

ArvinMeritor, Inc. (ARM)

Intriguing Transformation Story Could Reward Investors

Price: (06/18/07)	20.67	Rating:	Neutral	FY Sep	2006A	2007E	2008E
52WK H-L:	22 - 13			Q1	0.16A	0.16A	0.25E
Market Cap (mil):	1,451.03	Suitability:	Higher Risk	Q2	0.40A	0.17A	0.65E
Shares Out (mil):	70.2			Q3	0.73A	0.24E	0.71E
Float (mil):	69.7			Q4	<u>0.40A</u>	<u>0.18E</u>	<u>0.59E</u>
Avg. Daily Vol (mil):	1.26			Total	1.69A	0.75E	2.20E
		Price Target:	22	FY P/E	12.2x	27.6x	9.4x
Dividend:	0.40			EPS Cal	1.69A	0.85E	2.35E
Yield:	1.94			P/E	12.2x	24.3x	8.8x

EPS (Net): Includes FAS-123R expense.

Please refer to Appendix - Important Disclosures and Analyst Certification.

David Leiker, CFA
dleiker@rwbaird.com
414.298.7535

Keith R. Schicker
kschicker@rwbaird.com
414.298.7351

David Tsui
dtsui@rwbaird.com
414.298.7699

Action

Multi-year business transformation could deliver meaningful shareholder returns over next five years. Experienced management focused on cost reduction, investing in growth. \$1.50/share Performance Plus cost savings included in estimates, potential \$0.50-1.50/share upside from revenue enhancement initiatives. Potential long-term returns substantial, as company follows proven path - higher-margin, electronically enhanced product approach, relentless cost reduction focus - toward dramatically improved financial performance. Maintain Neutral rating. Suitable, in our view, for long-term value investors under \$20.

Summary

- We believe ArvinMeritor is in the early stages of a multi-year business transformation that could deliver meaningful returns to shareholders over the next five years.
- Reiterate Neutral rating, we have a positive outlook and recommend long-term value investors purchase the shares under \$20.
- Near-term results likely weak on low commercial vehicle volumes. Would become more aggressive on pullbacks or greater clarity surrounding long-term benefits of transformation plan.
- Experienced management team successfully refocused business on core product lines, strengthened the balance sheet. Efforts now focused on lowering cost base, investing in future growth.
- 2008-09 guidance, our estimate, include approximately \$1.50 per share Performance Plus cost savings. Revenue enhancement component could deliver additional \$0.50-1.50 by 2009, offering upside to current estimates, price target.
- Longer term, believe management taking right steps toward becoming best-in-class manufacturer, technology leader, traits presently exhibited by best performing suppliers. Returns could be meaningful for patient shareholders.
- Research and development focus shifting toward higher-margin electronically enhanced systems from lower-margin, high-volume commodity components, a proven model successfully executed by other suppliers.
- Presently, ArvinMeritor offers aperture (door, roof), chassis, drivetrain components and modules. Strategy shift exemplified by chassis approach - integrate cross-car module with air suspension, active roll control, adaptive damping technology to produce electronically enhanced, integrated, systems-based vehicle stability solution for OEMs.
- If successful, we believe ArvinMeritor could achieve 5-7% net new business growth, 6-8% operating margin, 13-15% ROIC. While not in our estimates, this could drive earnings to \$4.50-5.00 per share within five years.

Details

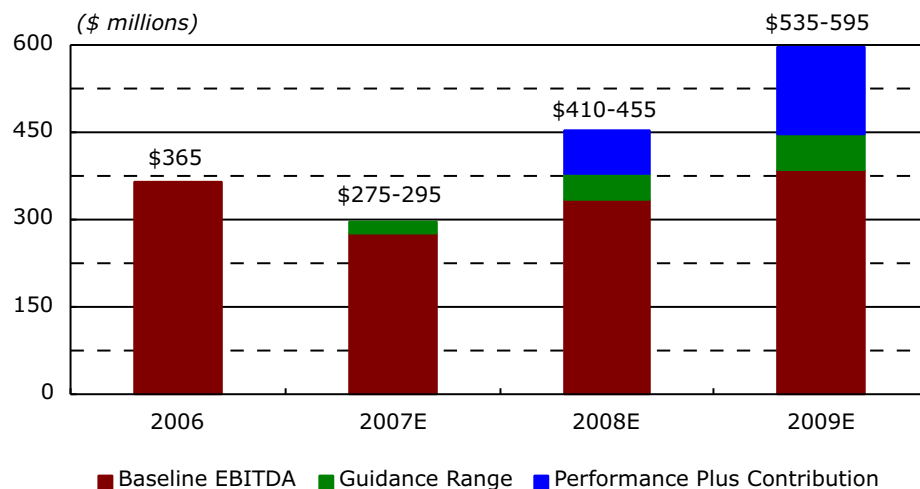
Summary and Investment Thesis

We believe ArvinMeritor is in the early stages of a multi-year business transformation with the potential to deliver meaningful shareholder returns over the next five years. Since arriving in late 2004, new management has taken steps to: 1) refocus the business on several key product areas, 2) strengthen the balance sheet and improve liquidity, 3) reduce the manufacturing cost base and improve operations, and 4) invest in future growth initiatives.

The transformation's latest initiative is the Performance Plus profit improvement plan, first unveiled in late 2006. The plan has both a cost reduction and revenue enhancement component and is intended to transform the company into a best-in-class manufacturer as well as an innovation and technology leader capable of delivering higher-margin, electronically enhanced, integrated aperture (door and roof), chassis, and drivetrain systems to both the light and commercial vehicle markets.

The cost reduction component of Performance Plus is expected to deliver "high confidence" cost savings of \$150 million (\$1.50 per share) by 2009. These savings are included in management's EBITDA guidance for 2007-2009, as well as our estimates. In addition, the revenue enhancement component has the potential to add an incremental \$50-150 million of EBITDA within the same time frame. This sum is not included in management's guidance or our estimates and could contribute upside of approximately \$0.50-1.50 to our fiscal 2009 EPS estimate.

EBITDA Guidance (includes Equity Income)



On a cautionary note, while Performance Plus is expected to yield meaningful benefits in fiscal 2008 and 2009, near-term results are likely to be weak, with meaningful year-over-year declines expected through calendar 2007. This weakness, more a function of the cyclical downturn in the North American commercial vehicle market than a function of poor operating performance, should not be viewed as indicative of early Performance Plus results. Management has stated its intent to provide updates on Performance Plus each quarter.

In light of this, we have a Neutral rating on the shares. We maintain a positive outlook for the company and believe long-term value investors should look to establish or add to positions under \$20. Given the volatility of the shares and the degree of uncertainty regarding the eventual long-term benefits of transformation efforts, we would only become more aggressive on any pullbacks into the upper teens or upon receiving greater

clarity regarding the potential long-term benefits of transformation efforts.

Business Description

ArvinMeritor is a global supplier of light and commercial vehicle systems, modules, and components. The company has focused on three main areas: Apertures (door modules, roof modules, regulators, latches), Chassis (brakes, suspensions, steering, wheels), and Drivetrain (transmissions, driveshafts, drive axles, alternative powertrains). The company also offers commercial vehicle aftermarket products and services globally.

In an effort to capture higher margins, management is shifting product strategy toward electronically enhanced, integrated systems. In the area of vehicle stability, for instance, the goal is melding competencies in front and rear cross-car modules with technologies such as air suspension systems, active roll control systems, and adaptive damping systems. Ideally, the company is then able to provide a complete vehicle stability solution, offering greater value to the OEM at a lower cost, while increased electronics content expands margins.

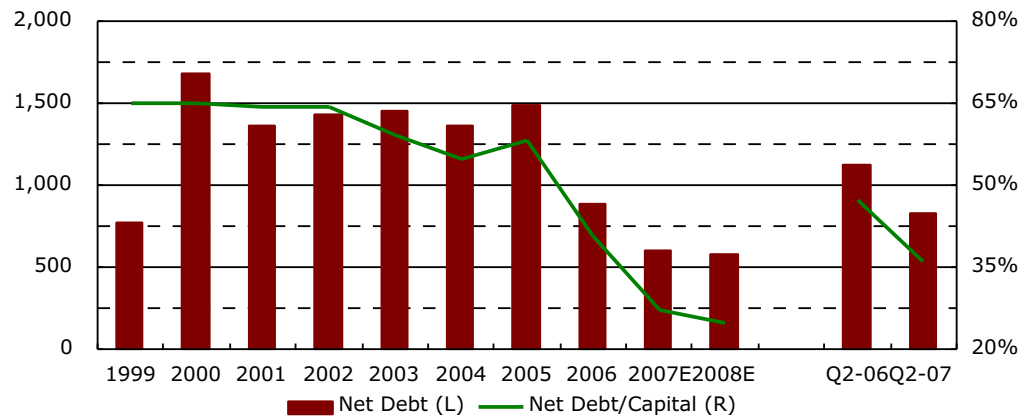
Capable, Experienced Management Team

Supporting our investment thesis and positive outlook on ArvinMeritor is the capable, experienced management team in place to execute the company's transformation. Over the last two-and-a-half years, almost the entire senior management team has been replaced with outsiders, each of whom possesses many years of automotive or commercial vehicle industry experience in a leadership role.

- CEO Charles G. "Chip" McClure brings over 25 years of industry experience, having served in leadership roles with Federal Mogul (post-bankruptcy), Detroit Diesel, and Johnson Controls.
- CFO Jim Donlon brings over 35 years of automotive industry experience in financial positions with Chrysler and Ford.
- President, Light Vehicle Systems Phil Martens has nearly 20 years of automotive industry experience with Plastech Engineered Products and Ford.
- President, Commercial Vehicle Systems Carsten Reinhardt previously served as CEO of Detroit Diesel and, prior to that, in various leadership roles with Freightliner.

While the solid resume gives us confidence, the present management team has also built a solid track record with several significant accomplishments in its short time at ArvinMeritor. Notably, management has: 1) sold significant non-core business, using the proceeds to reduce long-term debt (by approximately 20%, or \$300 million); 2) refinanced the remaining debt in part with convertible issues, extending maturities and lowering interest costs (by approximately 20%, or \$0.25 per share annually); 3) successfully executed 2005's 3 R's (Rationalize, Refocus, Regenerate) restructuring plan, largely offsetting rising commodity costs throughout fiscal 2006; and 4) established credibility with the analyst community by meeting or exceeding guidance in seven of eight quarters (beginning with fiscal 2007, only annual guidance is provided) while lowering guidance only once.

Debt Profile



Q2-07 pro forma for ET divestiture.

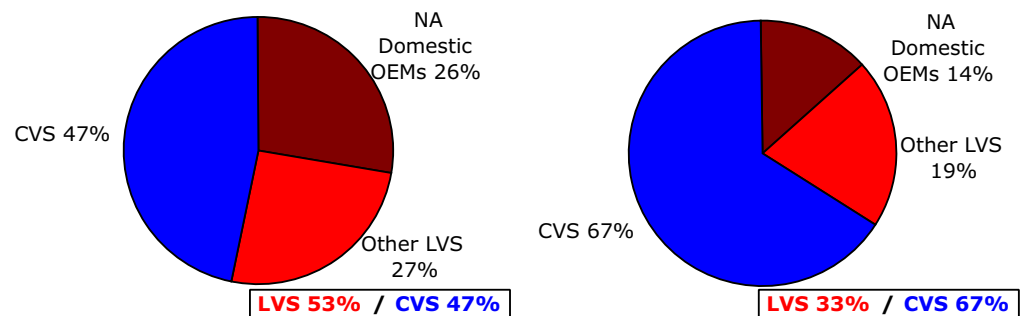
Refocusing the Business Model

Near the end of 2004, shortly after Chip McClure had been named CEO, ArvinMeritor announced plans to divest its Light Vehicle Aftermarket business group and Roll Coater coil coating business in an effort to focus on the Light Vehicle Systems OEM and Commercial Vehicle Systems OEM and aftermarket businesses. A month later, the company announced that it had sold its automotive stampings and components manufacturing operation, which had also been deemed non-core. The product portfolio was further refined with the sale of the company's off-highway brake business in October 2005.

Efforts to refocus the business model culminated in February when the company announced the sale of its Emissions Technology business. With emissions regulations tightening worldwide, the roughly \$3.0 billion business (about one-third of total revenue) had been expected to be a driver of future growth. However, given the engineering and financial resources required to grow and restructure the business, management opted to sell to a financial buyer. After electing to keep, rather than sell, its Gabriel light vehicle shock/strut aftermarket business, the surviving company is now focused on its core competencies of aperture, chassis, and drivetrain systems.

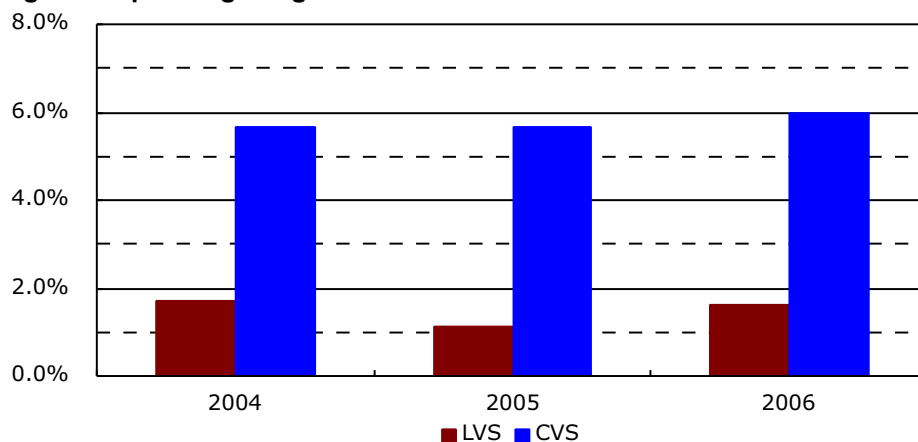
While initially a bit of a surprise, the Emissions Technology divestiture has effected a number of positive changes to the business model, each of which should have a positive impact on the company's valuation. First, it was the emissions technology business that was the primary user of stainless steel and exposure to the volatile metal has virtually been eliminated. Second, the Emissions Technology business contained a large portion of the exposure to the domestic OEMs. Following the divestiture, exposure has fallen to 14% of revenue from 26% prior to the sale. Lastly, exposure to the light vehicle market declines while exposure to the commercial vehicle market increases.

