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PRESENTATION

Operator

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

(Operator Instructions)

As a reminder, this conference is being recorded today, Friday, February 24, 2017. I would now like to turn the conference over to Louis Tonelli, VP Investor Relations. Please go ahead, sir.

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

Thanks, Amanda. Good morning everyone, and welcome to our fourth-quarter and year-end 2016 conference call. Joining me today are Don Walker, CEO, and Vince Galifi, CFO.

Yesterday our Board of Directors met and approved our financial results for the fourth quarter and year ended December 31, 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 our updated quarterly financial review, all in 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 the 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. Please also note that all figures discussed today are in US dollars, unless otherwise noted.

In the appendix to our slide package accompanying the call today we include a reconciliation of certain key financial statement lines between reported results and results excluding unusual items. Our quarterly earnings discussion today excludes the impact of these unusual items.

In the fourth quarter of 2016 we recorded restructuring charges related to a European power train facility. This reduced operating income and net income attributable to Magna each by \$17 million and EPS by \$0.05. In addition during the fourth quarter of 2016 we recognize a \$13 million non-cash charge related to a pension settlement.

This reduced operating income by \$13 million, net income attributable to Magna by \$9 million and EPS by \$0.02. Note that this settlement will reduce pension expense from Magna going forward and reduces our unfunded pension liability.

In the fourth quarter of 2015 we recorded restructuring charges related to our European exteriors and roof systems businesses. These reduced operating income and net income attributable to Magna by \$15 million each and EPS by \$0.03. Now I will pass the call over to Don.

Don Walker - Magna International Inc. - CEO

Thanks, Louis. Good morning, everyone. The highlights we'll cover off today include our record Q4 and full-year 2016 results. Vince will review our fourth quarter details.

Our continued strong organic growth in 2016, strong cash generation from operations in 2016, integration of Getrag, Magna Steyr preparation for significant launches over the next few years, and the 10% increase in our dividend on a quarterly basis going forward. 2016 was a great year for Magna. We posted records in sales, EBITDA, EBIT, pretax, net income, earnings per share and cash from operations, among others.

Throughout 2016 we highlighted the consistent outperformance of our sales growth relative to light vehicle production. In 2016 total sales grew 13% over 2015.

Our organic sales growth, excluding net acquisitions and adjusting for movements in foreign exchange rates, was 7% in 2016. This compares to about 4% growth for global light vehicle production. Our global organic sales outperformed global vehicle production by about 3% in 2016.

Similarly, North American production sales grew 7% organically, excluding acquisitions and foreign exchange movements. This compares to about (technical difficulties) growth for North American light vehicle production, which represents 5% outperformance compared to the market.

European production sales grew 8% organically compared to about 2% growth of European light vehicle production. This represents 6% outperformance compared to the market.

Asian production sales grew 26% organically compared to 6% for Asian production. This represents 20% outperformance, more than 3 times the growth in the Asian market.

In order to ensure continued organic growth well into the future and to meet our objectives to be world-class in manufacturing, we're highly focused on research and development activities and invested in innovation. This includes both internally generated projects as well as collaborative ones.



We have some good examples of these recently. We demonstrated our light weighting expertise with an ultralight door module project which we cooperated with the US Department of Energy, FCA and Grupo Antolin.

Having reimaged the door architecture from scratch, the team was able to come up with an ultralight design that achieves 42.5% mass savings. This design is applicable to 70% of the light vehicle market. Magna combined its unique full-vehicle perspective on the design of the driver's side door with an innovative mix of materials and our SMARTLATCH technology to meet the significant weight reduction.

We also announced a collaboration with Innoviz to deliver LiDAR remote sensing solutions for the implementation of autonomous driving features and full autonomy in future vehicles. The high definition LiDAR enables 3D remote sensing to provide highly accurate real-time images of vehicle surrounding.

We recently became a founding corporate partner in NextAI, a program to drive artificial intelligence-related ventures. We believe technologies like AI and machine learning will have a huge impact on future mobility and society at large. This is an area we want to participate in to create preeminent AI ecosystem.

We have recently further recognized -- we have recently been further recognized for our some of our innovations. Last year Crain's Detroit Business named Magna the Second Most Innovative Company for our electronics business, making us the highest ranked auto supplier. The annual ranking is based on patent portfolios and considers patent quality, projected ability to bring patents to market and whether patent owners keep their patents or make them public domain.

Also late last year we won several Innovation Awards from the Society of Plastic Engineers. The Award in North America for Unique Process of Laser Cutting and Welding Front and Rear Fascias came on the heels of a near sweep by Magna of the SPE awards in Central Europe where we five awards in the Exteriors category.

Innovation remains a very high priority at Magna with our capabilities, culture, financial resources and motivated employees. I know we can continue to be successful in developing and commercializing innovation.

This is something our employees play a key role in, and I'm extremely proud that we were recently recognized as one of the best places to work in Canada by Glassdoor, a program that relies solely on the input of employees. It's an honor to receive such a recognition, and we are committed to being an employer of choice and providing a culture that fosters professional growth and equal opportunity to our employees.

We have owned Getrag for just over a year now and we're making progress integrating Getrag with our magna powertrain organization. Including unconsolidated sales, our powertrain group should reach approximately \$10 billion of sales by 2018.

We are combining activities and innovation in engineering with a focus on powertrain electrification. We are also combining activities related to vertical integration and purchasing.

The teams are focused on maximizing the utilization of capital in the combined organization. Many of these items will take time to bear fruit, but we're pleased with the progress to date and are excited about the strategic value Getrag brings to us.

Lastly, 2017 is a very busy and important year for our Graz assembly operation. We're preparing for the launch of the BMW 5 Series, which begins next month.

Later this year we will launch a new JLR program and in early 2018 we will launch the Jaguar I-PACE battery electric vehicle. Then in 2018 and beyond we launch two additional vehicle models (technical difficulties) not able to name at this point.

By 2019 we expect assembly sales to be between \$6.6 billion and \$7.1 billion compared to \$2.2 billion last year, so lots going on in Graz over the next two-plus years. This tremendous expected growth in assembly sales and volumes is a testament to Magna Steyr's complete vehicle expertise and the deep trust that OEMs have in Magna. With that, I will pass the call over to Vince.

Vince Galifi - *Magna International Inc. - CFO*

Thanks Don, and good morning everyone. In 2016 we had a record year for sales, up 13% to \$36.4 billion. Adjusted EBIT margin improved to 8%, despite the negative impact from the acquisition of Getrag.

Adjusted EPS increased 16% to a record \$5.23 per share. Cash flow from operations was a record \$3.4 billion, and we repurchased 22.6 million shares, returning \$1.3 billion to shareholders in buybacks and dividends.

