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MG.TO - Q2 2016 Magna International Inc Earnings Call

EVENT DATE/TIME: AUGUST 05, 2016 / 12:00PM GMT



CORPORATE PARTICIPANTS

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

Don Walker *Magna International Inc. - CEO*

Vince Galifi *Magna International Inc. - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

John Murphy *BofA Merrill Lynch - Analyst*

Steve Arthur *RBC Capital Markets - Analyst*

Colin Langan *UBS - Analyst*

Peter Sklar *BMO Capital Markets - Analyst*

Rich Kwas *Wells Fargo Securities - Analyst*

Ryan Brinkman *JPMorgan - Analyst*

David Tyerman *Cormark Securities - Analyst*

Richard LaFrancois *Private Investor*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the second-quarter 2016 results conference call. During the presentation all participants will be in a listen-only mode. Afterwards we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded Friday, August 5, 2016.

I would now like to turn the conference over to Louis Tonelli, VP of Investor Relations. Please go ahead.

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

Thanks. Hello everybody and welcome to our second-quarter 2016 conference call. With 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, 2016. We issued a press release this morning for the quarter.

You will find the press release, today's conference call webcast, the slide presentation to go along with the call and are updated quarterly financial review all on the investor relations section of our website at www.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 operating results for the interiors operations that we sold in 2015 are presented as discontinued operations and this review of results will address continuing operations only. The slide package accompanying our call today includes a reconciliation of certain key financial statement lines between reported results and results excluding the usual items. There were no unusual items recorded in the second quarter of 2016.



In the second quarter of 2015, we recorded a gain on the disposition of our battery pack business. This increased operating income by \$57 million, net income attributable to Magna \$42 million, and EPS by \$0.10. Our quarterly earnings discussion today excludes the impact of these unusual items.

And now I will pass the call over to Don.

Don Walker - *Magna International Inc. - CEO*

Thank you. Good morning. The second quarter of 2016 was another successful quarter for Magna. We posted records for total sales as well as North American and European production sales. At our Investor Day back in March, one of our key messages was around the consistent outperformance of sales growth relative to light vehicle production across product areas and across regions over a number of years. We articulated how the sales outperformance relative to the market is expected to continue.

Today sales grew 16% over the second quarter of 2015. Our organic sales growth excluding net acquisitions and adjusting for movements in foreign exchange rates was 10% in the quarter. This compares to about 4% growth for global light vehicle production so our global organic sales outperformance relative to the market was 6% in the second quarter. Similarly, North American production sales grew 6% organically excluding foreign exchange movements. This compares to about 2% growth for North American light vehicle production so we grew three times faster than market growth in North America.

Our European production sales grew 14% organically compared to 6% for European light vehicle production. This represents 8% outperformance compared to the market or more than twice the market growth.

In our Asian production, sales grew 22% organically excluding foreign exchange movements compared to 6% for Asian production. This represents 16% outperformance, almost 4 times the growth in the Asian market.

In addition to our strong sales performance, we posted a record in EBITDA going over \$1 billion for the quarter and record EBIT net income and earnings per share.

Let me turn to our segment results for a moment. In North America, we generated another solid EBIT margin of 10.2% despite continued significant launch and new facility activity underway. In Europe, EBIT margin reached 5.6% for the quarter. This was the highest adjusted EBIT margin percent since we started reporting quarterly European segment results going back to 2003. This result was achieved despite the Getrag acquisition which negatively impacted European margin by about 0.4% largely due to launch costs from new transmission programs and purchase price amortization.

Segment results were strong again in Asia with an even margin of 8.2% for the second quarter despite ongoing investment activities on the continent. We continue to contain loss in South America despite the challenging operating environment there. Our EBIT loss was \$5 million in the second quarter of 2016 compared to \$8 million loss last year in Q2 and an \$11 million loss this last quarter.

Lastly, we recently received considerable industry recognitions for high-quality innovation. In the past couple of months alone, we have won awards for excellence from General Motors, Ford, Honda and PSA. We have also recently been honored for innovations related to carbon fiber on hoods for Cadillac and for seat innovations on the Chrysler Pacifica. These recognitions reflect our close customer relationships and how we bring forward world-class manufacturing innovation to support them.

With that I will turn the call over to Vince.

Vince Galifi - *Magna International Inc. - EVP and CFO*

Thanks, Don, and hello, everyone. I would like to review our financial results for the second quarter ended June 30, 2016. All figures I am going to discuss today are in US dollars.

