THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MG.TO - Q2 2017 Magna International Inc Earnings Call

EVENT DATE/TIME: AUGUST 11, 2017 / 12:00PM GMT

CORPORATE PARTICIPANTS

Donald James Walker *Magna International Inc. - CEO and Director*

Louis Tonelli *Magna International Inc. - VP of IR*

Vincent Joseph Galifi *Magna International Inc. - CFO and EVP*

CONFERENCE CALL PARTICIPANTS

Aileen Elizabeth Smith *BofA Merrill Lynch, Research Division - Analyst*

Colin Langan *UBS Investment Bank, Research Division - Director in the General Industrials Group and Analyst*

David Bruce Tyerman *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

David J. Tamberrino *Goldman Sachs Group Inc., Research Division - Associate Analyst*

Mark Neville *Scotiabank Global Banking and Markets, Research Division - Analyst*

Matthew Thomas Stover *Susquehanna Financial Group, LLLP, Research Division - Automotive Analyst*

Michael W. Glen *Macquarie Research - Analyst*

Peter Sklar *BMO Capital Markets Equity Research - Analyst*

Richard Michael Kwas *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Todd Adair Coupland *CIBC World Markets Inc., Research Division - MD of Institutional Equity Research*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Magna International Second Quarter 2017 Results Call. (Operator Instructions) Please note, ladies and gentlemen, that today's call is being recorded, Friday, August 11, 2017.

It is now my pleasure to turn today's conference over to Mr. Louis Tonelli, Vice President of Investor Relations. Please go ahead, sir.

Louis Tonelli - *Magna International Inc. - VP of IR*

Thanks, Bridget. Hello, everyone, and welcome to our second quarter 2017 conference call. Joining me today are Don Walker, Chief Executive Officer; and Vince Galifi, Chief Financial Officer.

Yesterday, our Board of Directors met and approved our financial results for the second quarter ended June 30, 2017. We issued a press release this morning for the quarter. You'll find the press release, today's conference call webcast, the slide presentation to go along with the call and our updated quarterly financial review all in the Investor Relations section of our website at magna.com.

Before we get started, just as 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 performance to be materially different from those expressed or implied in these statements. Please refer to today's press release for a complete description of our safe harbor disclaimer.

As we review financial information today, please also note that all figures discussed are in U.S. dollars unless otherwise noted. We have included a reconciliation of certain key financial statement lines between reported results and results excluding unusual items. Our quarterly earnings discussion today excludes the impact of unusual items.

In the second quarter of '17, we recorded an additional restructuring charges at a European power train facility in which we initiated restructuring in the fourth quarter of '16. This reduced EBIT and net income attributable to Magna each by $3 million and EPS by $0.01. There were no unusual items in the second quarter of '16.

And now I'll pass the call over to Don.

Donald James Walker - *Magna International Inc. - CEO and Director*

Thanks, Louis. Hello, everyone. Let me start off with some of the highlights from the second quarter. We continued our organic growth in excess of vehicle production. We posted record Q2 results and Vince will walk you through the specifics. We returned $484 million to shareholders in the form of share repurchases and dividends.

Other highlights for the quarter include recent Magna activities in autonomous driving, new technologies that we have highlighted lately and an update on Magna Steyr, which is in the midst of heavy launch activity over the next couple of years.

Over the past year, we've been demonstrating our ongoing outperformance of our organic sales growth relative to light vehicle production. And this continued in the second quarter of 2017.

In the second quarter, North American production sales grew 2% over the second quarter of 2016. Our organic sales growth, excluding foreign exchange movements, was 3%. This compares to a 3% decline in the North American light vehicle production or 6% outperformance to the market.

European production sales was essentially flat excluding foreign exchange movements and acquisitions compared to a decline of 1% for European light vehicle production. This represented a modest 1% outperformance relative to the market.

And in Asia, a market we have been highly focused on over the past few years, production sales grew 20% organically compared to 5% for Asian production, representing 15% market outperformance. Adding to this, our unconsolidated joint venture sales in Asia grew about 47% in the second quarter.

In addition to all-time record quarterly sales, we posted second quarter records in net income attributable to Magna and diluted earnings per share.

Autonomous driving is a very hot topic right now, and we recently announced we are bringing our vision and software systems expertise, as well as our secured connectivity capability to a joint project with the Michigan Department of Transportation and 3M. The project is the nation's first vehicle to infrastructure connected construction zone, which is being installed along a 3-mile section of I-75 in Michigan. We're developing the software and specialized camera to perform object detection and to alert drivers in construction zones.

[Finance and the project] are expected to play an integral role in optimizing vehicle connectivity infrastructure on construction-related roadways going forward.

And just last week, we conducted a real-world test of autonomous driving, an automated driving vehicle equipped with Magna ADAS capabilities traveling more than 300 miles covering Ontario and Michigan before arriving at CARS Annual Meeting Management Briefing Seminar in Traverse City. The drive was completed 92% in autonomous mode. The main purpose of the drive was to assist the Canadian and U.S. governments in understanding the kinds of technologies needed at a border crossing to enable the passing of autonomous vehicles. We continue to strengthen our capabilities in ADAS and autonomous driving, an area that is expected to drive growth for Magna and the auto industry. We're also integrating ADAS capabilities into other products, including mirrors.

Our ClearView vision systems technology is an example of cross group collaboration at Magna. The system offers enhanced real-world vision in both exterior and interior mirrors by integrating our camera technology. Our ClearView outside mirror combines a self-cleaning camera with a side-view mirror to display live feed inside the vehicle with maximum field of view for the driver. Our ClearView inside mirror features the ability to switch between the traditional mirror and a full-sized video display, particularly helpful when a driver's view is distracted, for instance due to cargo inside the vehicle. We have a number of patents and IP around this video display technology.

We also recently introduced the industry-first D-Optic LED headlamp that improves forward visibility and uses energy-efficient LEDs, at the same time, offering differentiated styling options for the OEMs. We're launching D-Optic on the 2018 Chevrolet Traverse.

Lastly, we had a number of innovative technologies in our new Lincoln Continental, including the vision-based ADAS, our SmartLatch, and a 30-way adjustable seat. As a result, Magna supported Ford's luxury brand, we were recently honored as a supplier to win the Lincoln Luxury World Excellence Award. We expect our innovation to continue to drive profitable growth across Magna.

