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MG.TO - Q1 2018 Magna International Inc Earnings Call

EVENT DATE/TIME: MAY 10, 2018 / 6:30PM GMT



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Magna International Inc. First Quarter 2018 Results Call. (Operator Instructions)
As a reminder, this conference is being recorded, Thursday, May 10, 2018.

And now I would like to turn the conference over to Louis Tonelli, Vice President, Investor Relations. Please go ahead.

Louis Tonelli - Magna International Inc. - VP of IR

Thank you. Hello, everyone, and welcome to our first quarter 2018 conference call. We'll have formal comments today from Don Walker, Chief Executive Officer; and Vince Galifi, Financial Officer. Also joining us today are Swamy Kotagiri, Chief Technology Officer; as well as Eric Goldstein and Jim Floros from the IR team.

Yesterday, our Board of Directors met and approved our financial results for the first quarter ended March 31, 2018. We issued a press release this morning for the quarter. You'll find the press release, today's conference call webcast, the slide presentation to go along with the call and our updated quarterly financial review, all in the Investor Relations section of our website at 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 full -- for a complete description of our safe harbor disclaimer.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

As we review financial information today, please note that all figures discussed are in U.S. dollars unless otherwise noted. We've included in the appendix reconciliations of certain key financial statement lines for Q1 2018 and Q1 2017 between reported results and results excluding unusual items. Our quarterly earnings discussion today excludes the impact of the unusual items.

Lastly, in addition to our new reporting segment, many of you will recall that we have adopted this year a new revenue accounting standard related to tooling and preproduction engineering. Our comparative 2017 figures have been restated to reflect these changes.

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

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

Thanks, Louis. Hi, everyone.

We held our Annual Shareholders' Meeting this morning in Toronto. For those who did not listen, the meeting was webcast, and an archive can be accessed in our website.

The key takeaways from our AGM today were Magna is well positioned as the pace of change in the automotive industry continues to accelerate. We're a technology company with leading market position, deep systems knowledge and a unique capability to design, engineer and assemble complete vehicles. We are accelerating innovation across the company. We have a global reach and an entrepreneurial and flexible operating culture. And lastly, we expect continued sales growth outperformance, as evidenced by our outlook to 2020.

Let's review some of the highlights from the first quarter. This is our first time reporting results based on our 4 new product segments, and each delivered strong results. I'm pleased with our performance with an all-time quarterly records for sales, adjusted EBIT and diluted earnings per share. We increased our outlook for sales and profits for the year.

Equity income increased by 30% from last year's first quarter to \$87 million, reflecting strong growth in dual-clutch transmissions at GETRAG's joint venture in Asia. And we returned \$221 million to shareholders in the form of share repurchases and dividend. And since the end of the quarter, we've repurchased approximately \$250 million of our stock.

Other highlights for the quarter include continued outgrowth of vehicle production, Magna's recently announced partnership with ridesharing company Lyft, the launch of the first-ever all-electric Jaguar by our Complete Vehicles segment, a joint venture with BAIC Group in China to support their -- sorry, joint development with BAIC Group in China to support their electrification strategy, and we are awarded one of the industry's first contracts for solid-state LiDAR by BMW.

Once again, we outgrew light vehicle production in the first quarter. Excluding the impact of currency and net acquisitions, our consolidated sales increased by 14% year-over-year compared to global production, which was essentially unchanged. The year-over-year outperformance was driven by Body Exterior & Structures up 6%, Seating up 8% and 173% increase in sales at Complete Vehicles.

In March, we announced a multiyear collaboration with Lyft in which we are jointly funding and developing self-driving systems. In conjunction with the partnership, we invested \$200 million in Lyft equity. The partnership is the first ever between an automotive supplier and a ridesharing company to jointly develop self-driving technology. We believe the announcement demonstrates how Magna is uniquely positioned for new mobility relative to our peers due to our deep systems knowledge across many product lines, our leadership position in vision-based ADAS, our proven ability to auto-qualify new technologies and lastly, the fact that we're the only part supplier with complete vehicle design, engineering and assembly capabilities.

We expect a range of benefits to Magna, including the accelerated development of real-world self-driving and ADAS technology and systems, the ability to leverage knowledge, gains and intellectual property from the partnership to support all of our customers and an increased ability to attract top talent.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

In March, our Complete Vehicle team hosted Jaguar Land Rover at our contract manufacturing facility in Graz, Austria for the introduction of their latest model, the new Jaguar I-PACE. The event marked the start-up production for brand's first-ever battery electric vehicle.