In the second quarter, our consolidated sales increased 16% or \$1.3 billion relative to the second quarter of 2015 to a record \$9.4 billion. Reported North American production sales increased 7% in the second quarter to \$4.9 billion. Excluding the impact of foreign currency translation, North American production sales increased 9% while North American vehicle production increased 2% to 4.6 million units.

The North American production sales increase is a result of the launch of new programs, the acquisition of Getrag, and higher production volumes in certain programs partially offset by the weakening of the Canadian dollar against our US dollar reporting currency, the (inaudible) equity accounted joint venture and new customer price concessions.

Reported European production sales increased 36% from the comparable quarter while European vehicle production increased 6% to 5.8 million units. This increase was primarily the result of net acquisitions, the launch of new programs and higher production volumes in certain existing programs. These were partially offset by net customer pricing concessions.

Asian production sales increased 28% or \$109 million to \$499 million from the comparable quarter. This was primarily as a result of the launch of new programs particularly in China, higher production volumes in certain existing programs and acquisitions. These were partially offset by the weakening of the Chinese and South Korean currencies against the US dollar and net customer price concessions.

Rest of World production sales declined 14% or \$18 million to \$107 million for the second quarter primarily as a result of the weakening of the Argentine peso and Brazilian real against the US dollar and lower production volumes in certain existing programs. These were offset by the launch of new programs and net customer price increases subsequent to the second quarter of 2015.

Complete vehicle assembly volumes declined 9% from the comparable quarter while assembly sales increased 7% to \$652 million. Higher volumes of the Mercedes-Benz G Class and the higher euro against the US dollar together more than offset a decline in assembly volumes on the many programs and the end of production of the Peugeot RCZ during the third quarter of 2015.

In summary, consolidated sales excluding tooling, engineering and other sales increased approximately 15% or \$1.1 billion in the second quarter. Tooling, engineering and other sales increased 33% or \$198 million from the comparable quarter to \$797 million. EBIT margin in the quarter increased to 8.4% from 8.3% in the second quarter of 2015. The EBIT margin was positively impacted by lower commodity costs including higher recoveries associated with scrap steel, a lower proportion of complete vehicle assembly sales and productivity and efficiency improvements in certain facilities. These factors were partially offset by a higher proportion of tooling to total sales, higher launch in new facility costs, a higher amount of employee profit sharing, operational efficiencies in certain facilities and the acquisition of Getrag in the amount of 0.2%.

Interest expense increased \$14 million to \$22 million in the second quarter of 2016 largely related to the increase in debt associated with the purchase of Getrag. In Q2 2016, our effective tax rate was 26.9% compared to 26.3% in Q2 of 2015. This largely reflects an increase in nondeductible foreign exchange adjustments related to the remeasurement of financial statement balances of certain foreign subsidiaries.

Diluted EPS from continuing operations was \$1.41, a record compared to \$1.19 in the second quarter of 2015. The increase in diluted earnings per share was a result of higher net income and the lower weighted average number of diluted shares outstanding for the quarter primarily due to the repurchase and cancellation of common shares pursuant to our normal course issuer bids.

Let me review our cash flows and investment activities now. During the second quarter of this year, we generated \$864 million in cash from operations prior to changes in operating assets and liabilities and invested \$151 million in operating assets and liabilities. This investment includes an increase in tooling amounts and is consistent with the typical build up of other working capital in the first half of the year. We expect to recover a substantial amount of the first-half investment by the end of the year.

For the quarter, investment activities amounted to \$543 million including \$409 million in fixed assets, \$103 million increase in investments and other investments and \$31 million for acquisitions. We also repurchased 7.8 million common shares for \$308 million pursuant to our normal course issuer bid and paid \$98 million in dividends in the quarter. Our balance sheet remains strong with \$597 million in cash as of June 30, 2016 and an additional \$2.19 billion in unused credit available to us.



Next, I'm going to cover our revised outlook. Our light vehicle production assumptions are unchanged in North America and it increased about 100,000 units in Europe for 2016 reflecting higher Q2 volumes than previously anticipated partially offset by some anticipated softening in the second part of the year relative to our previous expectations.

Our total sales range for 2016 is unchanged from our previous outlook of \$35.5 billion to \$36.2 billion. Our North American production sales range was tweaked down very slightly from our previous outlook reflecting changes to certain program volumes. This was offset by our complete vehicle assembly sales range which was increased slightly mainly reflecting our higher expected sales for the Mercedes-Benz G Class.

