorization. During fiscal year 2021, the company repurchased 2.5 million shares of common stock for \$59 million (including commission costs) pursuant to this authorization. No amounts remained outstanding under this common stock authorization as of September 30, 2021.

On November 2, 2018, the Board of Directors authorized the repurchase of up to \$ 200 million of the company's common stock and up to \$100 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, subject to compliance with legal and regulatory requirements and the company's debt covenants. During fiscal year 2019, the company repurchased 4.0 million shares of common stock for \$71 million (including commission costs) pursuant to the common stock repurchase authorization. As of September 30, 2021, the amount remaining available for debt repurchases was \$76 million under the debt repurchase authorization.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### Accumulated Other Comprehensive Income (AOCI)

The components of AOCI as reported in the Consolidated Balance Sheet and Statement of Equity, and the changes in AOCI by components, net of tax, are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Income (Loss) on cash flow hedges	Total
Balance at September 30, 2020	\$ (129)	\$ (483)	\$ (2)	\$ (614)
Other comprehensive income (loss) before reclassification	24	(52)	2	(26)
Amounts reclassified from accumulated other comprehensive loss	—	9	(1)	8
Net current-period other comprehensive income (loss)	\$ 24	\$ (43)	\$ 1	\$ (18)
Balance at September 30, 2021	\$ (105)	\$ (526)	\$ (1)	\$ (632)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Amortization of prior service benefit	\$ (35) <sup>(a)</sup>	
Amortization of actuarial losses	45 <sup>(a)</sup>	
	10	Total before tax
	(1)	Tax benefit
Total reclassifications for the period	\$ 9	Net of tax

<sup>(a)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Notes 19 and 20 for additional details), which is recorded in other income (expense), net.

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Income (Loss) on cash flow hedges	Total
Balance at September 30, 2019	\$ (107)	\$ (572)	\$ (2)	\$ (681)
Other comprehensive income (loss) before reclassification	(22)	79	(1)	56
Amounts reclassified from accumulated other comprehensive loss	—	10	1	11
Net current-period other comprehensive income (loss)	\$ (22)	\$ 89	\$ —	\$ 67
Balance at September 30, 2020	\$ (129)	\$ (483)	\$ (2)	\$ (614)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Amortization of prior service benefit	\$ (36) <sup>(a)</sup>	
Amortization of actuarial losses	47 <sup>(a)</sup>	
	11	Total before tax
	(1)	Tax benefit
Total reclassifications for the period	\$ 10	Net of tax

<sup>(a)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Notes 19 and 20 for additional details), which is recorded in other income (expense), net.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Income (Loss) on cash flow hedges	Total
Balance at September 30, 2018	\$ (90)	\$ (476)	\$ —	\$ (566)
Other comprehensive income (loss) before reclassification	(17)	(100)	2	(115)
Amounts reclassified from accumulated other comprehensive loss	—	4	(4)	—
Net current-period other comprehensive loss	\$ (17)	\$ (96)	\$ (2)	\$ (115)
Balance at September 30, 2019	\$ (107)	\$ (572)	\$ (2)	\$ (681)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Amortization of prior service benefit	\$ (35) <sup>(a)</sup>	
Amortization of actuarial losses	39 <sup>(a)</sup>	
	4	Total before tax
	—	Tax benefit
Total reclassifications for the period	\$ 4	Net of tax

<sup>(a)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Notes 19 and 20 for additional details), which is recorded in other income (expense), net.

## 18. EQUITY BASED COMPENSATION

### Restricted Stock and Restricted Share Units

The company has granted shares of restricted stock and restricted share units to certain employees and non-employee members of the Board of Directors in accordance with its existing plans. The company measures the grant date fair value of these stock-based awards at the market price of the company's common stock as of the date of the grant. Employee awards typically vest at the end of three years and are subject to continued employment by the employee. Compensation cost associated with stock-based awards is recognized ratably over the vesting period. Cash dividends on the restricted stock, if any, are reinvested in additional shares of common stock during the vesting period.

The following is a rollforward of the company's non-vested restricted stock and restricted share units as of September 30, 2021, and the activity during fiscal year 2021 is summarized as follows (shares in thousands):

	Number of Shares	Weighted-Average Grant-Date Fair Value
Balance at September 30, 2020	1,175	\$ 21.7
Granted	522	26.6
Vested	(288)	24.9
Forfeited	(79)	22.8
Balance at September 30, 2021	1,330	22.9

In fiscal years 2021, 2020 and 2019, the company granted 0.5 million, 0.6 million, and 0.5 million shares of restricted stock and restricted share units, respectively. The grant date weighted average fair value of these shares of restricted stock and restricted share units was \$26.64, \$23.77 and \$17.24 for shares of restricted stock and restricted share units granted in fiscal years 2021, 2020 and 2019, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As of September 30, 2021, there was \$12 million of total unrecognized compensation costs related to non-vested shares of restricted stock and restricted share units. These costs are expected to be recognized over a weighted average period of 1.97 years. Total compensation expense recognized for restricted stock and restricted share units was \$9 million in fiscal year 2021 and \$8 million in each of fiscal years 2020 and 2019.

### Performance Share Units

The company has granted performance share units to all executives eligible to participate in the LTIP. The company measures the grant date fair value of these units-based awards at the market price of the company's common stock as of the date of the grant. Compensation cost associated with these stock-based awards is recognized ratably over the vesting period.

Refer to Note 2 for descriptions of the performance share unit awards.

The following is a rollforward of the company's non-vested performance share units as of September 30, 2021, and the activity during fiscal year 2021 is summarized as follows (shares in thousands):

	Number of Shares	Weighted-Average Grant-Date Fair Value <sup>(1)</sup>
Balance at September 30, 2020	1,036	\$ 25.6
Granted	457	26.9
Vested	—	—
Forfeited	(325)	25.0
Balance at September 30, 2021	1,168	26.3

<sup>(1)</sup> The 1,036 beginning outstanding performance share units weighted-average grant-date fair value amount was reported as \$21.52 ending outstanding performance share units weighted-average grant-date fair value in the fiscal year 2020 Form 10-K. Due to the modification as described in Note 2, the value of the weighted-average grant-date fair value was increased to \$25.64.

There were 0.5 million performance share units granted during fiscal 2021. The grant date weighted average fair value of these performance share units was \$26.90.

For the years ended September 30, 2021 and 2019, compensation costs recognized for the performance share units were \$ 11 million and \$10 million, respectively. For the year ended September 30, 2020, compensation costs recognized for the performance share units was \$1 million of income due to decreased performance payouts. As of September 30, 2021, there were \$ 12 million of total unrecognized compensation costs related to non-vested performance share unit equity compensation arrangements. These costs are expected to be recognized over a weighted average period of 1.90 years.

## 19. RETIREMENT MEDICAL PLANS

The company has retirement medical plans that cover certain of its U.S. and non-U.S. employees, including certain employees of divested businesses, and provide for medical payments to eligible employees and dependents upon retirement. These plans are unfunded.

On September 17, 2020, the company notified certain medical plan participants that it would further amend the benefits provided to these former union employee retirees. Under these modifications, which may be amended at the company's discretion at any time, the company reduced the defined contribution to \$500 per year until 2024. These benefit modifications generated a \$ 7 million prior service credit in September 2020, which will be amortized over the retirees' average life expectancy, which is currently estimated to be 9 years.

On September 23, 2019, the company notified certain medical plan participants that it would amend the benefits provided to these former union employee retirees. Under these modifications, which may be amended at the company's discretion at any time, the company reduced the defined contribution to \$3,000 in 2020, decreasing by \$600 each year thereafter until 2024. These benefit modifications generated a \$15 million prior service credit in September 2019, which will be amortized over the retirees' average life expectancy, which is currently estimated to be 9 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

On September 8, 2017, the company determined to modify the benefits provided to certain former union employee retirees. Under these modifications, which may be amended at the company's discretion at any time, the company expected to provide (i) each retiree over the age of 65 with a defined contribution of \$4,000 annually and (ii) each retiree under the age of 65 with a level of benefits generally equivalent to those currently provided to the company's active employees, in each case and as currently contemplated, for a period of seven years. These benefit modifications generated a \$315 million prior service credit in September 2017, which will be amortized over the retirees' average life expectancy, which is currently estimated to be 9 years.

The mortality assumptions for participants in the company's U.S. plans incorporates future mortality improvements from tables published by the Society of Actuaries ("SOA"). The company reviewed the new SOA mortality and mortality improvement tables and utilized an actuary to conduct a study based on the company's plan participants. The company determined that the best representation of the plans' mortality is to utilize the new SOA mortality and mortality improvement tables as the reference table for credibility-weighted mortality rates, blended with company-specific mortality based on the study conducted by the actuary. The company considers improvement scales released annually by the SOA.

The company's retiree medical obligations were measured as of September 30, 2021, 2020 and 2019. The following are the assumptions used in the measurement of the accumulated postretirement benefit obligation ("APBO") and retiree medical expense:

	2021	2020	2019
Discount rate	2.95 %	2.56 %	2.98 %
Health care cost trend rate	5.84 %	6.07 %	6.36 %
Ultimate health care trend rate	4.68 %	4.67 %	4.69 %
Year ultimate rate is reached	2028	2028	2028

The assumptions noted above are used to calculate the APBO for each fiscal year end and retiree medical expense for the subsequent fiscal year.

The discount rate is used to calculate the present value of the APBO. This rate is determined based on high-quality fixed income investments that match the duration of expected retiree medical benefits. The company has used the corporate AA/Aa bond rate for this assumption. The health care cost trend rate represents the company's expected annual rates of change in the cost of health care benefits. The company's projection for fiscal year 2022 health care cost trend rate is 5.84 percent.

The APBO is summarized as follows (in millions):

	September 30,	
	2021	2020
Retirees	\$ 42	\$ 52
Employees eligible to retire	—	—
Total	\$ 42	\$ 52

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following reconciles the change in APBO and the amounts included in the Consolidated Balance Sheet for years ended September 30, 2021 and 2020, respectively (in millions):

	September 30,	
	2021	2020
APBO — beginning of year	\$ 52	\$ 67
Interest cost	1	2
Actuarial loss (gain)	(7)	—
Plan amendment	—	(7)
Foreign currency rate changes	1	—
Benefit payments <sup>(1)</sup>	(5)	(10)
APBO — end of year	42	52
Other	—	—
Retiree medical liability	\$ 42	\$ 52

<sup>(1)</sup> Net of subsidies and rebates available under Employer Group Waiver Plan ("EGWP").