Revenue Mix Before (L) and After (R) Emissions Technology Divestiture



Ceteris paribus, this mix shift has a positive impact on profitability, as Commercial Vehicle Systems has historically enjoyed greater profitability. We would caution, however, that in recent years the North American commercial vehicle industry has been considerably more cyclical than the light vehicle industry, though the company's global diversity provides some offset.

Segment Operating Margins



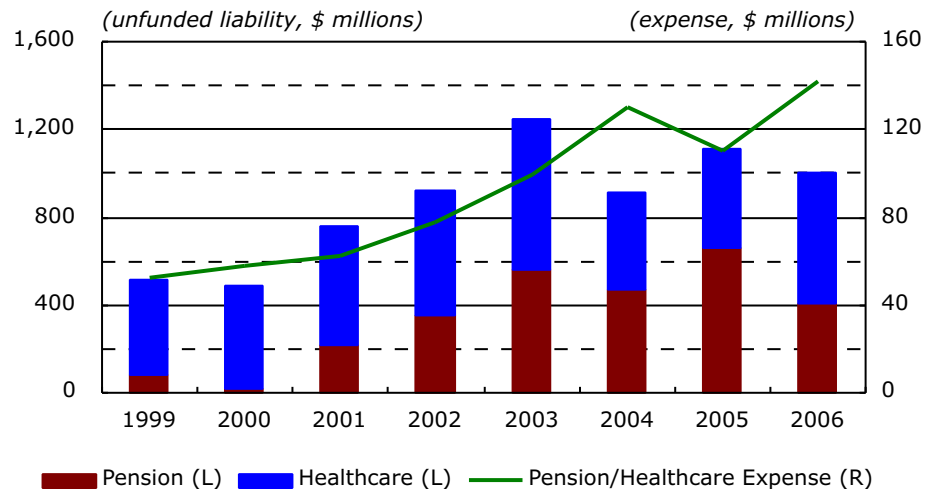
* Restated for ET divestiture, excludes certain unusual items.

Strengthening the Balance Sheet

Faced with a highly leveraged balance sheet and growing pension and retiree healthcare liabilities, management elected to use a portion of the divestiture proceeds to repurchase debt and fund the pension plan. With several key debt maturities nearing, management elected to undertake several refinancing actions to extend debt maturities and lower financing costs. In 2006, the company made a tender offer to repurchase \$600 million of notes, repaid its outstanding term loan, refinanced its revolving credit facility, and offered \$500 million of convertible notes. In total, interest expense was reduced by approximately \$25 million annually, or \$0.25 per share.

In addition to refinancing and reducing debt, the company has also taken steps to address its sizable pension and retiree healthcare liabilities. The company's defined benefit plan will be frozen effective January 2008 and a voluntary contribution was made in the fiscal second quarter to further improve funded status. Although a court injunction has prevented the company from amending certain retiree healthcare benefits, management has implemented consumer-driven healthcare initiatives to address this growing liability. However, despite these improvements, the company's pension and post-retirement liabilities will remain a significant expense and use of cash for the foreseeable future.

Pension and Retiree Healthcare



Reducing the Manufacturing Cost Base and Improving Operations

Under the cost reduction component of the Performance Plus plan, management is seeking to reduce its \$5.0 billion cost base by approximately \$340-390 million annually. After a \$190-240 million adjustment for execution, price, and raw material risks, management has guided toward "high confidence" cost savings of \$150 million by 2009. There are three main areas of focus, described below.

1. Overhead is targeted to yield gross savings of \$90-110 million by addressing travel and entertainment expenses, reducing indirect material costs, and reengineering back-office processes. For example, consolidating temporary labor suppliers alone is expected to provide annual savings of \$4-10 million.
2. Direct Material Optimization is expected to yield gross savings of \$190-210 million. Benefits will come from design optimization, leading-cost country commodity sourcing, "clean sheet" negotiations (what the cost of a purchased component should be), and freight cost reductions.
3. Manufacturing is expected to yield gross savings of \$60-70 million. To achieve this target, management announced its second major restructuring plan. Under this plan, thirteen plants in North America and Europe will be closed and 2,400 positions in high-cost countries will be affected, offset by 800 new positions in low-cost countries. Annual savings from the restructuring plan are expected to be \$45-55 million by 2009 and \$85-90 million by 2011, for a payback period of 2.8 years.

Investing in Profitable Future Growth

Under the revenue enhancement component of Performance Plus management is seeking \$1.2 billion of additional revenue at a 7-13% EBITDA margin; potentially \$50-150 million of additional EBITDA. As stated earlier, this total is not included in management's guidance or our estimates and could represent an incremental \$0.50-1.50 per share on top of our fiscal 2009 estimate. The total, if reached, would likely be weighted toward the end of the Performance Plus time frame.

Similar to the cost reduction component, management has identified three focus areas for revenue enhancement, which are essentially parts of the profitable growth strategy outlined by the company:

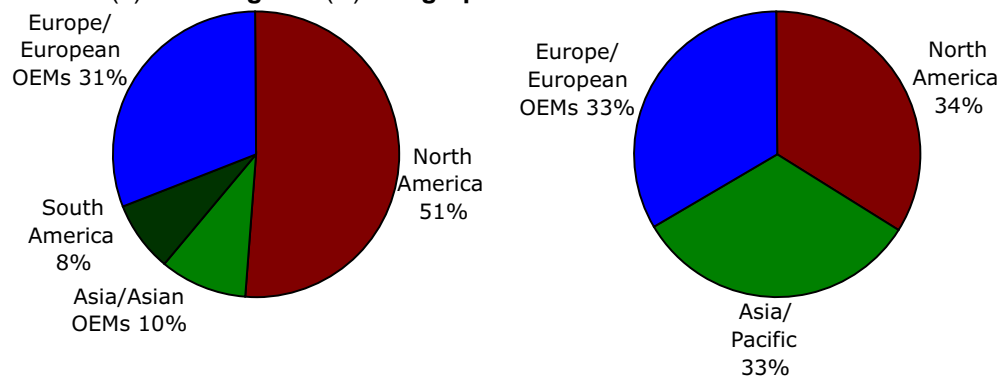
1. Product Strategy and Growth
2. Engineering, Research, and Development
3. Aftermarket

Taking a broader look, as we believe is appropriate here, management plans to grow the business profitably by: 1) increasing globalization, 2) increasing systems, controls, and electronics capabilities, 3) introducing new and enhanced technologies, and 4) tripling aftermarket sales.

The first component of management's profitable growth strategy is to increase globalization. Although management has explicitly announced intentions to triple its sales to Asian OEMs in Asia within five years (approximately \$1.0 billion of additional revenue), the company possesses a very broad and expanding global footprint. Generally speaking, global automotive production is growing at approximately 3% annually, with nearly all the unit growth coming from rapidly growing emerging markets. With nine manufacturing facilities in South America, eight manufacturing facilities in Eastern Europe, ten manufacturing facilities and two technical centers in India, and twelve manufacturing facilities in China, we believe ArvinMeritor is well positioned to take advantage of said growth.

The company is not done expanding either, targeting an equal revenue split between North America, Europe, and Asia and emerging markets; presently, the split is 51% North America, 31% Europe/European OEMs, and 18% South America and Asia/Asian OEMs. To help achieve this goal, the company has opened a commercial vehicle axle facility in Wuxi, China, intends to open a new technical center in Shanghai, China and double the size of its Bangalore, India technical center, and has appointed a full-time leader to the region. Rakesh Sachdev, previously Vice President of Corporate Development and Strategy, has been appointed President – Asia Pacific and will be responsible for growing the company's business in that region. Other important initiatives include optimizing sourcing, localizing design and engineering, and globalizing research and development and shared services.

Current (L) and Targeted (R) Geographic Revenue Mix



The second component of management's profitable growth strategy is to increase systems, controls, and electronics capabilities. Essentially management would like to transition from supplying higher-volume, lower-margin, commodity mechanical products to supplying (relatively) lower-volume, higher-margin, electronically controlled, systems and solutions. We have long maintained that the latter is a much more preferable and sustainable business model for a supplier to pursue.

By increasing focus on electronic control and enhancement, the company intends to realize higher margins. Management estimates that manufacturing represents only 10% of the value-add of an electronically enhanced product, while developing, understanding, and controlling the electronics component is 90% of the value-add. Developing the capability to capture more of the 90% can have only a positive effect on profitability and, depending on demand for the company's capabilities, future growth.

An example of this approach is at BorgWarner, where the technology, electronic control algorithms, and solenoids of a dual-clutch transmission were developed and are manufactured in-house, capturing virtually all of the value-add of the product. Another

supplier or OEM manufactures the actual transmission and captures the remaining value-add.

By increasing focus on systems capabilities, the company intends to integrate multiple products and technologies to produce a solution of value to a mature market customer. In emerging markets, the systems-oriented approach will provide OEMs with the cost benefits of modularization and mechanical integration. An example of this is the company's approach to chassis systems, where the company is seeking to integrate its capability to deliver front or rear cross-car modules, air suspension systems, active roll control systems, and adaptive damping systems.

An appropriate comparison to this approach would be Tenneco, where the company has developed the technology, products, and capabilities to deliver an end-to-end emissions controls system to an OEM, optimizing the weight, cost, fuel economy, and acoustic characteristics of the system to meet the customer's needs. In Tenneco's case, the company also lends its technology expertise to OEM customers as they work to develop new vehicle programs, giving the company a distinct advantage when the business is put up for bid.

The third component of management's profitable growth strategy, introducing new and enhanced technologies, is somewhat related to the second component. Management has elected to develop a unified product development system, termed the One ArvinMeritor Product Development System, to speed the development of new, electronically enhanced technologies and leverage core commercial vehicle competencies into the light vehicle market and vice versa. The system will be led by a common program management office and utilize a common product development and technology process. Additionally, management intends to utilize technology-oriented acquisitions to supplement and accelerate internal development activities.

An example of the new system's benefits is the recently developed common apertures motor that consolidated roof and door engineering into one apertures engineering activity. Annual savings totaled \$5 million and the product was developed in time for model year 2009 customer programs. If executed properly, we believe this component of the profitable growth strategy would finally result in the realization of intended revenue synergies from the Arvin Industries/Meritor Automotive merger nearly seven years ago.

Management's immediate goal for the second and third components is to develop five "gotta have" products. Indeed, the effort has already yielded a few innovative new products. A low energy door release latch offers a 30% reduction in package size and weight and a 65% reduction in components, while addressing all major OEM footprints with three designs. A plastic door module also offers a 30% reduction in weight, eliminates 50 components through integration, and offers OEMs significant design flexibility. The active roll control system mentioned earlier, essentially an electronically enhanced stabilizer bar, improves ride, handling, and safety. The system also reduces complexity, is easier to package, and is scalable and adjustable.

The final component of management's profitable growth strategy is tripling aftermarket sales. Management had identified the commercial vehicle aftermarket as a \$14.1 billion addressable market globally and believes that there are a number of high margin revenue opportunities available that would require limited investment. In developed markets such as North America and Europe, growth will come from expansion into financially attractive segments with strong growth potential. In Asia and developing markets, efforts will be centered on building a foundation via organic growth and acquisitions to both supply developed markets and meet expected local demand in 3-5 years.

Potential Financial Ramifications

The potential financial ramifications of the business model transformation described above could be substantial, leading to meaningful returns for patient shareholders. We would caution investors that the benefits from the cost reduction initiatives are more likely and would be realized sooner, whereas the benefits from the revenue enhancement

initiatives are subject to more risk and will likely have only a small near-term impact.

Thinking longer term, we believe that, if executed properly, the company's profitable growth strategy, combined with its cost reduction initiatives, could potentially lead to a business capable of 5-7% net new business growth, with 6-8% operating margins and a 13-15% return on invested capital. The timing of such an outcome, if attained, is uncertain. If achieved over the next five years, we estimate earnings per share could approach \$4.50-5.00. Under such a scenario, we believe the intrinsic value of the shares today is approximately \$24-26. Importantly though, we have not reflected these expectations in our model, reflecting upside to our current valuation, and believe that the market may be under-discounting such an outcome.

Investment Thesis

- Over the last few years, new management has made significant progress improving the business model, reducing debt, exiting non-core businesses, and reducing manufacturing/overhead costs. However, much work still remains.
- Debt is meaningfully lower, falling over 30% since mid-2004 (over \$6 per share) to just over 3.0x EBITDA, down from nearly 4.0x EBITDA. Even with additional restructuring costs, we look for net debt to fall more than 35% by the end of fiscal 2008 (another \$5 per share), reaching 1.6x EBITDA.
- Operating results, though stabilizing, remain depressed with lower-than-expected contribution margins; however, the dramatic estimate cuts seen over much of the last 4-5 years have moderated.
- Results in calendar 2007 expected to be negatively impacted by weaker commercial vehicle production with recovery expected in 2008-09.
- Embarked on Performance Plus (long-term improvement of the business model) that is estimated to add \$150 million to 2009 EBITDA (approximately \$1.50 per share). Our estimates now include these savings with additional upside from potential revenue gains from this program. Total cost of \$280 million to close/consolidate 13 incremental plants. Also, actions to optimize manufacturing and product development, move to low-cost countries and lower non-manufacturing costs.
- Upside potential: smaller-than-expected drop in commercial vehicle production, greater-than-expected gains from cost-cutting actions, realization of revenue gains from Performance Plus.
- Key risks: weak contribution margins combined with weak volumes could present downside risk to estimates, raw material costs, valuation (at nearly 8.0x calendar 2007 EBITDA, near top of range, though under 5.0x calendar 2008 EBITDA).
- Near-term valuation is a bit stretched; however, actions being taken to improve the business are improving underlying fundamentals, presenting an interesting longer-term story. We are a long-term buyer in the upper teens as we believe our target price could approach \$30 on 2009E EBITDA.
- Price target of \$22 is based on stock trading at 5.8x calendar 2008E EBITDA, the 50th percentile over the last three years.

