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PRESENTATION

Operator

Ladies and gentlemen, thank you very much for standing by, and welcome to the Fourth Quarter and Year-End 2018 Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Friday, February 22, 2019.

It's my pleasure to turn the conference over to Louis Tonelli, VP of Investor Relations. Please go ahead, sir.

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

Thanks, Pema. Hello, everyone, and welcome to our Fourth Quarter and Year-End 2018 Conference Call. We'll have formal comments today from Don Walker, Chief Executive Officer; and Vince Galifi, Chief Financial Officer. Also joining us today are Swamy Kotagiri, Chief Technology Officer; as well as Eric Goldstein and Jim Floros, from our IR team.

Yesterday, our Board of Directors met and approved our financial results for the fourth quarter and year ended December 31, 2018. 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 note that all figures discussed are in U.S. dollars, unless otherwise noted. We've included in the Appendix reconciliations of certain key financial statement lines for Q4 '18 and Q4 '17 between reported results and results excluding unusual items. Our quarterly earnings discussion today excludes the impact of unusual items. Lastly, in addition to our new reporting segments, many of you will recall that in 2018, we adopted a new revenue accounting standard related to tooling and preproduction engineering. Our comparative figures for 2017 have been restated to reflect these changes.

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

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

Thanks, Louis. Hello, everyone. We posted a number of records in 2018. Consolidated sales, segment sales, EBITDA, EBIT, net income, equity income, diluted EPS and cash flow from operations reached all-time records for Magna, all in all, a very solid year. Despite some headwinds in 2019, we believe we're positioned for another good year. Note that there are no changes to our 2019 outlook, which we provided in mid-January, other than the timing of free cash flow between 2018 and 2019.

Let's review the fourth quarter. Overall, results were consistent with the 2018 outlook ranges we provided when we reported in November. We set fourth quarter records for sales and adjusted diluted earnings per share and returned $585 million to shareholders in the form of share repurchases and dividends. Adjusted EBIT was below the comparable quarter in 2017, reflecting, among other things, higher launch costs, increased spending related to electrification and autonomy, a decline in equity income, operational inefficiencies at a plant where we're closing and higher warranty expenses. On a positive note, we continue to see improvement in underperforming operations in our Body Exteriors and segment -- and Structures segment. Vince will provide more detail on the fourth quarter in a few minutes. Other highlights for the quarter include: our continued organic growth over market, growth and innovation in liftgates, seating acquisition of Viza, the upcoming launch of the Toyota GR Supra. I'll touch on each of these.

Once again, we outgrew global light vehicle production in the fourth quarter. Excluding the impact of currency and acquisitions, net of divestitures, our consolidated sales increased by 7% year-over-year compared to global production, which declined 4%. This year-over-year organic sales outperformance was driven by each of our segments: with Body and Exteriors & Structures down by 1%; Power & Vision, up 3%; Seating, up 15%; and a 43% increase in Complete Vehicles.

One of the fastest-growing products in our suite of lightweight technology system, thermoplastic liftgates. Starting with our first liftgate for the Nissan Rogue several years ago, this business is on track to grow at a CAGR of more than 20% per year through 2021, when sales are expected to reach approximately $500 million.

Our completely recyclable liftgate that was developed for the 2019 Jeep Cherokee has collected industry recognitions, including first place in the body exteriors category at both the European and North American Society of Plastic Engineers automotive innovation awards and the Unsurpassed Innovation Award at the Composites and Advanced Materials Expo. Working with FCA, our Body Exteriors & Structures business helped replace their steel liftgate with a thermoplastic one within an 18-month time period, which led to a 28% mass reduction for the liftgate assembly and enabled greater design freedom.

In December of last year, we announced the acquisition of Viza, a seating components company based in Spain. Viza, with sales about EUR 125 million, brings additional seat structure technology and expertise and increases our vertical integration capabilities. The ability to deliver seating solutions that enable added functionality will be even more important in the future's new mobility. It changes the way consumers use their vehicles. Viza, whose current customers include Volkswagen, PSA and Renault-Nissan, brings a portfolio of products, including a patented floor-latching system and foldable seats. Viza's deep expertise and footprint gives us added support to grow, especially in Europe, and strengthens our competitive position. Viza has facilities in Spain, the Czech Republic, Morocco and Mexico. Pending regulatory approval, the acquisition of Viza should close in the first half of this year.

At the North American International Auto Show in Detroit last month, we announced that we will assemble the all-new Toyota GR Supra sports car at our complete vehicle assembly facility in Graz, Austria. Production is expected to begin next month. Our Complete Vehicles business is a world-leading, brand-independent automotive supplier with expertise in design, engineering and complete vehicle manufacturing. With the addition of the Toyota GR Supra, we now assemble 6 nameplates for 4 customers in Graz.

This contract with Toyota is a testament to our manufacturing expertise and our ability to deliver on the high-quality standards our customers expect. Demonstrating the synergies between our Complete Vehicle business and Magna's traditional automotive parts and system businesses, we will have well-above corporate average content per vehicle on the GR Supra, including seats, body stampings, door latches and liftgate.