Magna Steyr is the only contract manufacturer in the world building vehicles with different propulsion systems in a single plant. The Jaguar I-PACE is in the second JLR model that we built in Graz. The first, the Jaguar E-PACE, went into production in the second half of 2017.

Magna and BAIC Group, Beijing Automotive Industry, of China, recently announced we will be jointly developing a next-generation smart electric vehicle architecture for the Chinese market. Magna was selected by BAIC due to its innovative and cost-effective solutions throughout its complete vehicle manufacturing and engineering services as well as its full-scale electronic and electrical architecture and lightweight technologies.

We're very proud and excited to be working with BAIC in this project. This is a further step for Magna in vehicle electrification for the Chinese market. China is currently the leading market for electric mobility in the world with approximately 700,000 electrified vehicles sold in 2017. By 2020, the number of all-electric vehicles in China's roads is forecast to reach 5 million.

Finally, Magna, together with its partner Innoviz Technologies, announced we were awarded a contract from BMW to supply a solid-state LiDAR system for upcoming autonomous vehicle platforms. This is one of the first awards in the auto industry for solid-state LiDAR for serial production and demonstrates our ability to auto-qualify innovative technologies and create automotive-grade products.

Our LiDAR product meets the critical needs of BMW, including cost, performance and size. Magna has been developing and manufacturing ADAS products for automakers for more than 15 years, and this award from BMW builds on our leadership position.

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

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

Thanks, Don, and good afternoon, everyone.

Overall, we posted strong first quarter consolidated results, including all-time record consolidated sales of \$10.8 billion; an all-time record for consolidated adjusted EBIT of \$875 million, which is up 7% over 2017; an all-time record for net income attributable to Magna of \$663 million, up 14% from Q1 of 2017; and adjusted diluted EPS of \$1.84, also an all-time record for us, up 20%.

We generated free cash flow after capital and other asset spending of \$245 million. We returned \$221 million to shareholders through share repurchases and dividends. And lastly, we raised our sales and net income outlook for 2018. I'm going to cover each of these in my financial review.

Our consolidated sales were an all-time quarterly record of \$10.8 billion, an increase of 21% over the first quarter of 2017. We delivered sales growth in each of our operating segments, most notably in our Complete Vehicles segment, which contributed approximately 60% of the increase in sales. The higher sales largely reflect the launch of new programs and a \$693 million positive impact from the foreign currency translation offset by change in production volumes on other programs.

As expected, our adjusted EBIT margins declined compared to last year. We reported 8.1% in the first quarter of 2018 from 9.2% in the first quarter of 2017. This decline was largely driven by the increase in proportion of sales generated by our Complete Vehicles segment, which operates at margins lower than our consolidated average as well as higher launch costs at Body Exteriors & Structures. On a year-over-year basis, the growth in our Complete Vehicles segment reduced our adjusted EBIT margin by 80 basis points, while Body Exteriors & Structures had a 50 basis point impact. Taken together, these 2 segments more than account for the decline in our adjusted EBIT margin.

Adjusted EBIT increased 7% to \$875 million. Equity income increased \$20 million or 30% year-over-year to \$87 million in the first quarter of 2018, largely reflecting contribution on higher sales due to the launch of new programs at GETRAG's joint ventures in Asia and a \$6 million positive impact of foreign currency translation, partially offset by launch and related costs at GETRAG -- at our GETRAG joint venture in Europe. Excluding equity income, our EBIT margin declined to 7.3% in Q1 2018 from 8.4% in Q1 2017.

MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

Our effective tax rate declined to 21.3% from 25.8% a year ago, primarily reflecting the benefit of U.S. tax reform. Net income attributable to Magna was \$663 million compared to \$583 million in Q1 2017, mainly reflecting higher EBIT as well as a lower tax rate.

Diluted EPS grew 20% or \$0.31 to \$1.84 for the quarter compared to \$1.53 last year. In addition to higher net income, the increase reflects a 6% decline in shares outstanding.

Now let's take a look at our new segment. Body Exteriors & Structures sales were \$4.6 billion in the first quarter, an 11% increase from \$4.2 billion a year ago. The increase in sales reflects new program launches and the strengthening of currencies against the U.S. dollar, partially offset by the impact of a change in production volumes on other programs and customer price concession. Excluding the impact of currency, sales increased by 6%. Significant new program launches driving sales in the quarter included the Chevy Equinox and GMC Terrain as well as the Jeep Compass, Wrangler and Cherokee.

Body Exteriors & Structures EBIT declined \$9 million to \$340 million as margins declined by 100 basis points to 7.4% in the first quarter compared to 8.4% last year. The decline primarily represents higher launch costs and the unfavorable mix impact of foreign exchange movements as higher euro-denominated sales have a lower than segment average margin, partially offset by productivity improvements in certain facilities and higher scrap steel recoveries.