Risks & Caveats

- **Macro Environment.** Automotive. The automotive industry is cyclical and highly impacted by economic activity. There is continuing price pressure from OEMs to reduce costs. Generally, if a supplier is unable to generate sufficient cost savings in the future to offset customer cost reductions, margins could be adversely affected. Commercial Vehicle. The commercial vehicle market is currently experiencing a cyclical downturn in demand, driven by emissions regulations effective at the beginning of the year. Even tighter emissions regulations effective in 2010 are

expected to cause demand to rebound in 2008 and 2009. Aftermarket. The commercial vehicle aftermarket is highly dependent on the freight environment, which drives truck miles and increases the demand for replacement parts, and fleet age, which moved lower after aggressive expansion by fleets in 2005 and 2006.

- **Major Customers.** Revenues are in part dependent on the domestic OEMs, which account for approximately 14% of sales. Key commercial vehicle customers include DaimlerChrysler (Freightliner, Mercedes, Western Star), Volvo (Volvo and Mack), PACCAR (Kenworth and Peterbilt), and Navistar. Key aftermarket customers include Ford/Motorcraft, AutoZone, CARQUEST, Kwik Fit, Unipart, Pep Boys, Advance, Midas, and Meineke. A business disruption at these or other major customers could adversely affect revenues and earnings.
- **Major Programs.** Key light-vehicle platforms include the VW PQ34/35 (Golf, Touran, Audi A1, Skoda Octavia), Hyundai NF/CM (Santa Fe, Sonata), Renault C (Megane, Scenic), Dodge DR-DE (Ram), VW PQ24/25 (Polo, Ibiza, Audi A2, Skoda Fabia). Key commercial vehicle platforms include Volvo heavy-duty trucks, Freightliner class 8 trucks, Renault heavy-duty trucks, Mack/Volvo class 8 trucks, and International class 8 trucks. A significant decrease in demand for these programs could have an adverse effect on the company's earnings.
- **New Business.** Incremental costs associated with bringing on new business, or losing current business to competitors, could adversely impact earnings.
- **Leveraged Balance Sheet.** Net debt is currently 56% of capital and represents 3.1 times LTM EBITDA, well above the supplier group average of 41% of capital and 1.8 times LTM EBITDA. Debt levels have fallen meaningfully in recent years, as new management has focused on strengthening the balance sheet.
- **Asbestos.** ArvinMeritor, through its Maremont subsidiary, is a defendant in suits brought by individuals claiming personal injuries as a result of exposure to products containing asbestos. Although the company has reserves and insurance against pending and future claims, all such liabilities for asbestos-related claims are subject to considerable uncertainty. As of September 2006, ArvinMeritor has 62,000 pending asbestos claims. The company has \$89 million in reserves for asbestos-related liabilities.
- **Post-Retirement Liabilities.** The company had underfunded post-retirement liabilities of \$1.0 billion at the end of the 2006 fiscal year (\$409 million in pension liabilities and \$600 million in other post-retirement liabilities).

Company Description

Headquartered in Troy, Michigan, ArvinMeritor, Inc. is a global supplier to light vehicle original equipment manufacturers (67% of 2006 revenues excluding the company's emissions technology business) of apertures, chassis and exhaust components; and a supplier of driveline systems for commercial truck, trailer and specialty equipment OEMs and commercial vehicle aftermarket (33% of sales). ArvinMeritor was the 9th largest North American supplier, the 14th largest European supplier and the 16th largest global supplier to automotive OEMs in 2005, as ranked by Automotive News. The company was formed through the merger of Meritor Automotive and Arvin Industries in July 2000.

(in \$ Millions)

Year	Lt. V. Build		Revenues			Gross Profit			EBITDA			Operating Income			Pretax Income			Tax Rate	Net Income			Fully Diluted EPS			GAAP EPS**	First Call*	Avg. Shares
	(000)	Chg	\$	%	Chg	\$	%	Chg	\$	%	Chg	\$	%	Chg	\$	%	Chg		\$	%	Chg	Cash	Chg				
Sep-94	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-95	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-96	15,140	-	5,319	-	-	-	-	-	-	-	-	308	5.8%	-	-	-	-	-	144	2.7%	-	\$1.85	-	-	-	-	77.8
Sep-97	15,244	0.7%	5,644	6.1%	-	-	-	-	-	-	-	348	6.2%	13.0%	-	-	-	-	172	3.0%	19.4%	\$2.30	24.2%	-	-	-	74.8
Sep-98	15,430	1.2%	6,268	11.1%	881	14.1%	-	546	8.7%	-	444	7.1%	27.6%	394	6.3%	-	37.8%	236	3.8%	37.2%	\$3.11	35.2%	-	2.84	-	75.9	
Sep-99	16,900	9.5%	7,491	19.5%	1,052	14.0%	19.4%	662	8.8%	21.2%	531	7.1%	19.6%	461	6.2%	17.0%	38.0%	279	3.7%	18.2%	\$3.65	17.5%	-	3.75	-	76.4	
Sep-00	17,483	3.4%	7,722	3.1%	1,050	13.6%	-0.2%	677	8.8%	2.3%	515	6.7%	-3.0%	413	5.3%	-10.4%	37.3%	254	3.3%	-9.0%	\$3.57	-2.3%	-	4.12	-	71.2	
Sep-01	15,615	-10.7%	6,805	-11.9%	733	10.8%	-30.2%	496	7.3%	-26.7%	279	4.1%	-45.8%	148	2.2%	-64.3%	33.8%	91	1.3%	-64.1%	\$1.38	-61.4%	-	0.53	1.36	66.2	
Sep-02	16,324	4.5%	6,883	1.1%	752	10.9%	2.6%	548	8.0%	10.5%	352	5.1%	26.2%	244	3.5%	65.4%	32.0%	155	2.3%	70.1%	-	-	\$2.31	37.4%	2.22	2.30	67.2
Results below are restated to reflect divestiture of Light Vehicle Aftermarket and Roll Coater businesses.																											
Sep-03	15,856	-2.9%	6,723	-2.3%	591	8.8%	-21.4%	438	6.5%	-20.1%	231	3.4%	-34.4%	135	2.0%	-44.7%	30.3%	89	1.3%	-42.5%	-	-	\$1.32	-43.0%	1.48	-	67.7
Sep-04	15,858	0.0%	8,033	19.5%	667	8.3%	12.9%	476	5.9%	8.7%	264	3.3%	14.3%	167	2.1%	23.7%	22.7%	120	1.5%	34.7%	-	-	\$1.75	32.7%	1.85	-	68.8
Q1	3,795	-2.7%	2,090	8.6%	126	6.0%	-15.4%	82	3.9%	-28.1%	36	1.7%	-37.9%	14	0.7%	-44.0%	28.6%	12	0.6%	-20.0%	-	-	\$0.17	-20.8%	0.17	0.23	69.0
Q2	3,956	-4.6%	2,276	14.0%	158	6.9%	-7.6%	104	4.6%	-8.8%	57	2.5%	-1.7%	34	1.5%	-10.5%	26.5%	23	1.0%	-11.5%	-	-	\$0.33	-11.7%	(0.48)	0.27	69.1
Q3	4,137	-0.9%	2,411	14.9%	201	8.3%	7.8%	140	5.0%	3.8%	96	4.0%	15.8%	72	3.0%	16.3%	27.7%	48	2.0%	14.5%	-	-	\$0.70	14.5%	0.64	0.66	69.0
Q4	3,735	2.7%	2,126	5.6%	152	7.1%	-5.6%	105	4.9%	-7.1%	60	2.8%	-7.7%	34	1.6%	-19.3%	17.7%	29	1.4%	-22.0%	-	-	\$0.41	-23.4%	0.17	0.41	70.0
Sep-05	15,624	-1.5%	8,903	10.8%	637	7.1%	-4.6%	431	4.8%	-9.4%	249	2.8%	-5.6%	154	1.7%	-7.8%	25.3%	112	1.3%	-6.7%	-	-	\$1.60	-8.5%	0.50	-	70.1
Q1	3,924	3.4%	2,086	-0.2%	129	6.2%	2.4%	82	3.9%	0.0%	42	2.0%	16.7%	17	0.8%	21.4%	23.5%	11	0.5%	-8.3%	-	-	\$0.16	-9.4%	0.39	0.14	69.8
Q2	4,129	4.4%	2,314	1.7%	172	7.4%	8.9%	111	4.8%	6.7%	67	2.9%	17.5%	40	1.7%	17.6%	20.0%	28	1.2%	21.7%	-	-	\$0.40	20.3%	0.44	0.39	69.9
Q3	4,114	-0.6%	2,477	2.7%	195	7.9%	-2.7%	129	5.2%	-7.9%	88	3.6%	-8.4%	70	2.8%	-2.9%	21.4%	51	2.1%	6.0%	-	-	\$0.73	4.5%	0.36	0.69	70.0
Q4	3,399	-9.0%	2,273	6.9%	135	5.9%	-11.2%	101	4.4%	-3.8%	54	2.4%	-10.0%	36	1.6%	6.2%	16.7%	28	1.2%	-3.1%	-	-	\$0.40	-2.3%	(3.76)	0.40	69.4
Sep-06	15,567	-0.4%	9,150	2.8%	631	6.9%	-0.9%	423	4.6%	-1.9%	251	2.7%	0.8%	163	1.8%	5.8%	20.2%	118	1.3%	5.4%	-	-	\$1.69	5.8%	(2.55)	-	69.8
Q1	3,609	-8.0%	2,340	12.2%	118	5.0%	-8.5%	77	3.3%	-6.1%	34	1.5%	-19.0%	16	0.7%	-5.9%	18.8%	11	0.5%	0.0%	-	-	\$0.16	-1.0%	0.16	0.23	70.5
Q2	3,803	-7.9%	1,627	-29.7%	137	8.4%	-20.3%	70	4.3%	-36.9%	38	2.3%	-43.3%	17	1.0%	-57.5%	11.8%	12	0.7%	-57.1%	-	-	\$0.17	-57.3%	(0.19)	0.23	70.2
Q3E	4,026	-2.1%	1,522	-38.6%	114	7.5%	-41.5%	68	4.5%	-47.3%	38	2.5%	-56.8%	24	1.6%	-65.5%	9.0%	17	1.1%	-66.7%	-	-	\$0.24	-66.8%	0.24	0.33	70.2
Q4E	3,574	5.1%	1,361	-40.1%	97	7.1%	-28.3%	59	4.3%	-41.9%	29	2.1%	-46.9%	17	1.3%	-51.6%	9.0%	13	0.9%	-54.1%	-	-	\$0.18	-54.6%	0.18	0.25	70.2
Sep-07E	15,012	-3.6%	6,850	-25.1%	466	6.8%	-26.2%	274	4.0%	-35.3%	139	2.0%	-44.7%	75	1.1%	-54.3%	11.7%	53	0.8%	-55.2%	-	-	\$0.75	-55.6%	0.75	0.95	70.3
<i>May 1 Guidance: 2007 Rev = \$6.0-6.2 billion, EPS (ex-items) = \$0.70-0.80, EBITDA (ex-equity income of \$35 million) = \$240-260 million, free cash flow = \$50-100 million</i>																											
Q1E	3,797	5.2%	1,299	-44.5%	98	7.5%	-16.9%	73	5.6%	-4.7%	40	3.0%	16.5%	26	2.0%	63.3%	25.0%	18	1.4%	60.0%	-	-	\$0.25	60.7%	0.25	0.16	70.2
Q2E	4,020	5.7%	1,620	-0.4%	151	9.3%	10.4%	112	6.9%	60.2%	78	4.8%	106.3%	65	4.0%	280.4%	25.0%	45	2.8%	279.2%	-	-	\$0.65	279.2%	0.65	0.30	70.2
Q3E	4,118	2.3%	1,966	29.1%	172	8.8%	51.1%	118	6.0%	73.1%	84	4.3%	121.0%	73	3.7%	203.5%	25.0%	50	2.5%	194.4%	-	-	\$0.71	194.4%	0.71	0.55	70.2
Q4E	3,610	1.0%	1,658	21.8%	143	8.6%	48.2%	103	6.2%	74.8%	69	4.1%	139.9%	59	3.6%	240.8%	25.0%	42	2.5%	223.1%	-	-	\$0.59	223.1%	0.59	0.53	70.2
Sep-08E	15,545	3.6%	6,543	-4.5%	565	8.6%	-21.3%	406	6.2%	48.3%	271	4.1%	95.3%	223	3.4%	199.7%	25.0%	155	2.4%	192.7%	-	-	\$2.20	193.0%	2.20	1.65	70.2
<i>May 1 Guidance: 2008 EBITDA (ex-equity inc. of \$40 million, inc \$75 million from Perf. Plus) = \$390-415 million; 2009 EBITDA (ex-equity inc. of \$45 million, inc \$75 million from Perf. Plus) = \$490-550 million.</i>																											
Sep-09E	15,749	1.3%	7,202	10.1%	685	9.5%	21.2%	518	7.2%	27.6%	383	5.3%	41.3%	345	4.8%	54.5%	25.0%	246	3.4%	59.1%	-	-	\$3.50	59.1%	3.50	-	70.2
Sep-10E	15,853	0.7%	7,048	-2.1%	639	9.1%	-6.7%	462	6.6%	-10.8%	322	4.6%	-15.9%	294	4.2%	-14.9%	25.0%	207	2.9%	-15.7%	-	-	\$2.95	-15.7%	2.95	-	70.2

* As of May 1.