Our Europe, Asia and Rest of World production sales ranges are all unchanged from our previous outlook. We increased our expected EBIT margin for 2016 to approximately 8% from high 7% range reflecting continued strong execution and better results in Europe.

We increased our income tax rate outlook to approximately 26% from the 25% to 26% range reflecting a change in income mix and higher expected nondeductible foreign exchange adjustment as we experienced in Q2.

Our interest expense and capital spending ranges are both unchanged from our previous outlook.

Lastly, we made two changes to our expected segment EBIT expectations. We moved Europe up to approximately 4.5% from approximately 4% and we narrowed the range in Asia to 7.5% to 8% from our 7% to 8% previous range. These reflect expected 2016 operating performance that is better than previously anticipated.

This concludes our formal remarks. Thanks for your attention today. We would be pleased to answer your questions at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Murphy, Bank of America Merrill Lynch.

John Murphy - BofA Merrill Lynch - Analyst

Good morning, guys. Just a first question and we always appreciate all the detail you give us on the programs on the positive and negative as you go by region. But I'm just wondering if you could talk more broadly about the benefit of mix as we are seeing a greater and greater portion of vehicle sales both in North America and China and to some degree Europe moving to crossovers and in some of these markets to trucks and how much of that you think is cyclical and structural? Because it seems to be coming your way and just trying to understand that.

Vince Galifi - Magna International Inc. - EVP and CFO

When I look at the overall production sales changes year-over-year, quarter-over-quarter, North America benefited from stronger volumes on existing programs, forgetting about what kind of launch. We have been benefitting from the shift towards SUVs, CUVs and light trucks in North America.

Don Walker - Magna International Inc. - CEO

Mostly in our top 10, we are pretty heavy on trucks and in the second quarter our top 10 volumes alone were up about 7% versus the market at 2% so we've certainly been benefitting from the shift toward trucks and crossovers in North America.



Our view on the volumes are probably not going to be much different than IHS or anybody else out there. I think if oil prices stay low, there seems to be a big demand for the vehicles. The automakers like to sell them because they probably make higher margins on average than the smaller cars so unless something drastic changes in oil prices I would expect to continue to see strong sales in those areas.

John Murphy - BofA Merrill Lynch - Analyst

Okay. Thanks. And then just a second question on China and the Asia segment, I'm just curious as you look at this, there's a lot of concern about how the market is shifting maybe away from international players in China or the market may even slow down. So there is a lot of concerns in China. As you look at your business, how reliant are you on market and maybe more importantly, how reliant are you on your backlog of business just building and coming through with your partners over there?

Vince Galifi - Magna International Inc. - EVP and CFO

John, I think when you look at China, our business mix is changing and that is primarily as a result of the acquisition of Getrag. Getrag's results are not showing up on our consolidated number because they are equity accounted but obviously it impacts the bottom line results and Getrag's business with the domestic OEMs in China is a more substantial percentage than our overall Magna business. The Magna business is probably about 85%-ish with our international OEMs or the North American or the Europeans is 50% is domestic. That has been growing on the domestic side but if you take managed sales and you look out a couple of years including Getrag sales, the sales through our -- the domestic OEMs have been growing.

When I look at the growth in what we are expecting in China, the biggest part of that growth is not coming from volume changes but in fact by launching new programs. And that is going to contribute to sales growth. So we are not as dependent on changes in volumes but more dependent on the launch of those programs and the success of those programs.

John Murphy - BofA Merrill Lynch - Analyst

Okay, that is helpful. Just lastly as we look at Europe, I mean the guidance for sort of a 4.5% EBIT margin there seems a little bit conservative given what you just put up in the second quarter at 5.6%. Is there something you are seeing in the second half of the year that kind of gives you pause on where the margins will go or is that really just a bit of conservatism in your outlook?

Vince Galifi - Magna International Inc. - EVP and CFO

I think there's three factors you need to take into account in the second half in Europe. When you look at overall production, we are about -- (inaudible) about 11.5 million in the first half. We did talk about moving our guidance up by 100,000 but potentially that was generated in the first half. We are actually taking the second half down. We are looking at kind of overall volumes being about 9.9 in the second half.

So you have got volume declines impacting overall if you can think about sales. Second thing is you've got the summer and Christmas shutdowns and in particular to our businesses, when I look at new facility costs in the second half of this year, they are ramping up and the investment in launches is also ramping up compared to the first half of the year. And a big part of that is in Getrag in terms of launches.

