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CORPORATE PARTICIPANTS

Don Walker *Magna International Inc. - CEO*

Vincent Galifi *Magna International Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

John Murphy *BofA Merrill Lynch - Analyst*

Peter Sklar *BMO Capital Markets - Analyst*

Rod Lache *Deutsche Bank - Analyst*

Ryan Brinkman *JPMorgan - Analyst*

Itay Michaeli *Citigroup - Analyst*

Bei Xin *Morgan Stanley - Analyst*

Mark Neville *Scotiabank - Analyst*

Patrick Archambault *Goldman Sachs - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the first-quarter 2016 results conference call.

(Operator Instructions)

As a reminder, this conference is being recorded Thursday, May 5, 2016, and I would now like to turn the conference over to Don Walker, Chief Executive Officer. Please go ahead.

Don Walker - Magna International Inc. - CEO

Thank you, welcome to our first-quarter 2016 conference call. Joining me today is Vince Galifi, our Chief Financial Officer; and Louis Tonelli, Vice President, Investor Relations. Yesterday our Board of Directors met and approved our financial results for the first quarter ended March 31, 2016, and we issued a press release this morning for the quarter. You will find the press release, today's conference call webcast, our updated quarterly financial review and the slide presentation to go along with the call all on our Investor Relations section of our website at www.magna.com.

Before we get started, just a reminder the discussion today may contain forward-looking information or forward-looking statements within the meaning of applicable securities legislation. Such statements involve certain risks, assumptions and uncertainties which may cause the Company's actual or future results and perform to be materially different from those or expressed or implied in these statements. Please refer to today's press release for a complete description of our Safe Harbor disclaimer.

I'm very happy with our first-quarter results. We achieved first-quarter record operating results including record sales, EBIT, and earnings per share. Organic sales growth in the first quarter, excluding currency, was 10%. Each of our reporting segments performed well in the quarter.

We also bought back \$300 million of our shares in the quarter and expect to repurchase more shares, while continuing to invest in the business. And we paid out an additional \$95 million in dividends to shareholders. Overall, a very good start to the year.



We held our annual shareholders meeting this morning in Toronto. For those that did not listen in, the meeting was webcast and an archive can be accessed on our website. We also held an Investor Day in March of this year. There were a few key messages from the Investor Day that I would like to highlight.

We have a portfolio of businesses that have grown significantly faster than the market over a long period, have strong market positions and are highly relevant to the future of the industry. We understand the mega trends driving the car of the future and we have aligned our innovations along the pillars smarter, cleaner, safer, lighter, in connection with these mega trends. And we showed how our product areas are tied to the trends and we believe that will drive continued above market growth.

We have a competitive advantage through our integrated electronics, cross-group module and complete capabilities. As a result of these capabilities, we have a holistic view of the vehicle. In this way we stand alone from most of our automotive peers. We have an aligned view with OEMs of the car of the future and are working with OEMs to meet their future challenges, providing holistic solutions. And there are a lot of changes coming, increased hybridization and electrification, more autonomous driving features. Sharing economy models and new industry players potentially entering the space.

We have a view on the pace and development of these trends and believe Magna will benefit from the changes. One of the technologies that we highlighted at our Investor Day, the smart latch, was an Automotive News PACE award winner last month. Smart latch represents a new paradigm for side door latches by operating 100% electronically with no cables, rods or moving handles in the door. The industry first application of the latch was on the BMW i8 with a system launching soon on a new luxury sedan. Over the next few model years, smart latch will launch on a number of additional programs with other customers.

In January of this year we closed on the acquisition of Getrag. Getrag is a leader in the market for dual clutch transmission, a segment which is well-positioned to meet OEM needs for improved fuel efficiency and is expected to experience high growth over the next decade. Integration of Getrag into Magna powertrain kicked off immediately on closing of the transaction. I'm pleased with our progress to date.

We recently announced that Getrag's joint venture with Chongqing recently began serial production of the DCTs in China. Getrag's low torque DCTs can provide an efficient and affordable automatic transmission for lower priced vehicles and can you achieve significant fuel consumption advantages.

We also recently signed a purchase agreement to acquire Telemotive AG, a leading engineering service provider in the field of automotive electronics. Telemotive, which adds approximately 550 people including 450 engineers in Europe, will be integrated into Magna Steyr. The addition of Telemotive expands Magna Steyr's engineering service product portfolio in vehicle connectivity, human machine interface and infotainment.

As a car evolves from primarily mechanical to more electronic systems, we are in a unique position with deep systems knowledge and full vehicle electronics expertise to continue to deliver innovative solutions to the market. With that, I'll pass the call over to Vince.

Vincent Galifi - Magna International Inc. - CFO

Thank you, Don, and good afternoon everyone. I'd like to review our financial results for the first quarter ended March 31, 2016. Please note, all figures discussed today will be in US dollars.

Operating results for our insurers operations over-sold in 2015 are presented as discontinued operations and this review of results will address continuing operations only. In the first quarter, our consolidated sales increased 15% or \$1.1 billion relative to the first quarter of 2015, to a first-quarter record of \$8.9 billion. Excluding the impact of foreign currency translation, our total sales increased 19% in the first quarter of 2016 compared to the first quarter of 2015. Excluding currency as well as acquisitions, our total sales grew 10%.