Next I will review our financial results for the fourth quarter ended December 31, 2016. In the fourth quarter our consolidated sales increased 8%, or \$685 million relative to the fourth quarter of 2015 to a fourth-quarter record of \$9.3 billion.

Reported North American production sales increased 4% in the fourth quarter to \$4.9 billion, a fourth-quarter record, while North American vehicle production decreased 4% to 4.4 million units. The North American production sales increase is a result of the launch of new programs and the acquisition of Getrag, partially offset by lower production volumes on certain programs, programs that ended production and net customer price concessions.

Reported European production sales increased 20% from the comparable quarter to \$2.2 billion, a fourth-quarter record, while European vehicle production declined 4% to 5.3 million units. This increase was primarily the result of net acquisitions and the launch of new programs. These were partially offset by lower production volumes in certain existing programs, the end of production of the MINI Countryman and the Paceman at our Magna Steyr assembly facility, the weakening of foreign currencies against the US dollar including the British pound and euro, and net customer price concessions.

Asian production sales increased 40%, or \$190 million from the comparable quarter to \$653 million, an all-time quarterly record for Asia. This was primarily as a result of the launch of new programs, primarily in China, and acquisitions. These were partially offset by the weakening of the Chinese RMB against the US dollar and net customer price concessions.

Rest of world production sales increased 53%, or \$46 million, to \$133 million for the fourth quarter, primarily as a result of net customer price increases subsequent to the fourth quarter of 2015 and the launch of new programs, primarily in Brazil and Argentina. Complete vehicle assembly volumes declined 70% from the comparable quarter, while assembly sales only declined 30% to \$439 million. The decline in assembly volumes and sales were largely attributable to the end of production in the fourth quarter of 2016 of the MINI Countryman and Paceman, partially offset by higher volumes in the Mercedes Benz G-Class.

In summary, consolidated sales excluding tooling, engineering and other sales increased approximately 8% to \$627 million in the fourth quarter. Tooling, engineering and other sales increased 7%, or \$58 million, from the comparable quarter to \$936 million.

As anticipated, the adjusted EBIT margin in the quarter decreased to 7.5% from 7.7% in the fourth quarter of 2015. The adjusted EBIT margin percent was negatively impacted by operational inefficiencies in certain facilities, higher warranty costs, end of production of the MINI Countryman and Paceman at Magna Steyr in Graz, and the acquisition of Getrag. These factors were partially offset by productivity and efficiency improvements in certain facilities, a lower amount of employee profit-sharing and higher recoveries associated with scrap steel.

Interest expense increased \$3 million to \$20 million in the fourth quarter of 2016 largely related to the increase in debt associated with the purchase of Getrag. In Q4 2016 our effective tax rate was 22.8% compared to 22.2% in Q4 2015. In the fourth quarter of 2016 we benefited from the finalization of purchase price accounting for Getrag and other year-end related adjustments.

Diluted earnings per share from continuing operations was \$1.31, a Q4 record compared to \$1.22 in Q4 2015. The increase in diluted earnings per share was a result of higher net income from continuing operations and a lower weighted average number of diluted shares outstanding for the quarter, primarily due to the repurchase and cancellation of common shares pursuant to our normal course issuer bids.



I will now review our cash flows and investment activities. During the fourth quarter of 2016 we generated \$878 million in cash from operations prior to changes in non-cash operating assets and liabilities. We also generated an additional \$840 million in non-cash operating assets and liabilities, reflecting our typical Q4 recovery of working capital and the partial reduction in our investment in tooling which had been building during 2016.

For the quarter, investment activities amounted to \$934 million, including \$662 million in fixed asset and \$155 million increase in other assets, as well as \$117 million for acquisitions including BOCO. In addition we repurchased 2.7 million common shares for \$114 million and paid \$95 million in dividends in the fourth quarter.

We also announced today a 10% increase in our quarterly dividend to \$0.275 per share. This increase, which represents our eighth consecutive year of increases, reflects the confidence that both management and our Board currently have in our future.

Our balance sheet remains strong, with \$974 million in cash as of December 31, 2016, an additional \$2.1 billion in unused credit available to us. Lastly, our current outlook is unchanged from what we disclosed in Detroit last month.

In summary, we posted a number of records in 2016, as well as for the fourth quarter. We continue to significantly outgrow vehicle production in 2016.

We generated a strong free cash flow in Q4, and we expect strong free cash flow generation over the next three years. We returned \$1.3 billion to shareholders in 2016.

Our most recent outlook is unchanged from our previous outlook. This now concludes our formal remarks. Thanks for your attention today. We all will be pleased to answer your questions at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Rod Lache, Deutsche Bank.

Rod Lache - Deutsche Bank - Analyst

Good morning, everybody. Was hoping to get a couple of clarifying points on the year-over-year revenue and earnings bridge. You reported revenue growth of \$685 million and a \$40 million increase in operating income.

Was FX about \$100 million and acquisitions about \$570 million? So the organic growth was around \$215 million, is my math correct? Was pointed out from the release, different areas.

Vince Galifi - Magna International Inc. - CFO

You're looking at, I guess, year over year on the quarter, Rod?

Rod Lache - Deutsche Bank - Analyst

Year over year on the quarter, correct.



Vince Galifi - *Magna International Inc. - CFO*

FX negatively impacted us by about -- I guess on total sales just over \$100 million.

Rod Lache - *Deutsche Bank - Analyst*

Yes, that's what I had.

Vince Galifi - *Magna International Inc. - CFO*

That's on EBIT. And on an acquisition stand front, when you look at -- we do as the number of acquisitions we consolidated in 2016, there was Getrag, there was BOCO in the UK, there was [Xingquaorui] in China, there was a little bit of Telemotive and BOCO as well in Europe. All in all, acquisitions added about \$670 million in sales and contributed positively to operating income.

Rod Lache - *Deutsche Bank - Analyst*

Okay. So the acquisitions contributed positively to operating income, and you said that the FX -- I'm -- .

Vince Galifi - *Magna International Inc. - CFO*

Sorry, Rod. Just the operating income from all the acquisitions, it's around 4% on those incremental sales. Below certainly the Magna averages, as we were expecting. We've been talking about Getrag being a negative impact to margins in 2016. That in fact was the case.

But all in all, some of the other acquisitions contributed to operating income. Even when I look at Getrag, we started (technical difficulties) early on in (technical difficulties) January talking about our outlook and we thought that Getrag would be negative about 0.35% of margin Getrag and be kind of neutral on earnings per share.

Actually, when I run through Getrag and look at the debt we took on for Getrag all in, Getrag was a little accretive on an earnings per share basis for 2016, did little bit better than we thought. From a (technical difficulties) standpoint an overall margin, it did impact us a little bit less than we were anticipated when we started 2016. So all in all (multiple speakers) 2016.