Actuarial loss (gain) relates to changes in the discount rate and other actuarial assumptions. In accordance with ASC Topic 715, "Compensation – Retirement Benefits", a portion of the actuarial losses is not subject to amortization. The actuarial losses that are subject to amortization are generally amortized over the average lifetime of inactive participants of approximately 9 years.

The retiree medical liability is included in the Consolidated Balance Sheet as follows (in millions):

	September 30,	
	2021	2020
Current — included in compensation and benefits	\$ 5	\$ 6
Long-term — included in retirement benefits	37	46
Retiree medical liability	\$ 42	\$ 52



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the amounts included in AOCL net of tax related to retiree medical liabilities as of September 30, 2021 and 2020 and changes recognized in Other Comprehensive Income (Loss) net of tax for the years ended September 30, 2021 and 2020.

	Net Actuarial Loss	Prior Service Cost (Benefit)	Total
Balance at September 30, 2020	\$ 64	\$ (139)	\$ (75)
Net actuarial loss for the year	(7)	—	(7)
Recognized prior service costs due to plan amendment	—	—	—
Amortization for the year	(13)	35	22
Deferred tax impact	5	(7)	(2)
Balance at September 30, 2021	\$ 49	\$ (111)	\$ (62)
Balance at September 30, 2019	\$ 70	\$ (165)	\$ (95)
Net actuarial loss for the year	—	—	—
Recognized prior service costs due to plan amendment	—	(7)	(7)
Amortization for the year	(14)	36	22
Deferred tax impact	8	(3)	5
Balance at September 30, 2020	\$ 64	\$ (139)	\$ (75)

The net actuarial loss and prior service benefit that are estimated to be amortized from AOCL into net periodic retiree medical income in fiscal year 2022 are \$(11) million and \$34 million, respectively.

The components of retiree medical expense for the years ended September 30 are as follows (in millions):

	2021	2020	2019
Service cost	\$ —	\$ —	\$ —
Interest cost	1	2	3
Amortization of:			
Prior service benefit	(35)	(36)	(35)
Actuarial losses	13	14	15
Retiree medical income	\$ (21)	\$ (20)	\$ (17)

A one-percentage point change in the assumed health care cost trend rate for all years to, and including, the ultimate rate would have the following effects (in millions):

	2021	2020
Effect on total service and interest cost		
1% Increase	\$ —	\$ —
1% Decrease	—	—
Effect on APBO		
1% Increase	4	6
1% Decrease	(4)	(5)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The company expects future benefit payments as follows (in millions):

	Gross Benefit Payments	Gross Receipts <sup>(1)</sup>
Fiscal 2022	\$ 5	\$ —
Fiscal 2023	5	—
Fiscal 2024	4	—
Fiscal 2025	3	—
Fiscal 2026	3	—
Fiscal 2027 – 2030	11	1

<sup>(1)</sup> Consists of subsidies and rebates available under EGWP.

### 20. RETIREMENT PENSION PLANS

The company sponsors defined benefit pension plans that cover certain of its U.S. and non-U.S. employees. Pension benefits for salaried employees are based on years of credited service and compensation. Pension benefits for hourly employees are based on years of service and specified benefit amounts. The company's funding policy provides that annual contributions to the pension trusts will be at least equal to the minimum amounts required by ERISA in the U.S. and the actuarial recommendations or statutory requirements in other countries.

The mortality assumptions for participants in the company's U.S. plans incorporates future mortality improvements from tables published by the SOA. The company reviewed the new SOA mortality and mortality improvement tables and utilized an actuary to conduct a study based on the company's plan participants. The company determined that the best representation of the plans' mortality is to utilize the new SOA mortality and mortality improvement tables as the reference table for credibility-weighted mortality rates, blended with company specific mortality based on the study conducted by the actuary.

The company's defined benefit pension plan in the United Kingdom was amended to cease the accrual of future benefits for all of its active plan participants. Subsequent to the freeze date, the company began making contributions to its defined contribution savings plan on behalf of the affected employees. The amount of the savings plan contribution is based on a percentage of the employees' pay. These changes did not affect then-current retirees. Subsequent to the plan freeze, accumulated actuarial losses are being amortized into net periodic pension expense over the average life expectancy of inactive plan participants of approximately 25 years rather than over their remaining average service.

The company's defined benefit pension plan for salaried and non-represented employees in the United States is frozen. After the plan was frozen, the company started making additional contributions to its defined contribution savings plan on behalf of the affected employees. These additional contributions have been suspended since May 2020 and are anticipated to be suspended for the foreseeable future. The amount of the savings plan contribution is based on a percentage of the employees' pay, with the contribution percentage increasing as a function of employees' age. These changes do not affect plan participants who had retired prior to the freeze dates or represented employees. Accumulated actuarial losses are being amortized into net periodic pension expense over the average life expectancy of inactive plan participants of approximately 15 years.

The company's U.S. Retirement Plan includes an additional distribution option in the form of a lump sum benefit from the plan. The majority of plan members are eligible for this distribution option following termination or when making their retirement payment election. The lump sum benefit equals the present value of a member's vested accrued benefit paid in one lump sum payment.

The company's pension obligations are measured as of September 30, 2021, 2020 and 2019. The U.S. plans include qualified and non-qualified pension plans. The company's only significant remaining non-U.S. plan is located in the United Kingdom.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following are the significant assumptions used in the measurement of the projected benefit obligation ("PBO") and net periodic pension expense:

	U.S. Plans		
	2021	2020	2019
Discount rate	2.80% - 2.85%	2.50% - 2.60%	3.10% - 3.15%
Assumed return on plan assets (beginning of the year)	7.75%	7.75%	7.75%
	U.K. Plan		
	2021	2020	2019
Discount rate	2.10%	1.70%	1.80%
Assumed return on plan assets (beginning of the year)	5.00%	5.75%	6.00%

The discount rate is used to calculate the present value of the PBO at the balance sheet date and net periodic pension expense for the subsequent fiscal year. The rate used reflects a rate of return on high-quality fixed income investments that match the duration of expected benefit payments. Generally, the company uses a portfolio of long-term corporate AA/Aa bonds that match the duration of the expected benefit payments, except for the company's U.K. pension plan which uses an annualized yield curve, to establish the discount rate for this assumption.

The assumed return on plan assets is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. An incremental amount for active plan asset management and diversification, where appropriate, is included in the rate of return assumption. The return assumption is reviewed annually.

The rate of compensation increase represents the long-term assumption for expected increases to salaries for pay-related plans. The accompanying disclosures include pension obligations associated with businesses classified as discontinued operations.

The following table reconciles the change in the PBO, the change in plan assets and amounts included in the Consolidated Balance Sheet for the years ended September 30, 2021 and 2020, respectively (in millions):

	2021			2020		
	U.S.	Non- U.S.	Total	U.S.	Non- U.S.	Total
PBO — beginning of year	\$ 1,027	\$ 602	\$ 1,629	\$ 1,006	\$ 621	\$ 1,627
Interest cost	26	9	35	31	11	42
Actuarial (gain) loss	(29)	(22)	(51)	64	(24)	40
Amendments	4	1	5	—	—	—
Benefit payments	(72)	(27)	(99)	(74)	(25)	(99)
Foreign currency rate changes	—	35	35	—	19	19
PBO — end of year	\$ 956	\$ 598	\$ 1,554	\$ 1,027	\$ 602	\$ 1,629
Change in plan assets						
Fair value of assets — beginning of year	\$ 893	\$ 776	\$ 1,669	\$ 741	\$ 764	\$ 1,505
Actual return on plan assets	(5)	(10)	(15)	221	12	233
Employer contributions	5	—	5	5	—	5
Benefit payments	(72)	(27)	(99)	(74)	(25)	(99)
Foreign currency rate changes	—	45	45	—	25	25
Fair value of assets — end of year	\$ 821	\$ 784	\$ 1,605	\$ 893	\$ 776	\$ 1,669
Funded status - over (under)	\$ (135)	\$ 186	\$ 51	\$ (134)	\$ 174	\$ 40

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Amounts included in the Consolidated Balance Sheet at September 30, 2021 and 2020 are comprised of the following (in millions):

	2021			2020		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Non-current assets	\$ —	\$ 191	\$ 191	\$ —	\$ 179	\$ 179
Current liabilities	(5)	—	(5)	(5)	—	(5)
Retirement benefits-non-current	(130)	(5)	(135)	(129)	(5)	(134)
Net amount recognized	<u>\$ (135)</u>	<u>\$ 186</u>	<u>\$ 51</u>	<u>\$ (134)</u>	<u>\$ 174</u>	<u>\$ 40</u>

The following tables summarize the amounts included in AOCL net of tax related to pension liabilities as of September 30, 2021 and 2020 and changes recognized in Other Comprehensive Income (Loss) net of tax for the year ended September 30, 2021.