* excludes a one-time gain of \$1 million pre-tax (\$0.02 after-tax)

** GAAP EPS ex-accounting change.

^ excludes a one-time gain of \$6 million pre-tax, restructuring costs of \$26 million pre-tax, and one-time loss of \$5 million pre-tax. Net impact is \$0.22 per share after-tax.

** excludes \$30 million restructuring charge (\$21 million after-tax or \$0.32 per share)

Cal-2007 Assumptions: US LV Sales = 16.4 million, Europe LV Build = flat, euro = \$1.30 (Q1 and 2007), cost savings of \$50-60 million

Cal-2008 Assumptions: US LV Sales = 16.7 million, Europe LV Build = flat, euro = \$1.30

Sensitivity Analysis:

Every 1.5-million unit change (+/- 10%) in North American light vehicle production changes EPS by \$0.30 per share and target price by \$1.

Every 35-40,000 unit change (+/- 10%) in NA commercial vehicle production changes EPS by \$0.30-0.35 per share and target price by \$1-2.

New Business Growth*		
	Rev.	Chg
2004	236	5%
2005	312	6%
2006	0	0%
2007	50	1%
2008	100	5%
2009	150	7%
2007-09	300	4%

Shares Outstanding (Dec-06)	
Basic Shares	69.4
Options (Diluted)	1.1
Convertible Securities	0.0
Diluted Shares	70.5
Insiders Own:	2%
Headquartered:	Troy, Michigan

* LVS revenue growth with flat NA build (ex-price of -2%).

David Leiker, CFA ♦ (414) 298-7535 ♦ dleiker@rwbaird.com

May 2, 2007

Keith R. Schicker ♦ (414) 298-7351 ♦ kschicker@rwbaird.com

Balance Sheet & Cash Flow

David Tsui ♦ (414) 298-7699 ♦ dtsui@rwbaird.com

(in \$ Millions)

Balance Sheet	Sep-03	Sep-04	Sep-05	Sep-06	Estimate		Interim
					Sep-07E	Sep-08E	Mar-07
ASSETS							
Cash & Equivalents	103	132	187	350	642	663	222
Receivables	1,327	1,478	1,655	1,645	1,136	1,081	1,118
Inventory	543	523	541	596	469	448	486
Other	266	853	787	502	502	502	240
Total Current	2,239	2,986	3,170	3,093	2,749	2,695	2,066
Fixed Assets	1,332	1,032	1,013	988	693	683	706
Goodwill & Intangible Assets	951	808	801	503	503	503	511
Other Assets	731	813	886	929	951	1,095	2,215
Total Assets	5,253	5,639	5,870	5,513	4,896	4,976	5,498
<i>Sold Receivables</i>	237	32	23	84	84	84	141
LIAB. & EQUITY							
Current Debt	20	3	131	56	56	56	17
Payables	1,311	1,366	1,483	1,649	1,032	986	1,128
Other	547	904	909	844	844	844	637
Total Current	1,878	2,273	2,523	2,549	1,932	1,886	1,782
L/T Debt & Lease	1,502	1,487	1,451	1,184	1,184	1,184	1,220
Deferred Taxes	-	-	-	-	-	-	-
Other Liabilities	871	830	963	771	746	746	1,511
Minority Interest	64	61	58	65	65	65	67
Preferred Stock	39	39	0	0	0	0	0
Common Equity	899	949	875	944	969	1,095	918
Total	5,253	5,639	5,870	5,513	4,896	4,976	5,498

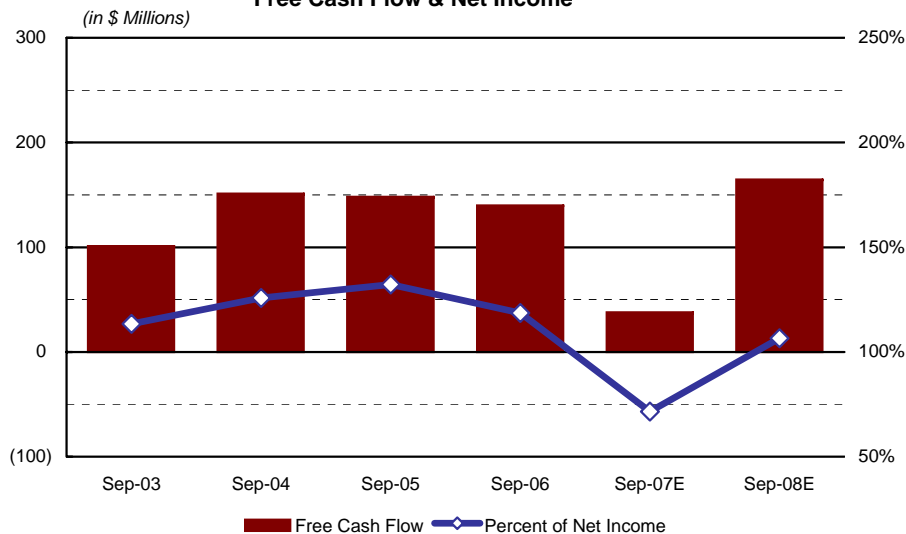
Working Capital Management	Sep-03	Sep-04	Sep-05	Sep-06	Sep-07E	Sep-08E	Interim
Work. Cap. (Inc. Sold Rec.)	\$515	\$616	\$614	\$334	\$315	\$285	\$220
Change	\$218	\$101	(\$2)	(\$280)	(\$19)	(\$29)	(\$394)
Current Ratio	1.2	1.3	1.3	1.2	1.4	1.4	1.2
Avg. Working Cap/Revenues	6.0%	7.0%	6.3%	5.2%	3.9%	2.2%	-
Inventory Turns (COGS/Inv.)	11.3	14.1	15.3	14.3	13.6	13.3	13.8

Days Investment (Days of Sa	Sep-03	Sep-04	Sep-05	Sep-06	Sep-07E	Sep-08E	Interim
Account Receivables	72.0	67.2	67.9	65.6	60.5	60.3	52.7
+ Inventory	29.5	23.8	22.2	23.8	25.0	25.0	20.3
= Total	101.5	90.9	90.0	89.4	85.5	85.3	73.1
- Payables	71.2	62.1	60.8	65.8	55.0	55.0	47.2
= Net Investment	30.3	28.9	29.2	23.6	30.5	30.3	25.8
(in dollars)	559.0	635.0	713.0	592.0	572.9	543.4	617.0
change	0.0%	13.6%	12.3%	-17.0%	-3.2%	-5.1%	-17.8%

Capital Structure	Sep-03	Sep-04	Sep-05	Sep-06	Sep-07E	Sep-08E	Interim
Net Debt (Inc. Sold Rec.)	\$1,656	\$1,390	\$1,418	\$974	\$682	\$661	\$1,156
Change	\$157	(\$266)	\$28	(\$444)	(\$292)	(\$21)	(\$262)
Net Debt/Capital	64%	58%	62%	51%	41%	38%	56%
Net Debt/LTM EBITDA	3.8	2.9	3.3	2.3	2.5	1.6	3.1
EBITDA/Interest Expense	4.2	4.4	3.5	2.3	2.5	1.6	-

Cash Flow Statement	Sep-03	Sep-04	Sep-05	Sep-06	Estimate	
					Sep-07E	Sep-08E
Net Income	89	120	112	118	53	155
Depreciation	185	183	182	172	135	135
Amortization	0	0	0	0		
Working Capital	56	(42)	(52)	109	19	29
Deferred Taxes	(36)	19	(119)	(87)	(25)	0
Other Non-cash Items	(73)	(112)	(153)	152	(22)	(144)
Cash Flow from Operations	221	168	(30)	464	160	175
Dividend Payments	(27)	(28)	(28)	(28)	(28)	(28)
Capital Expenditures	(173)	(152)	(146)	(150)	(150)	(125)
Acquisitions / Divestitures	(3)	82	171	59	310	
Share Repurchase / Issuance	0	6	6	1	0	0
Other Sources / Uses	20	25	8	153		
Change in Net Debt	38	101	(19)	499	292	21
Change in Debt	(29)	(55)	76	(336)		
Change in Cash & Equivalents	9	46	57	163	292	21
Minimum Debt Payments (Estimates)	-	-	-	-	56	24
Pension / OPEB Contributions	(163)	(150)	(102)	(123)	(134)	
"Free Cash Flow" (NI+D&A-Cap Ex)	101	151	148	140	38	165
Percent of Net Income	113.5%	125.8%	132.1%	118.6%	71.6%	106.5%
Depreciation (% of Revenue)	2.8%	2.3%	2.0%	1.9%	2.0%	2.1%
Capital Expenditures (% of Revenue)	2.6%	1.9%	1.6%	1.6%	2.2%	1.9%
ARM "Free Cash Flow" (CFO - Cap Exp)	48	16	(176)	214	60	150

Free Cash Flow & Net Income



Calendar EBITDA	2003	2004	2005	2006E	2007E	2008E
	\$449	\$444	\$431	\$418	\$270	\$422

David Leiker, CFA ♦ (414) 298-7535 ♦ dleiker@rwbaird.com

May 2, 2007

Keith R. Schicker ♦ (414) 298-7351 ♦ kschicker@rwbaird.com

Income Statement Detail

David Tsui ♦ (414) 298-7699 ♦ dtsui@rwbaird.com

Year	Deprec. (Display)	SG&A Expense		Amort \$	Operating Inc.			Eq. In Affil. \$	Net Int. Inc/(Exp) \$	Other Inc/(Exp) \$	Pretax Income			Income Taxes		less Min Int \$	Net Income		
		\$	%		\$	\$	%				Chg	\$	%	Chg	\$		Rate	\$	%
Sep-94	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-95	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-96	-	-	-	-	308	5.8%	-	-	-	-	-	-	-	-	-	-	144	2.7%	-
Sep-97	100	-	-	-	348	6.2%	13.0%	-	-	-	-	-	-	-	-	-	172	3.0%	19.4%
Sep-98	93	428	6.8%	-	444	7.1%	27.6%	32	(2)	(80)	394	6.3%	-	149	37.8%	9	236	3.8%	37.2%
Sep-99	120	503	6.7%	17.5%	531	7.1%	19.6%	45	(117)	2	461	6.2%	-	175	38.0%	7	279	3.7%	18.2%
Sep-00	143	510	6.6%	1.4%	515	6.7%	-3.0%	40	(142)	0	413	5.3%	-	154	37.3%	5	254	3.3%	-9.0%
Sep-01	193	428	6.3%	-16.1%	279	4.1%	-45.8%	4	(136)	0	148	2.2%	-	50	33.8%	7	91	1.3%	-64.1%
Sep-02	196	400	5.8%	-6.5%	352	5.1%	26.2%	(3)	(105)	0	244	3.5%	-	78	32.0%	11	155	2.3%	70.1%
Sep-03	207	360	5.4%	-10.0%	231	3.4%	-34.4%	8	(104)	0	135	2.0%	-	41	30.3%	5	89	1.3%	-42.5%
Sep-04	212	403	5.0%	11.9%	264	3.3%	14.3%	19	(107)	(9)	167	2.1%	-	38	22.7%	9	120	1.5%	34.7%
Q1	46	90	4.3%	-1.1%	36	1.7%	-37.9%	6	(28)	0	14	0.7%	-	4	28.6%	(2)	12	0.6%	-20.0%
Q2	47	101	4.4%	-10.6%	57	2.5%	-1.7%	7	(30)	0	34	1.5%	-	9	26.5%	2	23	1.0%	-11.5%
Q3	44	104	4.3%	1.4%	96	4.0%	15.8%	7	(31)	0	72	3.0%	-	20	27.7%	4	48	2.0%	14.5%
Q4	45	92	4.3%	-4.2%	60	2.8%	-7.7%	8	(35)	0	34	1.6%	-	6	17.7%	(1)	29	1.4%	-22.0%
Sep-05	182	387	4.4%	-3.9%	249	2.8%	-5.6%	28	(124)	0	154	1.7%	-	39	25.3%	3	112	1.3%	-6.7%
Q1	40	87	4.2%	-3.3%	42	2.0%	16.7%	7	(32)	0	17	0.8%	-	4	23.5%	2	11	0.5%	-8.3%
Q2	44	105	4.5%	4.0%	67	2.9%	17.5%	8	(35)	0	40	1.7%	-	8	20.0%	4	28	1.2%	21.7%
Q3	41	107	4.3%	2.5%	88	3.6%	-8.4%	10	(28)	0	70	2.8%	-	15	21.4%	4	51	2.1%	6.0%
Q4	47	81	3.6%	-12.0%	54	2.4%	-10.0%	11	(29)	0	36	1.6%	-	6	16.7%	2	28	1.2%	-3.1%
Sep-06	172	380	4.2%	-1.9%	251	2.7%	0.8%	36	(124)	0	163	1.8%	-	33	20.2%	12	118	1.3%	5.4%
Q1	43	84	3.6%	-3.4%	34	1.5%	-19.0%	9	(27)	0	16	0.7%	-	3	18.8%	2	11	0.5%	0.0%
Q2	32	99	6.1%	-5.7%	38	2.3%	-43.3%	7	(28)	0	17	1.0%	-	2	11.8%	3	12	0.7%	-57.1%
Q3E	30	76	5.0%	-28.9%	38	2.5%	-56.8%	10	(23)	0	24	1.6%	-	2	9.0%	5	17	1.1%	-66.7%
Q4E	30	68	5.0%	-16.0%	29	2.1%	-46.9%	11	(22)	0	17	1.3%	-	2	9.0%	3	13	0.9%	-54.1%
Sep-07E	135	327	4.8%	-13.9%	139	2.0%	-44.7%	36	(100)	0	75	1.1%	-	9	11.7%	13	53	0.8%	-55.2%
Q1E	34	58	4.5%	-30.4%	40	3.0%	16.5%	8	(22)	0	26	2.0%	-	7	25.0%	2	18	1.4%	60.0%
Q2E	34	73	4.5%	-26.4%	78	4.8%	106.3%	8	(22)	0	65	4.0%	-	16	25.0%	3	45	2.8%	279.2%
Q3E	34	88	4.5%	16.2%	84	4.3%	121.0%	11	(22)	0	73	3.7%	-	18	25.0%	5	50	2.5%	194.4%
Q4E	34	75	4.5%	9.6%	69	4.1%	139.9%	12	(22)	0	59	3.6%	-	15	25.0%	3	42	2.5%	223.1%
Sep-08E	135	294	4.5%	-10.0%	271	4.1%	95.3%	40	(87)	0	223	3.4%	-	56	25.0%	13	155	2.4%	192.7%
Sep-09E	135	302	4.2%	2.7%	383	5.3%	41.3%	44	(81)	0	345	4.8%	-	86	25.0%	13	246	3.4%	59.1%
Sep-10E	140	317	4.5%	4.9%	322	4.6%	-15.9%	48	(76)	0	294	4.2%	-	73	25.0%	13	207	2.9%	-15.7%