Power & Vision sales increased 8% to \$3.2 billion from \$3 billion last year. The increase reflects the strengthening of currencies against the U.S. dollar as well as new program launches offset by the impact of the change in production volumes in other programs and customer price concession. Excluding the impact of foreign currency translation, sales were essentially unchanged. New program launches positively impacting sales in the quarter included the Jeep Wrangler, Buick Enclave, Chevy Traverse, Volkswagen Tiguan and the Jeep Compass.

Power & Vision EBIT rose by \$30 million, and EBIT margin increased 11.2% compared to 11.1% in the first quarter of 2017. This increase in EBIT primarily reflects a favorable settlement associated with the acquisition of GETRAG and an \$18 million increase in equity income, offset partially by higher warranty costs of \$19 million and the favorable commercial -- or unfavorable commercial settlements last year. Excluding equity income, EBIT margin declined to 8.7% from 8.9% last year.

Seating sales rose by 10% to \$1.5 billion from \$1.3 billion in the first quarter of last year, reflecting the benefit of new launches and the strengthening of currencies against the U.S. dollar. Excluding the impact of foreign currency translation and the net impact of our divestiture, sales were up by 8%. Significant new launches in the quarter include the Ford Expedition and Lincoln Navigator, Ford Fiesta, Volkswagen Atlas and in China, the Lynk and Co 01.

Seating EBIT rose by \$14 million to \$130 million for the quarter, and the EBIT margin rose by 10 basis points to 8.8% from 8.7% last year. The improvement in EBIT reflects earnings on higher sales, a \$4 million increase in foreign currency translation and higher equity income, partially offset by higher new facility and commodity costs.

Lastly, Complete Vehicles sales rose by \$1.1 billion to \$1.7 billion from last year, representing a 215% increase. The increase largely reflects the ramp in production of the BMW 5 Series and the Jaguar E-PACE as well as \$219 million from foreign currency translation, primarily due to the strengthening of the euro. Excluding foreign currency translation, sales rose by 173% from last year as assembly volumes rose fivefold to approximately 41,000 units.

Complete Vehicles EBIT increased by \$13 million from last year, reflecting the benefit of higher volumes and foreign currency translation. EBIT margin was unchanged from last year at 1.1%.

Let me now review our cash flows and investment activities. During the first quarter of '18, we generated \$577 million of cash from operations, including an investment of \$455 million of noncash operating assets and liabilities, an increase of 26% from last year. In the quarter, investment activities amounted to \$357 million, including \$243 million in fixed assets and \$114 million increase in investments, other assets and intangibles.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

Free cash flow increased 29% to \$249 million in the first quarter. We returned \$221 million to shareholders in the quarter through the repurchase of \$103 million of our stock, representing 1.9 million shares, as well as the payment of \$118 million in dividend. Prior to the announcement of the Lyft transaction in March 14, we were preventing from repurchasing our shares. As Don mentioned, since the end of the first quarter, we have repurchased approximately \$250 million of our stock.

Turning to our outlook. Reflecting the strong start to 2018, we have made some changes to what we provided when we reported fourth quarter earnings in February. In terms of light vehicle production, we're slightly reducing our forecast for North America by about 100,000 units to 17.3 million, and we are increasing European light vehicle production by about 200,000 units to 22.6 million units for 2018.

We raised our outlook for total sales to a range of \$40.9 billion to \$43.1 billion from the \$39.3 billion to \$41.5 billion previous range, an increase at the midpoint of \$1.6 billion. Our new sales range for 2018 represents a 12% to 18% increase over 2017. We also increased the sales outlook range for each of our 4 operating segments.

Our consolidated EBIT margin range is unchanged at 7.9% to 8.2%. We increased our outlook for the net income to a range of \$2.4 billion to \$2.6 billion from the \$2.3 billion to \$2.5 billion previously. And all other elements of our 2018 outlook are unchanged.

Now lastly, we now anticipate free cash flow of greater than \$2 billion, an increase from our previous expectation of \$1.8 billion to \$2 billion.

In terms of segment margins, Seating was the only segment where we changed the margin expectation for the year, moving to 7.5% to 8% from 7.2% to 7.7% previously.

In summary, in Q1, we set all-time quarterly records for sales, EBIT, net income attributable to Magna and EPS. We returned \$221 million to shareholders in the quarter, generated \$249 million of free cash flow. We raised our outlook for sales and net income for the year, and we anticipate free cash flow greater than \$2 billion this year.