	Net Actuarial Loss		
	U.S.	Non-U.S.	Total
Balance at September 30, 2020	\$ 362	\$ 196	\$ 558
Net actuarial loss for the year	39	26	65
Amortization for the year	(27)	(5)	(32)
Deferred tax impact	(3)	—	(3)
Balance at September 30, 2021	<u>\$ 371</u>	<u>\$ 217</u>	<u>\$ 588</u>
Balance at September 30, 2019	\$ 467	\$ 200	\$ 667
Net actuarial loss for the year	(101)	3	(98)
Amortization for the year	(26)	(7)	(33)
Deferred tax impact	22	—	22
Balance at September 30, 2020	<u>\$ 362</u>	<u>\$ 196</u>	<u>\$ 558</u>

The company estimates that \$28 million of net actuarial losses will be amortized from AOCL into net periodic pension expense during fiscal year 2022. The non-current portion of the pension liability is included in Retirement Benefits in the Consolidated Balance Sheet as follows (in millions):

	September 30,	
	2021	2020
Pension liability	\$ 135	\$ 134
Retiree medical liability — long term (see Note 19)	37	46
Other	19	16
Total retirement benefits	<u>\$ 191</u>	<u>\$ 196</u>

In accordance with FASB guidance, the PBO, accumulated benefit obligation ("ABO") and fair value of plan assets are required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and ABO is that the PBO includes projected compensation increases.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Additional information is as follows (in millions):

	2021			2020		
	ABO Exceeds Assets	Assets Exceed ABO	Total	ABO Exceeds Assets	Assets Exceed ABO	Total
PBO	\$ 962	\$ 592	\$ 1,554	\$ 1,032	\$ 597	\$ 1,629
ABO	962	592	1,554	1,032	597	1,629
Plan Assets	821	784	1,605	893	776	1,669

The components of net periodic pension income are as follows (in millions):

	2021	2020	2019
Service cost	\$ —	\$ —	\$ —
Interest cost	35	42	53
Assumed rate of return on plan assets	(98)	(97)	(97)
Amortization of actuarial losses	32	33	24
Settlement gain	(1)	—	—
Net periodic pension income	\$ (32)	\$ (22)	\$ (20)

Disclosures on investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk are included below.

### *Investment Policy and Strategy*

The company's primary investment objective for its pension plan assets is to generate a total investment return sufficient to meet present and future benefit payments while minimizing the company's cash contributions over the life of the plans. In order to accomplish this objective, the company maintains target allocations to identify and manage exposures. The target asset allocation ranges for the U.S. plans are 20–50 percent equity investments, 30–60 percent fixed income investments and 10–30 percent alternative investments. Alternative investments include private equities, real estate, hedge funds, diversified growth funds, and partnership interests. The target asset allocation ranges for the non-U.S. plans are 15–35 percent equity investments, 30–40 percent fixed income investments, 0–15 percent real estate and 15–35 percent alternative investments.

Investment strategies and policies for the company's pension plan assets reflect a balance of risk-reducing and return-seeking considerations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset diversification. Assets are broadly diversified across several asset classes to achieve risk-adjusted returns that accomplish this objective.

The majority of pension plan assets are externally managed through active managers. Managers are only permitted to invest within established asset classes and follow the strategies for which they have been appointed. The company uses investment guidelines and reviews asset returns and investment decisions made by the managers to ensure that they are in accordance with the company's strategies.

### *Concentration of Risk*

The company seeks to mitigate risks relative to performance of the plan assets. Assets are invested in various classes with different risk and return characteristics in order to ensure that they are sufficient to pay benefits. The company's investment strategies incorporate a return-seeking approach through equity and alternative investments, while seeking to minimize the volatility of the plans' assets relative to its liabilities through investments in fixed income securities. The significant areas of risk related to these strategies include equity, interest rate, and operating risk.

A portion of plan assets is allocated to equity and alternative investments that are expected, over time, to earn higher returns. Within this return-seeking portfolio, asset diversification is utilized to reduce uncompensated risk.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Plan assets are also allocated to fixed income investments, which seek to minimize interest rate risk volatility relative to pension liabilities. The fixed income portfolio partially matches the long-dated nature of the pension liabilities reducing interest rate risk. Interest rate decreases generally increase the value of fixed income assets, partially offsetting the related increase in the liabilities, while interest rate increases generally result in a decline in the value of fixed income assets while reducing the present value of the liabilities.

Operating risks consist of the risks of inadequate diversification and weak controls. The company has established policies and procedures in order to mitigate this risk by monitoring investment manager performance, reviewing periodic compliance information, and ensuring that the plans' managers invest in accordance with the company's investment strategies.

### *Fair Value of Investments*

The current FASB guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 inputs use quoted prices in active markets for identical assets that the Plan has the ability to access.
- Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest priority level input that is significant to the valuation. The company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Following are descriptions, valuation methodologies and other information related to plan assets.

*Cash and cash equivalents:* The fair value of cash and cash equivalents is valued at cost.

*Equity Securities:* The overall equity category includes common and preferred stocks issued by U.S. and international companies as well as equity funds that invest in these instruments. All investments generally allow near-term (within 90 days of the measurement date) liquidity and are held in issues that are actively traded to facilitate transactions at minimum cost. The aggregate equity portfolio is diversified to avoid exposure to any investment strategy, single economic sector, industry group, or individual security.

The fair value of equity securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.

Most of the equity investments allow daily redemptions, with some requiring a 30-60 day notice.

*Fixed Income Securities:* The overall fixed income category includes U.S. dollar-denominated and international marketable bonds and convertible debt securities as well as fixed income funds that invest in these instruments. All assets generally allow near-term liquidity and are held in issues which are actively traded to facilitate transactions at minimum cost. The aggregate fixed income portfolio is diversified to avoid exposure to any investment strategy, maturity, issuer or credit quality.

The fair value of fixed income securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

U.S. fixed income securities typically offer daily liquidity, with only one investment allowing quarterly redemptions. International and emerging fixed income investment vehicles generally provide daily liquidity.

*Commingled Funds:* The fair value of commingled funds is determined by a custodian. The custodian obtains valuations from underlying fund managers based on market quotes for the most liquid assets and alternative methods for assets that do not have sufficient trading activity to derive prices. The company and custodian review the methods used by the underlying managers to value the assets.

*Real Estate:* Real estate provides an indirect investment into a diversified and multi-sector portfolio of property assets. The fair value of real estate investments is valued by the fund managers. The fund managers value the real estate investments via independent third-party appraisals on a periodic basis. Assumptions used to revalue the properties are updated every quarter. For the component of the real estate portfolio under development, the investments are carried at cost, which approximates fair value, until they are completed and valued by a third-party appraiser.

Due to the long-term nature of real estate investments, liquidity is provided on a quarterly basis.

*Insurance Contract:* The plan entered into a pensioner buy-in insurance contract which reimburses the plan for specified benefit payment streams. The valuation for the buy-in contract is calculated on an insurer pricing basis and is estimated using unobservable inputs.

*Futures Contracts:* The plan enters into futures contracts in the normal course of its investing activities to manage market risk and to achieve overall investment portfolio objectives. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily. The fair value of futures contracts is determined by direct quoted market prices. Cash margin for these futures contracts is included in Cash and Cash Equivalents in the leveling table.

*Alternatives/Partnerships/Private Equity:* This category includes investments in private equity and hedge funds in addition to entering into futures contracts across various asset classes. Such investments may be made directly or through pooled funds, including fund of funds structures. The fair market value of the company's interest in partnerships and private equity is valued by the fund managers. The valuation is based on the net present value of observable inputs (dividends, cash flows, earnings, etc.), which are discounted at applicable discount rates. The company and custodian review the methods used by the underlying managers to value the assets.

Most of these investments offer quarterly redemption opportunities while some offer daily liquidity. Some partnerships and private equity investments, due to the nature of their investment strategy and underlying holdings, offer less frequent liquidity. When available, liquidity events are closely evaluated.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of plan assets at September 30, 2021 by asset category is as follows (in millions):

Asset Category	U.S. Plans	2021			
		Level 1	Level 2	Level 3	Total
<b>Equity investments</b>					
U.S. – Large cap		\$ 73	\$ —	\$ —	\$ 73
U.S. – Small cap		24	—	—	24
International equity		12	—	—	12
Equity investments measured at net asset value <sup>(1)</sup>		—	—	—	189
Total equity investments		\$ 109	\$ —	\$ —	\$ 298
<b>Fixed income investments</b>					
U.S. fixed income		\$ 15	\$ 310	\$ —	\$ 325
Emerging fixed income		—	20	—	20
Fixed income investments measured at net asset value <sup>(1)</sup>		—	—	—	31
Total fixed income		\$ 15	\$ 330	\$ —	\$ 376
Alternatives – Partnerships		—	—	5	5
Alternatives – Partnerships measured at net asset value <sup>(1)</sup>		—	—	—	91
Cash and cash equivalents		—	51	—	51
Total assets at fair value		\$ 124	\$ 381	\$ 5	\$ 821

Asset Category	Non-U.S. Plans	2021			
		Level 1	Level 2	Level 3	Total
Equity investments					
International equity		\$ 141	\$ —	\$ —	\$ 141
Total equity investments		\$ 141	\$ —	\$ —	\$ 141
Fixed income investments					
Other fixed income investments		\$ 5	\$ 170	\$ —	\$ 175
Fixed income investments measured at net asset value <sup>(1)</sup>		—	—	—	168
Total fixed income		\$ 5	\$ 170	\$ —	\$ 343
Commingled funds		—	2	—	2
Alternative investments measured at net asset value <sup>(1)</sup>		—	—	—	102
Real estate measured at net asset value <sup>(1)</sup>		—	—	—	42
Cash and cash equivalents		—	28	—	28
Insurance contract <sup>(2)</sup>		—	—	126	126
Total assets at fair value		\$ 146	\$ 200	\$ 126	\$ 784

<sup>(1)</sup> In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

<sup>(2)</sup> In fiscal year 2020, the company entered into an insurance contract. The purchase of the insurance contract provided an observable market value and the contract was classified as a level 2 asset. In fiscal year 2021, the market value is no longer observable, therefore, the contract is classified as a level 3 asset.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of plan assets at September 30, 2020 by asset category is as follows (in millions):

U.S. Plans		2020				
		Level 1	Level 2	Level 3	Total	
Asset Category						
Equity investments						
U.S. – Large cap	\$	209	\$	—	\$	209
U.S. – Small cap		15		—		15
International equity		12		—		12
Equity investments measured at net asset value <sup>(1)</sup>		—		—		189
Total equity investments	\$	236	\$	—	\$	425
Fixed income investments						
U.S. fixed income	\$	9	\$	270	\$	279
Emerging fixed income		—		13		13
Partnerships fixed income		—		—		—
Fixed income investments measured at net asset value <sup>(1)</sup>		—		—		26
Total fixed income	\$	9	\$	283	\$	318
Alternatives		9		—		9
Alternatives – Partnerships		—		—		5
Alternatives – Partnerships measured at net asset value <sup>(1)</sup>		—		—		74
Cash and cash equivalents		—		62		62
Total assets at fair value	\$	254	\$	345	\$	893