So those are kind of a number of factors that are negatively impacted margin in the second half over the first half. But as you launch this program, as you ramp up those new facilities, that will come back to us. So as I look at first half performance in Europe on and EBIT perspective, I am pretty pleased with the progress that we have made. It has been a tough slug for the last five or six years and we started with a loss in 2011 and got some pretty decent margins right now.



Don Walker - Magna International Inc. - CEO

I would just add that Magna Steyr remembers coming to the end of life on its higher volume programs and that has an impact on margin in the back half of the year.

John Murphy - BofA Merrill Lynch - Analyst

That is helpful. Just one last housekeeping, as we think about the share buyback, the current normal course issuer bid expires I believe in November or at the end of November. And as you get through that, would you expect probably getting another authorization so you have the flexibility going forward? Just trying to understand where that program ends and what we might think about going forward?

Vince Galifi - Magna International Inc. - EVP and CFO

It is going to be up to the Board but Don and I thinking on all of this is that we are comfortable that capital structure kind of 1 to 1.5 times so we continue to generate free cash flow. So unless our capital spending substantially ramps up for doing acquisitions, we will continue to generate some cash. Our stated philosophy is to be in that range so that is why we are going to be going to the Board with another authorization when this one expires.

John Murphy - BofA Merrill Lynch - Analyst

Okay, great. Thank you very much.

Operator

Steve Arthur, RBC Capital Markets.

Steve Arthur - RBC Capital Markets - Analyst

Great, thank you. Just following up quickly on that European comment, I understand the pressures in the back half but Q2 was still stronger than we had thought. And it sounds like the contribution wasn't from Getrag, that was more of a headwind. Was there anything one-time in nature in the first half or in Q2 in particular or is that really just the many little things that you have been doing in the traditional business to drive that improvement?

Vince Galifi - Magna International Inc. - EVP and CFO

When I look at Europe and I look sort of quarter to quarter, Q1 to Q2, 5% Q1 and 5.6% in Q2, and one thing what has gone on, there is a little bit of benefit from commodity costs and launch costs were a little less in Q2 versus Q1 but that was offset pretty well by higher warranty. Then the other two impacts in the quarter was we had fewer tooling sales so that would imply a little bit higher margin, will make margin on tooling and the rest is essentially pull through on higher sales and operating efficiency. So there is nothing that sticks out as being an unusual items plus or minus in the quarter.

Don Walker - Magna International Inc. - CEO

Overall a pretty clean quarter and we still have a lot of launches going on so I pleased with the progress we're making in Europe.



Steve Arthur - RBC Capital Markets - Analyst

Sounds good. Back on North America, I realize you don't report content per vehicle any longer but if we use your production numbers, it looks like something around 1060 for North America for the first half and your full-year outlook implies kind of \$20 to \$50 higher than that for the second half of the year in terms of CPV. That seems a big jump. Is that just a function of mix or are there any particular program launches or things that you can point to that might explain the increase in the back half?

Don Walker - Magna International Inc. - CEO

There is lots of launch activity going on. I mean the Pacific is still launching, the Acadia just started in April, we have higher content on the new one versus the old one. The Cadillac XT5 is still launching, that is higher content compared to the SRX. The Lincoln Continental just started, a huge content on that one. So it is mainly -- I don't know whether mix is going improve H2 versus H1 but certainly we still have a lot of launch activity going on this year.

Vince Galifi - Magna International Inc. - EVP and CFO

And if you look at implied production for the second half of the year in North America it is down compared to the first half. If you take the midpoint of our outlook on production sales, we are implying growth which means that just like you talked about, higher content per vehicle in the second half of the year compared to the first half of the year.

Steve Arthur - RBC Capital Markets - Analyst

And a final one, just more generally. In the opening comments of the press release, Don, there was a comment about remaining highly focused on innovation and strengthening positioning of car of the future, probably got the quote wrong, but that seems to be the key focus. It was the focus of your investor day four or five months ago. I guess since then, any changes to your thinking on the focused technology areas for Magna or the level of investments in nature of the investments you are making there?

Don Walker - Magna International Inc. - CEO

Not really. We are spending a lot of time on it just trying to really understand and have a good estimate of how fast things like electric vehicles penetrate, how fast ADAS penetrate, what is the impact of ride-sharing, etc., etc. to make sure our product strategy is aligned what mobility in cars will be like in the future, looking at new people might be involved in the industry.