Year	North American Vehicle Production						Average Dollar Content						Sales by Segment											
	Light Vehicles		Medium Vehicles		Heavy Vehicles		Total Build		Light Vehicle		Comm. Vehicle		Light Vehicle		Comm. Vehicle		LV Aftermarket		Other		Total			
	(000)	Chg	(000)	Chg	(000)	Chg	(000)	Chg	(\$)	Chg	(\$)	Chg	\$	%	Chg	\$	%	Chg	\$	%	Chg	\$	Chg	
Sep-94	15,023	-	-	-	-	-	15,023	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-95	15,106	0.5%	149	-	247	-	15,106	0.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-96	15,140	0.2%	155	3.7%	208	-15.7%	15,140	0.2%	180	-	5,171	-	2,728	51.3%	-	1,876	35.3%	-	607	11.4%	-	108	2.0%	5,319
Sep-97	15,244	0.7%	182	17.8%	205	-1.5%	15,244	0.7%	188	4.3%	5,209	0.7%	2,865	50.8%	5.0%	2,016	35.7%	7.5%	649	11.5%	6.9%	114	2.0%	5,644
Sep-98	15,430	1.2%	209	14.9%	258	25.9%	15,898	4.3%	197	4.9%	5,190	-0.4%	3,041	48.5%	6.1%	2,425	38.7%	20.3%	686	10.9%	5.7%	116	1.9%	6,268
Sep-99	16,900	9.5%	263	26.0%	318	23.3%	17,482	10.0%	206	4.3%	5,055	-2.6%	3,474	46.4%	14.2%	2,941	39.3%	21.3%	906	12.1%	32.1%	170	2.3%	7,491
Sep-00	17,483	3.4%	242	-8.1%	295	-7.5%	18,020	3.1%	210	2.1%	5,452	7.8%	3,668	47.5%	5.6%	2,926	37.9%	(0.5%)	950	12.3%	4.9%	178	2.3%	7,722
Sep-01	15,615	-10.7%	188	-22.2%	154	-47.7%	15,957	-11.4%	230	9.5%	6,425	17.8%	3,588	52.7%	(2.2%)	2,199	32.3%	(24.8%)	859	12.6%	(9.6%)	159	2.3%	6,805
Sep-02	16,324	4.5%	190	0.6%	174	12.9%	16,687	4.6%	222	-3.6%	6,189	-3.7%	3,617	52.6%	0.8%	2,249	32.7%	2.3%	860	12.5%	0.1%	157	2.3%	6,883
Segments restated to reflect divestiture of Light Vehicle Aftermarket and Roll Coater businesses.																								
Sep-03	15,856	-2.9%	180	-4.9%	172	-1.0%	16,209	-2.9%	271	22.4%	6,873	11.1%	4,301	64.0%	18.9%	2,422	36.0%	7.7%	-	-	-	-	-	6,723
Sep-04	15,858	0.0%	219	21.8%	242	40.8%	16,320	0.7%	304	12.0%	6,962	1.3%	4,818	60.0%	12.0%	3,215	40.0%	32.7%	-	-	-	-	-	8,033
Q1	3,795	-2.7%	56	11.5%	78	52.1%	3,929	-1.8%	312	-1.9%	6,758	0.3%	1,183	56.6%	(4.5%)	907	43.4%	32.4%	-	-	-	-	-	2,090
Q2	3,956	-4.6%	65	16.0%	81	47.9%	4,103	-3.6%	314	6.2%	7,030	1.9%	1,244	54.7%	1.4%	1,032	45.3%	34.2%	-	-	-	-	-	2,276
Q3	4,137	-0.9%	65	10.0%	90	39.6%	4,292	-0.2%	313	5.5%	7,218	3.4%	1,293	53.6%	4.5%	1,118	46.4%	29.7%	-	-	-	-	-	2,411
Q4	3,735	2.7%	60	11.2%	88	23.2%	3,883	3.2%	302	-1.4%	6,746	-6.0%	1,129	53.1%	1.3%	997	46.9%	10.9%	-	-	-	-	-	2,126
Sep-05	15,624	-1.5%	246	12.2%	338	39.3%	16,208	-0.7%	310	2.2%	6,945	-0.2%	4,849	54.5%	0.6%	4,054	45.5%	26.1%	-	-	-	-	-	8,903
Q1	3,924	3.4%	55	-2.6%	82	5.0%	4,061	3.3%	293	-6.0%	6,852	1.4%	1,150	55.1%	(2.8%)	936	44.9%	3.2%	-	-	-	-	-	2,086
Q2	4,129	4.4%	68	3.3%	92	12.9%	4,288	4.5%	299	-4.9%	6,767	-3.7%	1,235	53.4%	(0.7%)	1,079	46.6%	4.6%	-	-	-	-	-	2,314
Q3	4,114	-0.6%	67	3.3%	91	0.9%	4,272	-0.5%	321	2.8%	7,316	1.4%	1,322	53.4%	2.2%	1,155	46.6%	3.3%	-	-	-	-	-	2,477
Q4	3,399	-9.0%	67	11.8%	100	13.7%	3,566	-8.2%	339	12.2%	6,709	-0.5%	1,153	50.7%	2.2%	1,120	49.3%	12.3%	-	-	-	-	-	2,273
Sep-06	15,567	-0.4%	256	4.0%	365	8.1%	16,188	-0.1%	312	0.6%	6,910	-0.5%	4,860	53.1%	0.2%	4,290	46.9%	5.8%	-	-	-	-	-	9,150
Emissions Tech.,																								
Q1	3,609	-8.0%	64	17.3%	95	15.7%	3,768	-7.2%	130	-55.6%	6,681	-2.5%	470	20.1%	(59.1%)	1,062	45.4%	13.5%	808	-	-	-	-	2,340
Q2	3,803	-7.9%	59	-13.2%	75	-18.6%	3,936	-8.2%	145	-51.5%	8,058	19.1%	552	33.9%	(55.3%)	1,075	66.1%	(0.4%)	-	-	-	-	-	1,627
Q3E	4,026	-2.1%	43	-35.2%	37	-59.2%	4,107	-3.9%	153	-52.4%	11,262	53.9%	615	40.4%	(53.4%)	907	59.6%	(21.5%)	-	-	-	-	-	1,522
Q4E	3,574	5.1%	43	-35.1%	41	-58.8%	3,659	2.6%	133	-60.7%	10,466	56.0%	476	35.0%	(58.7%)	885	65.0%	(20.9%)	-	-	-	-	-	1,361
Sep-07E	15,012	-3.6%	209	-18.2%	248	-32.0%	15,469	-4.4%	141	-54.9%	8,589	24.3%	2,113	30.9%	(56.5%)	3,929	57.4%	(8.4%)	808	-	-	-	-	6,850
Q1E	3,797	5.2%	55	-14.8%	47	-50.6%	3,899	3.5%	132	1.4%	7,859	17.6%	502	38.6%	6.7%	798	61.4%	(24.9%)	-	-	-	-	-	1,299
Q2E	4,020	5.7%	58	-1.1%	66	-11.6%	4,144	5.3%	147	1.4%	8,290	2.9%	592	36.5%	7.2%	1,028	63.5%	(4.3%)	-	-	-	-	-	1,620
Q3E	4,118	2.3%	61	41.1%	70	90.0%	4,250	3.5%	153	0.2%	10,138	-10.0%	630	32.1%	2.4%	1,335	67.9%	47.3%	-	-	-	-	-	1,966
Q4E	3,610	1.0%	52	19.0%	69	67.3%	3,731	2.0%	134	0.9%	9,723	-7.1%	485	29.3%	1.9%	1,173	70.7%	32.5%	-	-	-	-	-	1,658
Sep-08E	15,545	3.6%	225	7.6%	252	1.8%	16,023	3.6%	142	0.9%	9,069	5.6%	2,209	33.8%	4.5%	4,334	66.2%	10.3%	-	-	-	-	-	6,543
Sep-09E	15,749	1.3%	244	8.2%	312	23.7%	16,306	1.8%	148	4.5%	8,743	-3.6%	2,338	32.5%	5.8%	4,864	67.5%	12.2%	-	-	-	-	-	7,202
Sep-10E	15,853	0.7%	229	-6.2%	269	-13.7%	16,351	0.3%	158	6.2%	9,125	4.4%	2,500	35.5%	6.9%	4,548	64.5%	(6.5%)	-	-	-	-	-	7,048

Cal-2007 Assumptions: US LV Sales = 16.4 million, Europe LV Build = flat, euro = \$1.30 (Q1 and 2007), cost savings of \$50-60 million

Cal-2008 Assumptions: US LV Sales = 16.7 million, Europe LV Build = flat, euro = \$1.30

New Business Growth*			Light Vehicle (33%)		Commercial (67%)		LV Aftermarket (0%)	
Fiscal	Rev.	Chg	GMF/C	42%	NA Heavy	26%	Exhaust	35%
2004	236	5%	Other	58%	Other M/H	45%	Ride Control	30%
2005	312	6%		100%	After Mkt	23%	Filters	35%
2006	0	0%			Trailers	6%		100%
2007	50	1%				100%		
2008	100	5%					NA	68%
2009	150	7%					Europe	23%
2007-09	300	4%					Asia	9%
								100%

* LVS revenue growth with flat NA build (ex-price of -2%).

Updated: July 28 Conf Call (Q3)

David Leiker, CFA ♦ (414) 298-7535 ♦ dleiker@rwbaird.com
 Keith R. Schicker ♦ (414) 298-7351 ♦ kschicker@rwbaird.com
 David Tsui ♦ (414) 298-7699 ♦ dtsui@rwbaird.com

May 2, 2007

Historical Performance

(in \$ Millions)

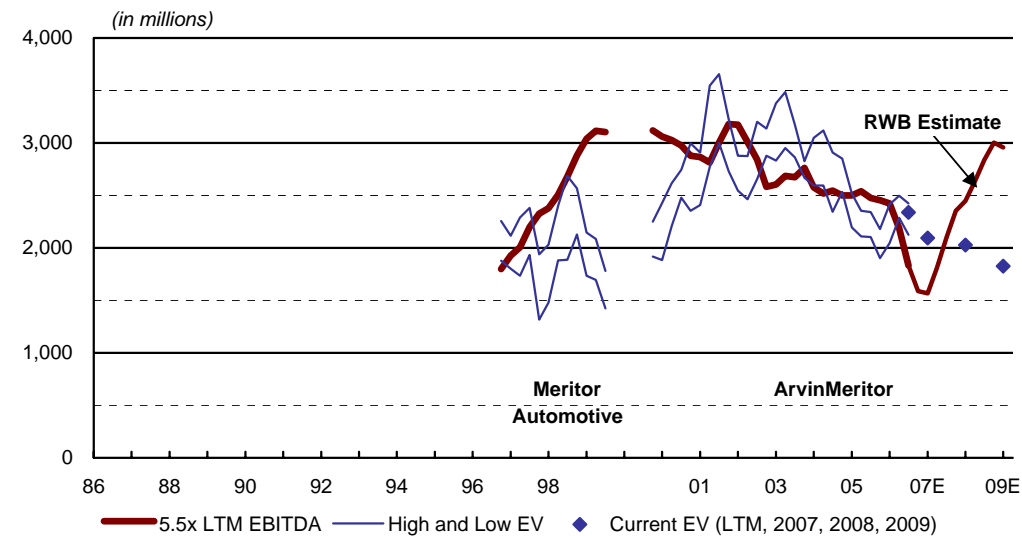
Year	Lt. Vehicle Build		Revenues		Gross Profit			Operating Expenses			Operating Income			Pretax Income			Tax	Net Income			F.D. EPS		First	Avg.	
	(000)	Chg	\$	Chg	\$	%	Chg	\$	%	Chg	\$	%	Chg	\$	%	Chg	Rate	\$	%	Chg	\$	Chg	Call*	Shares	
Arvin Industries																									
Dec-91	11,428	-	1,676	-	300	17.9%	-	219	13.0%	-	82	4.9%	-	34	2.0%	-	50.3%	22	1.3%	-	\$0.73	-	-	-	22.8
Dec-92	12,450	8.9%	1,890	12.8%	343	18.1%	14.2%	231	12.2%	5.6%	112	5.9%	37.3%	58	3.1%	69.9%	45.8%	40	2.1%	84.7%	\$1.70	132.9%	-	-	23.7
Dec-93	13,843	11.2%	1,939	2.6%	320	16.5%	-6.5%	217	11.2%	-6.2%	104	5.3%	-7.3%	61	3.1%	4.8%	41.4%	40	2.1%	1.0%	\$1.81	6.5%	-	-	25.8
Dec-94^	15,268	10.3%	1,850	-4.6%	276	14.9%	-13.9%	163	8.8%	-24.9%	113	6.1%	9.3%	67	3.6%	9.9%	24.2%	53	2.8%	30.8%	\$2.35	30.1%	-	-	22.4
Dec-95^	14,909	-2.4%	1,966	6.3%	259	13.2%	-6.2%	165	8.4%	1.2%	94	4.8%	-16.9%	45	2.3%	-33.3%	25.1%	33	1.7%	-37.2%	\$1.48	-37.1%	-	-	22.4
Dec-96^	15,083	1.2%	2,213	12.5%	273	12.3%	5.3%	169	7.6%	2.6%	104	4.7%	10.2%	58	2.6%	30.7%	33.8%	41	1.9%	24.8%	\$1.83	23.9%	-	-	22.5
Dec-97	15,635	3.7%	2,349	6.2%	334	14.2%	22.6%	185	7.9%	9.4%	150	6.4%	44.0%	98	4.2%	67.9%	34.9%	65	2.8%	57.4%	\$2.78	51.6%	-	-	23.4
Dec-98	15,551	-0.5%	2,499	6.4%	370	14.8%	4.2%	216	8.6%	9.9%	154	6.2%	-2.9%	113	4.5%	8.2%	34.0%	78	3.1%	13.4%	\$3.23	16.3%	-	-	24.2
Dec-99	17,035	9.5%	3,101	24.1%	424	13.7%	14.6%	247	8.0%	14.2%	178	5.7%	15.1%	116	3.7%	2.8%	35.5%	92	3.0%	16.8%	\$3.74	15.6%	-	-	24.5
Dec-00	17,166	0.8%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Meritor Automotive																									
Sep-91	11,260	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-92	12,254	8.8%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-93	13,423	9.5%	2,358	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-94	15,023	11.9%	2,653	12.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sep-95	15,102	0.5%	3,125	17.8%	381	12.2%	-	203	6.5%	-	178	5.7%	-	185	5.9%	-	33.5%	123	3.9%	-	\$1.78	-	-	-	69.0
Sep-96*	15,138	0.2%	3,144	0.6%	397	12.6%	4.2%	215	6.8%	5.9%	182	5.8%	2.2%	218	6.9%	17.8%	31.2%	150	4.8%	22.0%	\$2.17	22.0%	-	-	69.0
Sep-97*	15,244	0.7%	3,309	5.2%	438	13.2%	10.3%	228	6.9%	6.0%	210	6.3%	15.4%	215	6.5%	-1.4%	35.8%	138	4.2%	-8.0%	\$2.00	-8.0%	-	-	69.0
Sep-98	15,430	1.2%	3,836	15.9%	547	14.3%	7.7%	248	6.5%	-6.2%	299	7.8%	22.8%	245	6.4%	-1.7%	40.0%	147	3.8%	-8.1%	\$2.13	6.5%	-	-	69.0
Sep-99*	16,900	9.5%	4,450	16.0%	646	14.5%	18.1%	280	6.3%	12.9%	366	8.2%	22.4%	345	7.8%	40.8%	35.7%	222	5.0%	51.0%	\$3.21	50.8%	-	-	69.1
Sep-00	17,483	3.4%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