Non-U.S. Plans		2020				
		Level 1	Level 2	Level 3	Total	
Asset Category						
Equity investments						
International equity	\$	180	\$	—	\$	180
Total equity investments	\$	180	\$	—	\$	180
Fixed income investments						
Other fixed income investments	\$	5	\$	214	\$	219
Fixed income investments measured at net asset value <sup>(1)</sup>		—		—		71
Total fixed income	\$	5	\$	214	\$	290
Commingled funds		—		2		2
Alternative investments measured at net asset value <sup>(1)</sup>		—		—		127
Real estate measured at net asset value <sup>(1)</sup>		—		—		37
Cash and cash equivalents		—		9		9
Insurance contract		—		131		131
Total assets at fair value	\$	185	\$	356	\$	776

<sup>(1)</sup> In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

### Unfunded Commitment

As of September 30, 2021, the U.S. plan had \$ 6 million of unfunded investment commitments related to plan assets. The majority of this amount is attributed to partnership investments that the plan will invest in gradually over the course of several years. Non-U.S. plans currently do not have any unfunded commitments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the changes in Level 3 pension plan assets measured at fair value on a recurring basis for the year ended September 30, 2021 (in millions):

All Plans	2021					
	Fair Value at October 1, 2020	Return on Plan Assets: Attributable to Assets Held at September 30, 2021	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value at September 30, 2021
<b>Asset Category</b>						
Insurance contract	\$ —	\$ —	\$ —	\$ —	\$ 126	\$ 126
Alternatives –						
Partnerships	5	1	—	(1)	—	5
<b>Total Level 3 fair value</b>	<b>\$ 5</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ (1)</b>	<b>\$ 126</b>	<b>\$ 131</b>

The following table summarizes the changes in Level 3 pension plan assets measured at fair value on a recurring basis for the year ended September 30, 2020 (in millions):

All Plans	2020					
	Fair Value at October 1, 2019	Return on Plan Assets: Attributable to Assets Held at September 30, 2020	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value September 30 2020
<b>Asset Category</b>						
Private equity	\$ 19	\$ —	\$ —	\$ —	\$ (19)	\$ —
Alternatives –						
Partnerships	86	1	—	(1)	(81)	—
<b>Total Level 3 fair value</b>	<b>\$ 105</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ (1)</b>	<b>\$ (100)</b>	<b>\$ —</b>

Information about the expected cash flows for the U.S. and non-U.S. pension plans is as follows (in millions):

	U.S.	Non U.S.	Total
<b>Expected employer contributions:</b>			
Fiscal 2022	\$ 5	\$ —	\$ 5
<b>Expected benefit payments:</b>			
Fiscal 2022	70	27	97
Fiscal 2023	67	27	94
Fiscal 2024	67	27	94
Fiscal 2025	65	27	92
Fiscal 2026	63	28	91
Fiscal 2027-2031	292	139	431

The company also sponsors certain defined contribution savings plans for eligible employees. Expense related to these plans, including company matching contributions, was \$17 million, \$14 million and \$21 million for fiscal years 2021, 2020 and 2019, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### 21. INCOME TAXES

The income tax provisions were calculated based upon the following components of income before income taxes (in millions):

	2021	2020	2019
U.S. income	\$ 12	\$ 268	\$ 194
Foreign income	222	58	183
Total	\$ 234	\$ 326	\$ 377

The components of the provision (benefit) for income taxes are summarized as follows (in millions):

	2021	2020	2019
Current tax expense (benefit):			
U.S.	\$ (8)	\$ 20	\$ 1
Foreign	42	16	40
State and local	3	4	1
Total current tax expense	37	40	42
Deferred tax expense (benefit):			
U.S.	(9)	40	34
Foreign	(2)	(5)	6
State and local	(2)	3	—
Total deferred tax expense (benefit)	(13)	38	40
Income tax expense	\$ 24	\$ 78	\$ 82

The deferred tax expense or benefit represents tax effects of current year deductions or items of income that will be recognized in future periods for tax purposes. The fiscal year 2021 current income tax benefit in the U.S. was primarily attributable to tax initiatives that were undertaken during the year that resulted in the generation and utilization of foreign tax credits.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Net deferred income tax assets (liabilities) included in the Consolidated Balance Sheet consist of the tax effects of temporary differences related to the following (in millions):

	September 30,	
	2021	2020
Accrued compensation and benefits	\$ 23	\$ 13
Accrued product warranties	10	11
Inventory costs	18	12
Receivables	9	8
Accrued retiree healthcare benefits	11	13
Retirement pension plans	18	25
Property	17	9
Lease liabilities	16	18
Net operating losses and tax credit carryforwards	247	215
Other	10	21
Sub-total	379	345
Less: Valuation allowances	(250)	(226)
Deferred income taxes - asset	\$ 129	\$ 119
Taxes on undistributed income	\$ (11)	\$ (11)
Intangible assets	(69)	(65)
Lease assets	(15)	(17)
Other	—	(7)
Deferred income taxes - liability	\$ (95)	\$ (100)
Net deferred income tax assets	\$ 34	\$ 19

Net deferred income tax assets (liabilities) are included in the Consolidated Balance Sheet as follows (in millions):

	September 30,	
	2021	2020
Other assets (see Note 11)	\$ 42	\$ 30
Other liabilities (see Note 14)	(8)	(11)
Net deferred income taxes - asset	\$ 34	\$ 19

### Valuation Allowances

As of September 30, 2021, the company continues to maintain valuation allowances in the U.K., France, Germany and certain other jurisdictions, as the company believes the negative evidence continues to outweigh the positive evidence that it will be able to recover these net deferred tax assets. If, in the future, the company generates taxable income on a sustained basis, its conclusion regarding the need for valuation allowances in these jurisdictions could change. In evaluating its ability to recover these net deferred tax assets, the company utilizes a consistent approach which considers its historical operating results, including an assessment of the degree to which any gains or losses are driven by items that are unusual in nature and tax planning strategies. In addition, the company reviews changes in near-term market conditions and other factors that impact future operating results.

The expiration periods for deferred tax assets related to net operating losses and tax credit carryforwards as of September 30, 2021 are included below (in millions). Also included are the associated valuation allowances on these deferred tax assets (in millions).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Fiscal Year Expiration Periods				
	2021-2025	2026-2035	2036-2040	Indefinite	Total
Net operating losses and tax credit carryforwards	\$ 5	\$ 13	\$ —	\$ 229	\$ 247
Valuation allowances on these deferred tax assets	\$ 4	\$ 11	\$ —	\$ 225	\$ 240

Realization of deferred tax assets representing net operating loss and tax credit carryforwards for which a valuation allowance has not been provided is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that such deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if the company is unable to generate sufficient future taxable income during the carryforward period.

The company's provision (benefit) for income taxes was different from the provision for income taxes calculated at the U.S. statutory rate for the reasons set forth below (in millions):

	September 30,		
	2021	2020	2019
Expense for income taxes at statutory tax rate	\$ 49	\$ 68	\$ 79
State and local income taxes	4	5	3
Foreign income taxed at rates other than statutory	10	2	11
Legislative changes	(36)	(10)	1
Joint venture equity income	(7)	(3)	(6)
Nondeductible expenses	15	11	16
Tax credits	(58)	(8)	(11)
Valuation allowances	17	10	(7)
Tax audit adjustments	—	5	—
Discharge of intercompany indebtedness	38	—	—
Reversal of uncertain tax positions due to statute expirations	(13)	(3)	(1)
Other	5	1	(2)
Income tax expense	\$ 24	\$ 78	\$ 82

In fiscal year 2021, a tax law change in the U.K. resulted in a benefit of \$ 35 million from the remeasurement of net deferred tax assets. The benefit does not impact income tax expense since it is offset by a corresponding valuation allowance in the U.K. Also, the company undertook certain tax initiatives that resulted in a net tax benefit of \$10 million, which consisted of \$51 million of tax credits, \$38 million of tax expense related to the discharge of intercompany indebtedness and \$3 million of other tax expense.

At September 30, 2021 and 2020, \$1,041 million and \$1,161 million, respectively, of non-U.S. earnings were considered indefinitely reinvested in operations outside the U.S., for which deferred taxes have not been provided. Quantification of the deferred tax liability, if any, associated with permanently reinvested earnings is not practicable.

The total amount of gross unrecognized tax benefits the company recorded in accordance with ASC Topic 740 was \$ 287 million, \$283 million and \$276 million, as of September 30, 2021, 2020 and 2019, respectively, of which \$ 239 million, \$234 million and \$230 million, represents the amount that, if recognized, would favorably affect the effective income tax rate in future periods.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period is as follows (in millions):

	September 30,		
	2021	2020	2019
Balance at beginning of the period	\$ 283	\$ 276	\$ 261
Additions to tax positions recorded during the current year	18	4	11
Additions to tax positions recorded during the prior year	3	5	9
Reductions to tax position recorded in prior years	—	(1)	—
Reductions to tax positions due to lapse of statutory limits	(17)	(4)	(4)
Translation, other	—	3	(1)
Balance at end of the period	\$ 287	\$ 283	\$ 276

The company's continuing practice is to recognize interest and penalties on uncertain tax positions in the provision for income taxes in the Consolidated Statement of Operations. At September 30, 2021 and 2020, the company recorded assets of \$21 million and \$13 million, respectively, of interest on uncertain tax positions in the Consolidated Balance Sheet.

The company files tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. The company's Canadian federal income tax returns for fiscal years 2015 and 2016 are currently under audit. The company's Indian subsidiary is currently under audit for fiscal years 2015 and 2016. The company's French subsidiary is under audit for fiscal years 2018-2020. In addition, the company is under audit in various state tax jurisdictions for various years. It is reasonably possible that audit settlements, the conclusion of current examinations or the expiration of the statute of limitations in several jurisdictions could change the company's unrecognized tax benefits during the next twelve months. It is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefit in the next twelve months.