Turning to our complete vehicle expertise. Our Magna Steyr unit is continuing with the first of a number of new product launches with the new BMW 5 Series, which started at our assembly facility in Graz, Austria this past March. The program will continue to ramp up through 2017. We recently announced that this summer we began to build the 5 Series plug-in hybrid as well.

This new program demonstrates our expertise in vehicle electrification, and together with the Jaguar I-PACE BEV that launches early in 2018, as an electrified vehicle to the lineup in Graz. We also announced last month that we will be producing the Jaguar E-PACE beginning later this year. The E-PACE is a compact SUV, a segment that continues to grow in prominence globally and we're excited about this all-new program. Once we launch all the programs, we expect to be at over capacity -- sorry, we expect to be at capacity in Graz with complete vehicle assembly sales of over $6 billion in 2019 compared to $2.2 billion last year.

With that, I'll pass the call over to Vince.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Thanks, Don, and hello, everyone. Overall, we posted solid second quarter consolidated results, in line with our internal expectations.

Consolidated sales were $9.7 billion, a new all-time quarterly record. Net income attributable to Magna was a second quarter record $564 million. Diluted EPS was $1.49, also a second quarter record for us. That's up 6%.

We returned $484 million to shareholders through share repurchases and dividends, and we have a number of positive revisions to our 2017 outlook, which are driving an increase in expected earnings and free cash flow compared to our previous outlook. I will cover each of these in my financial review.

Consolidated sales increased 3% to $9.7 billion in Q2. This increase reflected higher North America, Asia and Rest of World production sales along with higher complete vehicle assembly sales, partially offset by lower European production sales and lower tooling sales.

In North America, production sales were up 2% despite a 3% decline in vehicle production. The increase largely reflected the launch of new programs, partially offset by $68 million decrease due to the year-over-year weakening of the Canadian dollar against the U.S. dollar.

In Europe, production sales declined 1% compared to Q2 of last year. The decline reflects lower volumes, as production was down 1% in Europe as well as a $71 million decline due to a lower euro, British pound and Turkish lira, slightly offset by the Russian ruble relative to the U.S. dollar and lower content on the MINI Countryman and Paceman compared to the previous model, which was assembled at Magna Steyr and on which we had substantial production content. These were offset by the launch of new programs and acquisitions which contributed $35 million to sales.

We expect to see a reacceleration of production sales outperformance compared to vehicle production in the second half of 2017 in Europe. Complete vehicle assembly sales increased 14%, mainly reflecting the launch of the BMW 5 Series, which began in March, partially offset by the impact of the end of production of the MINI programs in the fourth quarter of 2016. You should note that the MINI programs had a lower average unit selling price compared to the 5 Series, so assembly sales are up even though assembly volumes are down year-over-year.

Assembly volumes and sales will continue to ramp up throughout 2017, as the BMW 5 Series gets up the ramp curve and the Jaguar E-PACE SUV launches in the second half of the year.

Asian production sales increased 16% in Q2, primarily reflecting the launch of new programs in China. This was partially offset by the negative impact of a lower Chinese RMB relative to the U.S. dollar.

Rest of World production sales increased 19% year-over-year, reflecting higher production volumes, the launch of new programs, customer price increases and a strengthening Brazilian real. Lastly, tooling sales declined 3% in the quarter.

Adjusted EBIT margin declined to 8% in the second quarter of 2017, in line with our expectations compared to 8.4% in Q2 of 2016. The lower EBIT margin percent largely reflects reduced margins on our complete vehicle assembly sales, primarily due to the launch costs related to the BMW 5 Series and lower margins earned on programs during the second quarter of 2017 compared to the second quarter of 2016, higher commodity costs, higher new facility costs, operational inefficiencies that occurred at the body and chassis facility in Europe and lower equity income. These were partially offset by generally higher margins at certain manufacturing facilities, including through net productivity and efficiency improvements, higher recoveries associated with scrap steel and a decline in the portion of tooling sales, which had a higher-than-average material and labor content.

Let me now comment on a couple of the more noteworthy variances in our reporting segments. European margins declined in Q2, to a large extent, as anticipated to 4% compared to 5.6% in Q2 of 2016. While we had expected a considerably lower margin in Q2 than Q1, our body and chassis facility performed below the operational levels that we had expected, as a result of higher-than-anticipated volumes.

And Asian margins were strong again in Q2 at 10.9% compared to 8.2% last year, largely reflecting good pull-through on the higher sales and increased equity income related to GETRAG as our business ramps.

Just an update on GETRAG. We said in May that GETRAG's results are expected to be U-shaped in 2017, as launch and engineering costs together with typical Q3 shutdowns would negatively impact Q2 and Q3 relative to Q1 before recovering in Q4, particularly as sales in China grow. This shape is still expected for 2017. We continue to expect GETRAG to be accretive to earnings in 2017, with a further positive impact in 2018 and 2019.

Our effective tax rate was 24.6% this quarter versus 26.9% in the second quarter of '16. The decline reflects a decrease in nondeductible foreign exchange losses related to the re-measurement of financial statement balances of foreign subsidiaries that are maintained in a currency other than their functional currency, a change in the mix of earnings resulting in proportionately lower income earned in jurisdictions of higher income tax rates and a change in our reserves for certain uncertain tax positions. These factors were partially offset by higher accrued tax on undistributed foreign earnings.

Net income attributable to Magna increased $6 million to $564 million, reflecting lower interest expense and lower tax expense, partially offset by slightly lower EBIT and higher minority interest. Diluted EPS was $1.49 for the quarter. In addition to higher net income, this increase reflects the 4% decline in shares outstanding largely due to our share repurchases.

I'm now going to review our cash flows and investment activities. During the second quarter of 2017, we generated $948 million in cash from operations prior to changes in noncash operating assets and liabilities and invested $391 million in noncash operating assets and liabilities.

In the quarter, investment activities amounted to $563 million, including $420 million in fixed assets and $143 million increase in investments, other assets and intangibles.