Before I pass the call over to Vince, I wanted to address the impairment charge that we booked this quarter against our investment in our Getrag joint venture in Europe with Ford. We've indicated that the global industry is experiencing declining demand for manual transmissions. And based on further analysis, this trend is expected to continue into the future. Approximately 90% of the units -- to unit volumes in Getrag's joint venture in Europe is generated from manual transmissions. Our impairment reflects this trend.

When we acquired Getrag, the key drivers were gaining overall transmission capability, in particular, Getrag's dual-clutch transmission technology, and the growth towards DCTs globally. The acquisition fir our strategy to bring power from vehicles' energy source to the wheels. We continue to see a growing market for DCTs globally, including Getrag's hybrid DCTs for both 48 volt and high-voltage applications, and we continue to expect sales growth for Getrag, given by this trend.

With that, I will pass the call over to Vince.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Thanks, Don, and good morning, everyone. We posted strong fourth quarter sales and adjusted diluted earnings per share despite a challenging global production environment and the negative impact of foreign currency translation due to the strong U.S. dollar. We generated free cash flow of $871 million. We returned $585 million to shareholders through share repurchases and dividends. And lastly, our board approved an 11% increase in our quarterly dividend. I'll cover each of these in my financial review.

Our consolidated sales were $10.1 billion, an increase of 5% over the fourth quarter of 2017. We delivered above-market organic sales growth in each of our reporting segments. The higher sales largely reflects the launch of new programs, partially offset by negative $293 million year-over-year foreign exchange headwind and a change in production volumes on other programs.

As expected, our adjusted EBIT margins declined compared to last year. We reported 7.2% in the fourth quarter of 2018, down from 8.4% in the fourth quarter of 2017. 70 basis points of this decline relate to lower margins in our Power & Vision segment, and 40 basis points was driven by the increase in the proportion of sales generated by our Complete Vehicle segment, which have below-corporate average margins. These were partially offset by a 10 basis point increase related to our Body Exteriors & Structures segment. I will get into the specifics of these in my segment review.

Adjusted EBIT declined by 10% to $730 million, reflecting higher launch costs, increased spending related to electrification and autonomy, a decline in equity income, operational inefficiencies at a plant we're closing in the middle of this year and higher warranty expenses. These were partially offset by increased earnings on our higher sales and improvements in our underperforming operations in Body Exteriors & Structures.

Equity income declined $31 million year-over-year to $56 million in the fourth quarter of 2018. This related substantially to our Power & Vision segment, which experienced lower unconsolidated sales, particularly at Getrag's joint ventures in China, partly offset by better year-over-year results in our Getrag joint venture with Ford. Excluding equity income, our EBIT margins declined to 6.6% in Q4 2018 versus 7.5% in the fourth quarter of 2017.

Our effective income tax rate declined to 21.4% from 26% a year ago, primarily reflecting the effect of U.S. tax reform and a reduction in losses not benefiting Germany and South America and higher utilization of losses not previously benefited in India. These factors were partially offset by a decrease in equity income. Net income attributable to Magna declined to $542 million from $571 million in Q4 2017, reflecting the lower EBIT and higher interest expense, partially offset by the lower tax rate and lower minority interest. Diluted EPS grew $0.05 to $1.63 for the quarter compared to $1.58 last year. The increase reflects an 8% decline in our shares outstanding, partially offset by the lower net income.

Let's take a look at our segments. Body Exteriors & Structures sales were $4.2 billion in the fourth quarter, a 4% decline from $4.3 billion a year ago. The decline in sales reflects the impact of changes in production volumes on non-launch-related programs, $108 million negative impact from foreign currency translation and net customer price concessions, partially offset by new program launches subsequent to last year's fourth quarter. The segment's organic growth or sales adjusted for the impact of foreign currency translation and acquisition, net of divestitures, was negative 1% compared to global vehicle production, which declined 4%.

Excluding the impact of foreign currency translation, Body Exteriors & Structures EBIT increased $5 million in Q4 of 2018 compared to the fourth quarter of 2017. Margins improved by 20 basis points to 8.4% in the fourth quarter compared to 8.2% in 2017. This improvement reflects productivity and efficiency improvements at underperforming facilities and lower new facility costs, partly offset by inefficiencies at a plant we're closing as well as higher launch costs.

Power & Vision segment sales increased $43 million or 1% to $3 billion from $2.9 billion last year. The overall increase reflects the benefit of new program launches subsequent to last year's fourth quarter and the impact of acquisitions net of divestitures. These are partly offset by $76 million negative impact from foreign currency translation, the impact of a change in production volumes and other programs and net customer price concessions. Organic sales growth was 3% year-over-year.