But from an innovation standpoint, we are continuing to put a lot of focus on it. We just had a tech show with one of our good customers last week, really good feedback from the customers in a lot of different areas. So it continues to be a focus. We are making good headway in what we have been working on in world-class manufacturing and I think we are going to continue that obviously. But the big focus right now in the Company has been and will continue to be on new product and process innovation. So a lot of activity there.

Steve Arthur - RBC Capital Markets - Analyst

Okay. Thanks for the comments.

Operator

Colin Langan, UBS.



Colin Langan - UBS - Analyst

Great, thanks for taking my question. Sorry if I missed it, any update on the three North American plants that were having issues, or those issues? Are those issued past or is it still a challenge? I think you mentioned that there might be more launches in some of the facilities.

Vince Galifi - Magna International Inc. - EVP and CFO

If I look at kind of sequentially at the three operations sort of Q1 to Q2, it has been a positive impact to operating results in Q2 versus Q1 as we continue to make progress there.

When I look at those three operations, there is a lot going on. We are still launching some business in a couple of facilities. One of the larger facilities is launching quite a bit of business. It is higher volume on certain programs. We've certainly been seeing efficiencies improvements. Scrap prices have also moved around a little bit and I kind of sit back and say how much of the improvement is due to what -- how much of it is launch or how much of it is higher volumes, how much of it is efficiencies? We still have some inefficiencies on outsourcing and [expedited] freight and overtime.

But I look at all three divisions combined and the run rate for the first half of the year, they are absolutely in line with where we thought they were going to be at the beginning of the year. And when we look at where we think we are going to be at the end of the year, it is again in line to where we thought we were going to be. So again, a lot of activity going on but we are in line to what our expectations were and year-over-year that should be a positive to operating results for North American as well as Magna Consolidated.

Don Walker - Magna International Inc. - CEO

And most of the launches in -- one division is actually back to where we expected it would be. The other two divisions, most of those launches will be through by the end of this year.

Colin Langan - UBS - Analyst

Got it. And you actually mentioned scrap which was actually going to be my other question. Can you remind us the impact of commodities there? I remember a couple of quarters ago you were -- it actually a bit of a drag. So is that turning in the second half of the year? How should we think about commodity exposure with movement in sale price?

Vince Galifi - Magna International Inc. - EVP and CFO

When I look at even the first half of the year -- quarter I guess Q2 to Q1, we did see some positive benefits from a combination of commodity and scrap. And as I look at Q3 and Q4, if steel prices remain where they are, that should be a tailwind, so a positive for the second half of the year.

Colin Langan - UBS - Analyst

Got it. Thank you very much.

Vince Galifi - Magna International Inc. - EVP and CFO

It is [calm] but it certainly should be beneficial to us.

Colin Langan - UBS - Analyst

Got it. Thanks and congrats on a good quarter.

Operator

Peter Sklar, BMO Capital Markets.

Peter Sklar - BMO Capital Markets - Analyst

Thanks. Don, now that you have had Getrag under your belt for a couple of quarters, I am just wondering if there is anything you are seeing unanticipated in either Europe or their Asian operations and just overall how you are feeling about Getrag now that you have had the opportunity to jump into it a little bit more?

Don Walker - Magna International Inc. - CEO

Yes, the integration has been going well and we are working together on synergies in a number of different areas. So I think the -- we just reviewed this with the Board yesterday -- the integration is going well. The operational results are where we expect them to be. We have looked at the launch status, the products and it is all what we expected it to be. They do have a lot of launches but we are not expecting any -- we haven't seen anything unusual there.

So overall pleased with the acquisition, pleased with the progress. We will be updating at our business plan time a lot of details and we will have a better idea I guess what the results will be going forward compared to what we expected when we bought it but right now there is no real concern. I'm actually quite pleased with the way things are going.

Vince Galifi - Magna International Inc. - EVP and CFO

Peter, if I could just add some comments on Getrag, when I look at overall operating performance for the quarter or even the first half of the year, I would say Getrag is ahead of our expectations and what we had built into our forecast. Part of that is timing where there is going to be launch activity and engineering that we thought would take place in the first half which is going to take place in the second half of the year. But a big part of it is just due to better operating performance, a little bit stronger on the volume side. So from an operation standpoint, bottom-line results in 2016, we are pleased and we are ahead of where we thought we were going to be.

Peter Sklar - BMO Capital Markets - Analyst

Okay. I take it that structurally Getrag has a lower reported margin than Magna's traditional businesses because you are doing the whole assembly of a transmission. Is that correct to assume?