Rod Lache - *Deutsche Bank - Analyst*

Did you say that the FX had minimal impact on EBIT? I missed what you said about the EBIT impact of that.

Vince Galifi - *Magna International Inc. - CFO*

About \$100 million sales minimal impact. If you looked at average margins, that's probably a good approximation of the impact translation would have on EBIT.

Rod Lache - *Deutsche Bank - Analyst*

In the European discussion, it sounded like the acquisitions were a loss. Is that correct?

Don Walker - Magna International Inc. - CEO

You're looking year over year or you looking sequentially? What you looking at, Rod?

Rod Lache - Deutsche Bank - Analyst

I thought I had seen that in the MD&A for the quarter about the positives and the negatives. I would need to find the section exactly.

Don Walker - Magna International Inc. - CEO

The MD&A talks about Q4 2016 versus Q4 2015. And in Europe I look at our acquisitions. They were negative in the quarter. Year over year, and when I look at Getrag -- if I (inaudible) Getrag, the other acquisitions we completed in Europe and consolidated in Europe actually were accretive to EBIT dollars, so they actually positive.

We incurred a loss in Getrag in the fourth quarter. That's attributable to things that we were anticipating, so continued launch cost and start-up cost. We were negatively impacted by some higher warranty costs in the quarter, which not only impacted obviously Getrag's numbers but also had an impact on reported operating margins in Europe in the quarter.

Rod Lache - Deutsche Bank - Analyst

Okay. What happened to the equity earnings in the quarter? They declined?

Vince Galifi - Magna International Inc. - CFO

Equity earnings, again, when I look at Getrag, I'm factoring in -- you're talking about Europe or you're talking consolidated right now?

Rod Lache - Deutsche Bank - Analyst

Consolidated is running at a higher rate for most of this year and it fell in the fourth quarter.

Vince Galifi - Magna International Inc. - CFO

On a year-over-year basis for the quarter it was flat.

Rod Lache - Deutsche Bank - Analyst

Okay. So is that seasonality that declined from the first three quarters of the year?

Vince Galifi - Magna International Inc. - CFO

Most of it's seasonality. I think there's some -- there's seasonality and I'm trying to think of the word. There's launch costs as well that we're incurring again in Getrag in Asia as we're ramping up, but it's seasonality. Nothing unusual.

Rod Lache - Deutsche Bank - Analyst

Okay. All right. Okay, thank you.

Operator

Mark Neville, Scotia Capital.

Mark Neville - Scotiabank - Analyst

Good morning. I wanted to get into the margin in Europe. I think in Q4 you did about 2.2%. Over the first three quarters you're at about 4.8%. You highlight some of the reasons, but I'm trying to get a sense of the magnitude of loss at Getrag, how much lower volumes in Graz impacted as well?

Vince Galifi - Magna International Inc. - CFO

When I look at Europe, we were thinking that it would be around 4.5%. That was our guidance for Europe. It actually came in about 4.2%.

So the (inaudible) there's a number of things, which I'll talk to. One is we talked about additional warranty costs in Getrag, and I think that was the only negative from a Getrag standpoint. Other than that they were pretty well on track, based on our understanding where we are the Europe launch costs and start-up costs. It's some higher warranty costs in Getrag.

There was additional launch costs in Steyr as a result of launching the new programs. I think that's just a pull-forward from 2017 into 2016. An additional new facility cost, again I believe it's a pull-forward from 2017.

There was a reallocation of income between Europe and Asia as we completed the accounts and we look at some of the intercompany pricing. We moved some income into Asia, so that helped Asia a bit but also had a negative impact on Europe. Those factors will account for the difference between where we guided to and where we actually in the quarter in Europe.

Mark Neville - Scotiabank - Analyst

With that reallocation, would it impacted prior quarters?

Vince Galifi - Magna International Inc. - CFO

You mean did it impact Q1, Q2, Q3?

Mark Neville - Scotiabank - Analyst

Would it have any? Again, you had a pretty good start to the year in Europe for the first three quarters.

Vince Galifi - Magna International Inc. - CFO

I'm not really sure. It wouldn't have been -- if you look at what I'm (technical difficulties) four quarters, it be not at all significant and just (multiple speakers).

Mark Neville - Scotiabank - Analyst

Okay. On the 2017 outlook, you mentioned it's unchanged. But on a regional basis, would that be -- would the comments be similar?

Vince Galifi - *Magna International Inc. - CFO*

Yes. We've unchanged our outlook, not only on consolidated basis but also by segment.

Mark Neville - *Scotiabank - Analyst*

Okay. Maybe on the margin in Asia, 12.9% in the quarter, you mentioned the reallocation helped a bit. Maybe talk about what else, the puts and takes and looking at next year's guidance of 9% to 10%. You're feeling a little better about that as well?

Vince Galifi - *Magna International Inc. - CFO*

I look at the at on a sequential basis, we're at 9.8% in Q3 and came in at 12.9%. I've just got to caution, we precaution this all the time. Asia a pretty (small) revenue base. A couple million dollars extra or less has a pretty significant impact on reported margin.

When I look at quarter over quarter, we got lower launch costs and a little bit less warranty costs, we've got higher equity income, got more use of facility costs. When you look at everything else, we've got some pretty good pull-through off our incremental sales as part of that mix.

I think when you look at 2017 and what we're guided to, and then based on what we look at for the full year, we're still comfortable with the guidance we gave, even though we did outperform our Q4 numbers compared to what we're guided for 2017.

Don Walker - *Magna International Inc. - CEO*

If you look at the ranges that we provided in production sales, we came in pretty much bang on the middle of the range in North America and Europe. We actually came in above the range in Asia, because Q4 was very strong on the sales side and as Vince said, the pull-through on that incremental sales was quite strong.

Vince Galifi - *Magna International Inc. - CFO*

I think what you're going to see in Asia will still going to be a negative in 2017 as continue to -- on a year-over-year basis, 2017 and 2016, higher launch and higher [use of facility] costs which will offset of the margins but we'll get some contributions from equity income, some new programs. We are pleased with the performance in Asia. Hopefully there's some upset as we get through 2017.

Don Walker - *Magna International Inc. - CEO*

Whereas 2016 was a really strong year, if you look at our outlook for 2017 in Asia it actually is a bit more muted. Picking up again in 2018, 2019 but 2017 isn't a huge -- as big growth year as we had in 2016.

Mark Neville - *Scotiabank - Analyst*

All right. Thank you very much.

Operator

Ryan Brinkman, JPMorgan.



Ryan Brinkman - *JPMorgan - Analyst*

Thanks for taking my question. Can you talk a little bit about your commodities outlook for 2017? I know there's been some sharp rises in some of the metals prices just in the last few months here? I know the Cosma division does a lot there.