Power & Vision EBIT was lower by $69 million, and EBIT margins decreased to 8.5% compared to 10.9% in the fourth quarter of 2017. This decline primarily reflects: our spending associated with electrification and autonomy, which negatively impacted margin by about 100 basis points; higher launch costs; lower equity income; and higher warranty costs related to our FP&C business. These were partly offset by contribution of higher sales. Excluding equity income, EBIT margins declined to 6.5% from 8% in 2017.

Seating sales were $1.4 billion, which is up 10% from the fourth quarter of last year. This increase reflects the benefit of new program launches subsequent to last year's fourth quarter and the impact of change in production volumes and other programs, partially offset by $59 million negative swing in foreign currency translation and net customer price concessions. On an organic basis, sales were up 15%.

Seating EBIT increased by $4 million to $110 million for the quarter while EBIT margins declined 40 basis points to 7.7% from 8.1% in 2017. This reduction substantially reflects higher new facility costs, partially offset by a favorable pricing resolution, lower launch costs and a Brazilian tax recovery.

Lastly, Complete Vehicles sales rose by $474 million from last year to $1.7 billion, representing a 39% increase. The increase is primarily due to: the launch of the Jaguar I-PACE and Mercedes-Benz G-Class programs, which started during the first and second quarters of 2018, respectively; and higher production volumes in the Jaguar E-PACE. These were partially offset by lower volumes on the BMW 5-Series and foreign currency translation. Excluding FX, sales rose by 43% from last year as assembly volumes rose 35% to approximately 36,600 unit.

Complete Vehicles' EBIT declined by $4 million compared to the fourth quarter of '17. On an EBIT percentage basis, excluding the favorable customer pricing resolution in Q4 of 2017, EBIT percent increased from 1.3% to 1.4% into Q4 of 2018. This reflects the benefit of earnings and higher [GLR] sales, partially offset by reduced earnings on lower sales of the BMW 5-Series.

I will now review our cash flows and investment activities. During the fourth quarter of 2018, we generated approximately $1.6 billion in cash from operations. This included $597 million from noncash operating assets and liabilities, an increase of 7% from Q4 of 2017, but about $200 million below our expectations due to timing on the collection of tooling and engineering receivables. Investment activities amounted to $949 million, including: $647 million in fixed assets; $150 million increase in investments, other assets and intangibles; and the acquisition of Olsa for $152 million.

Free cash flow increased by $335 million to $871 million in the fourth quarter. This brings us to $1.6 billion in free cash flow for the year, below the $1.8 billion to $1.9 billion range that we anticipated. The shortfall reflects the change in timing of noncash assets and liabilities, which we expect to recover in 2019.

We returned $585 million to shareholders in the quarter through the repurchase of $479 million of our stock, representing almost 9.9 million shares, as well as the payment of $106 million in dividends. For the year, we repurchased 32.6 million shares for $1.8 billion and paid $448 million in dividends. We announced today that our board approved an 11% increase in our quarterly dividend to $0.365. This represents the tenth consecutive year of dividend increases, reflecting our continued earnings strength as well as management and the board's confidence in Magna's future.

Turning to our outlook. We've only made one change to what we provided in Detroit last month. As I mentioned, the timing of recovery of approximately $200 million working capital have shifted from 2018 to 2019. As a result, we now expect between $1.9 billion to $2.1 billion of free cash flow in 2019 compared to the $1.7 billion to $1.9 billion that we previously communicated. All other elements of our 29 (sic) [2019] outlook are unchanged from what we provided in January.

In summary, we posted Q4 records for sales and diluted earnings per share and multiple other records for full year 2018. Our operating segments largely performed in line with our expectations for the fourth quarter. Our 2019 outlook is unchanged from January, other than for the shift in working capital from 2018 to 2019. And we expect to generate strong sales, solid earnings and growing free cash flow again this year while continuing to invest for the future.

Thanks for your attention this morning. We would now be pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Rich Kwas with Wells Fargo.

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

Don, I just wanted to ask with regards to the Getrag business. So you take this write-down. When you assess the business at this point with some of the headwinds, how comfortable are you that there's not additional adjustments that are going to be needed as we go out in the future?

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

A lot of it depends, I guess, on what we -- if there's any changes in what the anticipated take-rates are or the market in China, but we try to be as realistic as possible as what we see is the take-rates and our forecast. So we'll just have to continue to assess it, but we believe we took the write-down based on what we think the future is most likely to be. We're still pretty happy with the penetration rates of the DCT 300 technology. We're seeing a lot of interest in there. One of the things we'll just have to watch is what happens to the volumes overall in China, but we base this all on what we expect to see over there.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes. Rich, just to add some more color to that. The impairment related to our investment in Europe, in the joint venture we have with Ford, and when you look at that, that's tied to manual transmissions and takes rates, which have been declining. We've been (inaudible) about that for some time. So as Don mentioned, we've taken, we think, a reasonable approach to where volumes are going to be in the future. But the DCT business continues to grow faster than what we had originally anticipated. And unfortunately, China was just hit by lower sales, which impacted equity income. But as those sales come around, we'll see the equity income pick up again.