Vince Galifi - Magna International Inc. - EVP and CFO

I think right now, Peter, when you look at the margins are certainly lower than Magna due to a number of things. One is that a whole bunch of purchase price amortization that is impacting the Getrag results and as we have been talking about previously, there is a tremendous amount of launch activity in Getrag. But I think if you move forward and you get through all that given the level of capital intensity in the business, the margin profile at Getrag should be accretive to Magna's margins.

Don Walker - Magna International Inc. - CEO

It is a big selling price for the unit but they have a lot of added values and it a high technology so we certainly expect the margins to be higher.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. Just one last question, recently Ford has gone out of its way to be cautionary in terms of the vehicle demand outlook for the second half of this year in the US. And I am just wondering if you have seen any weakness yet in the release schedules from your customers?

Vince Galifi - *Magna International Inc. - EVP and CFO*

Not to this point, Peter. I mean we haven't changed our outlook for North America all year. We have been at \$18 million and we have been coming in pretty close to our forecast and we look at releases as part of reviewing the remainder of the year at least in the next quarter and we don't see any concerns at this point -- overall in terms of volume.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay, thanks, that is all I have.

Operator

(Operator Instructions). Rich Kwas, Wells Fargo.

Rich Kwas - *Wells Fargo Securities - Analyst*

Good morning, everyone. Just wanted to ask about Europe, a little longer-term question. So I think John had asked about margins here for the balance of the second half but I think your longer-term guidance is in the mid to high 4s and you are tracking above that. So in the out years, I realize maybe you are not prepared to update that figure at this point but just directionally, what are the puts and takes around margin in Europe in the out years particularly as it would seem like Getrag gets more traction and probably helps margin in 2017 and 2018. Just want to get your thoughts there.

Vince Galifi - *Magna International Inc. - EVP and CFO*

We talked about margins for this year being 4.5%, not 4% to 4.5%, but 4.5%. So that is moving up from our previous outlook. To answer your question, there is a number of things you need to take into account when you look at overall longer-term European margins. You are going to have a higher proportion of assembly sales as we move out to the 2018 timeframe, we will talk about 2018 timeframe. And as we have talked about before, the Magna Steyr assembly business is a lower margin business, a decent return on capital business but that kind of hurts margins as we move out to 2018.

What is going to help grow margin in Europe I would say are really three items. I think the biggest contributor is going to be the launch of the Getrag business and as we get out to 2018, Getrag's margins are going to be accretive to European margins.

We have been over a number of years the last several years been a lot more disciplined on quoting the new programs. So as the new program start to come in, the contribution from those new programs is expected to be accretive to overall margins. And we continue to work on improving operating performance and even though we've talked about where we are from a restructuring standpoint over those number of years, the last part of the restructuring and getting out of our last facility that we planned is kind of 2018 timeframe. So all that should be accretive to overall margins. So trending as you look at 2018, the market should be moving up not down.



Rich Kwas - Wells Fargo Securities - Analyst

Okay, that is helpful, Vince. And then just on Getrag, I think this year you are saying it is trending a little bit better than expected. So is there any -- I think originally there was thought to be very little accretion of more or less nothing for this year in terms of earnings. So is that -- because of purchase accounting and whatnot. So as we think about it right now, is that adding a little bit to earnings this year versus expectation and then next year is there any change to how we should think about contribution for Getrag?

Vince Galifi - Magna International Inc. - EVP and CFO

If you had asked me last quarter or two months ago, I would have said that Getrag with purchase price accounting would have been fairly neutral for 2016 plus or minus but close to zero. But if you asked me right now, I would say it should have a positive impact on earnings per share something accretive. But again, you think we've got 400 million shares outstanding, it is not going to stand out as a big number. But our expectation is for 2017 that we need to update our business plan which we are working on right now was that it was going to be more accretive in 2017 versus 2016. (multiple speakers) Excluding purchase price accounting, certainly Getrag is more accretive in 2016 and even larger in 2017.

Rich Kwas - Wells Fargo Securities - Analyst

Right. And then just last one, Don, so there are reports that Samsung is interested in Magneti Marelli and looking -- an Outsiders looking to get more involved in the auto business. I know you kind of alluded to looking strategically at what the landscape is looking like going forward with Outsiders and then the core automakers. What is your view in terms of active safety, infotainment, more software-oriented product portfolio and whether -- I know you are investing internally there but in terms of external investment, where would you classify that as a priority?