Can you remind as of the escalators that are built into your contracts? Do they cover most of your contracts with most of your automakers? Does this have a positive impact on your revenue and maybe a negative impact on your margin without maybe impacting your EBIT dollars? How should investors think about this?

Vince Galifi - *Magna International Inc. - CFO*

I think when you look at the two commodities having the most impact on our business is steel and resin. The most recent data that we looked at for 2017 versus 2016 from a commodity standpoint in total, the impact on bottom line is fairly neutral.

On the steel side, our customer resale programs covers probably somewhere between 70% to 75% of our buy. The balance of our steel buy is typically going to be locked in by shorter-term contracts. What I mean by shorter-term contracts, it's going to be 12 to 18 months.

On the resin side, what we've been seeing happening is that our customers are moving more and more towards resale pricing on resin. I think we're at about 15% to 20% today on resale.

As resin prices move we're going to see more direct impact on bottom-line results because we're not covered naturally on that. On the steel side I would say we're fairly protected.

The variability of the steel side relates to scrap revenue, which we've identified as a significant negative in 2015. That turned around a little bit in 2016. Steel prices move up, that may give us some help on the bottom-line results but it's not a direct flow-through because there is some sharing with our customers depending on the contracts, and all the contracts are different between OEMs. I don't really want to get that level of detail.

Ryan Brinkman - *JPMorgan - Analyst*

That's very helpful color. Last question from me. In Detroit you made comments, probably more preliminary then. Maybe you have some more advanced thoughts about a border adjusted tax and how that might impact you. I think maybe some investors have a stereotype that there's hugely disproportionate manufacturing in Canada.

Can you remind that's probably not the case, given a lot of the just-in-time that manufacturing that you do, other suppliers probably have a lot more concentration in Mexico than you do in Canada. I think you were traveling to some sort of business roundtable right after your presentation in Detroit. Just curious, the conversations that you've had as you started to learn more about this, about the probability of it, and if you've had more time to think about potential impacts to Magna?

Don Walker - *Magna International Inc. - CEO*

Yes, it's Don here. I've spent a lot of time and we have as a Company looking at what the impacts might be and if there's changes or not, or content rules or a border adjustment tax. It's too early to tell what's really going to happen.

I think if you look at it, the industry as a whole is trying to get all the facts to the right people so at least they'd understand what the impact might be depending on what changes they might make. MEMA, Motor Equipment Association in the States, has been getting input from CAR, which is Center for Automotive Reach, getting all the data part of the industry.

The latest, I understand, is I think it's pretty well understood that the difference between Canada and US as far as trade is concerned really isn't an issue. Having said that, any border adjustment tax I think would be negative for the whole industry, and Vince, turn it over to him in a second, we have done some analysis of what the sales are within our Company. If it's sales to customers then they buy it off our dock.

So I think it's too early to tell. We do have a lot of production in Mexico as well, but a lot of that is for vehicles that are produced in Mexico.

As a general comment, I think it will be quite a while before we really understand what the changes might be, what the impact would be, and nothing happens overnight. We are very closely watching and having involvement in any discussions that (technical difficulties).

Vince Galifi - *Magna International Inc. - CFO*

Ryan, we have talked a bit. We're certainly monitoring what's going on, and there's a whole bunch of speculation of what may or may not happen. From our perspective, we've gathered a whole bunch of data, internalized (inaudible) to shed some color on some of the facts and we will just have to monitor it from there.

When you look at our manufacturing operations in the United States, what we export and what we import, we are fairly neutral between exports and imports. It pretty well balances out from a manufacturing standpoint.

The other thing we look at and we talked about in Detroit was when you look at our sales and our plants going to our customers, where are they going to? If you look at Canada, we've got about \$6 billion in sales. About half of that goes to the assembly plants in Canada, but half of that goes to assembly plants in the United States.

If you look at Mexico, there's about just under \$4.5 billion in production sales. About 60% of those production sales are shipped to assembly plants in Mexico. The balance is being shipped to assembly plants in the United States.

If you look at the US, which for us is our biggest market, we're over \$9 billion in production sales in 2016. 90% of those production sales end up in US assembly plants with about the balance being split equally between what goes to Canada and what goes to Mexico. Those are the broad parameters, Ryan.

Obviously as both Don and I talk about, we will continue to monitor what goes on and ultimately (technical difficulties) is going to work for the industry. Because any sort of adjustments, whether it's tariffs or taxes, will have some impact to the industry, I believe, because the industry is pretty efficient today from a supply chain perspective.

Ryan Brinkman - *JPMorgan - Analyst*

Thanks for the commentary and for those helpful additional figures, too. I appreciate it. Thanks.

Operator

Dave Tyerman, Cormark Securities.

Dave Tyerman - *Cormark Securities - Analyst*

Good morning, gentlemen. First question on the buyback. It slow down as your went through the year. I was wondering your thoughts on the buyback going forward?

Vince Galifi - *Magna International Inc. - CFO*

David, it did slow down. We ended up the year with being pretty well at the midpoint of our target numbers ratio. We talked about 1 to 1.5 times adjusted debt to adjusted EBITDA.

We ended up at 1.3 times with probably a little bit more cash than what we need to run the business, and that was as a result of a really good quarter of working capital, as I talked about in my formal comment. I think as you look forward and how the cash flow we're going to generate and the growth in EBITDA, we expect to continued to be in the market buying some stock throughout the course of the year.

Again, depending on, as we move on through the quarter, how we feel about the macroeconomic environment or opportunities for acquisitions we may slow that down or speed it up. Our intention today is to continue to be in the market buying some stock.

Dave Tyerman - *Cormark Securities - Analyst*

Okay, that's helpful. Just on the warranty, it did tick up a fair bit in the quarter. Is this true-ups or is this something that actually happened? Can you give an idea of what you would consider sort of a normal run rate?

Vince Galifi - *Magna International Inc. - CFO*

I look at Q4 from a warranty perspective, and from our perspective it's unusually high quarter from a warranty cost perspective. I think when you look at Magna in 2015 and you look at Magna in 2016 and Magna 2017, I would say (technical difficulties) 2016 to 2017 to 2015, I'd expect our warranty run rate's going to be higher.

That is a result of, certainly the acquisition of Getrag where they have [rules] for warranty. As we continue to grow, particular in powertrain and electronics, the incidence of warranty is probably going to be a little bit higher than our other businesses. But I look at Q4 2016, as I mentioned earlier, there was some unusual type items that we built in the quarter that should go away as we move into 2017.

Dave Tyerman - *Cormark Securities - Analyst*

Okay. Q4, unusually high but you're definitely at a higher rate than you were in 2015, it sounds like?

Vince Galifi - *Magna International Inc. - CFO*

Right.

Dave Tyerman - *Cormark Securities - Analyst*

Okay, that's great. Thank you.

Operator

Peter Sklar, BMO Capital Markets.