In addition to the audits listed above, the company has open tax years primarily from 2001-2020 with various significant taxing jurisdictions, including the U.S., Brazil, Canada, China, Italy, Mexico, Sweden and the U.K. These open years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. The company has recorded a tax benefit only for those positions that meet the more-likely-than-not standard.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act, which includes various income and payroll tax provisions, was signed into law by the U.S. government. In addition, various other coronavirus tax relief initiatives have been implemented around the world. These tax initiatives did not have a material impact on the Consolidated Financial Statements for the fiscal years ended September 30, 2021 and 2020.

## 22. CONTINGENCIES

### Environmental

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 the operations of the company. The process of estimating environmental liabilities is complex and dependent upon evolving physical and scientific data at the sites, uncertainties as to remedies and technologies to be used and the outcome of discussions with regulatory agencies. The company records 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, the company records a liability for its allocable share of costs related to its involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites at which the company is the only potentially responsible party, the company records a liability for the total probable and estimable costs of remediation before consideration of recovery from insurers or other third parties.

The company has been designated as a potentially responsible party at ten Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at September 30,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2021 to be approximately \$22 million, of which \$9 million is probable and recorded as a liability. Included in reasonably possible amounts are estimates for certain remediation actions that may be required if current actions are deemed inadequate by the regulators. Environmental remediation costs recorded with respect to the Superfund sites were \$1 million in fiscal year 2021, \$4 million in fiscal year 2020 and \$2 million in fiscal year 2019.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at September 30, 2021 to be approximately \$10 million, of which \$4 million is probable and recorded as a liability. The company recorded environmental remediation costs of \$0 million in 2021 and \$2 million in 2020 and 2019 with respect to these matters, resulting from revised estimates to remediate these sites.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using discount rates in the range of 0.00 to 1.50 percent and is approximately \$12 million at September 30, 2021. The undiscounted estimate of these costs is approximately \$13 million.

The following are the components of the Superfund and non-Superfund environmental reserves (in millions):

	Superfund Sites	Non-Superfund Sites	Total
Balance at September 30, 2020	\$ 11	\$ 5	\$ 16
Payments and other	(3)	(1)	(4)
Accruals	1	—	1
Balance at September 30, 2021	\$ 9	\$ 4	\$ 13

There were \$2 million, \$6 million, and \$3 million of environmental remediation costs recognized in other operating expense in the Consolidated Statement of Operations in fiscal years 2021, 2020 and 2019, respectively.

Environmental reserves are included in Other Current Liabilities (see Note 13) and Other Liabilities (see Note 14) in the Consolidated Balance Sheet.

The actual amount of costs or damages for which the company may be held responsible could materially exceed the foregoing estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation, discovery of new contamination and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with outside advisors that specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, the company believes that its 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 effect on the company's 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 remedies could significantly change the company's estimates. Management cannot assess the possible effect of compliance with future requirements.

### Asbestos

**Maremont Corporation** ("Maremont"), a subsidiary of Meritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986.

In the first quarter of fiscal year 2019, Maremont and its three wholly-owned subsidiaries, Maremont Exhaust Products, Inc., AVM, Inc., and Former Ride Control Operating Company, Inc., began to solicit votes from asbestos claimants in favor of a Joint Pre-Packaged Plan of Reorganization (the "Plan"). On January 18, 2019, the Plan was approved by voting asbestos claimants and, on January 22, 2019, Maremont and its subsidiaries voluntarily filed cases under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") seeking to implement the Plan through the Chapter 11 cases. Among other things, the Plan was intended to permanently resolve all current and future

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

asbestos claims related to Maremont's historical asbestos-related activities through the creation of a trust pursuant to Section 524(g) of the U.S. Bankruptcy Code (the "524(g) Trust"). Meritor determined that the net amount of \$51 million Maremont would be required to contribute to the 524(g) Trust according to the Plan represented Meritor's best estimate of Maremont's net asbestos liability. As a result, Meritor recognized \$31 million of income related to remeasuring the Maremont net asbestos liability based on the terms of the Plan.

As of January 22, 2019, Maremont and its subsidiaries were deconsolidated from the Consolidated Balance Sheet and the results of Maremont's operations were eliminated from the company's consolidated results of operations as Maremont became subject to the control of a court. Deconsolidation had an insignificant impact on the Consolidated Statement of Operations.

The Plan was confirmed by the Bankruptcy Court on May 17, 2019 and approved by the United States District Court for the District of Delaware on June 27, 2019. On July 9, 2019, the company contributed \$48 million, consisting of cash and repayment of a loan, to Maremont, and Maremont funded the 524(g) Trust with such cash and its other assets, including its existing insurance policies. As a result, all current and future asbestos claims related to the Maremont's historical asbestos-related activities have been channeled to the 524(g) Trust, which will process and satisfy all such claims going forward pursuant to its resolution and payment procedures.

**Rockwell** — ArvinMeritor, Inc. ("AM"), a predecessor of Meritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of Rockwell products many years ago. Liability for these claims was transferred at the time of the spin-off of the automotive business from Rockwell in 1997. Rockwell had approximately 600 and 1,200 pending active asbestos claims in lawsuits that name AM as a defendant at September 30, 2021 and 2020, respectively. In March 2021, AM entered into a tolling agreement with an asbestos plaintiff's law firm. Under the terms of this agreement, AM agreed to toll the statute of limitations from expiring on asbestos claims in exchange for the plaintiff's law firm agreeing not to raise a claim until there is a product identification linking AM. The plaintiff's law firm also agreed to dismiss pending active claims for which product identification was not yet determined. There were approximately 600 claims dismissed as a result of this tolling agreement in the third fiscal quarter of fiscal year 2021. According to the terms of the tolling agreement, if the plaintiff's law firm subsequently links AM's products to the plaintiff, they will refile a claim against AM.

A significant portion of the claims do not identify any of Rockwell's products or specify which of the claimants, if any, were exposed to asbestos attributable to Rockwell's products, and past experience has shown that the vast majority of the claimants will likely never identify any of Rockwell's products. Historically, AM has been dismissed from the vast majority of similar claims filed in the past with no payment to claimants. For those claimants who do show that they worked with Rockwell's products, management nevertheless believes it has meritorious defenses, in substantial part due to the integrity of the products involved and the lack of any impairing medical condition on the part of many claimants.

*Pending and Future Claims:* The company engaged a third-party advisor with experience in assessing asbestos-related liabilities to conduct a study to estimate its potential undiscounted liability for pending and future asbestos-related claims as of September 30, 2021. On a continual basis, management monitors the underlying claims data and experience, for the purpose of assessing the appropriateness of the assumptions used to estimate the liability.

As of September 30, 2021, the best estimate of the company's obligation for asbestos-related claims over the next 37 years is \$60 million. The company recognized a liability for pending and future claims of \$60 million as of September 30, 2021 and \$ 78 million as of September 30, 2020. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Rockwell.

*Recoveries:* Rockwell has insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for a significant portion of these claims. The company recognizes insurance recoveries when the claim for recovery is deemed probable and to the extent an insurable loss has been recognized in the financial statements. The company's determination is based on analysis of the underlying insurance policies, historical experience with insurers, ongoing review of the solvency of insurers, and consideration of any insurance settlements. The insurance receivables for Rockwell's asbestos-related liabilities totaled \$51 million and \$62 million as of September 30, 2021 and 2020, respectively.

The amounts recorded for the asbestos-related reserves and recoveries from insurance companies are based upon assumptions and estimates derived from currently known facts. All such estimates of liabilities and recoveries for asbestos-related claims are subject to considerable uncertainty because such liabilities and recoveries are influenced by variables that are



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

difficult to predict. The future litigation environment for Rockwell could change significantly from its past experience, due, for example, to changes in the mix of claims filed against Rockwell in terms of plaintiffs' law firm, jurisdiction and disease; legislative or regulatory developments; the company's approach to defending claims; or payments to plaintiffs from other defendants. Estimated recoveries are influenced by coverage issues among insurers and the continuing solvency of various insurance companies. If the assumptions with respect to the estimation period, the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Rockwell asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations. However, the amount of reasonably possible and estimable losses in excess of the recorded asbestos-related liabilities was determined to be immaterial.

The Rockwell legacy asbestos-related reserves and corresponding asbestos-related recoveries are summarized as follows (in millions):

	September 30,	
	2021	2020
Pending and future claims	\$ 60	\$ 7
Billed but unpaid claims	1	
Asbestos-related liabilities	\$ 61	\$ 7
Asbestos-related insurance recoveries	\$ 51	\$ 6

*Assumptions:* The following assumptions were made by the company after consultation with consultants and are included in the study:

- Pending and future claims were estimated for a 37 year period ending in fiscal year 2058;
- The litigation environment remains consistent throughout the forecast horizon;
- On a per claim basis, defense and indemnity costs for pending and future claims will be at the level consistent with the company's recent experience.

### *Indemnification*

The company has agreed to indemnify others in conjunction with certain transactions, primarily divestitures. These indemnities address a variety of matters, which may include environmental, tax, asbestos and employment-related matters, and the periods of indemnification vary in duration.

The company is not aware of any other claims or other information that would give rise to material payments under such indemnities.

### *Other*

In addition, various lawsuits, claims and proceedings, other than those specifically disclosed in the Consolidated Financial Statements, have been or may be instituted or asserted against the company, relating to the conduct of the company's business, including those pertaining to product liability, warranty or recall claims, intellectual property, safety and health, contract and employment matters. Although the outcome of other litigation cannot be predicted with certainty, and some lawsuits, claims or proceedings may be disposed of unfavorably to the company, management believes the disposition of matters that are pending will not have a material effect on the company's business, financial condition, results of operations or cash flows.

## 23. BUSINESS SEGMENT INFORMATION

The company defines its operating segments as components of its business where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The company's Chief Operating Decision Maker ("CODM") is the Chief Executive Officer.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The company has two reportable segments at September 30, 2021, as follows:

- The **Commercial Truck** 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.
- 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.

Segment adjusted EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, non-controlling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense, asset impairment charges and other special items as determined by management. Segment adjusted EBITDA excludes unallocated legacy and corporate income (expense), net. The company uses segment adjusted EBITDA as the primary basis for the CODM to evaluate the performance of each of its reportable segments.