Don Walker - Magna International Inc. - CEO

I heard rumors of Samsung as well. I can't comment on it because I don't know anything about what is going on there. I think there is an LG Samsung -- and other people are looking at what parts of a vehicle they would like to participate in. We are certainly spending a lot more time looking at ADAS, building our software capability, looking at new products either by developing them ourselves or potentially partnering or buying people that would have capability in those areas.

I think there is going to be a lot of change in the next three to four years in who the winners and losers are but there is a lot more content going into the vehicle. So I guess to answer your question simply, high focus area for us. We would consider acquisitions, it would have to be in an area we want. We are not really looking at getting into the infotainment but more things whether it is vehicle to vehicle, or security, we've got an investment within Israeli company, cameras, basically any type of sensor that would help the automakers in autonomous driving is that we are focused on. So we have a lot of focus on it right now. We will keep you advised as we go forward but we are looking at a lot of different things.

Rich Kwas - Wells Fargo Securities - Analyst

Thank you. Thanks for the color.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - JPMorgan - Analyst

Good morning, thanks for taking my question. I am finding that some investors are increasingly worried about supplier pricing right now just given I think amongst other factors some of the commentary on the Ford call including outlook for 6% lower automaker prices to consumers in China.

And then the fact that incentives have ticked up in the US (inaudible) areas -- I don't know, take your pick, maybe plateauing or perhaps declining a little. So I'm just curious if you are seeing anything differently in terms of annual customer price reductions if there anything there that could impact your margin?

Don Walker - *Magna International Inc. - CEO*

I wouldn't say there is anything different. The good news is most of our customers are very profitable right now which is always good but even when they are profitable, their engineering and purchasing people are always looking at how to take costs out if it is a competitive market and there always looking at the supply base for price reductions and how do redesign product and optimize it through VA/VE. So really no change because there is always lots of pressure and ultimately it comes down to who is competitive. That is why we've put so much emphasis on our world-class manufacturing initiatives and who has got what technology out there.

I think one of the opportunities in the industry generally is with all of the changes in the vehicle whether it is new regulation, fuel economy, autonomous driving features, there is lots of changes. So if you've got the technology, you can continue to win business and should be a reasonable margin business if you have got something unique there.

So no more pressure, no less pressure and I wouldn't expect it to change much. I know in China, there is a lot of requests for pricing pressure but there is also not -- a lot of weakness in the supply base over there so I don't expect to see things change dramatically.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, thanks. That is helpful. Last question, it is obvious that you had very strong results in Europe this quarter and you are raising the outlook there for the year. I am curious though if you have done any work to try to estimate the impact of Brexit on your operations there and whether that could have any kind of an impact on your target or normalized margin in Europe? I think you gave some outlook at your Analyst Day for 2018 margins. It is all that pretty much still intact do you think or does that need to be revisited?

Vince Galifi - *Magna International Inc. - EVP and CFO*

I think at this point, it is really too early to tell on what the activity in the UK. We do have about I think it is like \$500 million or \$600 million of annual sales in the UK. A bit part of that product is exported outside of UK. We also export from the EU into the UK. I think it is too early to really tell and could depend in part what our customers do.

When we look at European volume even for 2016, initially before Brexit we are a little bit more bullish on European volumes and our most recent outlook for volumes in Europe reflects a reduction as a result of I guess the uncertainty in consumer confidence particularly in the UK.

Don Walker - *Magna International Inc. - CEO*

(multiple speakers) happen there but if you look at the number of vehicles that are being exported from the UK to Europe and back, I think it would be a lose-lose if they do anything on trade negotiations in the upcoming years that is going to hurt that trade. And in a strange way the UK may be able to end up entering other trade deals. It will take a number of years I am sure and export more vehicles so I wouldn't expect (inaudible) to make any big changes right away. And with the lower pound, I don't think it makes much difference because we ship most of our product, most of our costs are in local currency when we ship it. But that may make the producing parts more competitive long-term.

But I think we have to wait a year and see what happens, see what happens with trade deals. I don't think it has any real impact other than translation and maybe sales as Vince just said in the UK but I don't see it as being a big deal.

Ryan Brinkman - *JPMorgan - Analyst*

Very helpful. Thank you.

Operator

David Tyerman, Cormark Securities.

David Tyerman - *Cormark Securities - Analyst*

Good morning, guys. First question is just on the equity earnings line. It was up quite a bit sequentially in the quarter. Is that just Getrag and can you give us some thoughts on how we should think about that going forward?