Now thanks for your attention this afternoon. We're happy to answer your questions at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from John Murphy with the Bank of America.

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

Just a first question. I mean, we're starting to hear sort of a litany of new programs that are kind of highlighting your technology like the Jaguar I-PACE, the business with NIO, the Lyft partnership and the BAIC EV smart architecture. I'm just curious, as this stuff is starting to roll in, are other folks or other customers sort of ears perking up and realizing the technical capabilities of Magna? And will that potentially lead to sort of an acceleration of your backlog and sales expectations in the coming years?

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

John, I think the customers are pretty aware of the technology we've got. We have tech shows with them. We will show what we've got. I do think the halo effect of the more we win, the more people see that we're winning LiDAR contracts and winning more EVs. They're aware of it, but it also shows that other customers also have confidence, especially, as Swamy refers to, our auto-qualifying new technologies. They see somebody else has gone through the testing and the validation. So I think that does have a halo effect. So they're aware of it. I would expect that every time we have some new ideas, they sort of build on each other.

MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

Okay. And then a second question maybe on a slightly more mundane topic. One of your seating competitors is having a lot of problems on the structures side of the business, structures and mechanisms. I mean, you guys are obviously fantastic metal formers and theoretically might be better suited for that. Are there any opportunities in the Seating business for you, particularly around structures and mechanisms, to grow share more aggressively or even potentially conquest business?

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

Yes, we're pretty aware of what's going on. And Adient's had some problems they talked about. They're a good company, but they do have a lot of metals capabilities and made some acquisitions. So I don't really know what's the root of it. We are very good at metals. To the extent that we have good capability and I'd say, better products than our competitors, we will continue to win business. And that's why, I think, we keep on seeing our growth in Seating. That's one of the reasons -- 2 other reasons as well. I don't think there's any short-term take-over opportunities. But it's human nature. If we are performing well, we've got competitive prices. We do good launches. The customers see that. That's why we tend to win more business. So I can't really comment on what their struggles are, but we are seeing business is performing well. And we will continue -- I think we're going to continue to win market share in the industry for lots of reasons.

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

Okay. And then just lastly on 2 headwinds. There were pretty heavy launch costs in the quarter. How should we think about those potentially ramping down through the course of the year? And then raws, raw materials looked like they were up about 27% in the quarter. Is there kind of risk? Or is there some opportunity to maybe pass through a greater level to customers? Just curious on those 2 headwinds, which direction you think they'll go in.

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

John, I'm just not sure where you got the headwinds as a 37% of commodities. When I...

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

I'm sorry, it's 27%.

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

Yes, 27%. I guess when I look at quarter-to-quarter -- you're looking at Q1 '17 and Q1 '18, I'm assuming.

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

Yes, the cost of goods -- I'm sorry, it's the material, so it might not be purely raws.

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

Yes. Sorry, you're looking at commodity costs. Sorry, I'm going to answer commodity. Commodity costs were essentially flat quarter-over-quarter for us. Cost of sales are going up. The biggest part of that is sales are increasing, right? So it's going to drive up our cost of sales. But commodity cost was neutral, John. In terms of launch costs, we're launching a lot of businesses here, and we talked about that in January in Detroit and how



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

that was going to be a headwind for 2018. And there's a number of launches in particular that are in Body Exteriors & Structures group. We've got some launches everywhere else, but you'll see the impact of that in that particular segment on margins. And as we progress throughout the course of the year and the launches get behind us, we should see the launch costs start to come down. Yes, the exact timing quarter-to-quarter, I'm not sure, John. It will depend on a number of factors. But certainly, by the time we get to the end of the year, we should start to see launch costs start to be reduced.

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

We are accepting commodity cost to be a slight headwind for the year by the way.

Operator

Our next question is from Rich Kwas with Wells Fargo Securities.

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

Just a follow-up on that question. Louis, so commodity cost up year-over-year. Is that primarily because of resin?

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

Yes, resin.

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

So steel is going to end up being a push, more or less?

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

Yes, steel is fairly neutral. It's more on the resin side.

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

Okay. And then gross margin -- or the SG&A piece, what was the benefit on the SG&A with the recovery from GETRAG in dollars?