Free cash flow was slightly positive in the second quarter, bringing us to $201 million year-to-date. Largely due to an increase in our expected earnings and potentially lower capital spending, we now expect free cash flow of between $1.2 billion and $1.4 billion for 2017, up from the $1.1

billion to $1.3 billion range we expected previously. Note that we typically generate most of our free cash flow in the second half of the year as working capital becomes a source of cash. We anticipate a similar trend this year.

In addition, we paid $101 million in dividends and repurchased 8.5 million common shares for $383 million in the second quarter. Including shares repurchased subsequent to June 30, we have purchased 11.2 million common shares for about $500 million since we reported our first quarter results in May.

Earlier today, we updated our 2017 outlook. We reduced North American production expectations by about 100,000 units to 17.4 million units, reflecting some softening in production expectations. We increased European production in Europe by about 200,000 units to 22.1 million units, substantially reflecting the strong Q2 production.

Despite the lower North American volumes, we increased North American production sales to reflect the stronger anticipated Canadian dollar relative to the U.S. dollar and slightly improved mix compared to previously expected. We increased European production sales, primarily reflecting the higher production volumes and the higher euro than our previous outlook. And implicit in our outlook are higher tooling sales than we previously anticipated.

As a result of the above, total sales are expected to increase by about $1.1 billion to $37.7 billion to $39.4 billion range. Our EBIT margin outlook is unchanged from our previous outlook in the 8% to 8.2% range.

Interest expense is now expected to be approximately $75 million compared to approximately $85 million in our previous outlook, largely reflecting the lower Q2 interest expense.

Tax rate is expected to be about 25% compared to the 25% to 26% range in our previous outlook, largely as a result of the lower tax rate experienced in the first half of the year. Together, these changes to our outlook imply higher earnings for the second half and full year 2017 than previously anticipated.

And CapEx is now expected to be in the $1.9 billion to $2 billion range compared to approximately $2 billion previously. This is due to our continued focus on capital spending discipline.

We've made 2 changes to our expected segment EBIT expectations. We moved Asia up to the 12-plus percent range from our previous 11% to 12% range. This reflects expected 2017 operating performance, including equity income, that is better than previously anticipated. Keep in mind, however, that the numbers are smaller in Asia, and therefore, margin percentages experience more variability in this region. And we slightly reduced our margin expectations to approximately 4% for 2017 compared to the 4% to 4.5% range that we previously expected. This largely reflects 3 things:

first thing is, higher expected tooling sales compared to our previous outlook; continued operational inefficiencies at the body and chassis facility noted earlier through the second half 2017; and lower than previously anticipated equity income from GETRAG Europe in the second half of 2017, primarily due to softening sales at a certain facility.

In summary, in Q2, we set a new all-time sales record for Magna along with second quarter records for net income attributable to Magna and diluted EPS. We returned $484 million to shareholders in the quarter and continued buying back stock post quarter-end. We raised our sales and earnings outlook, reflecting continued confidence in our business, and we increased our 2017 expectations for free cash flow to $1.2 billion to $1.4 billion.

Donald James Walker - *Magna International Inc. - CEO and Director*

Before we turn things over for Q&A, I'd like to say a few words about a topic that seems to be getting a lot of attention recently. Following Delphi's announced proposal to spin-off its power train business, a number of investors have asked whether Magna might consider a similar move.

For the past number of years, we've been reviewing our product portfolio and assessing what changes make sense and what changes don't. In order to best create long-term shareholder value, this ongoing review has led to a number of actions, including selling our interiors business and getting into the transmission business through our acquisition of GETRAG. Assessing the portfolio is a dynamic process, but at this time, we think we have the right product -- capabilities to provide holistic solutions to our customers, and we think we're in a great position to drive future mobility.

So thanks for your attention this morning, and we'll now be pleased to answer any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Rod Lache.

Unidentified Analyst

This is [Suresh Patel] on for Rod. So I just had a couple of questions. So first off, can you help quantify the operational inefficiency that you mentioned in Europe? And also you mentioned that you're expecting now the GETRAG contribution there to be a little lower than previously expected. Can you kind of give us a little more color on that?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes, certainly. I'll try to do that. We were launching some programs in this specific facility in 2016. The volumes had been ramping up in quite a substantial way over and above what we certainly were anticipating and expecting. And as a result, we had some additional costs in the quarter which I don't think are going to go away for the balance of the year. I think they're going to be reduced, but won't go away. So if I look at overall, I guess, European margins, the impact in the second quarter the loan on this facility was about 0.3%, a little under that. You know, as I look at the kind of second half of the year, we do see some improvements, but I still think that this facility is going to negatively impact European margins for the second half by under 0.2%. So we'll see some improvement but continued deterioration. In the case of GETRAG, what we're seeing is there's reduced sales on a particular -- with a particular customer, and as a result of reduced sales, our equity income is going to be lower. And again, that's sort of a headwind to European margin in the second half of the year compared to our previous expectations. Just to finish up Europe, because I'm sure there'll be much more questions on Europe, the other sort of from a margin perspective, what's impacting Europe in the second half of the year compared to previous expectations is higher tooling sales. So again, if you think about tooling sales were -- we don't really make any money on tooling, to increasing sales on changing EBIT, it'll have a negative impact on reported margin, not necessarily a negative impact on reported EBIT. So those 3 items alone has resulted in us slightly lowering our margin expectations in Europe for the full year of 2017.

Unidentified Analyst

Okay. And then also can you just kind of remind us again of the -- what's the Canadian dollar impact on revenues and flow-through to op margins? I believe it's something in the neighborhood of $70 million per $0.01 change and let 10% flow-through. Is that kind of right?

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes. It's about $60 million on sales for every $0.01 on an annual basis. As you know, we don't talk about the profit impact. If you assume approximately the same margins as we have in North America, it's a reasonable assumption. That's all we're saying.