Reported North American production sales increased 13% in the first quarter to \$4.8 billion. Excluding the impact of foreign currency translation, North American production sales increased 16% while North American vehicle production increased 10% to 4.5 million units. The North American production sales increase is a result of the launch of new programs and higher production volumes on certain programs, as well as the acquisition

of Getrag, partially offset by lower volumes on the Chevy Cruze as a result of the changeover for the next generation of the program and net customer price concessions. Excluding the currency translations and the Getrag acquisition, North American production sales grew faster than the market.

Reported European production sales increased 20% from the comparable quarter. Again, excluding the impact of foreign currency translation, European production sales increased 23% while European vehicle production increased 7% to 5.6 million units. This increase was primarily the result of net acquisitions and the launch of new programs. These were partially offset by programs that ended production and net customer price concessions.

Asian production sales increased 26% or \$104 million, to \$507 million from the comparable quarter. This was primarily as a result of acquisitions and the launch of new programs, particularly in China. These were partially offset by the weakening of the Chinese RMB against the US dollar and net customer price concession. Excluding currency translations and acquisitions, our Asian production sales outgrew the Asian market.

Rest of World production sales declined 39% or \$51 million to \$80 million for the first quarter, primarily as a result of the weakening of the Brazilian real and Argentine peso against the US dollar. This was partially offset by higher production volume in certain existing programs, the launch of new programs, and net customer price increases subsequent to the first quarter of 2015.

Complete vehicle assembly volumes declined 15% from the comparable quarter, while assembly sales only declined 1% to \$596 million. Excluding the impact of foreign currency translation, complete vehicle assembly sales increased 1% with higher volumes in the Mercedes-Benz G Class more than offsetting the decline in assembly volumes in the mini programs and the end of production of Peugeot RCZ during the third quarter of 2015.

In summary, consolidated sales excluding tooling, engineering and other sales increased approximately 13% or \$959 million in the first quarter, and increased 17% if you exclude approximately \$296 million associated with the impact of foreign currency translation. Tooling, engineering and other sales increased 33% or \$169 million from the comparable quarter to \$687 million.

EBIT margin in the quarter declined to 7.8% from 8.1% in the first quarter of 2015. The EBIT margin was negatively impacted by the acquisition of Getrag in the amount of approximately 0.2%, higher launch, new facility and warranty costs, operational efficiency in certain facilities, in particular certain Cosma facilities. Lower recoveries associated with scrap and a higher proportion of tooling to total sales. These factors were partially offset by margins earned on higher sales, productivity and efficiency improvements in certain facilities, a lower proportion of complete vehicle assembly sales and lower commodity costs.

Interest expense increased \$13 million to \$23 million in the first quarter of 2016, largely related to the increase in debt assumed to purchase Getrag. In the first quarter of 2016, our effective tax rate was 25.5% which is in line with our full-year expectation. Diluted earnings per share from continuing operations was \$1.22, a first-quarter record compared to \$1.10 in the first quarter of 2015. The increase in diluted earnings per share was a result of higher net income and a lower weighted average number of diluted shares outstanding for the quarter, primarily due to the repurchase and cancellation of common shares pursuant to our normal course issuer bid.

I will now review our cash flow and investment activities. During the first quarter of 2016 we generated \$767 million in cash from operations, prior to changes in operating assets and liabilities, and we invested \$469 million in operating assets and liabilities. This investment is consistent with the typical buildup of working capital in the first half of the year. We expect to recover a substantial amount of that investment by Q4 of this year.

For the quarter, investment activities amounted to \$2.2 billion including \$1.78 billion for acquisitions, \$346 million in fixed assets, and a \$54 million increase in investments and other assets. We also repurchased 7.3 million common shares for \$300 million, pursuant to our normal course issuer bid, and paid \$95 million in dividends in the quarter.

Our balance sheet remains strong with \$625 million in cash as at March 31, 2016, and additional \$1.93 billion in unused credits available to us. As a result of our continued growth, we recently increased our global credit facility to \$2.75 billion from \$2.25 billion, and extended the term one additional year. This provides flexibility to allow us to capitalize on future opportunities.



Next I'll cover our outlook. Our light vehicle production assumptions are unchanged in North America and have increased about 300,000 units in Europe for 2016, partially reflecting higher Q1 volumes than previously anticipated. Our North American production sales range is up from our previous outlook, largely due to a stronger expected Canadian dollar than previously forecasted.

Our European production sales range is also up from our previous outlook, largely due to a higher production assumption and a higher expected euro than previously forecasted. Rest of World production sales range has declined slightly, reflecting both lower volumes and weaker expected currencies in South America. Our Asia production sales range is unchanged from our previous outlook.

Our complete vehicle assembly range has increased, mainly reflecting higher sales for the Mercedes-Benz G Class and a higher expected euro. Implicit in our total sales is an increase in expected tooling sales for 2016, largely reflecting timing shifts and recognition of tooling and increased effective Canadian dollar and euro compared to our previous outlook. As a result of all of these changes, total sales are now expected to be in the range of \$35.5 billion to \$37.2 billion for 2016. This represents a \$900 million increase in sales at the top and bottom of the range.