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

Yes. Rich, we were settling that commercial settlement on the purchase of that operation from the vendors, and we ended up with a settlement. Positive, about \$25 million in the quarter. And when you kind of run through the math, after taxes and all that, it's under \$0.05 positive in the quarter. So when I start talking about the Power & Vision segment, I have a lot of puts and takes on kind of what's going on there from an EBIT perspective. Certainly, that settlement was a positive. The other things happening in that group there is that we did have additional warranty costs. And we also had -- every quarter, we have settlements with our customers. And when you look at last year to this year, overall, they were a net negative in the quarter. So when I kind of look at the various segments, and there's a lot of puts and takes, if you take FX out and you take the positive impact of equity, margins ex-equity income in that group and you're backing out the warranty, the GETRAG settlement and the commercial settlement, margins were essentially flat quarter-over-quarter. Even though there's lots of noise, cut through it all margins are roughly flat, growth in equity income.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

Okay. So the point is that -- the point with that is just that with the settlement, there are some offsets to that on the commercial side.

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

Yes, we've been trying hard to just close out a lot of lagging old issues, and we were able to close them out there in the quarter.

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

Yes, Rich, that's a fair way to look at it. That's the puts and takes and all. And when you add it all up, it ends up being 0.

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

Okay. And then on gross margin, this is a low point for you going back a few years. Should we expect that to get better as the year goes on?

Louis Tonelli - Magna International Inc. - VP of IR

You're looking at gross margin or operating margin?

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

Gross. Yes, gross. Wait, some of that was mixed, right, with the vehicle assembly, et cetera. But...

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

Yes, I'd say that the biggest impact on gross margin is going to be the significant increase in Magna Steyr sales. If you think about just the quarter alone, in the slide deck that is in our investor presentation today, it actually shows the impact of various business units had on margin. Just Magna Steyr alone reduced our reported margins quarter-over-quarter by 28%. You know they're making money and we're still launching -- we had a bunch of launch costs as we continue to launch the program. The increase in net sales, being a relative larger size of overall Magna sales, is dilutive to consolidated margins.

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

And the launch costs, in fact, launch [is big].

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

Yes. I think as we get out to post -- get into '19, as Magna Steyr works through the ramp-up of these programs, we'll see their margins expand, which will have a positive impact on overall Magna's reported margin.

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

Okay. But gross margin sounds like it should be down year-over-year for the full year, if we're just looking at gross margin.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

That's right.

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

And then last one for me. Just first quarter, very strong quarter earnings-wise coming off as we look at the base. So anything we should be thinking about as we model this out on a quarterly basis? Anything you would highlight that investors should be aware of?

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

I guess we talked about some of these things. We talked about launch costs in an earlier question. I think as you're thinking about quarterly color, the mix in Magna Steyr is going to have an impact on consolidated operating margin. As I to look at kind of Q3, Q4, I'm seeing see sales continue to ramp up in Magna Steyr. So that's going to be overall dilutive to reported margins, even though we're making money on the business there. But other than that -- I guess one other point. There's electrification and autonomy costs. We talked about being there being an incremental roughly \$100 million of investment in P&L for electrification and our autonomy research and development that we're doing. As you know we signed a lease arrangement. That -- we've got all the regulatory approvals, but that's going to start spending in Q2 forward. So Q1 would have been a little lighter in our Power & Vision segment on electrification and autonomy. As we get to Q2, Q3 and Q4, that spending is going to ramp up. So in total, we're still at the \$100 million, but that's going to be more back-end loaded than it is first half loaded.

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

You can see that in the margin in Q1 in Power & Vision compared to the margin that we're expecting for the full year.

Operator

Our next question is from Peter Sklar with BMO Capital Markets.

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

You've talked quite a bit in the past about the ramp that's happening at GETRAG. Could you just bring us up-to-date on how -- where we are in terms of the GETRAG ramps both in Europe and in China?

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

Yes, Peter, you know what, I don't have that data in front of me. But if you go back to -- Louis got it in front of him. But if you go back to our last call, nothing's changed. We're still on track. We continue to ramp up in Asia. We're continuing to ramp up in Europe. So, they're right on track.

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

And we're ramping down in North America.

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

We're ramping down in North America.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

Things are pretty well on track with what we expected. There's some complicated launches going on, but things are on track.

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

And Peter, sorry, if you look at the equity income in our Power & Vision segment, the growth there is substantially additional sales in GETRAG in Asia contributing to bottom line results.

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

And I forget the European business. Is that a joint venture as well -- is that equity income? Or is that consolidated?

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

Both. I mean, we have a joint venture in Europe with Ford, and we have a wholly owned operation as well.

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

Okay. And is Swamy on the line or...

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

Yes, Swamy's right here.

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

Yes. I had a question. So you've done this deal with the Lyft. It sounds like you've invested. You've closed on the \$200 million. So maybe can you talk a little bit about like what is going on now with Magna and Lyft? Like what kind of things are you working on? Like are you visiting them and they're visiting you and you're showing each other your R&D? Like how is this partnership unfolding currently?