Unidentified Analyst

Okay. And then just the last one. I saw that the free cash flow guidance has been raised for 2017. Can you just kind of help us bridge from 2013 -- from 2017, you're looking to do roughly $1.3 billion to what you talked about previously for 2019, I think it's over $2 billion of free cash flow. I know CapEx should be down over that period. That looks like it might be a $200 million, $300 million benefit. But can you just help us with some of the other items?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes. There's a couple of components there that helped to contribute to the increased free cash flow. First is, higher earnings. We're expecting sales to continue to grow. We continue to expect margin expansion in Europe. We'll probably see some improvement in working capital as we ramp up our vehicle assembly business. And as we've been focusing on capital, we're expecting capital in absolute dollars to come down. We've talked about our capital spending profile over a number of years. And if you think about kind of '14, '15 and '16 capital's been -- and even '17, capital's been at more elevated levels. And when I think about our capital spending, obviously, we're spending capital to grow the business. We've also got some maintenance capital. But capital's also kind of lumpy. So we've been putting in some lumpy type capital expenditures. You put them in place and the capital is around for 15, 20 years. But there seems to have been more of those lumpy expenditures over the last several years. So all that should contribute to lower capital as we look out into '18 and '19.

Unidentified Analyst

Okay. And that lumpy capital is kind of like investments, for example, in the CVA business. Adding a paint facility, for example, so it's not -- even if you're -- even as you're growing your bookings or growing your new business, you can still support that at a lower CapEx level relative to sales?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

That's a good example. The paint facility that we're putting in is a lumpy type cap rate. You put that in, that's in there for a period of time. But I can look at other business units as well. I think our power train business, where we're putting in capacity, it supports the growth in transmissions. Or even if I look at our Cosma business, where we've been putting in a number of hot stamping lines that are going to be in place for quite some time, but it's been lumpy because it's all been pretty concentrated in the last couple of years.

Donald James Walker - *Magna International Inc. - CEO and Director*

And the paint facility costs are already in our numbers.

Operator

Our next question comes from the line of David Tyerman of Cormark Securities.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Yes. I just wanted to get an idea of how the puts and takes on the Steyr launch and the GETRAG launches affect your margins over, call it, the next year, 1.5 years?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes. I think if you look at GETRAG, they continue to ramp up business and contribute more to profitability. That should continue to be accretive to overall margins, whether that's in Europe or whether that's in Asia. With respect to Magna Steyr, David, my recollection is that as we continue to grow sales at Magna Steyr because Magna Steyr operates at that lower margin. It's a decent return on capital business, but a lower margin. It's going to have a negative impact to overall margins in Europe and as well as North America. But having said all that, we kind of look at our margin expectations for '19. So Steyr's negative, GETRAG's positive. Other areas of our business continue to expand margins. So all in all, we're still expecting margins in Europe to expand.

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes. And commenting on GETRAG, remember we talked about U-shaped. So Q2 came in lower. Q3 a little bit lower. Q4, we start to get the benefits of some of the programs that are launching, so that should be positive.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Yes. So turning that into 2018, should we see a continued improvement within GETRAG, given that you're getting past the bulk of the launches? Or are there more big slugs of launches that may cause more U's along the way?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

No, David. We're expecting continued improvement into 2018.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. And the same thing in Magna Steyr, like it's been dragged right now, it sounds like by the 5 Series presumably that -- as that matures, it gets better. But then you got other launches. I'm just wondering when you take all that into account what we should be thinking?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes, the way I would think about it is, certainly, look, the launch costs we're incurring with the 5 Series will go away as we can ramp that up. We'll probably have some of the Jaguar programs. But I think the bigger impact on margins in Europe as it relates to Magna Steyr is the growth in revenue. So it'll grow revenue, even though we're generating positive profits, it'll be a negative impact to reported margins.

Donald James Walker - *Magna International Inc. - CEO and Director*

The bigger part of our overall European business that we recently launched.

Operator

Our next question comes from the line of Peter Sklar of BMO Capital.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Don, I'm just wondering if you could comment on this. As hybrid vehicles gain further penetration in global vehicle production over the next number of years, can you just talk about how you see this playing out in your power train business? What are the puts and takes for you?

Donald James Walker - *Magna International Inc. - CEO and Director*

Sure. Swamy had covered in quite a bit of detail some of the products that we have in the ICE engines and then hybrid and then battery electric vehicles. So we won't get into a lot of detail. In fact, I talked at the Traverse City, a couple of weeks ago about what we thought the penetration rates were going to be. I think the rate of penetration for pure electric vehicles will be slower than a lot of people are anticipating. However, it doesn't really matter to us how fast they penetrate because we do have good content in any version. If you'll look at our content per vehicle in internal combustion engines, or what would be typically available to us. So at $2,000, as we move into hybrid, it actually goes up to about $3,000 per vehicle. So it obviously depends on the rate we win the business, but that is a benefit. When it goes pure electric vehicles, it comes down again about $2,500. So I still think the predominant -- over the next 10 years, the predominant power train is going to be internal combustion engines. However, you're going to see more and more penetration to hybrid, especially as you see all the issues with diesel. So that's why we're going to be seeing, I think, more hybrid. But overall, it depends on the win rate but we're -- I think we've pretty well positioned in all of them. But we can go into more detail if you want product by product, but that's a high-level view.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

And hybrid with the internal combustion engine, of course.

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Right. So on the internal combustion engine associated with the hybrid, I mean, that would be a smaller displacement engine than a pure ICE engine. Does that affect your content at all?

Donald James Walker - *Magna International Inc. - CEO and Director*

Well, what we try to do is we've taken a look at what the average -- so a typical ICE engine, and we've taken a look at what a typical hybrid would be. So it doesn't necessarily mean it's getting much smaller ICE engine, but it could be depending on what the configuration is going to be. But if you look at hybrids coming up, we have a hybrid dual-clutch transmission. So if some of the orders that would be as a hybrid, then we put the motor in it. It's designed that way. You're going to see more 48-volt systems. You're going to see e-axle systems, the electronic parts, the differentials. There's going to be more electronic pumps. So it really depends on the application, and hybrids are all over the place. But our content -- available content to quote on, as we move from internal combustion engine to a hybrid engine actually goes up. So it's going to be -- there's not a lot of hybrids out there yet. So it'll depend on how much business we win, but the potential actually goes up for our power train business.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

And does that apply for GETRAG? Is there a better opportunity for GETRAG as we transition to hybrid?