Our EBIT margin percent, tax rate and capital spending ranges are all unchanged from their previous outlook. We've increased our interest expense range to approximately \$90 million, compared to approximately \$80 million previously. Lastly, we made one change to our expected segment EBIT expectations, moving Asia up to the 7% to 8% range from 6% to 7%. This reflects expected 2016 operating performance that is better than previously anticipated. Keep in mind, however, that the numbers are smaller in Asia and therefore margin percentage experience more variability in this region.

This concludes our formal remarks, thanks for your attention. Don, Lou and I will be pleased to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of John Murphy with Bank of America. Please go ahead.

John Murphy - BofA Merrill Lynch - Analyst

Good afternoon, guys.

Don Walker - Magna International Inc. - CEO

Hi, John.

John Murphy - BofA Merrill Lynch - Analyst

Just a first question. You talked about growth above market in North America on an organic basis, which is impressive, given your size. Just curious if could you maybe dimension what that was more specifically, and also sort of your confidence in being able to keep that up going forward and what products were the key drivers there?



Don Walker - Magna International Inc. - CEO

John, if going to look at the actual. Some schedules on that. If you recall at Investor Day or even when we gave our guidance in January and we looked out to 2018, implicit in our growth in sales from the end of 2015 to 2018, based on substantially booked business, our expectations are that we're going to continue to outgrow the market in North America. We had built in some growth in production volume through that time frame, but our growth in production sales was actually higher than that.

And that, as a result of all the things that we've been talking about, continue to win business, continue to increase content on replacement business, we certainly are benefiting from more and more global platforms. We continue to benefit from the consolidation of the supply base and the technologies that we're working on today also bring an added content. What Cosma does, for example, on lightweighting moving from just plain old cold stamped steel to hot forming or to aluminum, you're actually increasing the selling price of a particular unit to the customer, which helps to grow not only content but also profit.

Vincent Galifi - Magna International Inc. - CFO

Just looking at some of the programs, like the Ford Edge was a big contributor to incremental sales. First quarter versus the prior first quarter. F series was another contributor. MKX. Malibu was a contributor. Even the Chrysler Town and Country, more on the volume side because I don't think there's a lot of RUs that are being built.

RU is coming along. That's higher content for us, so that's going to be the same story. That's growing our content from about 2,200 on the prior Town and Country to closer to almost \$4,000 on the Pacifica. It's that kind of thing that's driving our content growth.

Don Walker - Magna International Inc. - CEO

I don't know off the top of my head what the change is year over year, but some of the new plants are building. We've got some new seating plants coming online, we've just got a new fascia plant coming online. We're launching another one, in fascia plant in Mexico. We have a lighting plant, a new lighting plant being launched. We have a new high pressure aluminum die casting plant coming onstream.

We just launched new metal stamping plants. We still have a lot of growth and I don't think there's any reason why we can't continue to grow because we have a lot of different products. No customer's ever said to me you're getting too big as a customer. They may not want us to get too big in any particular commodity like anybody else, but we do have a lot of products that we can still have growth in.

John Murphy - BofA Merrill Lynch - Analyst

Very impressive. And then a second question. Wondering if you could give us a little bit more color around Telemotive. Looks like it's got some product capability but also some engineering capability. Just curious if you could give us a little more color, how that fits into the aggregate portfolio of Magna Steyr and what it really does for you with customers and really expanding your capability?

Don Walker - Magna International Inc. - CEO

They're primarily -- I haven't been there. They have primarily got engineering service offerings to the customers. They have got a good customer base, which we like.

And what they're bringing to Steyr more of the connectivity, telematics. So Steyr has a lot of electrical electronic capabilities, in this area they didn't have a lot. So they're a good standalone business, but when we combine it with what we've got in Steyr already from the engineering standpoint it just strengthens us even more. Although it's going to be part of Steyr, they're going to continue to run it basically the business on their own. We'll have them tied into our capabilities in Magna electronics as well because there's going to be some synergies there also.

John Murphy - BofA Merrill Lynch - Analyst

Don, do you think that is something that is necessary as you potentially forge into new customers, or is this the kind of thing that will be -- help you win a lot of new business with existing customers? Just sort of necessary for Steyr to deal with the car of the future?

Don Walker - Magna International Inc. - CEO

It certainly doesn't hurt. Whether it's our traditional customers or somebody new, the more capability Steyr has in especially sort of the emerging side of software, telematics, the more capability they have to offer customers. So Steyr is doing quite well and we're growing our manufacturing business quite strongly as we indicated, as well as getting lots of opportunity for engineering. When we can add on additional capability, then it should strengthen their ability to win business.

John Murphy - BofA Merrill Lynch - Analyst

Okay. And then just lastly, launch costs in the quarter were highlighted as a bit of a negative. Are those particularly heavy in the first quarter and do they stay through the course of the year or should we expect heavy launch cadence through the course of the year?