The accounting policies of the segments are the same as those applied in the Consolidated Financial Statements, except for the use of segment adjusted EBITDA. The company may allocate certain common costs, primarily corporate functions, between the segments differently than the company would for stand alone financial information prepared in accordance with GAAP. These allocated costs include expenses for shared services such as information technology, finance, communications, legal and human resources. The company does not allocate interest expense and certain legacy and other corporate costs not directly associated with the segment.

Segment information is summarized as follows (in millions):

	Commercial Truck	Aftermarket & Industrial	Elims	Total
<i>Fiscal year 2021 Sales:</i>				
External Sales	\$ 2,866	\$ 967	\$ —	\$ 3,833
Intersegment Sales	142	22	(164)	-
Total Sales	\$ 3,008	\$ 989	\$ (164)	\$ 3,833
<i>Fiscal year 2020 Sales:</i>				
External Sales	\$ 2,080	\$ 964	\$ —	\$ 3,044
Intersegment Sales	110	17	(127)	-
Total Sales	\$ 2,190	\$ 981	\$ (127)	\$ 3,044
<i>Fiscal year 2019 Sales:</i>				
External Sales	\$ 3,307	\$ 1,081	\$ —	\$ 4,388
Intersegment Sales	149	19	(168)	-
Total Sales	\$ 3,456	\$ 1,100	\$ (168)	\$ 4,388

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Year Ended September 30,		
	2021	2020	2019
<i>Segment adjusted EBITDA:</i>			
Commercial Truck	\$ 259	\$ 116	\$ 34
Aftermarket & Industrial	139	150	17
Segment adjusted EBITDA	398	266	51
Unallocated legacy and corporate income, net <sup>(1)</sup>	13	6	
Interest expense, net	(79)	(66)	(5)
Provision for income taxes	(24)	(78)	(8)
Depreciation and amortization	(103)	(101)	(8)
Loss on sale of receivables	(4)	(4)	
Restructuring costs	(13)	(27)	
Brazilian VAT Credit <sup>(2)</sup>	22	—	
Transaction costs	—	(5)	
Asbestos related items <sup>(3)</sup>	—	—	3
Asset impairment charges	—	(8)	(1)
Income from WABCO distribution termination	—	265	
Noncontrolling interests	(10)	(4)	
Income from continuing operations attributable to Meritor, Inc.	\$ 200	\$ 244	\$ 29

<sup>(1)</sup> Unallocated legacy and corporate income, net represents items that are not directly related to the company's business segments. These items primarily include asbestos-related charges and settlements, pension and retiree medical costs associated with sold businesses, and other legacy costs for environmental and product liability.

<sup>(2)</sup> Amount relates to a pre-tax loss recovery, net of legal expenses, on the overpayment of VAT in Brazil.

<sup>(3)</sup> The year ended September 30, 2019 includes \$31 million related to the remeasurement of the Maremont net asbestos liability based on the Plan.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Year ended September 30,		
	2021	2020	2019
<b>Depreciation and Amortization:</b>			
Commercial Truck	\$ 80	\$ 76	\$ 73
Aftermarket & Industrial	23	25	14
Total depreciation and amortization	<u>\$ 103</u>	<u>\$ 101</u>	<u>\$ 87</u>
<b>Capital Expenditures:</b>			
Commercial Truck	\$ 76	\$ 68	\$ 88
Aftermarket & Industrial	14	17	15
Total capital expenditures	<u>\$ 90</u>	<u>\$ 85</u>	<u>\$ 103</u>
		September 30,	
	2021	2020	
<b>Segment Assets:</b>			
Commercial Truck	\$ 1,961	\$ 1,666	
Aftermarket & Industrial	654	658	
Total segment assets	2,615	2,324	
Corporate <sup>(1)</sup>	496	714	
Less: Accounts receivable sold under off-balance sheet factoring programs <sup>(2)</sup>	(173)	(154)	
Total assets	<u>\$ 2,938</u>	<u>\$ 2,884</u>	

<sup>(1)</sup> Corporate assets consist primarily of cash, deferred income taxes and prepaid pension costs.

<sup>(2)</sup> At September 30, 2021 and September 30, 2020, segments assets include \$173 million and \$154 million, respectively, of accounts receivable sold under off-balance sheet accounts receivable factoring programs (see Note 8). These sold receivables are included in segment assets as the CODM reviews segment assets inclusive of these balances.

Sales by geographic area are based on the location of the selling unit. Information on the company's geographic areas is summarized as follows (in millions):

	Year ended September 30,		
	2021	2020	2019
<b>Sales by Geographic Area:</b>			
U.S.	\$ 2,057	\$ 1,783	\$ 2,622
Canada	55	54	69
Mexico	197	147	249
Total North America	<u>2,309</u>	<u>1,984</u>	<u>2,940</u>
Sweden	276	202	276
Italy	240	166	234
United Kingdom	153	114	165
Other Europe	151	139	91
Total Europe	<u>820</u>	<u>621</u>	<u>766</u>
Brazil	317	172	248
China	130	135	153
India	146	72	197
Other Asia-Pacific	111	60	84
Total sales	<u>\$ 3,833</u>	<u>\$ 3,044</u>	<u>\$ 4,388</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	September 30,	
	2021	2020
<i>Assets by Geographic Area:</i>		
U.S.	\$ 1,424	\$ 1,458
Canada	36	35
Mexico	212	190
Total North America	1,672	1,683
Sweden	137	136
Italy	94	111
United Kingdom	290	270
Other Europe	205	269
Total Europe	726	786
Brazil	214	132
China	145	130
India	92	76
Other Asia-Pacific	89	77
Total	\$ 2,938	\$ 2,884

Sales to AB Volvo represented approximately 24 percent, 21 percent and 22 percent of the company's sales in fiscal years 2021, 2020 and 2019, respectively. Sales to Daimler AG represented approximately 16 percent, 17 percent and 19 percent of the company's sales in fiscal years 2021, 2020 and 2019, respectively. Sales to PACCAR represented approximately 13 percent, 12 percent and 13 percent of the company's sales in fiscal years 2021, 2020 and 2019, respectively. Sales to Navistar represented approximately 7 percent, 8 percent and 10 percent of the company's sales in fiscal years 2021, 2020 and 2019, respectively. No other customer comprised 10 percent or more of the company's total sales in any of the three fiscal years ended September 30, 2021, September 30, 2020 and September 30, 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

24. OPERATING CASH FLOWS AND OTHER SUPPLEMENTAL FINANCIAL INFORMATION

	Year Ended September 30,		
	2021	2020	2019
	(in millions)		
OPERATING ACTIVITIES			
Net income	\$ 209	\$ 249	\$ 296
Less: Income (loss) from discontinued operations, net of tax	(1)	1	1
Income from continuing operations	210	248	295
Adjustments to income from continuing operations to arrive at cash provided by operating activities:			
Depreciation and amortization	103	101	87
Deferred income tax expense (income)	(13)	38	40
Restructuring costs	13	27	8
Loss on debt extinguishment, net	11	—	—
Asset impairment charges	—	8	10
Equity in earnings of affiliates	(34)	(14)	(31)
Stock compensation expense	20	7	18
Pension and retiree medical income	(53)	(42)	(37)
Asbestos related liability remeasurement	—	—	(31)
Contribution to Maremont trust	—	—	(48)
Dividends received from equity method investments	7	10	23
Pension and retiree medical contributions	(10)	(15)	(16)
Restructuring payments	(13)	(25)	(5)
Changes in off-balance sheet receivable securitization and factoring programs	13	(77)	(18)
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations:			
Receivables	(61)	147	80
Inventories	(164)	100	9
Accounts payable	139	(186)	(103)
Other current assets and liabilities	52	(64)	(3)
Other assets and liabilities	(22)	2	(22)
Operating cash flows provided by continuing operations	198	265	256
Operating cash flows used for discontinued operations	(1)	—	—
CASH PROVIDED BY OPERATING ACTIVITIES	\$ 197	\$ 265	\$ 256

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	September 30,		
	2021	2020	2019
	(In millions)		
Balance sheet data:			
Allowance for doubtful accounts	\$ 3	\$ 3	\$ 3
Statement of operations data:			
Maintenance and repairs expense	55	47	55
Research, development and engineering expense	76	74	75
Depreciation expense	87	87	76
Rental expense	19	19	19
Interest income	2	4	4
Interest expense	(81)	(70)	(61)
Statement of cash flows data:			
Interest payments, net of receipts	57	48	41
Income tax payments, net of refunds	22	55	64
Non-cash investing activities - capital asset additions from finance leases	3	—	—

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Disclosure Controls and Procedures**

As required by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), management, with the participation of the chief executive officer (CEO) and chief financial officer (CFO), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2021. Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**Management Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of the CEO and CFO, assessed the effectiveness of the company's internal control over financial reporting as of September 30, 2021. This evaluation was based on the criteria for effective internal control over financial reporting established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on management's assessment and the criteria set forth by COSO, we assessed that the internal control over financial reporting was effective as of September 30, 2021.

The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the Consolidated Balance Sheets of Meritor as of September 30, 2021 and the related Consolidated Statements of Operations, Comprehensive Income, Cash Flows and Equity for the year ended September 30, 2021, has issued an attestation report on Meritor's internal control over financial reporting, which is included herein.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during our most recently completed fiscal quarter, and there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Meritor, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Meritor, Inc. and subsidiaries (the "Company") as of October 3, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 3, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended October 3, 2021, of the Company and our report dated November 17, 2021 expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

Detroit, Michigan  
November 17, 2021

**Item 9B. Other Information.**

None.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by Item 10 regarding directors is incorporated by reference from the information under the caption *Election of Directors – Information as to Nominees for Director and Continuing Directors* in Meritor's definitive Proxy Statement for its 2022 Annual Meeting (the "2022 Proxy Statement"), which is expected to be filed within 120 days after Meritor's fiscal year end. The information required by Item 10 regarding executive officers is set forth in Item 4A of Part I of this Form 10-K. The other information required by Item 10, including regarding the audit committee, audit committee financial expert disclosure and our code of ethics, is incorporated by reference from the information under the captions *Code of Ethics*, *Board of Directors and Committees* and *Director Qualifications and Nominating Procedures* in the 2022 Proxy Statement. Disclosure of delinquent Section 16 filers pursuant to Item 405 of Regulation S-K will be contained in the 2022 Proxy Statement.