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

So structurally speaking, you feel okay about the business at this point in everything that you feel that you have to adjust as it relates to manual transmissions now, Don.

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

Yes.

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

Okay. In the near term, just as we think about here, you gave guidance 5 weeks ago or so, anything that we should be mindful of here in the first quarter? You had a very good first quarter last year at this time. So anything that we got to be mindful of with regards to how volumes are shaping up? I realize you don't give quarterly guidance, but any color you can share with -- that would help us with regards to thinking about the next quarter or 2.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes. Rich, you know what? I kind of look at it kind of first half of '19 and second half of '19 compared to kind of '18. In terms of North America, look at kind of our volume assumptions, which, for the year, were flat in North America year-over-year. We're probably seeing a slower first half and a stronger second half, so probably down about a point -- 1% in the first half, up about 1% in the second half, again flat for the year. In Europe, our guidance calls for being flat, about -- sorry, down by about 1% year-over-year. And what we're seeing is volumes in Europe for the first half of the year being down about 5% and then the second half of the year being up 3% on a year-over-year basis. The other market that impacts us is China. And for us, what's more important is what are our key platforms and what are the volumes on the platforms. And when I -- when we look at volumes for 2019 and -- remind you that our top 30 platforms account for about 70% of our consolidated sales in China. So we look at our top 30 platforms in '18 and our top 30 platforms in '19, we're seeing volumes being essentially flat on a year-over-year basis, actually probably a little up. So we're benefiting in China from the launch of new programs that's helping us grow overall sales even though volumes are kind of flattish year-over-year.

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

So sounds like China is actually a little bit better, in your view, versus several weeks ago. I thought you had it down 2 for the top 30 in China?

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

Yes. I'd say that it probably just a little bit different way of explaining it. Because I think when you look at our top 30 in '18, our top 30 in '19, they changed a little bit as a result of some launches. And I think when we originally commented about volume, we're keeping our top 30 constant. But I think when you really look at that and say what's the top 30 in '18, what's the top 30 in '19 and programs come in and programs come out, in total volumes on those top 30 programs, which account for a big portion of our sales, are relatively flat overall but positive year-over-year.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Rich, '18, Q4 of '18 for top 30 was down a little bit relative to what we expected. So that's why we ended up being more flattish in '18 versus '19. We held our '19 numbers. '18 in Q4 was a little bit softer.

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

Okay, so just reconciling fourth quarter. Okay, all right.

Operator

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

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

Maybe I'll just kind of follow on, on to Rich's question there as sort of cadence. I mean, as we look at this, I mean, it seems like the Steyr business will ramp up through the course of 2019. GM's trucks and Ram will improve through the course of 2019. So those are kind of 2 big positive swing factors. Are there any other sort of micro programs or cadence that we should think about as we go through the course of the year in addition to the macro that you just explained to us?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Chrysler minivan was down in the -- is down first quarter relative to where we were previously. So that's kind of creating some of the softness in the first half. And then we got the GM closures in North America that have more of an impact Q2, Q3, Q4. Those are also obvious, so.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

Okay. And then just a second question. As we think about Seating, when you look at your long-term outlook, it was one of the outgrow segments relative to your corporate average. And with the Viza acquisition here on Structures, it seems like you're pushing a little bit more into Seating. I mean, how should we think about the growth in the Seating business and the opportunities there? I mean, obviously, there's a competitive gap that may have opened up for you. It's a good business, good returns, low capital intensity. So it seems you're kind of thinking you might want to go -- I mean, you are going after it. It's not like you might. You actually are going after it. Just curious how aggressive you'll be there and if we should think about this as taking off good, high-quality programs, like the BMW Xs. Or is there sort of a broader push to really expand this business?

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

I don't want to comment on other competitors out there. But right now, we continue to see growth over the years just because we came from much smaller position than everybody else, and that's still the case. Our Seating business is performing well. Then we've got a very good reputation. So I would think no real big change in strategy. We're not going to go out and buy business. We think we can continue to grow the business by performing and quoting how we normally do. Again, I don't want to comment other people. But if people are in the business of trying to regress as they grow their business and they're underquoting business, they are going to grow faster. I don't think that's the case in the industry right now. So hopefully for our competitor, we'll continue to grow at a pretty, pretty good clip.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

And John, we've been able to grow organically for a long, long time, and we see that continuing. Our expectations from '18 to '21 are somewhere between 4% and 7% on average per year. So we still have lots of growth in front of us.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

Okay. And then just lastly, I mean, there's a lot of noise around Section 301, but that's obviously not the real big deal for autos. It's 232 in the U.S. And I'm just curious, Don, as you think about this, there's a clear motivation, I think, from the administration here in the States to push production back to North America, whether it be full vehicles or parts. I'm just curious how you think you're set up for this. Because having such great global partnerships with your customers as well as being the largest supplier by far in North America, it seems like whichever way this goes, it's probably going to ultimately probably benefit your business. Obviously, there could be a period of disruption, for sure, but it seems like it plays right into your hands. I'm just curious how your thinking about this and maybe what you're hearing from the industry and from your customers?