Vincent Galifi - Magna International Inc. - CFO

You're looking at consolidated I'm assuming? On a year-over-year basis the launch costs were negative. I'm looking for some of the segments. I think launch costs actually improved in North America in the back half of the year, also benefited North America as some programs launch, we get some revenue.

I think when I look at Europe, launch costs are going to be more of a drag in the second half compared to the first. I don't really have a good handle on Asia, John. So I think as you look through Europe quarter over quarter on a consolidated basis, launch costs I don't expect to move substantially from where we were in Q1.

John Murphy - BofA Merrill Lynch - Analyst

Okay.

Vincent Galifi - Magna International Inc. - CFO

Roughly about the same.

John Murphy - BofA Merrill Lynch - Analyst

And I would assume Asia probably as the products ramp over there, it's a little bit of a headwind continuing through you the end of the year, right?

Vincent Galifi - Magna International Inc. - CFO

We just moved guidance up in Asia. Remember, they're small numbers in Asia and that really reflects some more optimism we have with some of the performances in Asia. So we're -- based on Q1 results we should be able to hold those margins for the balance of the year.

John Murphy - BofA Merrill Lynch - Analyst

Okay. Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Peter Sklar with BMO Capital Markets. Please go ahead.

Peter Sklar - BMO Capital Markets - Analyst

Thanks. Back on the Cosma plants, the underperforming plants that we've been talking about the last couple of quarters, on the last call you gave some guidance, which as you I recall that you anticipated that the end of year run rate loss was expected to be half of the run rate loss you're experiencing in Q3 and Q4. Just wondering is there any change in the guidance or the performance of the plants?

Don Walker - Magna International Inc. - CEO

Peter, just remind people what we talked about for the underperforming plants. We were looking at inefficiencies. We're launching some business and that's normal course of business for us. That's not always an exact science of how to get the numbers there.

The last year, kind of look at the inefficiencies we're probably \$50 million to \$55 million for the year. And that was substantially all back ended in the last half of the year. There was some in the first half but most of that was the last half. We talked about kind of Q3 and Q4 last year inefficiencies were kind of in the range of \$20 million to \$25 million with Q4 being a little bit worse than Q3.

What we were expecting when we -- the last time we sort of gave some guidance is that we were going to be able to reduce those inefficiencies by about 50% by the time we got to Q4 of 2016. So somewhere between kind of \$12 million to \$15 million improvement by the time we got to Q4. Performance in Q1, we're on track to meet those numbers.

So we've seen a reduction in the inefficiencies from Q4 to Q1 but if you look at Q1 to Q1, the inefficiencies were higher because we didn't have many inefficiencies in Q1 of 2015 and our run rate is higher in Q1 of 2016. Want me to repeat that again just to make sure we're all on the same page?

Peter Sklar - BMO Capital Markets - Analyst

I got it. I thought that was clear.

Don Walker - Magna International Inc. - CEO

Okay.

Vincent Galifi - Magna International Inc. - CFO

We're still on track to where we thought we were. We've still got to get through the launches but we're pretty well executing what we thought we would be able to do.



Peter Sklar - *BMO Capital Markets - Analyst*

Okay. My next question is on foreign exchange. In your write-up, when you're talking about SG&A, I think you're saying that one of the items you attribute is foreign exchange loss this year versus foreign exchange gains last year. And I'm just wondering if you could wrap some numbers around like how significant is the swing in terms of these foreign exchange gains and losses impacting your financial results?

Don Walker - *Magna International Inc. - CEO*

So Peter, when you look at sort of SG&A in the first quarter of 2016, in my mind there's three things going on. Translation would have been a benefit for us because the Canadian dollar weakened and we have Canadian dollar based SG&A. However, more than offsetting that is the impact of realized foreign exchange gains and losses. And that just relates to the settlement of payables or the collection of receivables, the date you set the receivable up and the date you collect it.

If I look at Q4 of last year, actually I think the referring to the MD&A -- if you're looking at Q1 of last year, Q1 of 2015, we would have had some foreign exchange gains that were realized. We would have booked those. In Q1 of 2016 we've got some foreign exchange losses. When I look at sort of the overall impact of that, Peter, it's going to be under \$15 million. So it's not that significant, but it's certainly an item that impacts our reported SG&A for the quarter.

Peter Sklar - *BMO Capital Markets - Analyst*

Right. Okay. And then my last area I wanted to address, your European operating profit was about 5%. That's better than what it's been running at and I'm just wondering, has there been some organic improvement in your European operations or is that just the blended outlook now that you have Getrag blended in?

Don Walker - *Magna International Inc. - CEO*

You know, if we exclude Getrag, our operating margins, our EBIT margins would have actually been higher in Q1 in Europe. The impact of Getrag in Q1 was negative 0.4%. So ex-Getrag, we would have been north of 5% in Europe. So what some of the moving pieces are that's helping to drive the margin expansion, I would say that the biggest thing is really just operating performance.

What's also helped is other acquisitions, excluding Getrag, and what I'm referring to is the disposal of our battery systems business and the acquisition of the UK operation, Stadco, that would have been accretive to operating margins on a year-over-year basis. Commodity costs are actually a tailwind, so that helped us a bit. And what hurt us a little bit on a year-over-year basis is additional launch cost. When you kind of sum all that up, there was an improvement from Q1 of last year with Getrag, and the improvement would have been larger if we hadn't consolidated Getrag.