**Item 11. Executive Compensation.**

See the information under the captions *Director Compensation in Fiscal Year 2021*, *Executive Compensation* and *CEO Pay Ratio* in the 2022 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.****Security Ownership of Certain Beneficial Owners and Management**

See the information under the captions *Voting Securities* and *Ownership by Management of Equity Securities* in the 2022 Proxy Statement.

**Securities Authorized for Issuance under Equity Compensation Plans**

The number of stock options outstanding under our equity compensation plans, the weighted average exercise price of outstanding options, and the number of securities remaining available for issuance, as of September 30, 2021, were as follows:

Plan Category	(column a) Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>1</sup>	(column b) Weighted average exercise price of outstanding options, warrants and rights	(column c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	—	\$ —	4,100,000
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>4,100,000</b>

<sup>1</sup> In addition to stock options, shares of common stock, restricted shares of common stock, restricted share units and performance share units, all of which do not have an exercise price, have been awarded under the Company's equity compensation plans and were outstanding at September 30, 2021. The number of weighted average shares in column (a) and the weighted average exercise price reported in column (b) does not take these awards into account.

All of the equity compensation plans under which grants are outstanding as shown above were approved by Meritor shareholders.

The following number of shares remained available for issuance under our equity compensation plans at September 30, 2021. Grants may be in the form of any of the listed type of awards.

Plan	Number of shares	Type of award
2020 Long-Term Incentive Plan*	4,100,000	Stock options, stock appreciation rights, stock awards and other stock-based awards

\* The 2020 Long-Term Incentive Plan was approved by the Company's shareholders on January 23, 2020. At that time the 2010 Long-Term Incentive Plan was terminated and no new awards will be made under the 2010 Long-Term Incentive Plan. The 2007 Long-Term Incentive Plan and the 2004 Directors Stock Plan were terminated on January 28, 2010. Earlier equity compensation plans were terminated on January 26, 2007.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

See the information under the captions *Board of Directors and Committees* and *Certain Relationships and Related Transactions* in the 2022 Proxy Statement.

**Item 14. *Principal Accountant Fees and Services.***

See the information under the caption *Independent Accountants' Fees* in the 2022 Proxy Statement.

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules.***

(a) Financial Statements, Financial Statement Schedules and Exhibits.

(1) Financial Statements (all financial statements listed below are those of the company and its consolidated subsidiaries):

Consolidated Statement of Operations, years ended September 30, 2021, 2020 and 2019.

Consolidated Statement of Comprehensive Income, years ended September 30, 2021, 2020 and 2019.

Consolidated Balance Sheet, September 30, 2021 and 2020.

Consolidated Statement of Cash Flows, years ended September 30, 2021, 2020 and 2019.

Consolidated Statement of Equity, years ended September 30, 2021, 2020 and 2019.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm.

(2) Financial Statement Schedule for the years ended September 30, 2021, 2020 and 2019.

Schedules not filed with this Annual Report on Form 10-K are omitted because of the absence of conditions under which they are required or because the information called for is shown in the financial statements or related notes.

(3) Exhibits

- 3-a [Amended and Restated Articles of Incorporation of Meritor effective January 23, 2020, filed as Exhibit 3-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2019, is incorporated herein by reference.](#)
- 3-b [Amended and Restated By-laws of Meritor effective February 28, 2021, filed as Exhibit 3-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 4, 2021, is incorporated herein by reference.](#)
- 4-a\*\* [Description of Securities.](#)
- 4-b [Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. \(as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank\), as trustee, filed as Exhibit 4 to Meritor's Registration Statement on Form S-3 \(Registration No. 333- 49777\), is incorporated herein by reference.](#)
- 4-b-1 [First Supplemental Indenture, dated as of July 7, 2000, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. \(as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank\), as trustee, filed as Exhibit 4-b-1 to Meritor's Annual Report on Form 10-K \(File No. 001-15983\) for the fiscal year ended September 30, 2000, is incorporated herein by reference.](#)
- 4-b-2 [Third Supplemental Indenture, dated as of June 23, 2006, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. \(as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank\), as trustee \(including Subsidiary Guaranty dated as of June 23, 2006\), filed as Exhibit 4.2 to Meritor's Current Report on Form 8-K \(File No. 001-15983\) filed on June 27, 2006, is incorporated herein by reference.](#)
- 4-b-3 [Sixth Supplemental Indenture, dated as of May 31, 2013, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. \(as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank\), as trustee, filed as Exhibit 4 to Meritor's Current Report on Form 8-K filed on May 31, 2013, is incorporated herein by reference.](#)
- 4-b-4 [Seventh Supplemental Indenture, dated as of February 13, 2014, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. \(as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank\), as trustee, filed as Exhibit 4.1 to Meritor's Current Report on Form 8-K filed on February 13, 2014, is incorporated herein by reference.](#)
- 4-b-5 [Eighth Supplemental Indenture, dated as of June 8, 2020, to the Indenture, dated as of April 1, 1998, between Meritor, U.S. Bank National Association, as trustee, and The Bank of New York Mellon Trust Company, N.A. \(as successor to BNY Midwest Trust company as successor to The Chase Manhattan Bank\), as predecessor trustee, filed as Exhibit 4-a to Meritor's Current Report on Form 8-K filed on June 8, 2020, is incorporated herein by reference.](#)
- 4-b-6 [Ninth Supplemental Indenture, dated as of December 1, 2020, to the Indenture, dated as of April 1, 1998, between Meritor, U.S. Bank National Association, as trustee, and The Bank of New York Mellon Trust Company, N.A. \(as successor to BNY Midwest Trust company as successor to The Chase Manhattan Bank\), as predecessor trustee, filed as Exhibit 4-a to Meritor's Current Report on Form 8-K filed on December 1, 2020, is incorporated herein by reference.](#)
- 4-c [Indenture, dated as of February 8, 2007, between Meritor and The Bank of New York Mellon Trust Company, N.A. \(as successor to The Bank of New York Trust Company, N.A.\), as trustee \(including the note and form of subsidiary guaranty\), filed as Exhibit 4-a to Meritor's Quarterly Report on Form 10-Q \(File No. 001-15983\) for the fiscal quarter ended April 1, 2007, is incorporated herein by reference.](#)

- 4-d [Indenture, dated as of December 4, 2012, between Meritor and The Bank of New York Mellon Trust Company, N.A., as trustee \(including form of the note and form of subsidiary guaranty\), filed as Exhibit 4.1 to Meritor's Current Report on Form 8-K \(File No. 001-15983\) filed on December 4, 2012, is incorporated herein by reference.](#)
- 4-e [Indenture, dated as of September 22, 2017, between Meritor and U.S. Bank National Association, as trustee \(including form of the note and form of subsidiary guaranty\), filed as Exhibit 4-a to Meritor's Current Report on Form 8-K filed on September 25, 2017, is incorporated herein by reference.](#)
- 10-a-1 [Fourth Amendment and Restatement Agreement relating to Fourth Amended and Restated Credit Agreement, dated as of June 7, 2019, among Meritor, ArvinMeritor Finance Ireland \("AFI"\), the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on June 10, 2019, is incorporated herein by reference.](#)
- 10-a-2 [Third Amended and Restated Pledge and Security Agreement, dated as of March 31, 2017, by and among Meritor, the subsidiaries named therein, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2017, is incorporated herein by reference.](#)
- 10-a-3 [Amendment No. 1 to Fourth Amended and Restated Credit Agreement, dated as of March 12, 2020, among Meritor, the subsidiaries named therein, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2020, is incorporated herein by reference.](#)
- 10-a-4 [Amendment No. 2 to Fourth Amended and Restated Credit Agreement and Amendment No. 2 to Third Amended and Restated Pledge and Security Agreement, dated as of June 26, 2020, among Meritor, the subsidiaries named therein, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2020, is incorporated herein by reference.](#)
- \*10-b [2004 Directors Stock Plan, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q \(File No. 001-15983\) for the fiscal quarter ended March 28, 2004, is incorporated herein by reference.](#)
- \*10-b-1 [Form of Restricted Stock Agreement under the 2004 Directors Stock Plan, filed as Exhibit 10-c-4 to Meritor's Annual Report on Form 10-K \(File No. 001-15983\) for the fiscal year ended October 2, 2005, is incorporated herein by reference.](#)
- \*10-c [2010 Long-Term Incentive Plan, as amended and restated as of January 26, 2017, filed as Exhibit 10-c to Meritor's Annual Report on Form 10-K for the fiscal year ended October 1 2017, is incorporated herein by reference.](#)
- \*10-c-1 [Form of Restricted Stock Unit Agreement for Directors for grants on or after January 23, 2014 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-10 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, is incorporated herein by reference.](#)
- \*10-c-2 [Form of Restricted Stock Agreement for Directors for grants on or after on or after January 23, 2014 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-11 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, is incorporated herein by reference.](#)
- \*10-c-3 [Form of Performance Share Unit Agreement for Employees for grants on or after December 1, 2015 under 2010 Long Term Incentive Plan, as amended, filed as Exhibit 10-f-9 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 27, 2015, is incorporated herein by reference.](#)
- \*10-c-4 [Form of Restricted Share Unit Agreement for Employees for grants on or after December 1, 2015 under 2010 Long Term Incentive Plan, as amended, filed as Exhibit 10-f-10 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 27, 2015, is incorporated herein by reference.](#)
- \*10-d [Incentive Compensation Plan, as amended and restated, effective January 22, 2015, filed as Appendix A to Meritor's Definitive Proxy Statement for the 2015 Annual Meeting of Shareholders of Meritor, is incorporated herein by reference.](#)