Donald James Walker - *Magna International Inc. - CEO and Director*

I think if you look at the fuel efficiency of the dual-clutch transmission, it's -- that's one of the advantages, and we're seeing a lot more pressure going away from diesel. There's a lot more pressure I think upon moving into hybrids or electrification of the power train. So one of the things we like about GETRAG was they have good manual transmission capability, very efficient. They've also got very good dual-clutch transmission. It has the hybrid feature available into it. So the more pressure that we see on fuel efficiency targets, then the -- it's good. I think it's good for the application of dual-clutch transmissions which is where the technology really resides in GETRAG, but they're also very strong in manuals. And the manuals saw the huge penetration around the world.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Okay. And then just lastly, do you mind? I know you've talked about this before, but just reviewing again, what are the larger content opportunities for Magna on pure battery electric vehicles that make up that $2,500 of potential content?

Donald James Walker - *Magna International Inc. - CEO and Director*

Well, the transmission would be much simpler but you still need a transfer -- you can call it a transfer case but -- or a transmission. You start to get the power outside could be single or multispeed. Those are areas where we're going to be involved with. As you move into electric, if you have -- it depends on the configurations. If you look at electric drive systems, whether it's an e-axle. That's another opportunity, and also the thermal management still needs pumps and our other products. So those are some of the bigger areas.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Still need to get power to the wheel somehow, and that's our expertise.

Donald James Walker - *Magna International Inc. - CEO and Director*

And Peter, what we -- the way that we design our power train is we're very small on engines. So what we're really focused on is whether it's an internal combustion engine or a hybrid or a battery electric vehicle or a hydrogen vehicle or a fuel cell vehicle, you still need to get that energy from that power source to drag the wheels, and that's what we really what we've focused on for years.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

And keep in mind, we're big in 4-wheel drive, all-wheel drive, but that is a limited size market whereas if you're talking about some sort of e-drive system that takes the power to the wheels, that's a much bigger market. That isn't confined to the 4-wheel drive. It's a bigger market.

Operator

Our next question comes from the line of John Murphy of Bank of America Merrill Lynch.

Aileen Elizabeth Smith - *BofA Merrill Lynch, Research Division - Analyst*

This is Aileen Smith on for John. With respect to North America, if we were to look at IHS forecasts, production schedules clearly decelerated through the course of the quarter. Can you talk about how that trend impacted your business? How quickly are you able to pull cost out and adjust your production lines to meet your automaker customers? And how much notice in advance do you need from them to appropriately adjust your own production?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes. I mean, volumes ended up for sure being lower than we had anticipated even in our forecast. So we did see some of the deceleration in the volumes.

Donald James Walker - *Magna International Inc. - CEO and Director*

I think it really depends on where the reduction comes with car line, what our content is and then what type of product we've got in there as well. But one of the fundamental things about Magna is we're a very decentralized company. Every plant runs very autonomously. We do leverage our size on purchasing and best practices, but the plants are highly motivated because of their compensation that if there is a downturn, they will immediately adjust their cost to the extent they can. It really depends on whether we're talking about a stamping operation or a fascia operation. We will know releases from customers months in advance, for the most part, and then we make adjustments to it. We still think that there's still a good demand over the next 3 years built up in North America, quarter-to-quarter we just have to react to it.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Internally, the actions we take, it really depends. If it's just a slowdown, do we think it's temporary? Is it permanent? How big of a slowdown might it be? And that if you can move [worksets] on the outside and you bring it in to keep your facilities full, how you deal with labor, how you deal with discretionary expenditures. As Don talked about, it really is specific on the plant, and it certainly is a view that we take on how long and how severe any downturn may be.

Donald James Walker - *Magna International Inc. - CEO and Director*

And if your question is, did it this impact us in the quarter in North America? The answer is no, not really.

Aileen Elizabeth Smith - *BofA Merrill Lynch, Research Division - Analyst*

Okay. Great. That's very helpful. And then to get some insight on the cadence of earnings through the back half of the year, GM is obviously going to be taking production downtime, or is on the K2XX platform retooling, and that's just one part of your business. But is it fair to assume that your 3Q earnings might be a bit seasonally lighter, given the downtime for the program, along with some of the other drivers like GETRAG that you had mentioned? While 4Q might be a bit seasonally stronger as production ramps back up?

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes. In terms of K2XX, we do have some downtime that's baked in, and don't forget these are programs that launch in kind of the '18, '19, '20 time frame, but we do have Fort Wayne that's currently down. It's down for 5 weeks. So if look at the first half versus second half for K2XX, it is going to be negative. We're down kind of 9% in the second half of the year, and that [does] impact us but there's lots of programs in our top 30 and it isn't the only program.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

And in terms of quarterly kind of guidance, we're not providing that. But let me just help you kind of think about North America. In the first half, our EBIT percent in North America was just over 10%. And if you think about our kind of full year guidance resolving it, around 10%. So that would indicate second half and first half are about the same. Keep in mind, Q3 and Q4 are impacted just by the summer shutdowns, normal summer shutdowns in July, and then you have the Christmas shutdown. So we're still expecting a fairly strong second half in North America.

Donald James Walker - *Magna International Inc. - CEO and Director*

And as Louis said, the changeover is staggered and depending on what plant you're looking at, Fort Wayne [so our] -- or Flint. But our content on both the truck and the SUV goes up model to model. So it's -- the smoother and the faster it is, the better for us.

Aileen Elizabeth Smith - *BofA Merrill Lynch, Research Division - Analyst*

Okay. Great. And maybe just one last one for you Don. Thanks for the insight on your product portfolio plans especially in light of some moves made by other companies. To ask a different, but somewhat related question, are there any specific product lines or divisions in your business that you might be looking to expand going forward? And if we start to see other companies make similar moves to Delphi or express similar interest in separating businesses, are there areas in your business like power train or electronics that you may look to make acquisitions and further grow your scale?