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

There are so many moving pieces right now. It's hard to tell what's going to happen. I think logically, the more production is brought into the States, the better it should be for Magna because we're the biggest supplier here. We have a big footprint by a large amount over anybody else. I think the tariffs continue to hurt us. I'm hoping that the tariffs within NAFTA region -- which I think are bad to the industry and, quite frankly, bad for all 3 countries, including the States, because their input cost become higher, which means they're less competitive. So assuming that USMCA, there's no more turmoil there and that the tariffs inside North America could go away, that's a good thing. To the extent that more people put production here, that's a good thing for us. I'm not a big fan of tariffs in general just because I think the -- there's higher tariffs between U.S. and China are -- the input cost go up a little bit. I can understand why those discussions are going on. I think between Europe and North America, if there's a big tariff, that probably will be bad for the industry in total. So overall, hard to tell what's going to happen. And then your comments about it being -- the more that comes to North America, we should be a big beneficiary of that.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

And just one point of clarification, Don. The tariffs you mean inside of North America, you're talking about the 232 on steel, aluminum as being the ones sort of inflated costs for (inaudible). Is that correct?

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

That's right. And it's mainly hurting our U.S. plants right now because there's -- it's very difficult to getting offset for that.

Operator

And our next question comes from Peter Sklar with BMO Capital Markets.

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

I'm back on Getrag. So you've explained the situation in Europe with the 4 joint venture. But as I recall from last quarter, there were some issues in your China operations. I can't recall if they're wholly owned or joint venture operations. But essentially, you're having trouble with some sell-through of the CVT transmissions because the customer volumes just wasn't there for their vehicles with that particular -- with your particular transmission. Can you just update us on -- like what the issues were again? Give us a review of the issues in China for the CVT transmission. And has there been any change in the outlook since last quarter or resolution of the issues?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Peter, it's Vince. Let me -- and we talked about -- I don't remember whether it was Q4 when we talked about it. But we looked at released sales, and it was one of the joint ventures in China, and we were looking at sales related to reduced demand for DCTs over what we had expected. And part of that was related to programs that weren't selling, where our DCT was going to be installed, and part of it related to just CVT penetration being a little stronger than we had anticipated, which had a negative impact on the demand for DCTs. In terms of kind of our outlook once, we kind of reset where -- reset the bar and to think about over last couple of quarters and what we see right now for that joint venture, there hasn't been any change in expectation.

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

But as I recall, also, there was a commercial dispute with that customer. Has that been resolved?

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

It was Swami who were heavily involved in it, but we pretty well got the resolution behind us. I'm not sure if there's any small details left. But Swami, do you have any comment?

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

No, I think you're right on. I think the commercial dispute was settled. It was partly related to volumes and a couple of small issues. The framework of (inaudible) is behind us. I think going back to Vince's point, I think the fundamental issues were related to the drop in the manual transmission and the CVT being a little bit stronger and taking the share in sort of the DCTs. That's the key point.

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

Okay. The WLTP and the disruption that caused in European production volumes, the larger hit appear to be in Q3 or just wondering if you felt the impact in Q4 in terms of your customers' production volumes and if any of that is going to carry over into Q1.

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

Sorry. Go ahead, Swami.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Sorry, it's Vince. Peter, what I was going to say was when we think about overall kind of what we thought Q4 was going to come in, in Europe and kind of where it came in on a sales perspective, it's pretty well in line. So we booked that into our forecast. And as we look at kind of our outlook for 2019, we didn't think there was any need to revise our production outlook in Europe. I think it's all factored in, Peter, in everything we've given you.

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

Okay. And lastly, Louis, we're trying to figure out what the tax rate is on adjusted earnings. Would that be the 21.4% you're disclosing on Page 27 of the slide deck?

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

Correct.

Operator

Continuing on, our next question comes from the line of Rod Lache with Wolfe Research.