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

So Peter, one of the key things in the partnership is to look at both existing technologies and road map in terms of hardware, whether it be sensors, compute devices and so on. So the discussion is more on the architecture aspect for a self-driving system from both parties. So there's a lot of workshops that have been done and continue to go, significant interaction between the 2 teams, I would say, working or talking and discussing this architecture concept. I would say that is the key aspect. And part of -- like you said, visits from our team to theirs and vice versa, but there is also a part of a team that will be co-located in San Francisco with the Lyft team going forward.

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

Okay. And now that you got your nose on the door there, Swamy, like how are you finding their capabilities? Like where are they strong? Where is Magna strong?



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

Seetarama Kotagiri - Magna International Inc. - Executive VP, CTO & President of Magna Electronics

Yes. I mean, I think one of the reasons why we did this is their ability in the [content], which has been the ride-hailing, ridesharing and the new mobility ecosystem and in the San Francisco. And we've been impressed by the talent and how they were going through the process. Beyond that, I think we have to be able to work together to make comments in the future.

Operator

Our next question is from David Tyerman with Cormark Securities.

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

My first question is just on the guidance. So is it correct that most of the guidance increase is basically FX here? Or am I missing something?

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

Yes. I think what you should be thinking about is when you look at the midpoint of our guidance, we're up about \$1.6 billion. \$1 billion of that is FX. The rest of it is change in mix and volumes and so on. So it's growth in production for us.

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

Okay, that's helpful. And then...

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

Some of that came through in the first quarter, and some will continue beyond the first quarter.

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

Okay, perfect. And then when I'm thinking about the margin expansion for Complete Vehicle, Q1's a fair bit below your target for the year. When do you think that this ramps up? Is Q2 again low because you're just early in the ramp curve and really back-end loaded? Or is it more in the near...

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

Yes. Peter -- I mean, David, I think you're going to look at that being more second half than first half of the year. Sales continue to ramp up in the latter half of the year.

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

Okay. And then the other question was on DAS. I think I'm learning your lingo now. The margin expansion in that area, when should we start to see that come around? It looks like launches are hitting you now. Do they keep -- and they're going to hit you through much of this year. Is it really next year or is it really 2020 when that area really starts to ramp on the margin side?



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

If you look at our DAS group this quarter, we ended up at 7.4%. Our guidance, which is unchanged for the year, is margins of 8.1% to 8.5%. And it's consistent with my earlier comments about launch costs, kind of coming off as we get through the year. So we should see margins expand as we move forward past Q1.

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

Okay. And does it just keep going up through the next couple of years? Is that the idea?

Louis Tonelli - Magna International Inc. - VP of IR

Yes, it will progress through '19 and '20, yes.

Operator

Our next question is from Michael Glen with Macquarie.

Michael W. Glen - Macquarie Research - Analyst

Just to circle back on the \$100 million as incremental in electrification and autonomy expense, can you remind us, does that recur in '19 and '20?

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

Yes, it does. So what we've said in our [client] show is we're going to step up spending in '18 versus '17 by \$100 million, and that \$100 million level continues in '19 and '20. I mean, it's not exactly \$100 million. It might be a little bit more, a little bit less. But over that 3-year time frame, it's an additional \$300 million, \$100 million in each one of the year.

Michael W. Glen - Macquarie Research - Analyst

Okay. And then it ends in 2020 then? Is that the expectation?

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

No, I would think it depends on how successful we are, but I think we're going to continue to spend money in this area. Right now, it's an intense time in both the autonomous driving features and electrification. So I guess we'll have to see how much we've got, but I anticipate we're going to spend money in R&D and we need to continue to grow the business.

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

I think the other way to think about it is that as you look at '17 and '18 where we're stepping up spending, sales are going to come down the road. So as soon as the sales start to come in and you're developing revenue, even if you're maintaining that base of expenditure, you get margin expansion.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

This is in addition to the normal R&D expenditures we were having before, right?

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

Right.

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

In terms of electrification amortization.

Michael W. Glen - *Macquarie Research - Analyst*

Okay. And then as we look through the balance of the year and we're looking in Q3 in particular, last year, Q3 production in North America was down a decent amount due to some inventory. What's getting communicated to you this year? Do you think you're going to see production in Q3 track higher for this year?

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

I think it's premature for us to get releases out into Q3. Probably to spend on -- if the market stays where it is, we'll continue and target out.

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

You know what, if you look at last year, Q3 in North America, we're just under 4 million, 3.98 million units in production. Our expectation is that Q3 will be a little stronger than that this year. I think more importantly, it's really going to be what type of programs and mix and so on will impact revenue.