^ excludes pre-tax restructuring and special charges and gain on sale of affiliate (\$28.1, \$15.2 and \$11.8 million in 1994, 1995 and 1996, respectively)

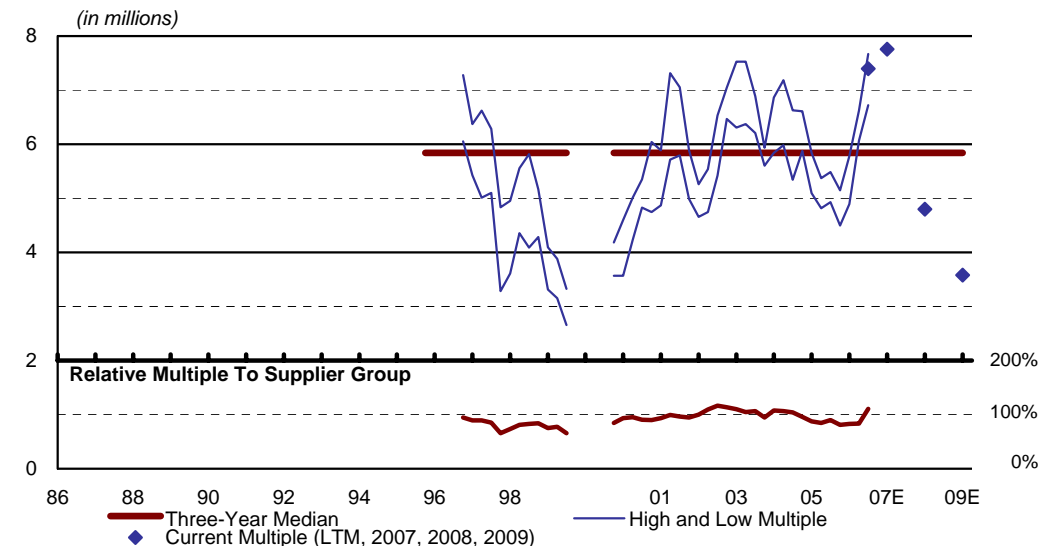
* As of August 13

* excludes pre-tax restructuring/spin-off charge (\$36, \$29, and \$28 million in 1996, 1997 and 1999, respectively)

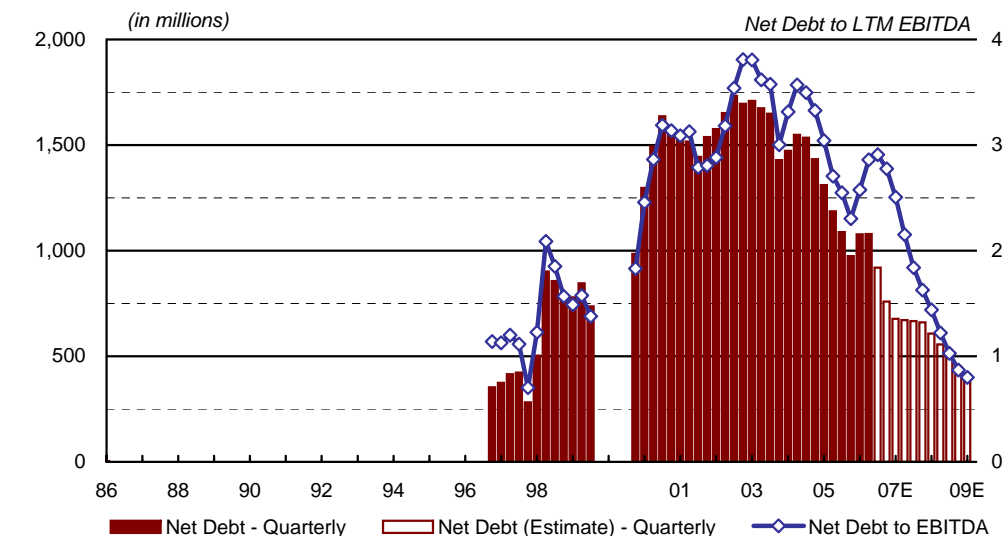
Enterprise Value and LTM EBITDA



EV to EBITDA Multiple



Net Debt



	Using EV Multiple of:				
(in millions)	4.8	5.3	5.8	6.3	6.8
Cal-08 EBITDA	422.2	422.2	422.2	422.2	422.2
Enterprise Value	2,026.7	2,237.8	2,448.9	2,660.0	2,871.1
less Net Debt	608.08	608.08	608.08	608.08	608.08
Equity Value	1,418.6	1,629.7	1,840.8	2,051.9	2,263.0
12-Mo. Target Price*	\$17	\$20	\$22	\$25	\$27
Current Price	\$20	\$20	\$20	\$20	\$20
Change	(15%)	(2%)	10%	23%	36%

(in millions)	\$10	\$15	\$20	\$25	\$30
Equity Value	824.9	1,237.3	1,649.7	2,062.1	2,474.6
plus Net Debt	608.08	608.08	608.08	608.08	608.08
Enterprise Value	1,432.9	1,845.4	2,257.8	2,670.2	3,082.6
Cal-08 EBITDA	422.2	422.2	422.2	422.2	422.2
Cal-08 EV	3.4	4.4	5.3	6.3	7.3

* discounted by 35%

Income Statement	Mar-07			Mar-06		RWB Estimate		Variance	
	\$	%	Change	\$	%	\$	%	%	Per Share
<i>(In \$ Millions)</i>									
NA Light Vehicle Production	3,803	-	(8%)	4,131	-	3,803	-	0%	-
LVS Dollar Content	145.15	-	4%	139.19	-	135.81	-	7%	-
Light Vehicle Systems	552	33.9%	(4.0%)	575	35.3%	516	31.8%	6.9%	0.03
Commercial Vehicle Systems	1,075	66.1%	2.0%	1,054	64.7%	1,108	68.2%	(3.0%)	(0.03)
Total Revenue	1,627	100.0%	(0.1%)	1,629	100.0%	1,624	100.0%	0.2%	0.00
Gross Profit	137	8.4%	(9.9%)	152	9.3%	125	7.7%	9.4%	0.13
Selling, General, Admin.	99	6.1%	11.2%	89	5.5%	81	5.0%	21.9%	(0.20)
Operating Income	38	2.3%	(39.7%)	63	3.9%	44	2.7%	(13.6%)	(0.07)
Interest Income (Expense)	(28)	(1.7%)	20.0%	(35)	(2.1%)	(23)	(1.4%)	(20.2%)	(0.05)
Equity In Affiliates	7	0.4%	(12.5%)	8	0.5%	7	0.4%	(2.8%)	(0.00)
Other Income	0	0.0%	NM	0	0.0%	0	0.0%	NM	0.00
Pretax Income	17	1.0%	(52.8%)	36	2.2%	28	1.7%	(39.1%)	(0.13)
Income Taxes (Rate)	2	11.8%	(75.0%)	8	22.2%	5	19.0%	(62.3%)	0.02
less Minority Interest	3	0.2%	(25.0%)	4	0.2%	5	0.3%	(40.0%)	0.03
Net Income	12	0.7%	(50.0%)	24	1.5%	18	1.1%	(31.9%)	(0.08)
Memo:	Note: Last year's results are restated for Emissions Technologies divestiture								
Depreciation	32	2.0%	0.0%	32	2.0%	27	1.7%	17.1%	(0.05)
EBITDA (estimate)	70	4.3%	(26.3%)	95	5.8%	71	4.4%	(1.9%)	(0.02)
	FC Est. = \$0.21								
First Call EPS	0.17	-	(50.2%)	0.34	-	0.25	-	(31.6%)	(0.08)
Diluted Shares Outstanding	70	-	0.4%	70	-	71	-	(0.4%)	0.00
RWB Adjusted EPS (operating)	0.17	-	(50.2%)	0.34	-	0.25	-	(31.6%)	(0.08)
+ Restructuring	(0.32)	-	(459.2%)	(0.06)	-	0.00	-	NM	(0.32)
+ Impairment	0.00	-	NM	0.00	-	0.00	-	NM	0.00
+ Gains/Losses	0.00	-	NM	0.00	-	0.00	-	NM	0.00
+ Headcount	0.00	-	NM	0.00	-	0.00	-	NM	0.00
+ Other	0.13	-	554.4%	(0.03)	-	0.00	-	NM	0.13
+ Interest-related	(0.06)	-	30.1%	(0.09)	-	0.00	-	NM	(0.06)
+ Tax-related	(0.11)	-	(138.4%)	0.29	-	0.00	-	NM	(0.11)
GAAP EPS	(0.19)	-	(141.3%)	0.46	-	0.25	-	(175.7%)	(0.44)

Cash Flow Statement (GAAP)	Three Months			Year-to-Date		
	Mar-07	Mar-06	Change	Mar-07	Mar-06	Change
<i>(In \$ Millions)</i>						
Cash from Operations						
Net Income				(3)	58	(105%)
Depreciation				64	61	5%
Amortization				0	0	NM
Working Capital Dec. (Inc.)				(63)	(54)	(17%)
Other Non-Cash				(61)	61	(200%)
Total CFO				(63)	126	(150%)
Cash from Investing						
Capital Expenditures				(48)	(53)	9%
Acquisitions				9	43	(79%)
Other Investing				(18)	177	(110%)
Total CFI				(57)	167	(134%)
Cash from Financing						
Dividends				(14)	(14)	0%
Proceeds from Equity				6	0	NM
Increase (Decrease) in Debt				(4)	(230)	98%
Other				(2)	(2)	0%
Total CFF				(14)	(246)	94%
Effect of Exchange Rates				6	2	200%
Change in Cash/Equivalents				(128)	49	(361%)
Estimated Change in Net Debt				(132)	(181)	27%
Free Cash Flow (NI+D&A-Capex)				13	66	(80%)
Percent of Net Income				(433%)	114%	-
Depreciation (% of Revenue)				1.6%	1.4%	-
Cap. Ex. (% of Revenue)				1.2%	1.2%	-

EPS Reconciliation Detail (Pre-tax)	
Restructuring:	\$37 million restructuring charge this year, \$7 million restructuring charge last year.
Impairment:	None.
Gains/Losses:	None.
Headcount:	None.
Other:	\$16 million gain on FV adjustment, work stoppage settlement this year, \$3 million charge last year.
Interest-related:	\$6 million loss on debt retirement this year, \$6 million loss on debt retirement last year.
Tax-related:	\$8 million gain this year, \$20 million gain last year.
No variance between adjusted EPS as reported and First Call EPS.	