Peter Sklar - *BMO Capital Markets - Analyst*

Right. So you seem to be having good performance there in the first quarter. I just noticed, though, in terms of your outlook section where you go segment by segment, you've not moved up your guidance. You're still looking for 4% full-year 2016 which I know there's seasonality in the second half of the year, but it still is 100 basis points behind your performance of Q1. I'm just wondering if there's anything else we should think about?

Vincent Galifi - *Magna International Inc. - CFO*

Peter, you've hit one. First of all, we're saying approximately 4%. We're not saying 4%. So that could be plus or minus 4%, you can interpret my comments on that.



Certainly seasonality's an impact. Sort of three things that you should keep in the back of your mind. One is new facility costs are going to be a headwind over the course of the year. We are putting up some new plants throughout Europe and the cost of those plants are going to be a negative. I think they're actually a modest positive in Q1 and it's going to be a negative for the next three quarters, for the balance of the year.

The other is you think about Magna Steyr, volumes this quarter were about 23,000 units, but as the Mini program comes to an end, volumes are going to come off so that's going to impact our margins, as Magna Steyr's profitability starts to slow down, as they start to ramp up for the new program in 2017. Actually the final thing us actually Getrag. When I look at Getrag's results for the quarter, a little bit better than expected. We're still trying to get Getrag and we'll get them next year into our budget process, so I don't have the same sort of level of confidence in their budget that I do in our own developed budgets.

I think what's going to impact Getrag for the balance of the year is higher engineering costs and launch costs, and our budget assumes that some of those costs are -- more of those costs were going to be incurred in Q1, but there's going to be more of those incurred in the balance of the year. So when you sum all that up, our expectation is that the 5%'s going to come down, and seasonality also plays a big part of it. You think about what happens in summer shutdown in Europe, as well as the Christmas shutdown in Europe has a negative impact on margins.

Don Walker - Magna International Inc. - CEO

I think we've generally seen the first half of the year second stronger than the second half of the year in Europe anyway. Overall, we continue to make good headway in Europe.

Peter Sklar - BMO Capital Markets - Analyst

Okay. Thank you for your comments.

Operator

Thank you. Our next question comes from the line of Rod Lache with Deutsche Bank. Please go ahead.

Rod Lache - Deutsche Bank - Analyst

Hi, everybody. Had a couple questions. Just one, just to maybe button up that last discussion on Europe, are you saying that if Europe stays on its current trend, that it is tracking more or less in line with plan or are you in fact seeing it coming in a bit ahead of plan?

Vincent Galifi - Magna International Inc. - CFO

I think, Rod, given Q1, Europe's probably a little bit better than our plan. Again, it's one quarter. Let's get through a couple more quarters. But we both Don and I we're pleased with the performance in Europe in the first quarter of 2016.

Rod Lache - Deutsche Bank - Analyst

Okay. Great. And the assembly revenue guidance was increased by about 10%, \$200 million. Was that primarily -- was that partially FX? Was volume higher? And can you pass along any thoughts, I know you've given us sort of the guidance for this year and the effect of the Mini rolloff. How does that business look out to next year? There's a huge number, obviously you're tripling the size of the business nearly by 2018, but can you give us some color on how that looks in this intervening one or two year period?



Vincent Galifi - *Magna International Inc. - CFO*

In respect of the guidance for our complete vehicle assembly business, there's two factors that cause us to move up our guidance for the year. One is foreign exchange. So euro has appreciated versus the US dollar relative to where we were in February. So that's been baked into our numbers.

The other thing is mix and we saw some positive mix in Q1, in particular the Mercedes G Class. Volumes were better. The selling price of a G Class is more than that of our Mini program. So that helps overall sales.

With respect to what Magna Steyr is going to look like, as we approach the end of the year the sales on the Mini, at least the plan for now is that they're going to drop off. Hopefully that's not the case and hopefully we sell more than what we've been told we need to produce, and the business is going to ramp up in 2017. I'm not sure, Rod, whether that's sort of a Q1, Q2, but there will be a softening of sales as we approach the end of the year and there will be a ramp-up as we move into 2017. You have to wait until later in the year until we get up to full assembly volumes for Magna Steyr.

Don Walker - *Magna International Inc. - CEO*

There's programs with BMW and JLR that are launching in 2017. They ramp up through 2017 and 2018. Much higher than where we currently are.

Rod Lache - *Deutsche Bank - Analyst*

Just two broader questions for the overall Company. One is, could you just remind us what your commodity exposure is and how you're thinking about the effect in the quarter and expectations for the year? And then lastly, with this acquisition of Telemotive and you recently took an equity stake in a cyber security company, it suggests that you're placing a greater emphasis in a new area with HMI, infotainment and connectivity. Maybe just give us some thoughts on where you expect to take that and are you aspiring to be increasingly competitive with the Contis and Delphis of the world in that area.