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

Keep in mind, some of that is just capacity that's coming to the market, right, [not necessarily] driven by sales [capacity].

Operator

Our next question is from David Tamberrino with Goldman Sachs.

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

I just wanted to follow up on the relationship with Lyft. I think there was another announcement from one of your competitors kind of partnering with them, vehicles out in Vegas. Understanding the nature of these partnerships a little bit different, but -- and how should we interpret the 2 that have been announced kind of within a month or so of each other? And where does that put you from a development standpoint versus a commercial engagement that's already out on the road?



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

All right. David, this is Swamy. I think these 2 are different topics. We knew about it in their open platform. Lyft had already said they would have the ability to get people in, to be on the platform but with their own technology, whoever that is. Between Magna and Lyft, what they're talking about is the joint development and the vehicles under development that's going to be done between Lyft and Magna that we've put in the network. That remains unchanged and will not be affected.

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

Okay, got it. So just maybe a little bit longer, but the benefit for you is you get a development partner and then you can socialize that to the rest of your ADAS portfolio is the way I should think about it?

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

Yes, absolutely, yes.

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

And then on that topic, how are your ADAS revenues for the quarter within Power & Vision? How much did it grow year-over-year for the quarter?

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

No, I think they're looking at it from a projection for the overall year. We are in track as we are going through. I think we kind of talked about a 12% CAGR in the time frame of about '18 to 2020. Looking at the activity that we have, we are on track.

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

Okay. I didn't know if you're seeing any incremental penetration from option take rates from a customer pull-through or not.

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

I think it would be premature at this point of time yet to talk about that. There's a lot of activity going on, but can't put a pin on it yet.

Operator

(Operator Instructions) We have a question from Mark Neville with Scotiabank.

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

Just on the Seating margin, you bumped guidance a bit here this quarter. But I think as you looked out to 2020, you were expecting some degradation in the margin. So just curious if that thinking has changed or it's really just a reflection of what's happening this year.

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

Yes. Mark, I think it's a little early for us to really comment on 2020. We haven't gone through a full business cycle plan again. In respect of 2018, and I look at the first quarter and some of the program mix we have at Seating, we did a little better than what we thought. Mix was a little richer



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

for us. So that contributed to margin in the quarter, higher than what we thought, and we translated that for the balance of the year. As you move on past Q1, our Seating group is going to be stepping up its launch costs and its launch activity, and that will negatively impact margin for the balance of the year.

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

Okay. And just on the CVA margin. And I just -- I appreciate the higher launch, but I guess I was a little surprised that the margin was flat just given the growth in the sales and the volume. So maybe just some color on when you will start seeing the benefit on the margin line within CVA from the volumes and the sales.

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

There's still a lot of activity going on. There's still a lot of new programs that are launching. I think we're going to see more in the second half. If you look at where we were in the first quarter versus where we expect to be for the full year, you can see we expect some (inaudible) and that's really coming in the second half.

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

Second half, okay. And then on the CVA, we've got goalpost, I guess, for sales for '18 and '20. But just I think there's a lot of ramp and a lot of activity now, but sort of with that growth in the outer years, they'd be relatively linear or is it just another sizable step-up in '19 and sort of flattens out in '20?

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

I think we have another program that launches late this year and one early next year. That really will be the end of the launches, at least in the near term. And I think that's where you're going to see a lot of the growth and then it probably flattens out.

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

Yes, I think we continue to see growth into '19. I'm trying to think (inaudible). I'm not sure if in '20 it ends up. But we're going to start new production in our new facility sometime in '19. That's going to carry on in '20. So we have full year production in '20. Yes, that will have an impact on revenue. So we're going to find out as we get down the road and we got better visibility to what the production units are going to be.

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

Okay. And one on Power & Vision. I know it's only one quarter, but I think you said you were flat this quarter. But as you're looking out again to '18, '19, '20, I think it was expected to be one of the higher growth segments. Again, I know it's only one quarter, but just maybe when we can see a step-up on the growth.

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

We're going to see a step-up in the remainder of the year. I mean, if you think about the rate that we're expecting for the year versus where we were in the first quarter, I mean, we're going to see a step-up starting in the second quarter and it will continue through '19 and '20 [and maybe '21].



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

Okay. And I'm sorry, just one last question. I think it's just a point of clarification. In the prepared remarks, you just made a comment about the Q1 buyback. Was it that you're prevented from buying ahead of the Lyft announcement? Was that what you said?

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

That's right. That's right. So we were out of the market for a big chunk of the time. And once we announced Lyft, then we got back in the market and bought about \$100 million from that time to the end of the first quarter. And we had an automatic share plan in place, which we press released during the quarter. And post March, the end of March, we ended up buying additional approximately \$250 million worth of stock up until I guess May 7.