Balance Sheet	Mar-07			Mar-06		
	Mar-07	Mar-06	Change	Mar-07	Mar-06	Change
<i>(In \$ Millions)</i>						
Cash & Equivalents	222	236	(6%)			
Receivables	1,118	1,726	(35%)			
Inventory	486	557	(13%)			
Other Current Assets	240	573	(58%)			
Total Current Assets	2,066	3,092	(33%)			
Net Fixed Assets	706	971	(27%)			
Goodwill & Intangibles	511	795	(36%)			
Other Assets	2,215	845	162%			
Total Assets	5,498	5,703	(4%)			
Net Debt (Total Debt - Cash)*	1,156	1,186	(3%)			
Percent of Capital	55.7%	53.7%	+202 bp			
Multiple of LTM EBITDA	3.1	2.7	+0.4			
Sequential Change	7%	(8%)	NM			
Sequential Change (In \$)	79	(109)	NM			
Working Capital*	220	392	(44%)			
Percent of LTM Revenue	2.5%	4.4%	-186 bp			
Sequential Change	(53%)	56%	NM			
Sequential Change (In \$)	(244)	140	NM			
* Ex-sold receivables. (est.)	141	65				

	Mar-07			Mar-06		
	Mar-07	Mar-06	Change	Mar-07	Mar-06	Change
<i>(In \$ Millions)</i>						
Current Debt	17	211	(92%)			
Payables	1,128	1,597	(29%)			
Other Current Liabilities	637	780	(18%)			
Total Current Liabilities	1,782	2,588	(31%)			
Long Term Debt	1,220	1,146	6%			
Other Liabilities	1,511	891	70%			
Minority Interest	67	56	20%			
Preferred Stock	0	0	NM			
Common Equity	918	1,022	(10%)			
Total Liabilities & Equity	5,498	5,703	(4%)			
Days Investment (LTM)						
Accounts Receivable*	52.7	73.0	(28%)			
+ Inventory	20.3	22.7	(10%)			
= Total	73.1	95.8	(24%)			
- Payables	47.2	65.1	(27%)			
= Net Investment	25.8	30.6	(16%)			
(in dollars)	617.0	751.0	(18%)			

ROIC - Last Twelve Months	Mar-07				
	Mar-07	Dec-06	Sep-06	Jun-06	Mar-06
<i>(In \$ Millions)</i>					
Revenue	8,717	9,404	9,162	9,015	8,949
Operating Profit	214	243	253	259	267
Operating Margin	2.5%	2.6%	2.8%	2.9%	3.0%
Average Invested Capital					
Working Capital	393	436	383	367	307
Working Capital Turnover	22.17	21.56	23.91	24.55	29.20
Fixed Assets	912	979	978	984	994
Fixed Asset Turnover	9.56	9.61	9.37	9.16	9.01
Other Assets	1,815	1,543	1,595	1,659	1,795
Other Asset Turnover	4.80	6.09	5.75	5.44	4.99
Total Capital	3,120	2,958	2,956	3,010	3,095
Total Capital Turnover	2.79	3.18	3.10	3.00	2.89
Pre-Tax ROIC	6.9%	8.2%	8.6%	8.6%	8.6%
Tax Rate	18.7%	19.8%	20.2%	20.5%	23.3%
After-Tax ROIC	5.6%	6.6%	6.8%	6.8%	6.6%

David Leiker, CFA ♦ (414) 298-7535 ♦ dleiker@rwbaird.com

May 2, 2007

Keith R. Schicker ♦ (414) 298-7351 ♦ kschicker@rwbaird.com

Source of Revenue

David Tsui ♦ (414) 298-7699 ♦ dtsui@rwbaird.com

(in \$ Millions)

Year	Light Vehicle New Business / Mix					LV Production				Currency			Acq / Div				Price		Light Vehicle		Other		Total		
	New		Mix		Net							Acq		Div		Net		Price		Light Vehicle		Other		Total	
	\$	Chg	\$	\$	Chg	\$	Chg	Euro	\$	Chg	\$	\$	\$	Chg	\$	Chg	\$	Chg	\$	Chg	\$	Chg	\$	Chg	
Sep-96								1.25																5,319	
Sep-97	317	11.6%	0	317	11.6%	52	1.9%	1.11	(130)	-4.8%	0	0	0	0.0%	(55)	-2.0%	185	6.8%	140	7.5%	5,644	6.1%			
Sep-98	246	8.6%	0	246	8.6%	106	3.7%	1.18	(80)	-2.8%	0	0	0	0.0%	(57)	-2.0%	215	7.5%	409	20.3%	6,268	11.1%			
Sep-99	566	18.6%	0	566	18.6%	242	8.0%	1.06	(40)	-1.3%	0	0	0	0.0%	(61)	-2.0%	707	23.2%	516	21.3%	7,491	19.5%			
Sep-00	468	13.5%	0	468	13.5%	75	2.1%	0.88	(246)	-7.1%	18	0	18	0.5%	(69)	-2.0%	246	7.1%	(15)	-0.5%	7,722	3.1%			
Sep-01	179	4.9%	0	179	4.9%	(137)	-3.7%	0.91	(158)	-4.3%	0	0	0	0.0%	(73)	-2.0%	(190)	-5.2%	(727)	-24.8%	6,805	-11.9%			
Sep-02	(64)	-1.8%	0	(64)	-1.8%	(21)	-0.6%	0.99	109	3.0%	0	0	0	0.0%	(72)	-2.0%	(48)	-1.3%	50	2.3%	6,882	1.1%			
Sep-03	(1,206)	-33.3%	0	(1,206)	-33.3%	6	0.2%	1.16	390	10.8%	550	0	550	15.2%	(72)	-2.0%	(332)	-9.2%	173	7.7%	6,723	-2.3%			
Sep-04	74	1.7%	0	74	1.7%	(30)	-0.7%	1.22	411	9.6%	209	(60)	149	3.5%	(86)	-2.0%	518	12.0%	793	32.7%	8,033	19.5%			
Q1	78	6.3%	(13)	65	5.2%	(52)	-4.2%	1.30	115	9.3%	55	(97)	(42)	-3.4%	(25)	-2.0%	61	4.9%	105	15.3%	2,090	8.6%			
Q2	78	6.4%	(1)	78	6.3%	(81)	-6.6%	1.31	75	6.1%	60	(70)	(10)	-0.8%	(25)	-2.0%	37	3.0%	243	31.6%	2,276	14.0%			
Q3	78	6.3%	68	146	11.8%	(64)	-5.2%	1.26	63	5.1%	0	0	0	0.0%	(25)	-2.0%	120	9.7%	192	22.3%	2,411	14.9%			
Q4	78	7.0%	(134)	(56)	-5.0%	22	2.0%	1.22	40	3.6%	50	30	80	7.2%	(22)	-2.0%	64	5.7%	48	5.3%	2,126	5.6%			
Sep-05	312	6.5%	(80)	232	4.8%	(175)	-3.6%	1.22	293	6.1%	165	(137)	28	0.6%	(96)	-2.0%	282	5.9%	588	18.3%	8,903	10.8%			
Q1	0	0.0%	35	35	3.0%	13	1.1%	1.19	(65)	-5.5%	0	(25)	(25)	-2.1%	(24)	-2.0%	(66)	-5.6%	62	6.8%	2,086	-0.2%			
Q2	0	0.0%	67	67	5.4%	34	2.7%	1.20	(69)	-5.5%	0	(16)	(16)	-1.3%	(25)	-2.0%	(9)	-0.7%	47	4.6%	2,314	1.7%			
Q3	0	0.0%	55	55	4.2%	(12)	-0.9%	1.26	14	1.1%	0	(2)	(2)	-0.2%	(26)	-2.0%	29	2.2%	37	3.3%	2,477	2.7%			
Q4	0	0.0%	65	65	5.7%	(44)	-3.9%	1.27	42	3.7%	0	(16)	(16)	-1.4%	(23)	-2.0%	24	2.2%	123	12.3%	2,273	6.9%			
Sep-06	0	0.0%	221	221	4.6%	(9)	-0.2%	1.27	(78)	-1.6%	0	(59)	(59)	-1.2%	(97)	-2.0%	(22)	-0.4%	269	6.6%	9,150	2.8%			
Q1	13	1.1%	160	173	15.0%	(47)	-4.1%	1.30	55	4.8%	0	0	0	0.0%	(23)	-2.0%	157	13.7%	97	10.4%	2,340	12.2%			
Q2	13	1.0%	(54)	(42)	-3.4%	(20)	-1.6%	1.31	63	5.1%	0	(660)	(660)	-53.4%	(25)	-2.0%	(683)	-55.3%	(4)	-0.4%	1,627	-29.7%			
Q3E	13	0.9%	(5)	7	0.6%	(12)	-0.9%	1.35	55	4.2%	0	(731)	(731)	-55.3%	(26)	-2.0%	(707)	-53.4%	(248)	-21.5%	1,522	-38.6%			
Q4E	13	1.1%	(3)	9	0.8%	25	2.2%	1.35	42	3.6%	0	(731)	(731)	-63.4%	(23)	-2.0%	(677)	-58.7%	(235)	-20.9%	1,361	-40.1%			
Sep-07E	50	1.0%	98	148	3.0%	(54)	-1.1%	1.35	215	4.4%	0	(2,121)	(2,121)	-43.6%	(97)	-2.0%	(1,910)	-39.3%	(390)	-9.1%	6,851	-25.1%			
Q1E	25	5.3%	(6)	19	4.1%	11	2.4%	1.35	10	2.2%	0	(808)	(808)	-171.9%	(9)	-2.0%	(776)	-60.8%	(264)	-24.9%	1,299	-44.5%			
Q2E	25	4.5%	11	36	6.4%	5	1.0%	1.35	10	1.8%	0	0	0	0.0%	(11)	-2.0%	40	7.2%	(47)	-4.3%	1,620	-0.4%			
Q3E	25	4.1%	(0)	25	4.0%	3	0.4%	1.35	0	0.0%	0	0	0	0.0%	(12)	-2.0%	15	2.4%	429	47.3%	1,966	29.1%			
Q4E	25	5.3%	(13)	12	2.4%	7	1.5%	1.35	0	0.0%	0	0	0	0.0%	(10)	-2.0%	9	1.9%	287	32.5%	1,658	21.8%			
Sep-08E	100	4.7%	(9)	91	4.3%	27	1.3%	1.35	20	1.0%	0	(808)	(808)	-38.2%	(42)	-2.0%	(713)	-33.7%	405	10.3%	6,543	-4.5%			
Sep-09E	150	6.8%	(15)	135	6.1%	12	0.6%	1.35	0	0.0%	0	0	0	0.0%	(19)	-0.8%	129	5.8%	530	12.2%	7,202	10.1%			
Sep-10E	200	8.6%	(25)	175	7.5%	7	0.3%	1.35	0	0.0%	0	0	0	0.0%	(20)	-0.8%	162	6.9%	(316)	-6.5%	7,049	-2.1%			

Macro Assumptions			
	2006	2007	2008
US LV Sales	16,500	16,400	16,700
NA LV Build	15,300	15,200	15,600
Dom. OEM Build	9,600	9,200	9,200
EU LV Build	16,500	16,500	16,500
Euro	\$1.30	\$1.35	\$1.35

Revenue Mix (Sep-06)			
Light Vehicle (33%)		Commercial (67%)	
GM/F/C	42%	NA Heavy	26%
Other	58%	Other M/H	45%
		After Mkt	23%
		Trailers	6%
Total	100%	Total	100%

New Business Growth*		
Year	\$	%
2004	\$236	5%
2005	\$312	6%
2006	\$0	0%
2007	\$50	1%
2008	\$100	5%
2009	\$150	7%
2007-09	\$300	4%

* LVS revenue growth with flat NA build (ex-price of -2%).

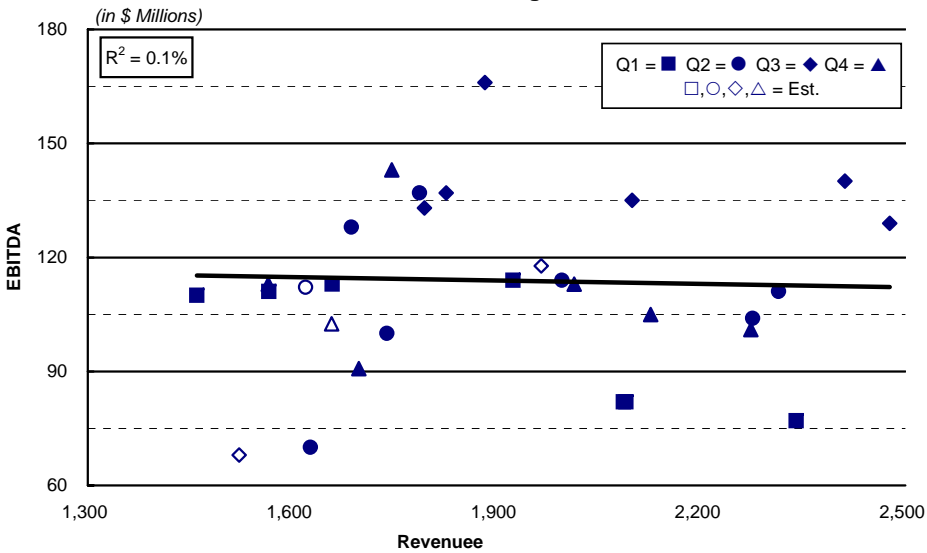
(in \$ Millions)