Rod Avraham Lache - *Wolfe Research, LLC - MD & Senior Analyst*

Yes. I wanted to ask about your cash flow guidance. Originally, the 2019 to 2021 cumulative free cash flow implied a pretty big uptick in free cash flow beyond 2019, and it looks like that incorporated some significant increases in margins as you look out to 2020 and 2021. Could you remind us of what the drivers are of that? And will we be seeing evidence of that 2020-type margin as we sort of exit this year and are looking at stronger European or North American production volumes?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Rod, let me just talk about free cash flow for a second. So I'll focus on '18, and then I'll move on to kind of your '21 -- '19 to '21 time frame. So I made -- in my formal comments, I talked about some working capital we thought we were going to collect in 2018 as being pushed into 2019, $200 million of primarily related to tooling and engineering, which is more difficult to predict by production receivables. So we're just pushing that into '19. So we've talked about free cash flow generation between '19 and '21 being greater than $6.5 billion. We still think it's greater than $6.5 billion. So even with the $200 million, it's all greater than $6.5 billion. I think when you look at margins, I think you have to think about and look at the various segments, so what's driving some of that growth. If I start first with our Body Exteriors & Structures group, we're looking at margin expansion from '18 to '19 and continuing margin expansion from '19 to '21. Year-over-year, what's driving that margin expansion is continued operational improvements, and we saw the benefits of that in 2018, lower launch, new facility costs. We've got probably a little bit of headwind on commodity costs and customer pricing resolutions. I think as you look beyond '21, the -- I'd say the 3 contributors to continued growth in margins: one is continued improvements in some of our underperforming operation. And as a comment, we've been making some traction there; lower launch and new facility costs; and since our Body Exteriors & Structures business is growing, we're expecting the higher sales are going to contribute to margin expansion. In our Power & Vision segment, we're expecting some continued deterioration in margin up to '19, from '18 to '19. And it's going to relate to electrification autonomy investment. Remember we -- incrementally, '18 versus '17, we're about $100 million. '19 to '18, on top of the $100 million, we got an additional $70 million. We've got some lower equity income. We've got some offsets with operational improvements and so on. But '19 to '21, I'd say there's 3 contributors to growth in margins, and we expect that to be over 11% by the time we get to 2021. The increase in margins would be attributable to: higher sales, which we'll see the benefit in incremental margin; higher equity income, as we're seeing sales in our equity account investments, continue to grow; and we're seeing our investments for electrification, autonomy, the absolute dollar probably come down a bit, so that's going to help us from a margin perspective. On our Seating side, for '19 versus '18, we are expecting continued margin declines versus '18. And the 3 sort of things that are impacting that, I'd say on a negative, one is new customer programs. So we've been talking about the growth with BMW in Seating. We've talked before about that, primarily a Jeep contract, just not a lot of vertical integration. So we're getting sales. That's the same margins as we do on some of our more vertically integrated Seating contracts. So that don't negatively impact margins. And we've got higher commodity costs. I think as you look out to 2019 to 2021, margins are going to remain relatively flat versus 2019 levels. And finally, when we look at our completed vehicles business, we are expecting margins to expand in '19 versus '18, probably to 1.5% to 2% range versus 1.1% range in -- or 1.1% in 2018. And it primarily relates to the contribution of higher sales and lower launch costs. Remember all the businesses that Magna started has been launching in '17 and '18. And as we get to '19, we become a more stable environment for launches. And going forward to '19 to '21, expect margins to continue to expand, 1.7% to 2.3%. And the benefit there is coming from contribution of higher sales and, again, lower launch costs.

Rod Avraham Lache - *Wolfe Research, LLC - MD & Senior Analyst*

Okay, great. And the -- that improvement in Complete Vehicles assembly, the Body and Power, you would expect that to be relatively straight line or -- going through 2021. Or is that -- in other words, will we see a pretty meaningful uptick already in your mind in 2020?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Overall, we're seeing -- as I look out into kind of '19, '20 and '21, we're expecting growth. I'm just trying to look at the number here. Yes, we're seeing growth that -- in each of the year. So it'll come in '20, and there'll be more in '21.

Rod Avraham Lache - *Wolfe Research, LLC - MD & Senior Analyst*

Okay, great.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

One thing I could probably base -- significant pieces reflect -- are pretty consistent with the consolidated view.

Rod Avraham Lache - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. And just as a follow-up, a couple of things. Even with the buyback and the dividend, your leverage is going to be pretty low after the $1 billion of cash coming in the door from the FP&C business. Could you talk about the plans for excess cash? And then just a couple housekeeping things. What was the valuation of the Lyft investment at the end of the year? And can you quantify what the Brazil tax recovery was in the fourth quarter?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Let me tackle a couple of those questions. Just in terms of priority for cash flow, it hasn't changed at all, Rod. We'll continue to look at investing cash in the business, whether that's for capital, whether that's for M&A. And the M&A is going to be more -- as we've been doing for a number of years, technology focus, to continue to broaden our capabilities. Pay dividend, one that as earnings grow, dividends grow, and we announce another dividend increase this morning. And to the extent that we have access liquidity, we'll continue to buy back some stock with a target leverage ratio of 1 to 1.5. In -- just in Q1 alone, we bought back already $100 million worth of stock since the beginning of the year. So we'll continue to chip away at our share count. In terms of the Brazilian tax recovery, there's a couple of groups that were affected by this positively, and the number's under $10 million in total in the quarter.

Rod Avraham Lache - *Wolfe Research, LLC - MD & Senior Analyst*

Okay, great. And the Lyft valuation?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Do you know what? We put in $200 million, and we revalued it again in the course of the year. I think it's around $250 million broad, but based on the latest valuation, plus or minus. Sorry, colleagues, exact number, but it's around that, a recollection.