Peter Sklar - *BMO Capital Markets - Analyst*

I've got a question on the Countryman/Paceman wind-down. I understand that business is moving out from the vehicle assembly perspective at Steyr.

But I also noticed that you said in your MD&A that you lost quite a bit of content on the replacement programs. I'm wondering if you could give some backdrop as to why you lost the content on the successor? And is the fact that you are not assembling the vehicle, does that play into it?

Don Walker - *Magna International Inc. - CEO*

Location has to do with it. The Countryman and Paceman moved out, ended production in the fourth quarter. We have a lot of facilities, a lot of capabilities locally to support the Graz assembly plant.

That's what we typically have a lot of content in the Graz programs. When that got relocated, it wasn't -- we couldn't get the same kind of content on the Countryman and Paceman and next generation. It really is related to relocation.

Peter Sklar - *BMO Capital Markets - Analyst*

Lastly, I'm confused, what's in the equity income line now? Can you review all the major items that are in the equity income line? Obviously there is the Getrag China stuff, but what else is in there?

Vince Galifi - *Magna International Inc. - CFO*

When you look at the equity income, what we've got in there is we have Getrag, and Getrag is actually Asia as well as Europe. It's not just Asia.

We have some equity account investments in Asia. We have in North America, Europe and Asia, we have our [lightar] group. It operates -- we've had lightar for the longest time that I can remember. It operates in three areas.

We also have, if you recall, we sold our best op operations last year. There's now equity accounted. That's in North America/

That pretty well covers the most substantial ones (technical difficulties) investments in an interior operation in North America that may count it as well. That accounts for the majority of the equity investments, Peter.

Peter Sklar - *BMO Capital Markets - Analyst*

I can't remember lightar. That's a power train business, isn't it?

Vince Galifi - *Magna International Inc. - CFO*

That's correct.

Don Walker - *Magna International Inc. - CEO*

That's right.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

John Murphy, Bank of America Merrill Lynch.

John Murphy - BofA Merrill Lynch - Analyst

Good morning, guys. A First question, Vince, to follow up on your comments on your NAFTA footprint. Just curious, as you look at how that footprint was set up over time, what's the rationale for the location of the facility? Does it have to do with low-cost sourcing of labor or does a lot more of it have to do with co-location of your plants with your customer plants?

Vince Galifi - Magna International Inc. - CFO

It's a mixture. We don't build plants obviously without orders and each of the plants will competitively bid. I don't know the percentage. There has been a trend in the past number of years for the OEMs to try and get, especially the larger components, located close to their plants because of logistics cost, but typically I think they'll look at the most efficient landed cost to their plant.

The exception I would say is in Mexico where we have very high labor content work, and that's specifically would be the cut-and-sew operation for seating group. That has a lot of employees either in the maquiladora area or up in Northern Mexico and we'll ship that back to our seating facilities because it's easy to ship, it's high labor content. And that gets shipped into the Southern US, Northern US and Canada.

Then we have other operations historically where they're located, if you look at latches, for example, it's an easy to ship product. We have a really efficient plant up in Canada and we ship from there into the US, we ship from there to China as well.

The bigger plants typically are close to the assembly plants. High labor content, if they're really high labor content, probably come out of Mexico, it's easy to ship products. And the rest just for historical reasons where we put a plant started. Fascias and large Class A stampings are typically located pretty close to the assembly plant.

John Murphy - BofA Merrill Lynch - Analyst

Don, it's fair to say that seat cover is the one thing that's highly labor-intensive. Your plants in the US are obviously highly profitable and just as profitable as Canada and Mexico. So if you had to move capacity around, it would be question of timing and maybe some capital. But you could do what you would need to do if things started shifting on the customer base?

Don Walker - Magna International Inc. - CEO

I think that would be over time. No matter what happens with this border adjustment tax and NAFTA, some things are easy to move do and the car companies don't like moving things because you've got to re-certify everything, but some things could be moved around. I would not expect our margins to change, other than maybe the cost to move it.

Some things are easy, some things are a bit more difficult. I think the big issue will be, where are future investments going to be located.

I can't speak for the car companies, but I would think that if somebody's thinking of major investments in a new assembly plant based on everything that's going on, there's probably a larger likelihood that they'll put that the US if they're making a decision now but some people will wait and see what the end result is here and make their decisions. I said publicly, one of the things which I think might be good for the industry in North America is if you think of the trading blocks, I think of NAFTA as kind of a trading block that's competing with other trading blocks in the world, which would be Europe, China and Asia.

I don't think at the end of the day, hopefully nothing will be done by the US administration will make the trading block less competitive as compared to other areas, and I think that's why it's good to have access to Mexico for some of the low labor cost parts. I would like to move (inaudible) to China. There was (technical difficulties) back into Canada or US anyway.

Maybe one of the end results you can think big picture long term is the NAFTA area could become more competitive looking at other trade deals. If you had asked me 15 years ago, I was worried where the assembly plants would be, and we have actually seen more come to North America. Hopefully that continues.

John Murphy - BofA Merrill Lynch - Analyst

That's helpful. A second question. As we think about the ramp in Steyr through the course of 2017, it sounds like it's going to be fairly back-end loaded. Curious when you think that hits -- the 5 Series hits stride?

Then also as we think about the ramp in Steyr through 2019, it's a pretty big step-up here in revenue, about \$5 billion in growth. Is there a lot of capital that's going to be need to committed to execute on that, or can you do that in the parameters of this \$2 billion or so CapEx per year? I'm trying to understand if we will see a big CapEx ramp in 2018 and 2019 with that kind of growth there?

Vince Galifi - Magna International Inc. - CFO

What we said publicly in CapEx, that includes that everything that's going on in Steyr, including the new paint job we've got in close to Steyr but in a low-cost region.

The 5 Series launch, we're ready for it. We've already done a run rate. It starts in early March.

It'll be ramped up by, I think, it's June, it's a full ramp up. So it's a lot of launch activity, but so far everything seems to be under control and the \$2 billion we've talked about for next year includes everything.

John Murphy - BofA Merrill Lynch - Analyst

Lastly, when you highlighted a lot of your electronic capability, and I know given your portfolio it's tough to draw a line around ADAS and to find everything that's in it. If you could give us sort of a general ballpark of what percentage of your revenue base is applied to the ADAS category more broadly?

And once again, I recognize it's a little bit tougher for you guys because you're in a lot of stuff than a lot of other suppliers are. But could you give us ballpark of where you think your ADAS revenue is as a percent of total, or even hard dollars?

Vince Galifi - Magna International Inc. - CFO

Our electronics group is \$800 million roughly. The ADAS related sales are about \$450 million in the US. That's growing to (technical difficulties) to about \$1 billion in I think it's the 2020 time period. If you look at the pure ADAS related sales by their suppliers, we are in there.