Don Walker - *Magna International Inc. - CEO*

Dealing with the first one, Rod, for you. With respect to commodities, when you look at steel, about 75% of our steel buy is on resale programs. The balance, a big chunk of that, is under fixed contracts extending could be a year, a year and-a-half. We buy some steel on the spot market. I'd say we're pretty well protected from a steel buying perspective.

On the resin side, which is another exposure we have to commodities, the amount of resin on resale's been growing. It's right now about 25%. We have more exposure to volatility from a resin standpoint than we do with steel.

But the other part of kind of steel is scrap, scrap is part of our manufacturing process and we're pretty well exposed to that, particularly North America. We're less exposed to that in Europe. And scrap prices throughout 2015 were coming off and that's why as you kind of listen to our commentary last year, we kept on talking about the impact of lower scrap recoveries. We commented about that in Q1 of 2016.

I look at kind of where scrap pricing is today and where it was in Q4, there's been some recovery. Depending on kind of where scrap ends up, if it maintains at this level, I think when you look at full-year 2016 scrap, recoveries will still be a hit to us in 2016 compared to 2015.

Vincent Galifi - *Magna International Inc. - CFO*

In Q1 net-net, scrap steel and resin was still a negative.

Rod Lache - *Deutsche Bank - Analyst*

Okay. Have you been able to quantify that, just how we should be thinking about commodities for the year, when you think about scrap and the other I guess smaller exposures?

Vincent Galifi - *Magna International Inc. - CFO*

Year over year I would put that as a headwind, but the headwind would be less than what the impact was in -- expect to be less than what it was in 2015.

Rod Lache - *Deutsche Bank - Analyst*

Okay.

Don Walker - *Magna International Inc. - CEO*

Again, everything's -- pretty volatile market out there, so things could change for the better or for the worse. As far as the question you asked on electronics, software, we are already -- we explained a little bit about this. Gary did at the Investor Day. We already have a lot of capability in cameras and surround view, front facing, rear facing. We are developing other technologies in the whole space of ADAS which is an area we think we can compete in.

Lots of changes coming up there, I think there's going to be continue to be lots of different solutions. And the fact that we bought the Telemotive is not an indication that's a mainstream product for us as far as infotainment. However, we made the investment in the cyber security because we think that's a -- it's very good technology. We think it's something the industry needs. We think it's going to be a good investment. Also, we just continue to build out our expertise in the software.

Our main focus will be in the area of autonomous driving features but we are already -- I don't think we're seen as a big electronics player but we have a lot of electronics. Even if you look at our mirror business, the amount of embedded electronics we have in there is huge. It's not going to be at the expense of other product areas if they're making good returns, but we do want to continue to grow our expertise in hardware as well as software in the whole electronics side of the business. And the electrification of powertrains is another big area we're focusing on.

Rod Lache - *Deutsche Bank - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Ryan Brinkman with JPMorgan. Please go ahead.

Ryan Brinkman - *JPMorgan - Analyst*

Hi. Great. Thanks. What was the driver of the benefit on the corporate other line during the quarter, which I think was an expense in the year-ago period?

Vincent Galifi - *Magna International Inc. - CFO*

Sorry, thinking about sequentially?

Ryan Brinkman - *JPMorgan - Analyst*

I just noticed it was a expense in the year ago and most quarters and was positive. I was just wondering if there was anything that could have been pushed out of the regions or the corporate or if you're seeing higher, lower legal costs, I don't know what?

Vincent Galifi - *Magna International Inc. - CFO*

This is corporate. We reported \$12 million in Q1 of 2015 and \$8 million in Q1 of 2016, \$4 million variance and there's a bunch of moving pieces in there. There's translation, there's foreign exchange, there's fees there are IT costs, there's legal fees, there's higher labor costs.

Ryan Brinkman - *JPMorgan - Analyst*

Sounds like a lot of moving pieces. Following up on some of the growth of your products that you showed at the Analyst Day, in terms of the ones that aren't generating revenue now but are expected to, for example the heat cool seats, for example, how far off is that before it starts to contribute to the top line, do you think?

Don Walker - *Magna International Inc. - CEO*

If I took 100 R&D projects, some of them might be in the market in 12 months, some of them might not be in the market for three years. I don't want to comment on any particular one. We're a bit careful at telling what we're working on, but we're going to be a little more open than we have in the past because I want people to understand how much technology is in the Company. These things roll anywhere from one to three years and some of them are closer than others but it's -- you never really know until you get an order.

Ryan Brinkman - *JPMorgan - Analyst*

That's helpful.

Don Walker - *Magna International Inc. - CEO*

Look at the electronic latch, that's something that we've been working on for years and years. We have a couple of big programs. Now we're starting to get bigger programs. Those will start rolling out now. Something we've been working on for years.

Ryan Brinkman - *JPMorgan - Analyst*

Good. Just kind of last question. Another thing you talked about at the Analyst Day, looking for faster than market growth in North America and Europe, maybe even faster in China and India. As we get closer to the spin of Adient from Johnson Controls, some speculation that they might pivot from targeting sort of solely financial returns to, I don't know, maybe trying to target growing their business again. Is that your understanding too? And what implications are there for your seating business?