Operator

Continuing on, our next question comes from the line of Brian Johnson with Barclays.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Yes. I want to drill down a little bit in the Power & Vision, if you could walk through the EBIT guide. But I want to talk a bit about the revenue guide, plus 1% for the quarter. We've seen others in those segments report strong growth in things like active safety, hybrid, engine transmission, uptake. So what are your kind of -- can you give us more granularity, especially as we think the '19, on the growth-y parts of that business versus what might be growing closer to production?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

As we look at kind of '18 to '19, the one thing you got to keep in mind in our Power & Vision group is that, in '19, we will complete -- are expected to complete the sale of our FP&C business. So that's going to come out of our Power & Vision group. But excluding that, we are expecting some growth between '19 and '18. So we take out FP&C in '18, take it out in '19. We're seeing growth '19 versus '18. And you might want to comment a little bit more specifically, Swamy. But some of the drivers there are going to be growth in DCTs, growth in our mechatronics business. We got growth in mirrors and lighting. We got growth in electronics and our ADAS business. What's negatively impacting the year-over-year comparison is a $200 million reduction in sales in '19 because our joint venture with Ford, which we consolidate in North America, again, is being wound down. And that'll have about a $200 million impact year-over-year comparison in sales.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Okay. And just one follow-on question. When you think over the long term, the spending associated with electrification and autonomy, when do the -- already kind of cross between that spend and the revenue on those programs would start moving, if you were to break it out, which I understand you won, at least for us, the profitability of those investments, you'd start seeing them at or above corporate average.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

When I look at the business that was then awarded, that's really kicking in post-2021, where were going to see the uptick. We've been talking for a number of quarters about investment electrification, autonomy. And there's -- some of that investment is coming through joint ventures. And we talked about business that we've won in china to support Volkswagen, and we've got HASCO as a partner. So some of that spending is taking place for business -- I think it's launching in '21 or '22, '23. Part of the investments we're making as well is to develop platforms, platform technology, whether that's on the powertrain side or whether that's on the electronics, ADAS side. And the technology will be used on programs that have been awarded. The technology is also going to be used on programs that we're going after. So I think you've got to go a little bit beyond '21 to start seeing the real benefits of the investments we're making today, and (inaudible).

Operator

And our next question comes from the line of James Picariello with KeyBanc.

James Albert Picariello - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Can you just confirm the AV and EV investment spend again? I know it's $100 million for '18. What was the incremental number you provided for '19?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

$70 million.

James Albert Picariello - *KeyBanc Capital Markets Inc., Research Division - Analyst*

$70 million in addition. Okay, all right. So what specifically drove the margin improvement at the Exteriors & Structures in the quarter? I mean, you have that one facility that you're looking to wind down. Was that really the primary driver? Or were there other factors in play? And will that facility be closed by midyear? Is there any update on the timing?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes. In terms of the closure, it's midyear, as I mentioned in my overall comments. With respect to our Body Exteriors & Structures group, when you think about -- sorry, let me just try to find the page. When you look at it sequentially, I'd say that the biggest driver in margin improvement was underperformers where we continue to see some improvement. One look at tariffs quarter-over-quarter, we did receive some duty remissions in Canada, things that we had expensed in Q3. So that was a little bit of a recovery here. Let me remind you as well, we had a negative sort of variance Q3 to Q4. In Q3, we talked about a customer pricing resolution that bumped up our Q3 numbers. So as you're looking at the comparison from Q3 to Q4, the actual improvement from ongoing operation was actually stronger. And then I think when you just look at volumes and mix, we had some incremental margins that certainly benefit the average margin in the quarter.

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

James, the closing division is going to be done by sort of middle of this year.

James Albert Picariello - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Okay. And then just one more. What's the latest dialogue on possibly expanding Magna Steyr's capacity in North America, just given the GM plant closures that are underway?

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

There's been a lot of speculation about that, but there's no plans to expand at the current time. We continue to talk to customers. If we ever get enough customers that are willing to give us commitments, then we would look at it. But we don't have any plans right now. And I see there's -- continue to be articles about us doing things, but we're -- we have no plans right now.

Operator

And our next question comes from the line of Armintas Sinkevicius. Please -- and with Morgan Stanley.

(technical difficulty)

Armintas Sinkevicius - *Morgan Stanley, Research Division - Associate*

Can you hear me now?

Operator

Yes, sir.

Armintas Sinkevicius - *Morgan Stanley, Research Division - Associate*

Just wanted to dig into the Waymo announcement this quarter around a factory in Michigan for the mass production of level 4 autonomous vehicles. They noted that they're partnering with you to integrate the self-driving system into the fleet. Just wanted to understand what your involvement is, what you're bringing to the table, what you could be getting out of the arrangement there. Any thoughts would be appreciated.

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

Yes. I'm going to be a bit careful with what I say because we've agreed with Waymo that any public comments will be coming from them. But what they have said is that they are going to be converting vehicles, and we're going to be working with them to do the conversion. On a higher note, I guess, we have a lot of capability within the company, also within our Steyr group, just to -- if we wanted to take that [CS] kits from anybody or ourselves and take existing vehicles, modify the vehicle from an engineering standpoint, packaging standpoints, sourcing them and putting together, that's a capability we have. In fact, we're doing some work in Europe. So we have good relationship with them, and this is a start. And I hope that we continue to grow our business with them.