Our electronic sales, because we're not in wire harnesses and other products, we're not (technical difficulties) ADAS area. We are big and we (technical difficulties) grow, it's going to be a growing market.

I personally think that full autonomous drive vehicles are way out there, but the futures are growing. We are pretty pleased with the position we've got, the growth we've got. It's going to be an interesting (multiple speakers) has the best technology, who has the fastest growth, it goes to with those numbers

Don Walker - *Magna International Inc. - CEO*

John, between 2016 and 2019 we are expecting to grow our ADAS business at a compound growth rate between 18% to 21%. I can tell you, the guys are keeping me pretty busy looking at a whole bunch of quotes.

Hopefully we're able to improve on what we've talked about publicly. I know we're pretty active on the quoting side of this part of the business.

John Murphy - *BofA Merrill Lynch - Analyst*

That's very helpful. Thank you very much.

Operator

Michael Glen, Macquarie.

Michael Glen - *Macquarie Research Equities - Analyst*

Good morning. Thanks for taking the question. Just a clarification. On slide 8 you give the organic growth versus market. Did you provide that anywhere for the Q4 period?

Vince Galifi - *Magna International Inc. - CFO*

We don't -- we have it, we don't give the [slide] right now. Give me a call, we can go through it.

Michael Glen - *Macquarie Research Equities - Analyst*

I'm wondering as well, can you give an outlook or an update on the outlook you have for Getrag in terms of the Asian market, what you are seeing there?

Don Walker - *Magna International Inc. - CEO*

In terms of an update on what we are seeing on the market in Asia, it's consistent with what we talked about in January. As we continue to ramp that business in Getrag, and Vince is getting the back-up notes for me, we are seen overall the margins in Asia for us as a result of Getrag in 2017, they should be accretive to us on a year-over-year basis. As we continue to ramp up programs, I expect by the time we get to the 1920 (sic) timeframe, we'll see a significant improvement in overall operating performance from our Getrag operating units, because they are ramping up quite a bit of business.

Vince Galifi - *Magna International Inc. - CFO*

I'll say generally Getrag is on track to the numbers that we talked about in January of last year, about \$6 billion in sales and the bulk of that growth is in Asia.

Michael Glen - *Macquarie Research Equities - Analyst*

In terms of the dual clutch product penetration in Asia, you're seeing a lot -- you continue to see a lot of OEM interest over there and that product?

Don Walker - *Magna International Inc. - CEO*

When we bought the company we looked at the technology, we liked the technology, it's for fuel efficiency and for lots of technical reasons. It's also the new product they got coming to market also makes it very easy to put an electric for electrification of it.

The sales that we -- close to (inaudible) \$6 billion, some of that had assumed that we're going to be getting some new business and we are on track to that. We're still see a lot of interest in even the manual transmission they've got, in a lighter weight, more fuel efficiency. Real interest in the DCT technology.

Michael Glen - *Macquarie Research Equities - Analyst*

Finally in terms of customer price concessions, have you guys seeing any change in behavior among the OEMs there?

Don Walker - *Magna International Inc. - CEO*

No. It's always pretty intense discussions, but there's nothing different.

Michael Glen - *Macquarie Research Equities - Analyst*

Okay. Thanks for taking the questions.

Operator

Richard Kwas, Wells Fargo Securities.

Ron Jewsikow - *Wells Fargo Securities - Analyst*

Good morning. This is Ron Jewsikow on for Rich Kwas. It looks like there was a rather sizeable increase in the value of patents and licenses on the balance sheet this quarter. What drove that increase?

Vince Galifi - *Magna International Inc. - CFO*

This is the first quarter we're actually splitting intangibles from goodwill and other assets. If you go back to some of the earlier financials everything was combined on one line. We actually completed our purchase price accounting exercise for Getrag, and that resulted in the finalization of goodwill and adjustments to fix that as well as intangibles, and tangibles moved up as a result of that exercise. What you're noticing is -- the biggest thing you're noticing is the fact that we are disclosing it, which we hadn't disclosed in the past.

Ron Jewsikow - *Wells Fargo Securities - Analyst*

Okay, wanted to make sure there wasn't anything really material there. High level on your ADAS business. I appreciate the details you guys gave. Are you still looking at potentially acquiring radar assets or partnering with radar suppliers?

Vince Galifi - *Magna International Inc. - CFO*

We have access to technology in radar. We are also looking at developing some new technology from scratch.

We are really strong in cameras, also sonics. We've just talked about an investment in what we think is promising lightar technology.

We have access to radar as well as we're hoping it will be a leapfrog technology. The real expertise that we've got and we're really focus is on taking data from any sensor and fusing it together.

That to me is real expertise required if you want to really grow sales in the ADAS, is having the ability to manipulate the data and make some decisions and send a signal out. That's the area we're focused on.

Ron Jewsikow - Wells Fargo Securities - Analyst

Really appreciate the color. Thanks, guys.

Operator

Itay Michaeli, Citigroup.

Itay Michaeli - Citigroup - Analyst

Good morning. Maybe on free cash flow, and I apologize if I missed this. Are you still looking at the same free cash flow guidance for the year as you communicated in January? And maybe just remind us, besides CapEx, what some of the drivers are for your 2019 and 2018 free cash flow outlook?

Vince Galifi - Magna International Inc. - CFO

When you look at CapEx for 2017, we are at about the \$2 billion mark. There's a big chunk of capital in there for a new (technical difficulties) facility for Magna Steyr in Eastern Europe. Then it's ongoing capital for some programs that obviously have been awarded.

As we move out into 2018 and 2019 we are expecting capital as a percentage of sales as well as absolute dollars to start coming off. We've had some lumpy capital spending in terms of putting in longer-term capital [options] equipment. I would say 2015, 2016, it's going to carry us forward a little bit in 2017 it should start to come down.

In terms of cash flow, you talked about 2017, 2018, 2019. We continue to expect to see growth in cash flow, free cash flow generation as well as coming from growth in margins, growth in sales and capital as a percent of sales coming down.

I think there's going to be a little bit of a switch between our expectations for 2017 and 2016. We've initially received more cash from working capital in Q4 than I had anticipated, and that's just a pull-forward of cash from 2017 and 2016.

But if you normalize for that, we are still on track for the next three years to generate about \$5 billion in free cash flow operations. Significant growth in the amount of cash that we're going to generate that we can use to continue to invest in the business or increase dividend, to buybacks, a whole bunch of things we could do.

Itay Michaeli - Citigroup - Analyst

Great. It sounds like the \$5 billion has not changed, even though you had a bit of a tailwind in the fourth quarter?

Vince Galifi - *Magna International Inc. - CFO*

No, the end number has not changed. You look at 2016 and 2017, what has changed is the additional cash we got in in Q4 of 2016.