Don Walker - *Magna International Inc. - CEO*

I don't really know what their strategy is. They're going to spin it off as a separate Company. We'll have to see how it trades in the market. JCI and the other companies are all pretty good companies, they're all, I think know their pricing pretty well. It's not like people are going out and under-quoting to grow their business. I'd be surprised if somebody started doing that, it wouldn't make a lot of sense to me.



If it's a financial player that's going to flip their business, that happened back in the 2006, 2007 time period and a lot of people went bankrupt. I would expect they're going to continue to be a disciplined good company. They're already a huge market share and one of the advantages we have had and we're continuing to have in my opinion is, we've got good technology. We're a good manufacturer. We're very competitive.

But we've got good competitors there and our customers quite often will like to have more than one supplier. And that's why I think that's one of the reasons why we've been growing, just because they want to see another big seating supplier grow. So I can't comment on their strategy. I would doubt anything drastic happens. If somebody buys them, then I guess it depends on who buys them and what the customer's reaction would be to who the new owner would be.

Ryan Brinkman - *JPMorgan - Analyst*

That's helpful. Thank you.

Operator

Thank you. Our next question comes from the line of Itay Michaeli with Citi.

Itay Michaeli - *Citigroup - Analyst*

Hoping maybe we could talk about the thoughts on the North America margin cadence the rest of the year, where you think you might exit? That's my first question.

Vincent Galifi - *Magna International Inc. - CFO*

With respect to North America, kind of look at where we were at the end of Q1, we're about 9.6%. Our expectations for 2016 is around 10%. So if you look over the next three quarters, that implies improvement in margin and that's coming from a number of things.

One is we were hurt in the quarter over quarter as a result of launch costs. As those launch costs start to get reduced as the year progresses, so that will be on a sequential quarter basis accretive to overall profitability and margins. As we continue to launch business, particularly in the second half of the year, that additional revenue will also bring with it some profitability. So that should help overall profitability.

We talked earlier on the call about three divisions in our stamping group in North America. We expect to continue to make improvements in the under-performance. So that's going to be additive. I think what's going the other way is an increase in our investment in new facilities, kind of when you sum all that up we are expecting improved margins for the entire of 2015 compared to where we were in Q1 of 2016.

Itay Michaeli - *Citigroup - Analyst*

That's very helpful. Thank you. Just a second question related to North America. Given some of the segment shifts that are out there and some of the pockets of higher inventory, are you seeing any changes to production schedules, kind of what's the visibility like and kind of how do you think about that for the next few quarters, given there are some areas where inventory looks a little bit high right now?

Don Walker - *Magna International Inc. - CEO*

Nothing really out of the ordinary on production the schedule side. We haven't changed our guidance at all for the full year. Q1 came in pretty close to what we were expecting. So nothing really to report on production schedules.



Itay Michaeli - Citigroup - Analyst

Okay. Great. That's very helpful. Thanks very much.

Operator

Thank you. Our next question comes from the line of Adam Jonas with Morgan Stanley. Please go ahead.

Bei Xin - Morgan Stanley - Analyst

Good afternoon everyone. Sorry, this is Bei Xin in for Adam Jonas. Couple of questions, more on the portfolio of products you have here. A few years ago you had identified almost like 20% of your business as something that you didn't see scaling or was non-core for lack of a better word, and there have been some divestitures since. So where do you think that number is today?

Vincent Galifi - Magna International Inc. - CFO

I don't remember ever saying 20%, but somebody -- we sold, the big chunk we sold off was the interiors business. We sold off a very small SMC business unit. We sold the battery business which was very small because it hadn't really launched. There's a few other businesses that we were considering a while ago whether we could grow it profitably.

One comes to mind is lighting. We never decided we were going to sell it. We looked at that. We've actually had very good response for growing that business. We've got a new plant up. So there's -- we're always looking at what the return is compared to other business units, but there's no big chunks of our business right now that we're seeing that are not core, but we always continue to look at it.

Bei Xin - Morgan Stanley - Analyst

Understood. And just a follow-up. You brought up autonomous and your capabilities with mirrors and the electronics content you have. And agreed there's still plenty of time until we get to level for autonomous. Even as we move through the levels, how do you see the role of mirrors evolving?

Don Walker - Magna International Inc. - CEO

That's a great question. We debate that all the time. I have yet to see any mainstream vehicle -- we can look at vehicles that are coming to market 3, 4, 5 years down the road. I haven't seen any that don't have exterior mirrors on them.

Cameras could one day take away, take the content off mirrors. You'd have to have legislation changes. I think you'd also have to have significant improvement in the cost and the picture quality and a lot of other technical issues in cameras.

We're the biggest supplier of cameras. We're the biggest supplier of mirrors. Had one slide up at the annual meeting today, there is a lot of embedded electronics that has to go somewhere. We have a lot of patents on.

I think the interior mirror, I'd be surprised if that would go away. It's a great position to put a lot of electronic features, and cameras and everything else. You may see some changes in legislation around cameras. We haven't seen it yet but it's something we looked at very carefully and we watch it. I'll be surprised if mirrors are off vehicles in any meaningful volume in the next 5 to 10 years, but we'll track it.