Year	Return on Invested Capital (LTM Average)																Working Capital		Days Investment*					
	Revenue	Op Income	Op Margin	Tax Rate	Working Capital		Fixed Assets		Other Assets		Total Capital		ROIC			\$	Chg	A/R	Inv.	Total	A/P	Net	\$	Chg
	\$	\$	%	%	\$	T/O	\$	T/O	\$	T/O	\$	T/O	Pre-Tax	After-Tax	Inc. ROIC									
Sep-01	6,805	279	4.1%	33.8%	361	18.9	1,232	5.5	1,310	5.2	2,903	2.3	9.6%	6.4%	-	287	2	63	25	88	57	31	368	-
Sep-02	6,882	352	5.1%	32.0%	413	16.7	1,172	5.9	1,386	5.0	2,971	2.3	11.8%	8.1%	80.3%	297	3.5%	72	24	96	60	37	586	59.2%
Sep-03	6,723	231	3.4%	30.3%	463	14.5	1,290	5.2	1,580	4.3	3,333	2.0	6.9%	4.8%	-21.7%	515	73.4%	85	29	114	71	43	559	-4.6%
Sep-04	8,033	264	3.3%	22.7%	535	15.0	1,223	6.6	1,687	4.8	3,445	2.3	7.7%	5.9%	38.3%	283	-45.0%	69	24	92	62	30	635	13.6%
Q1	8,199	242	3.0%	21.8%	450	18.2	1,167	7.0	1,672	4.9	3,289	2.5	7.4%	5.8%	9.4%	263	-56.4%	69	28	97	61	36	805	20.5%
Q2	8,479	241	2.8%	22.7%	405	21.0	1,112	7.6	1,657	5.1	3,174	2.7	7.6%	5.9%	2.6%	465	-27.9%	73	26	99	62	37	773	2.2%
Q3	8,791	254	2.9%	23.4%	317	27.7	1,052	8.4	1,782	4.9	3,152	2.8	8.1%	6.2%	-37.4%	257	-57.7%	64	24	88	60	28	642	-26.2%
Q4	8,903	249	2.8%	25.3%	328	27.2	1,048	8.5	1,799	4.9	3,174	2.8	7.8%	5.9%	-38.6%	325	14.8%	69	22	91	61	30	713	12.3%
Sep-05	8,903	249	2.8%	25.3%	328	27.2	1,048	8.5	1,799	4.9	3,174	2.8	7.8%	5.9%	6.6%	325	14.8%	69	22	91	61	30	713	12.3%
Q1	8,899	255	2.9%	24.8%	325	27.4	1,015	8.8	1,800	4.9	3,139	2.8	8.1%	6.1%	-16.6%	252	-4.2%	62	23	85	59	25	554	-31.2%
Q2	8,937	265	3.0%	23.3%	307	29.2	994	9.0	1,795	5.0	3,095	2.9	8.6%	6.6%	-26.3%	392	-15.7%	73	23	96	65	31	686	-11.3%
Q3	9,003	257	2.9%	20.5%	367	24.5	984	9.1	1,659	5.4	3,010	3.0	8.5%	6.8%	-1.2%	500	94.6%	74	24	98	69	29	611	-4.8%
Q4	9,150	251	2.7%	20.2%	370	24.8	978	9.4	1,595	5.7	2,942	3.1	8.5%	6.8%	6.1%	334	2.8%	69	24	93	66	27	592	-17.0%
Sep-06	9,150	251	2.7%	20.2%	370	24.8	978	9.4	1,595	5.7	2,942	3.1	8.5%	6.8%	-6.1%	334	2.8%	69	24	93	66	27	592	-17.0%
Q1	9,404	243	2.6%	19.8%	423	22.3	979	9.6	1,543	6.1	2,944	3.2	8.3%	6.6%	-296.2%	464	84.1%	66	24	90	60	30	641	15.7%
Q2	8,717	214	2.5%	18.7%	380	23.0	912	9.6	1,815	4.8	3,106	2.8	6.9%	5.6%	-13.0%	220	-43.9%	53	20	73	47	26	476	-30.6%
Q3E	7,762	164	2.1%	14.1%																				
Q4E	6,850	139	2.0%	11.7%	328	20.9	769	8.9	1,772	3.9	2,870	2.4	4.8%	4.3%	25.2%	315	-5.7%	65	25	90	55	35	573	-3.2%
Sep-07E	6,850	139	2.0%	11.7%	328	20.9	769	8.9	1,772	3.9	2,870	2.4	4.8%	4.3%	107.1%	315	-5.7%	65	25	90	55	35	573	-3.2%
Q1E	5,810	144	2.5%	14.5%																				
Q2E	5,803	185	3.2%	20.0%																				
Q3E	6,246	231	3.7%	23.5%																				
Q4E	6,543	271	4.1%	25.0%	285	22.9	683	9.6	1,598	4.1	2,566	2.5	10.6%	7.9%	101.6%	285	-9.4%	65	25	90	55	35	543	-5.1%
Sep-08E	6,543	271	4.1%	25.0%	285	22.9	683	9.6	1,598	4.1	2,566	2.5	10.6%	7.9%	-26.6%	285	-9.4%	65	25	90	55	35	543	-5.1%
Sep-09E	7,202	383	5.3%	25.0%	238	30.3	681	10.6	1,652	4.4	2,570	2.8	14.9%	11.2%	2283.4%	191	-33.2%	62	22	84	57	27	449	-17.4%
Sep-10E	7,048	322	4.6%	25.0%	185	38.1	676	10.4	1,719	4.1	2,580	2.7	12.5%	9.4%	-480.7%	179	-6.0%	62	22	84	57	27	437	-2.5%

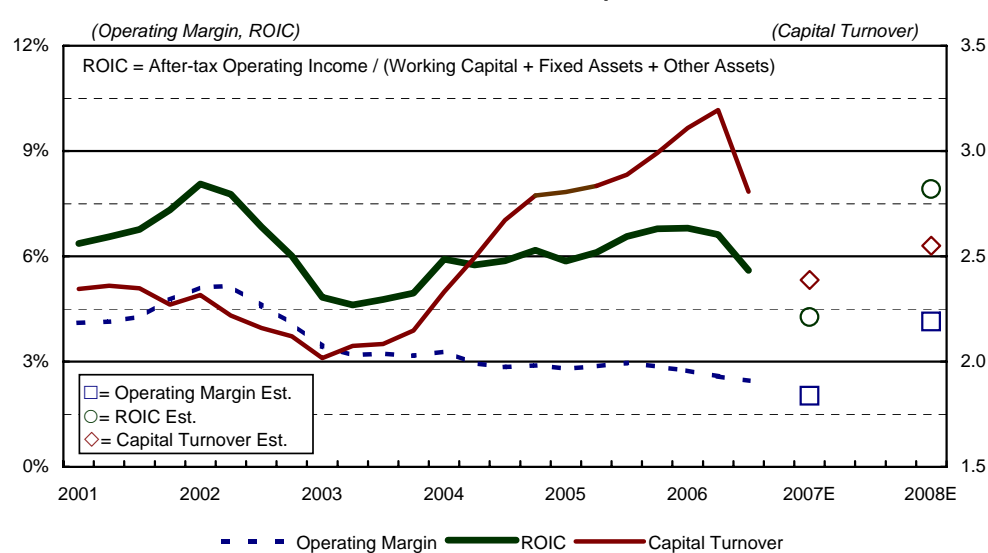
ROIC = After-tax Operating Income /
(Working Capital + Fixed Assets + Other Assets)

* Quarter End AR/Inv/AP / LTM Revenue

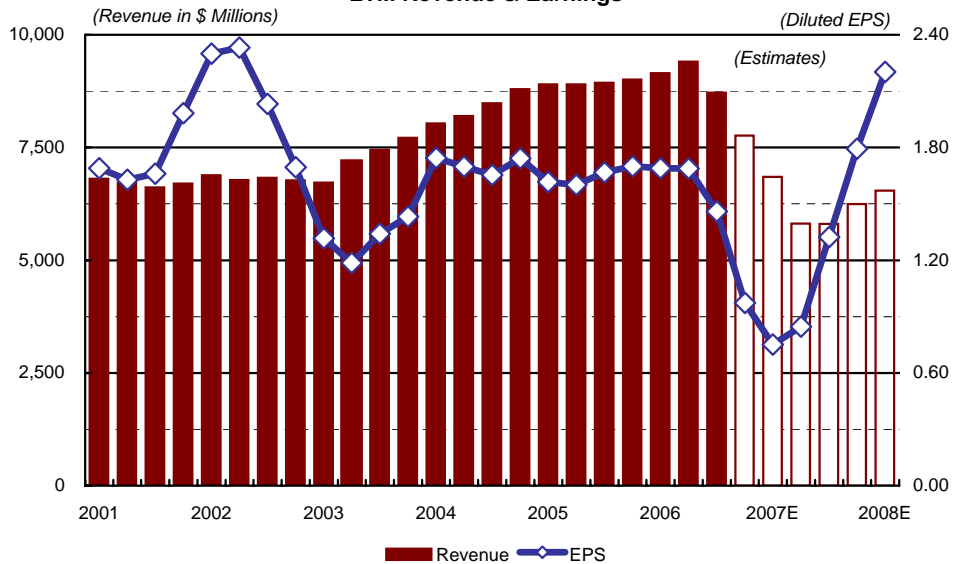
Historic Earnings Curve



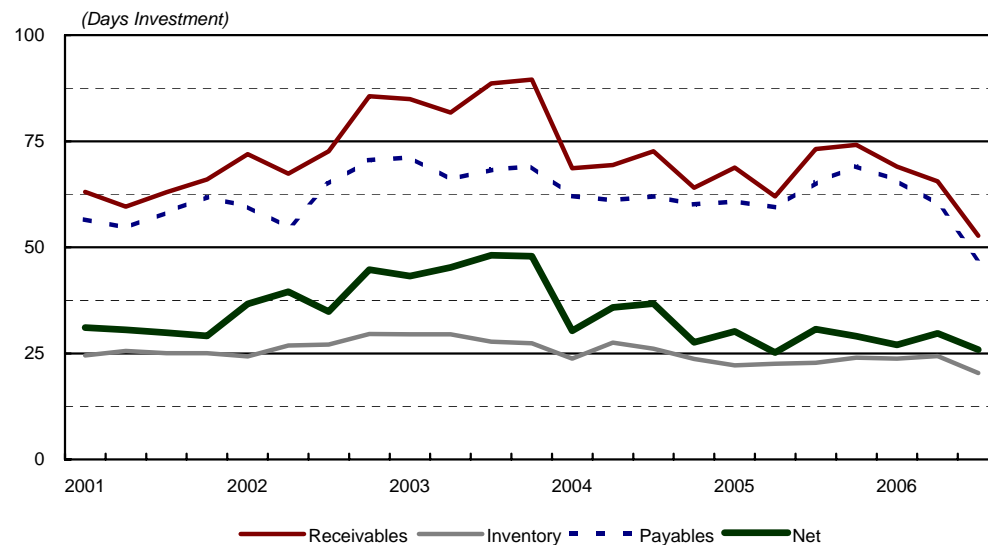
Return on Invested Capital



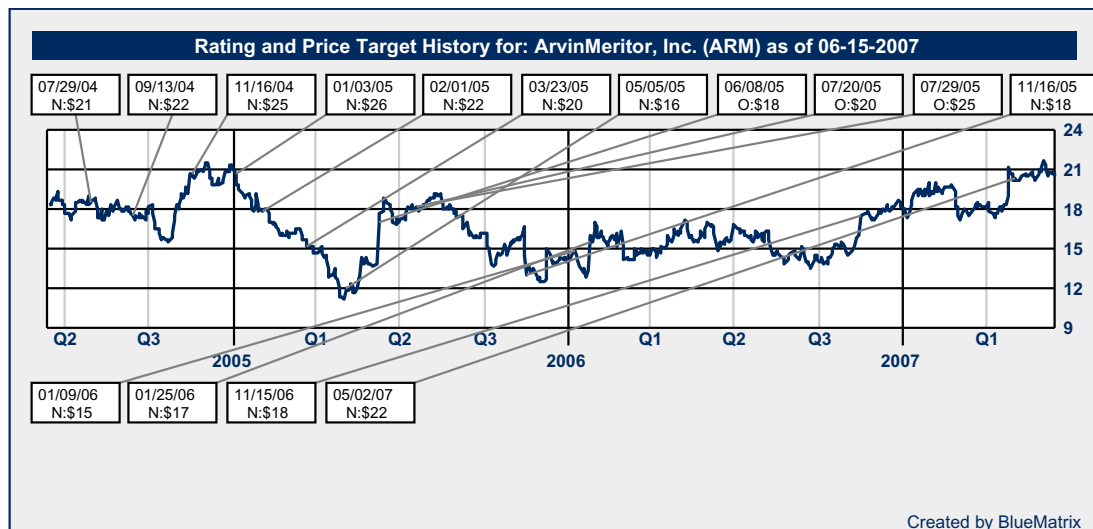
LTM Revenue & Earnings



Working Capital Management



Appendix - Important Disclosures and Analyst Certification



Robert W. Baird & Co. and/or its affiliates expect to receive or intend to seek investment banking related compensation from the company or companies mentioned in this report within the next three months.

Investment Ratings: **Outperform (O)** - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: **L - Lower Risk** - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. **A - Average Risk** - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks: The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings: As of May 31 2007, Baird U.S. Equity Research covered 495 companies, with 46% rated Outperform, 51% rated Neutral and 3% rated Underperform. Within these rating categories, 15% of Outperform-rated, 6% of Neutral-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past

12 months.

Analyst Compensation: Analyst compensation is based on: 1) The correlation between the analyst's recommendations and stock price performance; 2) Ratings and direct feedback from our investing clients, our sales force and from independent rating services; and 3) The analyst's productivity, including the quality of the analyst's research and the analyst's contribution to the growth and development of our overall research effort. This compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee.

Analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions.

A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at <http://www.rwbaird.com/researchdisclosure/>. You can also call 1-800-792-2473 or write: Robert W. Baird & Co., Equity Research, 24th Floor, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

Analyst Certification

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

Baird prohibits analysts from owning stock in companies they cover.

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available.

Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, NASD, NYSE, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

Copyright 2007 Robert W. Baird & Co. Incorporated

Other Disclosures

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W Baird Limited, which has offices at Mint House 77 Mansell Street, London, E1 8AF, and is a company authorized and

ArvinMeritor, Inc.

June 19, 2007

regulated by the Financial Services Authority. For the purposes of the Financial Services Authority requirements, this investment research report is classified as objective.

Robert W Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Services Authority ("FSA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FSA requirements and not Australian laws.

[Ask the analyst a question](#)

[Click here to unsubscribe](#)