Donald James Walker - *Magna International Inc. - CEO and Director*

Well, we spend a lot of time looking at our product portfolio and the value creation, is the business growing and profitability what we should be doing from a technology aspect as you would expect. We have made some changes; sold the interiors bought GETRAG but we've also been sold off some smaller business units. So we'll continue to fine-tune our offerings. As far as where we're focused, we typically are focused in 2 areas. One is, where we get the best return on invested capital and the best free cash flow per business unit, but we also know that there are a lot of changes happening in the autonomous driving, electrification of vehicles, just electrification in general, and the change in the power train we've talked about. So those are areas we would continue to invest in, whether it be an acquisition, new technologies and new start-up companies. We've done a number of those in the last couple of years. So those will be areas we'll continue to focus in. It doesn't really make a difference to me what other companies do. We understand what Delphi did. We understand why they did it. So we are focused on long-term value creation inside our company and we very clearly understand that by giving more clarity in our technologies, in our product lines, will help people outside the company understand what we're doing. But we have a lot of synergies inside the company given our size, given our product breadth. Our electronics business is working. Our ADAS is also working with our groups on electrification of a lot of different product areas, whether it be an eLatch or the mirror group or power train. So we have -- we continue to take a good look at how we can continue to enhance shareholder value and also long-term grow the company profitably.

Operator

Our next question comes from the line of Mark Neville of Scotiabank.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just had a couple of points of clarification. I guess first, just to follow-up on I think it was David's questions from earlier on GETRAG. I guess, when I think about U-shaped at some point, to me, I guess that implies a step change in profitability or margin. And it almost sounds like it's -- like you're talking as early potentially as Q4 '17, Q1 '18. I don't know if that's too optimistic? Or if I'm thinking about that correctly? Or if it's actually more of a gradual improvement through '18 and '19?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

No, Mark. You should expect an improvement in the fourth quarter of this year in GETRAG, as the launch costs get behind them and they ramp up the business. Just a little bit more further on GETRAG. When we started the year, we indicated that GETRAG for '17 on Magna's overall EBIT margins was negative -- we would say about negative 0.2%. We have had some outperformance in GETRAG. As we look at the balance of the year, we now think that the impact of GETRAG on Magna's overall consolidated EBIT margin has been reduced to about 0.1%. So we did talk about softness in sales at GETRAG, but I want to leave you with the impression that things are actually going better than what we anticipated overall in GETRAG operations around the world.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. Yes, no, that was clear. But, I guess, more specifically or more directly, I guess, again thinking about a U, it at some point implies a very steep improvement. So, I guess, can we expect that as early in '18?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

I think you should expect it as early as Q4 '17.

Donald James Walker - *Magna International Inc. - CEO and Director*

And continue in '18.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

That's what I was looking for. And I guess, on the guidance, just the adjustments to the production numbers, was that just based on second half expectations or what we saw in Q1 already?

Donald James Walker - *Magna International Inc. - CEO and Director*

It was actually based in Europe. It's largely based on what we saw in Q2, and in North America also partly Q2 and partly back half of the year. There are a couple of programs that, incrementally from our old forecasts, there's just more downtime baked in mainly in passenger cars. So there's a little bit of that in the back half. So for both North America and Europe, we did see some of that. Europe all essentially was Q2.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

All right. Okay. And maybe just one last one. The adjustments to the margin guidance by region, any sort of longer-term implications there for -- I don't remember if it was '18 or '19, but you had given some targets previously by region as well.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Mark, just in terms of what we're doing for the quarter or in the second half this year, I wouldn't read into kind of longer-term margins. We're still expecting North America margins to maintain roughly where they are, continued growth in Asia, and we'll continue to outperform our expectations in Asia. And Europe, as I talked about earlier on the call, Magna Steyr will have a negative impact, but with GETRAG ramping up business that should help margins, as well as continue operating improvements and new contracts in the rest of our European production plants. It's really -- we'll update kind of where the next couple of years margins are once we get our business plan completed around this year.

Operator

Our next question comes from the line of Rich Kwas of Wells Fargo.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Just a point of clarification around vision. You -- I think, Don, you talked about vision expertise and systems expertise. Is it still -- you're still -- there's been no change in the sensor sourcing, correct? Around how you're looking at this longer-term with regards to ADAS. Is that the right assumption?

Donald James Walker - *Magna International Inc. - CEO and Director*

When you say no change in sensor sourcing as far as whether it's camera, radar, LiDAR?

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Well, who are you using, basically? I mean, you're not developing your own sensors, correct? Your own detection, object detection?

Donald James Walker - *Magna International Inc. - CEO and Director*

We still work with Mobileye. But it's our own camera. We have a lot of technology in camera, and we do -- we work with Mobileye. We also do some of our own analysis, and certainly, manipulation of the data to make decisions. So it's a combination. There's really been no change. And yes, we have been developing what we believe could be very interesting radar technology as well as an investment, which we made in LiDAR, which we think it'd be very interesting and lower cost. So we're continuing to work in a lot of different areas.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

And the rear camera. We've got a lot of technology in the rear side, in particular.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Right, right. That's helpful. And then on radar, just what's the timing of that in terms of production?

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes, it's still R&D testing. It's looking very -- it's looking quite good, but we still need to get through all the final tests. So we've had a lot of discussion with the customers. Sorry, we really can't say much more about it at this point in time.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. But it's fair to say it's out probably into the early part of next decade, right, before it would go into production?

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes. Typically, we're looking at 3 years from the time you get an award to the time it's really in the vehicle, so that would be -- that's accurate.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then just on the -- some of the mirror technology, is that -- has that been quoted, right now? I assume it's being quoted, but have you won any business, any production contracts around some of the mirror technology that you cited in the presentation?

Donald James Walker - *Magna International Inc. - CEO and Director*

We're quoting a lot. We do have a lot of new technology in mirrors. The one we're specifically talking about is being shown to customers now. So it'd be future contracts.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then one quick one for Vince. On FX, the [1.11] is the average for the year-over-year correct, not the go-forward assumption?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Correct.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then in terms of the European margin, I assume that FX being -- coming in a little bit better than expectation may have had some dampening effect on the overall euro margin as well. Is that...

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

[Yes, referring to our outlook], are you referring to the quarter, or the...

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Just now for the year. Given -- I mean, I know there are some other bigger operational issues having more impact. But I mean, it would seem like Euro...