Itay Michaeli - *Citigroup - Analyst*

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

Operator

Brian Morrison, TD Securities.

Brian Morrison - *TD Securities - Analyst*

Thank you. A quick follow-up, it's on the equity pick-up line. In Detroit I think you said it should increase materially to about 65% through 2019, about \$125 million, \$150 million after tax. Just wondered how you see that evolving? Prior disclosure for Getrag has a ramp in unconsolidated sales is pretty steady. Is the pick-up going to be about one-third/one-third through 2019, or is that it little bit more back-half weighted?

Vince Galifi - *Magna International Inc. - CFO*

Louis, can help me out on that? You know what? I don't have that information in front of me so I don't want to speculate. I'd be happy to follow up with you afterwards once I've got some data in front of me It's picking up, I just don't know whether it's equal or back-ended. I know it continues to improve. I just don't know on a relative basis how that's happening.

Brian Morrison - *TD Securities - Analyst*

That's fine. I will follow up with Louis. Thank you.

Operator

Todd Coupland, CIBC World Markets.

Todd Coupland - *CIBC World Markets - Analyst*

Good morning everyone. I wanted to get your comments on the pace of the European, or rhythm of European margins in 2017. Should we expect it to bounce back into your target range in seasonally strong Q1, or do we need to wait for assembly to pick up later in the year? Color on that rhythm would be helpful. Thanks.

Vince Galifi - *Magna International Inc. - CFO*

Todd, we haven't given quarterly guidance for our businesses. When I look at 2017 for Europe, I still think we're going to be in the 4% to 4.5% range for the year.

There's no change from our previous guidance, and there's a number of things that are impacting that margin number. When you look at Magna Steyr alone, if we didn't have Magna Steyr in our numbers our 4% to 4.5% range would be 4.5% to 5%.

The growth in margin compared to 2016 comes from a number of things. It comes from a contribution in margin from new programs (technical difficulties), operational improvements, and obviously some improvements as we'd expect it from launching a new programs in Getrag.

(Technical difficulties) 2019, the previous guidance on a consolidated basis was 4.5% to 5%, which represents at the midpoint we talked about (inaudible) 0.5 point improvement over 2017. What's really clouding the growth in production margin in Europe is (technical difficulties), trying to get up to Magna Steyr. Magna Steyr's impact is about 1.5% on European margins.

Ex Magna Steyr our range in Europe would be somewhere between 6% to 6.5%. What's driving that growth is (technical difficulties) focused on improving margins and certainly contributions fro Getrag and the programs that we're talking coming into production.

Todd Coupland - *CIBC World Markets - Analyst*

Okay. Sorry, you broke up at the front end of your answer. You said that you still expect to get into the 4% to 4.5% range in 2017 with the comments that you made?

Vince Galifi - *Magna International Inc. - CFO*

That's correct.

Operator

David Tamburrino, Goldman Sachs.

David Tamburrino - *Goldman Sachs - Analyst*

Thank you for taking our questions. You mentioned earlier that you haven't seen any additional pressure from OEMs on a pricing standpoint. But I'm curious as to the discipline in the market versus your peers and if you're seeing anything in any specific components or verticals where there's more unhealthy competition and other suppliers are looking to price a little bit below in order to gain market share?

Don Walker - *Magna International Inc. - CEO*

I don't think there's anything really unusual. Whenever there's a new technology or a new growing area, and I would say electronics or ADAS is probably a good example of that, people may be more aggressive in their quotes and look at what their return on invested capital would be, just because they see as a growth area, whether that's something they want to get into or whether the market perceives it as a real positive.

Other than that, I don't think there's any major changes. Many years ago interiors was a really popular. I think everyone was aggressive with the quoting. For the most part, most of the suppliers are pretty good suppliers, pretty professional, understand their costs and don't see a lot of [quote] volume business. But I would have to go through every one of our groups and ask, but I haven't see that other than maybe electronics.

David Tamburrino - *Goldman Sachs - Analyst*

Okay, yes. I was really trying to see if you mention anything about seating, just with one player come back on market I think there's a couple of questions as to whether they are a little bit more aggressive on pricing or not. I think one of your larger competitors there had said they've seen some choppiness. I was wondering if you've seen that as well from a seating -- .



Don Walker - Magna International Inc. - CEO

No, I don't think we've seen anything particularly. We're certainly not changing our expectations in our [cording] business. And if somebody wants to get more and more aggressive and they win business, then we're not going to chase pricing, and we never have. I don't know, but I haven't heard anything too much.

David Tamburrino - Goldman Sachs - Analyst

Thank you very much.

Operator

Colin Langan, UBS.

Colin Langan - UBS - Analyst

Thanks for taking my question. You talked about border tax. One of the other issues is a potential US corporate tax change. Since you're Canadian-based you don't provide the disclosures on your US taxable income. Any color there if the US rate goes down from 35% to a 20% type range, what kind of benefit that would be to your overall rate?

Vince Galifi - Magna International Inc. - CFO

Certainly we are taxable in the United States. We pay our fair share of taxes on the income we generate in the US.

It's a really difficult question to answer. If the tax rate stays the same and the tax base remains unchanged, it's going to be a benefit to bottom line. I'd expect that if tax rates come down there's going to be a broadening of the tax base.

So you've really got to look at the specifics to see if that's going to be a benefit to Magna. Lowering rates and keeping everything [paused] is going to help us.

Colin Langan - UBS - Analyst

I guess I was trying to get at, any sense to the percent decline in your overall 25% to 26% range if the US rate just were to come down on its own? Any sensitivity there?

Vince Galifi - Magna International Inc. - CFO

No, I don't have that calculation. Again, I haven't really done the numbers because I don't believe that there's just going to be a reduction in the rate. I think there's going to be a broadening of the base and it's going to be a mix of the two and that's what I'm going to be more interested in how that impacts us.

Colin Langan - UBS - Analyst

Got it. You also mentioned that you had \$250 million of ADAS sales, but at the Investor Day you mentioned it was -- sorry, it was \$450 million, and at the Investor Day it was \$427 million. Does the \$450 million a 2016 number, because it seems like a fairly small increase, given the growth in ADAS? Any color there?

Vince Galifi - *Magna International Inc. - CFO*

The number you had was 2015. There was not as much growth in 2016 but it's picking up after that.

Colin Langan - *UBS - Analyst*

Okay. Any color, I'm sure this is all going to pass, on your exposure between gas and diesel? Is there any impact at all if you see a switch there in terms of dollar content for you?

Vince Galifi - *Magna International Inc. - CFO*

No, I don't think it's going to be much of an impact at all.

Colin Langan - *UBS - Analyst*

Lastly, corporate other was about \$5 million last quarter. It was \$29 million, which is pretty strong. How should we think about that line going forward and any reason for the sequential decline? Thanks a lot.