Bei Xin - *Morgan Stanley - Analyst*

Thanks for the color.

Operator

Thank you. Our next question comes from the line of Mark Neville with Scotia Capital. Please go ahead.

Mark Neville - *Scotiabank - Analyst*

Hi, good afternoon. Just had a question first on Getrag. I think you said this quarter was about 20 basis point headwind to margin. That was a little better than we were thinking. I think you said maybe a little surprise to you as well, or better than you expected. I'm curious as you're in there now doing the integration if there's anything that surprised you good or bad thus far or anything, or that's running ahead or behind schedule that's worth mentioning? I realize it's early, but just curious on that.

Vincent Galifi - *Magna International Inc. - CFO*

We talked about 20 basis points in the quarter. For the full year, our expectations on Getrag are still the same at 35 basis points. I think when you look at Q1, I think there was some engineering in particular that engineering costs we were budgeting later on in the year, engineering revenue and there's some timing impact.

Q1 was probably a bit better than expectations. But it's too early at this point in time for us to change our views for the full year. From an integration standpoint, we've got an integration team that consists of some people from Magna powertrain, some senior people from the Getrag operation, and from everything we're seeing and hearing integration is moving along quite well.

Remember, it's a pretty big organization. A lot of the things that we're going to do will impact future programs. Remember, these types of programs get awarded typically three to four years before they start production. So we'll see the real benefits of some of the synergies of putting our Magna powertrain and Getrag teams together as new programs get awarded.

Don Walker - *Magna International Inc. - CEO*

I think as the year goes on we'll continue to get more information, but overall it's about as we expected. Vince has talked about some of the specific issues, but I think the interest level from the customers, the product analysis will be done, the launch analysis will be done. They've got a lot going on over there. We're still working on whether we can get purchasing synergies, whether we can be in-sourcing manufacturing, but overall it's about where we thought it would be.

Mark Neville - *Scotiabank - Analyst*

One last one on Asia. I noticed you did bump the margin guidance but sales guidance, production guidance unchanged. I don't know if you called it out, what was behind the increase to the margin?

Vincent Galifi - *Magna International Inc. - CFO*

Mainly performance. Don't forget, doesn't take much to move the margin in Asia because the numbers are small. Good performance in the quarter and good performance in a few of the operations relative to what we had originally forecast.



Mark Neville - Scotiabank - Analyst

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Patrick Archambault with Goldman Sachs.

Patrick Archambault - Goldman Sachs - Analyst

A number of mine have been answered, but I've just one residual one on China. This was obviously an area which had some pretty abrupt slowdowns and a re-acceleration. How is the conversion on that? It seems from the margin performance that you just referenced that it's going well. But maybe a little bit more on how you see the backlog and the order book there evolving and on the expected conversion on that business.

Don Walker - Magna International Inc. - CEO

In terms of what's been going on in China, certainly with some of the tax breaks in China last year, that's helped sales, obviously production. As we looked at our production estimates for China in 2016, you know now to where we were in May, we held things pretty firm at the 25 million units in China. So we haven't sort of changed our expectations in the year.

I think as you look at longer term and that's really important to us as we're on business, we're still bullish on the market. We're expecting continued growth in production in China. The rate is going to slow down. They're building a lot of cars in China. But each and every year there's a substantial amount of growth from an absolute dollar perspective.

If you look at the Chinese market, our view is that regulations in China will evolve. They're going to be closer to what we see in North America and Europe and we think that, that's going to continue to provide opportunity for us to grow content per vehicle in that market, given the expertise that we have in a number of product areas throughout the rest of the world.

Patrick Archambault - Goldman Sachs - Analyst

And Vince, I know you, I think you've given it out before, but can you just remind us of the proportion of customers that are the locals versus the global JV guys?

Vincent Galifi - Magna International Inc. - CFO

About 85% international in China. That number is moving down a little bit with Getrag. I don't have an accurate number.

Don Walker - Magna International Inc. - CEO

The amount of business with Chinese OEMs is growing. Getrag has a substantial amount of business with local OEMs, but that's not going to impact the sales we report because we're equity accounting Getrag's Chinese sales, most of their Chinese sales. I think if you were to look at it on a managed sales basis, I think as get out into the other years, my recollection is that Chinese OEMs get to about 30% to 35% of our overall sales in China, versus about 50% where we are today.

Patrick Archambault - Goldman Sachs - Analyst

Sorry, versus 2015.

Don Walker - *Magna International Inc. - CEO*

Yes, yes.

Patrick Archambault - *Goldman Sachs - Analyst*

Got it. Okay. Great, guys. Appreciate the color. Thanks.

Operator

Thank you. At this time there are no further questions over the phone line.

Don Walker - *Magna International Inc. - CEO*

Okay. Well appreciate everybody dialing in. Overall, I think we're off to a good start this year. We'll keep everybody updated on a number of different issues, Getrag being one, and some of the technology development, but appreciate everybody dialing in. Have a great day.

Operator

Thank you. Ladies and gentlemen, that does conclude today's conference call. We thank you for your participation and ask that you please disconnect. Have a great day.

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