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes, a little bit of Euro. I would say that when you look at kind of Europe first half to second half, [and we already] talked about the facility -- the stamping facility the impact on that, higher tooling, certainly reduced sales in GETRAG will impact the equity income. Now the other thing is driving margins in the second half of the year compared to the first half is seasonality because you've got the shutdown in summer and the fall. Even though we're not necessarily altering our sales forecasts second half to first half. Our sales are actually down in euros because of seasonality, but the FX is actually [inflowing] those back to U.S. dollar. So even lower sales in Europe, you're going to have decremental margin, which is factored into our numbers even though from a U.S-dollar-reported standpoint you might look at it and say, sales are unchanged in Europe. They are, in fact, down other than for FX.

Donald James Walker - *Magna International Inc. - CEO and Director*

So a big chunk of FX, but in the second half.

Operator

And our next question comes from the line of Todd Coupland of CIBC World Markets.

Todd Adair Coupland - *CIBC World Markets Inc., Research Division - MD of Institutional Equity Research*

One quick question on capital allocation, if I could. Pretty active in the share buyback. Is that something you plan to continue as you move into the second half?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes, Todd. We have been pretty active, and where we sort of sit from a target leverage ratio, we still have room to buy back more stock. So our expectation is that we'll continue to be active in the market for the balance of the year.

Todd Adair Coupland - *CIBC World Markets Inc., Research Division - MD of Institutional Equity Research*

Okay. And secondly, if I could just return to the strategic question on the thought process of creating value. So I get you said it for a couple of quarters now that it's not a priority, and you want to keep the businesses that you have in the portfolio. Is that a no forever decision? Or have you put some benchmarks out there to say it possibly could get back on the table, if business say, is large enough or valuations in the market justify it, et cetera. How are you actually thinking about that as we go through time?

Donald James Walker - *Magna International Inc. - CEO and Director*

It's an ongoing process. We continue to look always at our product offerings, our product portfolios, what our customers want, what's happening in mobility of the future, what our competitors are doing. So it's an ongoing process. One of the things we have. So we continue to look at what we think is right for the long term of the business, but we're quite aware what's going on in the market. I know we do think our stock is undervalued, and we've had a lot of discussions about that. We're showing more technology. We're trying to get more information out about our various product areas and why we think they're good businesses. But after having said that, we'll continue to look at what's the best way to structure the company. One of the things we have been looking at is asking whether we provide you more transparency within the business units and product areas would further highlight the attractiveness of our various business lines and help investors better understand the quality of our business. So it's an ongoing evaluation. But right now, we do think there's a lot of benefits we see given our product offerings, our size, how we can work on systems in the vehicle, our complete vehicle understanding and probably better solutions in growing our company, which we've demonstrated over long term with our customers. But we'll continue to do...

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Todd, let me add just a couple of other comments here, when I think about how we invest money in the company whether it's for a particular program or it's an acquisition or another opportunity. We're always looking at how do we invest money? How do we manage the business to drive cash flow? Because ultimately, I believe that cash flow creates -- earnings creates value. And when I think about our existing structure, I think the structure does maximize the cash flow for our entire organization given our positioning, how we're able to talk to and approach customers and all the synergies, cross synergies, cross group synergies we're getting that Don talked about earlier in some other comments.

Operator

And our next question comes from the line of David Tamberrino of Goldman Sachs.

David J. Tamberrino - *Goldman Sachs Group Inc., Research Division - Associate Analyst*

A couple of -- just questions on some of the upcoming changeovers. Can you give us a sense of what the content per vehicle or how much content per vehicle you might be seeing moving from one program to the next on some of the North America truck launches that will be coming over the next 18 months?

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes, so on the K2XX, which is obviously the biggest platform, it's a very big platform in North America. We're going from about $1,800 to somewhere between $2,000 and $2,100 depending on which program. They're not at all exactly the same. So we're moving pretty substantially on those programs. The SUVs are a little bit higher, more like $2,100, and the pickups are more like, close to $2,000 on average.

David J. Tamberrino - *Goldman Sachs Group Inc., Research Division - Associate Analyst*

Got it. And then, again, just even from the switch we've seen from passenger cars more towards the light trucks, there's pretty significant pickup in content as you move from one to the other for you, correct?

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes, I mean, I don't know what the average content on the truck side is, but about 80% of our business in North America is going to be car, truck, SUV and that minivan in that segment. So if you look at our top programs, they're riddled with those -- with trucks, and they tend to be $2,000, $3,000, they're all big -- they're well above our average content. So it's definitely a positive shift when that happens.

David J. Tamberrino - *Goldman Sachs Group Inc., Research Division - Associate Analyst*

Got it. And then just lastly, from your ADAS perspective, correct me if I'm wrong, but shouldn't you be seeing a good pickup in the back half this year as GM Super Cruise starts to get launched on the Cadillac vehicles? Can you remind us what content you have on that program?

Donald James Walker - *Magna International Inc. - CEO and Director*

I don't recall off the top of my head. I'd have to go look it up.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

I will have to look it up.

Operator

Our next question comes from the line of Michael Glen of Macquarie Securities.

Michael W. Glen - *Macquarie Research - Analyst*

Just to follow-up on the hybrid and electric question. So when you look at your -- what you have in terms of your product portfolio and then we see sort of the vehicle environment migrate towards more hybrid electric over time. Is this -- should we expect Magna to sort of naturally evolve? Or is there a sort of -- do you have to do M&A to get more exposure into here those segments where the growth will be?

Donald James Walker - *Magna International Inc. - CEO and Director*

With the product lines we're in now and what we've already invested in and we're offering to our customers, I think you'll see a natural transition. As we get into pure electric vehicles, which I think again, is quite a ways out before we get into any volume. We are taking a look at what we think are the new technologies, or is there new product areas you want to get into? Would we do it organically? Would we cooperate with somebody?

So that is something we can -- our power train group continues to look at, but we have a lot of product offerings right now as we move into hybrids specifically, and then longer term, into electric vehicles.

Michael W. Glen - *Macquarie Research - Analyst*

In terms of what you see, is there interesting opportunities in those segments out there that you can potentially look at? Or is there kind of a lack of businesses that you could look out from an acquisition perspective with capabilities in those areas?