- \*10-e [Deferred Compensation Plan, filed as Exhibit 10-e-1 to Meritor's Annual Report on Form 10-K \(File No. 001-15983\) for the fiscal year ended September 30, 1998, is incorporated herein by reference.](#)
- \*10-f [Form of Deferred Share Agreement, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q \(File No. 001-15983\) for the fiscal quarter ended January 2, 2005, is incorporated herein by reference.](#)
- \*10-g [Non-Employee Director Retainer Deferral Policy, effective November 3, 2016, filed as Exhibit 10-j to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.](#)
- \*10-g-1 [Form of Restricted Share Unit Agreement for Director Deferral Elections pursuant to the Non-Employee Director Retainer Deferral Policy under the 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-j-1 to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.](#)
- \*10-g-2 [Form of Restricted Stock Agreement for Director Deferral Elections pursuant to the Non-Employee Director Retainer Deferral Policy under the 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-j-2 to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.](#)
- \*10-h [2020 Long-Term Incentive Plan, filed as Exhibit 10-h to Meritor's Annual Report on Form 10-K for the fiscal year ended September 27, 2020, is incorporated herein by reference.](#)
- \*10-h-1 [Form of Restricted Stock Agreement for Directors under the 2020 Long-Term Incentive Plan, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2019, is incorporated herein by reference.](#)
- \*10-h-2 [Form of Restricted Stock Agreement for Director Deferral Elections pursuant to the Non-Employee Director Retainer Deferral Policy under the 2020 Long-Term Incentive Plan, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2019, is incorporated herein by reference.](#)
- \*10-h-3 [Form of Performance Share Unit Agreement for Employees under the 2020 Long-Term Incentive Plan, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2019, is incorporated herein by reference.](#)
- \*10-h-4 [Form of Restricted Share Unit Agreement for Employees under the 2020 Long-Term Incentive Plan, filed as Exhibit 10-d to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2019, is incorporated herein by reference.](#)
- \*10-h-5 [Form of Restricted Share Unit Agreement for Employee retention under the 2020 Long-Term Incentive Plan, filed as Exhibit 10-e to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2019, is incorporated herein by reference.](#)
- 10-i [Receivables Purchase Agreement dated as of February 19, 2019, by and among Meritor Heavy Vehicle Braking Systems \(USA\), LLC and Meritor Heavy Vehicle Systems, LLC, as sellers, and Nordea Bank AB, as purchaser, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2019, is incorporated herein by reference.](#)
- 10-j [Receivables Purchase Agreement dated as of March 22, 2017, by and among Meritor HVS AB, as seller, and Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2017, is incorporated herein by reference.](#)
- 10-j-1 [Extension dated March 19, 2020 of Receivables Purchase Agreement dated as of March 22, 2017, by and among Meritor HVS AB, as seller, and Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2020, is incorporated herein by reference.](#)

- 10-k [Receivable Purchase Agreement dated February 2, 2012 between Meritor Heavy Vehicle Braking Systems \(UK\) Limited, as seller, and Viking Asset Purchaser No. 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q \(File No. 001-15983\) for the fiscal quarter ended April 1, 2012, is incorporated herein by reference.](#)
- 10-k-1 [Extension dated January 24, 2013 of Receivable Purchase Agreement dated February 2, 2012 between Meritor Heavy Vehicle Braking Systems \(UK\) Limited, as seller, and Viking Asset Purchaser No. 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-d to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.](#)
- 10-k-2 [Extension dated January 23, 2018 of Receivable Purchase Agreement dated February 2, 2012 between Meritor Heavy Vehicle Braking Systems \(UK\) Limited, as seller, and Viking Asset Purchaser No. 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2017, is incorporated herein by reference.](#)
- 10-l [Receivables Purchase Agreement dated June 18, 2012 between Meritor Heavy Vehicle Systems Cameri S.P.A., as seller, and Nordea Bank AB \(pbl\), as purchaser, filed as Exhibit 10-d to the Quarterly Report on Form 10-Q \(File No. 001-15983\) for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.](#)
- 10-l-1 [Extension Letter dated June 8, 2017, from Meritor Heavy Vehicle Systems Cameri S.P.A. to Nordea Bank AB \(pbl\), filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2017, is incorporated herein by reference.](#)
- 10-m [Receivables Purchase Agreement dated June 18, 2012 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, the various Conduit Purchasers, Related Committed Purchasers, LC Participants and Purchaser Agents from time to time party thereto, and PNC Bank, National Association, as issuers of Letters of Credit and as Administrator, filed as Exhibit 10-b to the Quarterly Report on Form 10-Q \(File No. 001-15983\) for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.](#)
- 10-m-1 [First Amendment to Receivables Purchase Agreement dated as of December 14, 2012 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, and Market Street Funding, LLC, as a Conduit Purchaser, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.](#)
- 10-m-2 [Second Amendment to Receivables Purchase Agreement dated June 21, 2013 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, and Market Street Funding LLC, as a Conduit Purchaser, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on June 21, 2013, is incorporated herein by reference.](#)
- 10-m-3 [Third Amendment to Receivables Purchase Agreement dated as of October 11, 2013 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank, as Administrator and as Assignee, and Market Street Funding LLC, as Conduit Purchaser and as Assignor, filed as Exhibit 10-m-16 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 29, 2013 \(the "2013 Form 10-K"\), is incorporated herein by reference.](#)
- 10-m-4 [Fourth Amendment to the Receivables Purchase Agreement dated as of October 15, 2014, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on October 20, 2014, is incorporated herein by reference.](#)
- 10-m-5 [Fifth Amendment to the Receivables Purchase Agreement dated as of December 4, 2015, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended January 3, 2016, is incorporated herein by reference.](#)

- 10-m-6 [Sixth Amendment to the Receivables Purchase Agreement dated as of December 5, 2016, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended January 1, 2017, is incorporated herein by reference.](#)
- 10-m-7 [Seventh Amendment to the Receivables Purchase Agreement dated as of June 22, 2017, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2017, is incorporated herein by reference.](#)
- 10-m-8 [Eighth Amendment to the Receivables Purchase Agreement dated as of December 5, 2017, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2017, is incorporated herein by reference.](#)
- 10-m-9 [Ninth Amendment to the Receivables Purchase Agreement dated as of October 4, 2018, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-1-9 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 2018, is incorporated herein by reference.](#)
- 10-m-10 [Tenth Amendment to the Receivables Purchase Agreement dated as of September 16, 2019, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-1-10 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 29, 2019, is incorporated herein by reference.](#)
- 10-m-11 [Eleventh Amendment to the Receivables Purchase Agreement dated as of March 31, 2021, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 4, 2021, is incorporated herein by reference.](#)
- 10-n [Fourth Amended and Restated Purchase and Sale Agreement dated June 18, 2012 among Meritor Heavy Vehicle Braking Systems \(U.S.A.\), LLC, and Meritor Heavy Vehicle Systems, LLC, as originators, Meritor, Inc., as initial servicer, and ArvinMeritor Receivables Corporation, as buyer, filed as Exhibit 10-a to the Quarterly Report on Form 10-Q \(File No. 001-15983\) for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.](#)
- 10-n-1 [Letter Agreement relating to Fourth Amended and Restated Receivables Purchase Agreement dated as of December 14, 2012 among Meritor Heavy Vehicle Braking Systems \(U.S.A.\), LLC, Meritor Heavy Vehicle Systems, LLC, ArvinMeritor Receivables Corporation, Meritor, Inc. and PNC Bank, National Association, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.](#)
- 10-o [Purchase and Option Agreement dated September 15, 2017 among Meritor, WABCO Holdings Inc. and the other parties listed therein, filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on September 18, 2017, is incorporated herein by reference.](#)
- 10-p [Agreement and Plan of Merger dated as of May 3, 2019 by and among Meritor, Inc., Janus Merger Sub, LLC, CAX Parent, LLC, and Carlyle Equity Opportunity GP, L.P., solely in its capacity as Holder Representative, filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on May 8, 2019, is incorporated herein by reference.](#)
- \*10-q [Special Retention Letter dated as of November 4, 2020 between Meritor, Inc. and Carl D. Anderson, II, filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on November 9, 2020, is incorporated herein by reference.](#)



*10-r**	<a href="#">Form of Employment Agreement (portions of this exhibit have been omitted).</a>
*10-s**	<a href="#">Schedule identifying agreements substantially identical to the Form of Employment Agreement constituting Exhibit 10- r hereto.</a>
21**	<a href="#">List of Subsidiaries of Meritor, Inc.</a>
22**	<a href="#">Guarantor Subsidiaries of Meritor, Inc.</a>
23-a**	<a href="#">Consent of Scott Confer, Esq., Vice President, Interim Chief Legal Officer and Corporate Secretary.</a>
23-b**	<a href="#">Consent of Deloitte &amp; Touche LLP, independent registered public accounting firm.</a>
24**	<a href="#">Power of Attorney authorizing certain persons to sign this Annual Report on Form 10-K on behalf of certain directors and officers of Meritor.</a>
31-a**	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act.</a>
31-b**	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act.</a>
32-a**	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.</a>
32-b**	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.</a>
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

---

\*Management contract or compensatory plan or arrangement.

\*\* Filed herewith.

**Item 16. Form 10-K Summary.**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERITOR, INC.

By: /s/ Scott M. Confer  
Scott M. Confer  
Interim Chief Legal Officer and Corporate Secretary

Date: November 17, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 17<sup>th</sup> day of November, 2021 by the following persons on behalf of the registrant and in the capacities indicated.

Jeffrey A. Craig*	Executive Chairman of the Board of Directors
Steven Beringhause, Jan A. Bertsch, Rodger L. Boehm, Ivor J. Evans, Elizabeth A. Fessenden, Fazal Merchant, William R. Newlin*, Thomas L. Pajonas, Lloyd G. Trotter Chris Villavarayan*	Directors  Chief Executive Officer and President (Principal Executive Officer) and Director
Carl D. Anderson II*	Senior Vice President, Chief Financial Officer (Principal Financial Officer)
Paul D. Bialy*	Vice President, Chief Accounting Officer (Principal Accounting Officer)

\* By: /s/ Scott M. Confer  
Scott M. Confer  
Attorney-in-fact \*\*

\*\* By authority of powers of attorney filed herewith.