Vince Galifi - *Magna International Inc. - CFO*

I guess the sequential decline, -- a couple things. The biggest thing there is FX. You look at Q3, FX was positive in Q3 and it was negative in Q4. You take the A minus B and it creates a bigger variance.

I like to run corporate at is pretty well as a breakeven perspective. I like to push down our costs to our operating groups so we can take all the costs and accounting we're quoting. Expect it -- it's going to bounce around because there are ins and outs all the time, but fairly flat is where I think it to be.

We're running \$5 million in the quarter. It might be running \$7 million to \$10 million per quarter. There's a run rate you should consider appropriate.

Colin Langan - *UBS - Analyst*

Okay. Thank you very much.

Operator

Richard Hilgert, Morningstar.

Richard Hilgert - *Morningstar - Analyst*

Good morning, and thanks for taking my question. Just really a couple of minor things. Most of my questions have already been asked.

The Asia production revenue and adjusted EBIT, looking at it on a quarterly basis, it's been kind of choppy. The margins were pretty good in the first half of 2015 and they dropped in the third quarter, came back in the fourth quarter.



This year the progression has been really very nice. We hit a very nice high of 12.9% adjusted EBIT margin for the fourth quarter. Is that solely operating leverage and volume, or is there anything else going on in the region that you can shed a little light on?

Vince Galifi - *Magna International Inc. - CFO*

Richard, it's a couple of things going on. If you recall in 2015 in Q3 there was revenue that -- our revenue expectation for Q3 were higher than what we actually came in at, and we were expecting Q4 to also be negatively impacted but Q4 revenue bumped up again.

Part of that relates to China and what they're doing on taxes of new cars and whether the tax back in 2015 was going to be continuing in 2016, seems to have impacted in 2016. When you look at the quarter in particular Asia Q4 of 2016, I would say the only one unusual item, which I talked about earlier -- an earlier question, is we've reallocated some income from Europe to Asia and it related to development cost on programs and how you split those development costs between the regions that benefits from that. We had too much expense in Asia and we needed to move some of that expense into Europe.

Don Walker - *Magna International Inc. - CEO*

No, the other way around. We moved into Asia.

Vince Galifi - *Magna International Inc. - CFO*

We moved expense into Europe. We reduced Europe. We reduced Europe. We moved some expense into Europe. We moved income into Asia and we reduced income in Europe. But other than that the growth relates to mix of business. Remember, we are dealing with pretty small numbers.

\$200 million, \$300 million when you're looking at balance sheet and you're looking at accrual and you're looking over several divisions, it could be a plus 1%, could be minus 1% in a particular quarter. Some of those adjustments won't have as much of a significant impact. But the only unusual thing I would say is Europe. Europe (multiple speakers).

Richard Hilgert - *Morningstar - Analyst*

Okay. That dynamic in addition to the drop in operating leverage for termination of the many programs, those things combined together for the 2.2% adjusted EBIT margin for Europe for the fourth quarter?

Don Walker - *Magna International Inc. - CEO*

And warranty with Steyr.

Richard Hilgert - *Morningstar - Analyst*

And warranty, okay.

Vince Galifi - *Magna International Inc. - CFO*

There's a number of things in Europe, there was higher warranty costs that we talked about (inaudible) over what we had expected. I talked about this reallocation to Asia, which impacted negatively Europe. We had some higher new facility and new launch costs. That is why you look at sequentially what's happened, overall margins coming down in Europe, 2.2%.

Richard Hilgert - Morningstar - Analyst

Okay. Congrats on the innovation awards you mentioned earlier in the call.

Don Walker - Magna International Inc. - CEO

Thank you.

Operator

Andrew Crespo, SIG.

Unidentified Participant - - Analyst

Thanks. This is actually Matt. Thanks for taking the call. Two questions. One is, would it be possible to identify the value of the warranty impact in the fourth quarter?

The second question relates on the net flows in North America. I'm sure I'm doing something wrong, but if I did the math on your flows that you articulated it would look like you have \$4.8 billion of imports and \$100 million of exports for a net import position of about \$3.9 billion. Is it something about sub-cost sourcing, or am I just doing the math wrong?

Vince Galifi - Magna International Inc. - CFO

Let me talk a little bit about these warranties. Assuming you're looking at warranty on a consolidated basis, Matt?

Unidentified Participant - - Analyst

Just the comment that you identified relative to Getrag.

Vince Galifi - Magna International Inc. - CFO

We got a warrantee note that talks about this warranty expense in the quarter. If you look at our warranty expense was \$44 million as an expense item compared to \$7 million in 2015. If you look at Q4 versus Q3, the warranty expense is up \$18 million in Q4.

I'd say a little over half of growth from Q3 to Q4 relates to an increase in Getrag. Getrag does have warranty accruals in every quarter. The additional warranty expense I talked about was this -- over half of that \$18 million increase in (inaudible) for 2016. With respect to flows, I mentioned a couple things, Matt. When I look at it, anyway, you may look at it a little bit differently.

The first thing I focus on is our manufacturing operations in the United States. If there's a border adjustment tax, what happens to our manufacturing operations, because they import components and things that they build (inaudible) export things. They import the majority from Canada to Mexico, but it could be all over the world. When I look at imports and exports in our manufacturing operation, it's relatively flat from a production standpoint.

The second thing to look at is when we've got a manufacturing operation that actually makes the sale to an OEM. Where is that sale, and you look at Canada, and we have a number of obviously manufacturing operations in Canada. Our sales in Canada last year, production sales were up by \$6 billion, but half of that, those production sales, end with the OEMs in Canada and the other half go to the United States assembly plants.



I would look at those as imports that our customer has in the United States from a facility Canada, because we are selling in Canada. The customer's picking up the product, or responsible for picking up the product in our plants in Canada.

With respect to Mexico, 2016 their overall production sales were about \$4.5 billion, just slight under that. About 60% of what we produce in Mexico gets shipped to our customers in Mexico and the balance of that roughly is going into assembly plants in the United States. Again, those are from our customers' perspective, they're importing our parts from Mexico.

Then in the US where we're over about \$9 billion in production sales, thinking about 90% of that \$9 billion actually is -- ends up in assembly plants in the United States. The balance of that is roughly split between Canadian assembly plants and Mexican assembly plants. They will (inaudible) going outside of the country.

Unidentified Participant -- *Analyst*

I will follow up. I don't want to waste time here on the call. I'll follow up with you.

Vince Galifi - *Magna International Inc. - CFO*

Okay. All right. Glad to do that, Matt.

Don Walker - *Magna International Inc. - CEO*

Okay, everybody. Thanks for calling in today. 2016 was a good year and we are excited about what's going to happen in 2017. Appreciate everybody's time. 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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