Armintas Sinkevicius - *Morgan Stanley, Research Division - Associate*

Okay. When you say conversion of the vehicles, does that mean just integrating sort of the their hardware and software with the vehicles? Or is there something more that you're doing there?

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

That's essentially what we're doing to start with.

Armintas Sinkevicius - *Morgan Stanley, Research Division - Associate*

Okay, okay. And then the other one, just given that you have capabilities across the company, and particularly with Steyr, when you look at Rivian, any thoughts on the architecture there, positives, negatives, as far as parts being added, removed from the architecture and how you see that for your business going forward?

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

Swamy, have you taken much of a look at the Rivian product?

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

Yes. I think fundamentally, the key difference here are being -- that the upper body could be formulated to the use case. And the underbody or the skateboard, if you want to call it that, is as [common] as possible to provide the flexibility in the use case. We haven't really gone -- the information is not available to get any much more detail than that. I think that's kind of a USP, which hopefully helps standardizing a platform. That's what everybody is talking, so nothing beyond that.

Armintas Sinkevicius - *Morgan Stanley, Research Division - Associate*

Okay. And then lastly, just with Lyft, you've had the partnership now for roughly a year. Any developments, lessons learned? Just an update there would be helpful.

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

Swamy, you want to take that one?

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

Yes, yes. So I think the intent, obviously, was to try to get to the software stack. And again, without talking to the partner fully, but the number of vehicle set are planned to be on route from the -- the prescribed route is on. They're collecting autonomous miles. It's making good progress. The team that was supposed to be built up is really high-quality team. And going through both the hardware and the software stack for the level 4, level 5, I think it's progressing as planned. And I think we'll continue to give updates to -- in '19.

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

If I can just add something, just in general. Swamy, you may or may not want to add anything to it. When we look at the increased spending we're doing in the electrification and the ADAS, you could probably tell by looking at other people's results as well, just a lot of money going into R&D.

There's a lot of money going into development as well. So the intention of us working with Lyft was they are highly motivated to get level 4, level 5 in the road. We're working with them. We've gone through some of the details of why we're doing it. And we decided we did not -- we wanted to focus most of our attention and manpower and spending on levels 1 to 3 censors, the main controller, which we continue to ramp up, and we're launching some pretty interesting product into the market. So it's a combination of R&D, development, bringing product to market on the levels 1 to 3, where we see that the biggest short-term opportunity, short term being the next 5-plus years. The level 4, level 5, we just don't want to spend all the money ourselves. But the -- we're pretty happy with the development that Lyft has been doing and that we have been cooperating with them on.

Operator

And now we have a question from the line of Colin Langan and -- with UBS.

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

Can you just remind us of the hit from the China tariffs for '18 and what's sort of baked in for '19 and what you're assuming in terms of the rate through the year?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes. So let me just tell you kind of in total. I have tried to broke it down in front of me. But if I look at 2019, we're expecting an exposure, $45 million to $50 million, and it could be lower based on mitigation actions that are underway. If tariff rate on Lyft -- on List 3 increases to 25% on March 1, our annualized exposure is probably going to be around $60 million. When you look at '18, the impact of tariffs, probably around $10 million, all in all. So the run rate will be a little higher in '19 and assuming List 3 doesn't increase to 25% before mitigation.

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

Yes. The $45 million to $50 million that Vince is talking about is for all the tariffs, including China.

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

Okay, got it. All right. But your current guidance is only baking in the 10% continuing and not going to 25%? Sorry, I understand.

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

That's correct.

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

Okay, good. And you talked a little bit about buybacks. I mean, any color on the M&A environment right now? Is that a bigger priority versus buybacks? I mean, how should we think about that opportunity?

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

I don't think anything particularly has changed. If we see the right acquisition, whether it be smaller, medium or big, we would consider it. I think the -- I'd be a little bit cautious right now. I don't know what's going to happen with the economy or any downturn. So I'd be a little bit caution in doing anything major at this point in time. But I think from the board's perspective and the management's perspective, if we can make intelligent acquisitions that get us what we define as being important, and we'll go through them right now, but technology in -- is certainly a big part of that, then we would consider it. I think we have the ability, both financially and manpower, to do acquisitions. But we really haven't changed our philosophy on -- if we find it, good and great. If we don't, then we put it back as cash flow, be buying back shares in the range that Vince have talked about.

Operator

I'll now turn the presentation back to Mr. Don Walker to continue your presentation or your concluding remarks. Thank you, sir.

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

Appreciate everybody dialing in today. It's been an interesting year, busy year. I'm actually quite pleased with the -- given the things we can control, with our progress and look forward to another interesting year in 2019. There's lots going on in the industry. I think we're in pretty good shape to take advantage of what we see out there.

So appreciate it, and have a great day. Thank you.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you all for your participation and ask that you please disconnect your lines. Thank you, once again. Have a great day.