Vince Galifi - *Magna International Inc. - EVP and CFO*

So equity income sequentially was up \$12 million (inaudible) see where it falls into. A big part of that was in North America -- a big part of it was in North America so that wouldn't be Getrag. I think if you look for the balance of the year, David, thinking about Asia, Getrag is going to be more negative in the second half particularly in Asia. There are a lot of launch costs that are going to be occurring as a result of the ramp up. I'm not sure how that all balances out but launch costs are at least something that stands out for me in Asia second half of the year.

David Tyerman - *Cormark Securities - Analyst*

Okay, that is helpful. I guess that brings me to my second question, Getrag and launches, where do they peak? Is it the second half of this year or do they continue to -- do launch costs continue to accelerate for sometime in 2017?

Vince Galifi - *Magna International Inc. - EVP and CFO*

David, my recollection was that launch costs were pretty heavy in 2017 as well but starting to back off in 2018. I just don't recall right off the bat what happens in markets. I believe markets continue to move up and Getrag has to move on to 2015 versus 2016 but again, there's a whole bunch of things going on in there. We will give you some outlook, some better feedback once we get to our business plan and we will have some more color on that.

Don Walker - *Magna International Inc. - CEO*

Certainly more launch/engineering costs in the back half of this year over the front half.

David Tyerman - *Cormark Securities - Analyst*

So it sounds like the anticipated better margins from Getrag in 2017 would really be you are starting to get benefits from stuff done this year partially offset by still heavy launch costs?

Vince Galifi - *Magna International Inc. - EVP and CFO*

Yes, that is right because we are expecting overall based on our earlier comp that Getrag is going to be more accretive to earnings in 2017 versus 2016.

(multiple speakers) David, the big step up in overall Getrag is going to be 2018 and 2019.

David Tyerman - *Cormark Securities - Analyst*

And the last question I had just generally on M&A right now, any thoughts? Don, you mentioned ADAS and areas like that. Is this an area that is attractive to you relative to buying back stock or any thoughts on that side?

Don Walker - *Magna International Inc. - CEO*

I think it is an attractive area of growth. One of the things we wanted to make sure is we have a good view as to how fast these various things happen whether it is economists driving up to level 4, how fast things would be penetrating, whether it is electric vehicle penetration to make sure whatever we are doing we are not building a business case around something that may not happen as fast as many people think it is going to happen.

There is still a lot of different opportunities out there but we are trying to have a good balance between growing the (inaudible) property for the long-term and also is it better to repurchase shares because I think our share price is low. So it is an ongoing dialogue with the management team and also with the Board. If the right opportunity comes along, we would certainly move on it and we are not anticipating a big downturn. We are also conscious that things go in cycles so we don't want to see buying at the peak of the market either. So a lot of different factors we are looking at.

David Tyerman - *Cormark Securities - Analyst*

Super, that is helpful. Thank you.

Operator

[Richard LaFrancois], private investor

Richard LaFrancois - *Private Investor*

Yes, I would like to know how come I wasn't able to print the Q2 2016 report. I tried doing it by (inaudible) and the other ways. I even tried on my email box and never got anywhere. How come this happens? I tried yesterday night, I tried this morning before the conference, nothing going, couldn't get anything for Q2 2016. Can you tell me which error I did or what should I have done to be able to be able to print the Q2 2016 report?

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

Richard, Louis here. If you call 905-726-2462 we will (multiple speakers)

Richard LaFrancois - *Private Investor*

I call what? Could you repeat that?

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

905-726-2462.



Richard LaFrancois -- *Private Investor*

You said -- too fast again. If I call what?

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

905-726-2462. Ask for Louis Tonelli and we will get somebody to help you with printing.

Richard LaFrancois -- *Private Investor*

905-726-2462.

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

Yes, that is correct.

Richard LaFrancois -- *Private Investor*

2462 at the end?

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

2462, anyway, the person is Lou, what?

Richard LaFrancois -- *Private Investor*

The name of the person you say to talk to?

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

If you just ask for Louis, they will put you through to the right person.

Richard LaFrancois -- *Private Investor*

Okay, thanks a lot. Have a nice day.

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

Thank you.

Operator

There are no further questions on the phone lines at this time.



Don Walker - Magna International Inc. - CEO

Thank you everybody for dialing in. As I said, we are happy with the results the last quarter. We have a lot of things going the right way so appreciate your time. Have a great day. Thank you.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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