Donald James Walker - *Magna International Inc. - CEO and Director*

I think there's going to continue to be lots of new technologies developed by all sorts of different people. So we're pretty comfortable with what we have. We just made the big acquisition in GETRAG. They have a lot of capability as well, which we are working to get with our power train to develop new products and bring them to market. But after having said that, I think there's going to continue to be new innovations to drive fuel efficiency, to drive efficiencies in the various components. So I think it'll be a pretty dynamic area of the vehicle if you look at future mobility. And I think over the next 20 years, we're going to continue see new ideas come to market. So it will be an area we -- of big focus and it's too early to tell whether we are successful on developing and bringing to market our own technologies or whether we'd make an acquisition or a combination thereof.

Michael W. Glen - *Macquarie Research - Analyst*

And is how is your -- like the internal spending you're doing towards these areas, how is that? How should we think of that sort of evolving? Has that been increasing at a significant rate over the past couple of years? Or we should anticipate it to grow quite materially going forward?

Donald James Walker - *Magna International Inc. - CEO and Director*

We have been spending a lot of money both in our traditional Magna Powertrain area as well as what GETRAG has been doing. We have a huge engineering organization. We continue to -- it continues to evolve and do more software-based expertise. So we have been increasing our software capability. Across Magna, we have over 10,000 product engineers, and we've got thousands in our power train group. So we'll continue to build it up, but we've been doing a lot of activity in R&D and development.

Operator

And our next question comes from the line of Matt Stover of SIG.

Matthew Thomas Stover - *Susquehanna Financial Group, LLLP, Research Division - Automotive Analyst*

Two questions. The first is, I was wondering if you could quantify the impact of the commodity costs, and just how you look at the slope of the curve as the year develops?

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes. Just in terms of commodity costs, I look at that on a...

Donald James Walker - *Magna International Inc. - CEO and Director*

Net-net.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Net-net, year-over-year basis, we're seeing some higher pricing on resin. We're seeing some higher pricing on [seal]. We're seeing some recoveries in scraps. When you kind of look at it all together on a year-over-year basis, it's been flat. The pluses and minuses have all kind of equates to 0. I think as you're looking forward...

Donald James Walker - *Magna International Inc. - CEO and Director*

Pretty flat.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Pretty flat. We're not expecting a big move up or down on a net basis.

Matthew Thomas Stover - *Susquehanna Financial Group, LLLP, Research Division - Automotive Analyst*

Okay. And the second question is, given your exposure to certain areas and size of your engineering organization, I'm wondering on a year-to-year basis if higher R&D as a percent of total was a headwind? And kind of how we should think about that over the coming few years? There's a lot of new revenue opportunities, but you have to make some investments to launch those revenue opportunities.

Donald James Walker - *Magna International Inc. - CEO and Director*

We have been increasing our spending on R&D and product development over the past number of years. I don't see a step function, but it has been a priority for at least 5 years now. One of our top 2 priorities is innovation. So we've been spending money internally with outside companies. We've made investments in new technologies, whether it is a venture capital or just buying technology. So I think don't think we'll see a step function, but we will continue to increase our R&D because a lot of new technologies are coming to market. And ultimately, that's what allows us to grow the top and bottom line faster. So it's a real focus for us.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

And Matt, with the absolute -- sorry, Matt, if I can just add a little more to that. The absolute spending on R&D, as I look across the organization has been increasing, but so are our sales. So I think if you look at it -- is that a negative overall to margins? I'd probably would it's say fairly, fairly neutral even though the absolute spending on R&D has been going up.

Donald James Walker - *Magna International Inc. - CEO and Director*

And you have kind of take out the assembly sales because that inflates the overall sales numbers.

Matthew Thomas Stover - *Susquehanna Financial Group, LLLP, Research Division - Automotive Analyst*

Yes. And I mean, that's on the adjusted for the CVA sales? So if I look at the company excluding the CVA sales, the R&D as a percent of total would be flattish.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Yes. Flattish, it might be up. It might be down a little bit, but it's flattish but absolute -- as I said, absolute spending is has increasing.

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes, I think it's up from say 4, 5 years ago, but I think going forward, it probably just continues roughly at the same rate. So yes.

Operator

And our final question comes from the line of Colin Langan of UBS.

Colin Langan - *UBS Investment Bank, Research Division - Director in the General Industrials Group and Analyst*

I just wanted to follow up on the comment earlier. You made a -- you said you're considering the way you might disclose the segments in regard to certain questions about M&A. I mean, what are you thinking about? I mean, are you thinking about actually reporting quarterly sales and EBIT by product instead of region? I'm trying to understand the thought going into that.

Vincent Joseph Galifi - *Magna International Inc. - CFO and EVP*

Colin, it's Vince. We've been spending some time with it, looking at how we disclose information to investors. As you look at what we do today, it's geographic. So you get quarterly sales and profit numbers to give some color assets employed. And once a year, we've been giving some color on the overall sales and growth profile on the sales side. So we're doing some work internally to see if it makes more sense to look at a grouping of our product areas and provide a full segment disclosure not on a geographic, but on a group basis which would include sales, profitability and a measure of assets employed. So we're thinking about that. We'll probably do something, but the earliest we're going to do that is in 2018. And remember, if you're changing segments, the part of all that we've got to be sure that all aligns with our management structure, too in the way that we're making decisions, because that will be a requirement of the SEC in terms of changing overall your segment reporting. But you should expect more information, not less information as we get into 2018.

Colin Langan - *UBS Investment Bank, Research Division - Director in the General Industrials Group and Analyst*

Okay. And just lastly, is there any update in terms of the -- I think at your Investor Day, you indicated the size of your ADAS sales. I mean, where does that stand today in terms of total revenue? And any color on the number of sort of engineers that are focused on this in terms of the size or the robustness of the engineering staff in ADAS?

Donald James Walker - *Magna International Inc. - CEO and Director*

Yes. We're certainly increasing our focus in the number of people working on it. We have said previously that our sales are about $450 million, specifically in ADAS. Obviously, our electrics business is bigger than that. We'll update where we are after business plan. And lots of activity, lots of quoting going on. But we will be giving an update where we think that number will be closer to the end of the year. Okay. I appreciate everybody calling in. We're looking forward to continued strong performance in the second half of 2017, and appreciate it. Thank you.

Operator

Ladies and gentlemen, that does conclude today's presentation. We do thank you for your participation and ask that you please disconnect your lines. Have a great rest of the day, everyone.