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

Okay. And with the automatic repurchase you have now, so would anything preclude you from buying stock? Or again, now that that's in place, you just -- you can sort of buy [it well] or you would just buy...

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

The automatic share plan, we put it in place specifically near the end of the quarter. So we haven't -- we have to think about what we do when we come to the end of June.

Operator

Our next question is from Armintas Sinkevicius with Morgan Stanley.

Armintas Sinkevicius - Morgan Stanley, Research Division - Associate

The announcement with -- around Waymo adding the I-PACE to their fleet, any read-throughs to you, whether it's from a volume perspective or the ability to get involved on the active safety autonomous side?

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

It's still a little bit too early. One thing. Certainly, it's a plug for Jaguar in their new electric vehicle. I think to the extent -- we really can't talk about it. I don't know that much about it, to tell you the truth, how they're going to do it. But if they go through it, then those vehicles are going to be coming off the line that we've got in Magna Steyr. So that would hopefully push the volumes up. And as far as who's going to do the work, the engineering work, the assembly work, it's too early to tell.

Armintas Sinkevicius - Morgan Stanley, Research Division - Associate

Okay. And then you took up your revenue guidance there, but nothing on the margin side. Just how should we be thinking about that? Any additional headwinds on the margin side through the rest of the year that's keeping margins where they are?

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

You mean our Complete Vehicle business?



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

No, no, overall. Sorry, the consolidated business, you took up the revenue guidance but not the margin guide.

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

You know what, if you look at the midpoint, the raise was about \$1.6 billion. \$1 billion of that is FX. So it's going to flow through at translated rates. It's not going to have an impact the margin. The only sort of negative impact of foreign exchange moving up is that our European piece of the business becomes a bigger part of our overall business. So that's actually dilutive to margins. That's \$600 million more -- or roughly \$600 million more of additional business. But I think when you look at the range that we've got in operating margin or EBIT margin for the year, the 7.9% to 8.2%, it's -- the movements are [coupled] within that range.

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

And some of the increase, some of the \$600 million is actually increased sales from the Complete Vehicles at lower margins, and that's putting downward pressure on the overall margins.

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

Okay. That makes sense. And then my last one, just on the metals business, a question earlier. If Adient decides to pull back on some of their seat structures, particularly where they are a Tier 2 supplier, how does that impact your Seating business? Do you expect that to the extent that you had any relationship and sort of a process there that others would fill the gap? Or ultimately, how are you thinking about Adient sort of scaling down the business and the impact to you?

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

I'm not sure I understand. So they will certainly support the business they've got in there, supplying us in certain products, but they'll continue to supply that. To the extent they're having problems in the -- or they raise their prices on future quotes or they're not as motivated to go after that business, then that's an opportunity for us because we're a competitor to them in the seat mechanism business. And we've got some very good technology. We did a joint venture with a company in China, and we're really happy with some of the technology we're seeing over there. And we want to apply that not only in China but in other areas. So a lot of these structures are now sourced separately from the seat, so it's an advantage for our seat structure business.

Operator

And we have a question from the line of Richard Hilgert with Morningstar.

Richard J. Hilgert - *Morningstar Inc., Research Division - Senior Equity Analyst and Securities Analyst*

On the Complete Vehicle business, just taking a look at the depreciation and amortization there. Usually, in assembly operations, you've got a pretty large part of the D&A that is unit volume sensitive. But we've got revenues and adjusted EBIT doubling from a year ago but then the D&A only going up only by 30%. As the year goes on and the launches come online and more volume starts to hit, will we start to see that volume-sensitive side of D&A catching up with the D&A with the increases we see in adjusted EBIT and revenue?



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

Don't know off the top of my head, but our business model is slightly different than the OEM business model. And if we're taking programs, then we'll have volume-sensitive pricing if the volumes dropped, et cetera, et cetera. But I think as they get the volumes up, the D&A would be roughly the same, I would think, and we'll have more pull-through. I don't have the analysis in front of me.

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

Yes, Richard. I have the data in front of me. I would just be guessing that D&A is going to be our D&A number with regards to volume. You're right, if there's any volume-sensitive pricing, the revenue comes at the top line instead of impacting the D&A in our books.

Operator

And we have a question from -- a follow-up from David Tamberrino with Goldman Sachs.

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

I neglected to ask this earlier. On the LiDAR award with the Innoviz, I think this is the first solid state that's been out there, as you outlined. What's the content per vehicle opportunity and the price point for that product?

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

Yes, I don't think we can mention what the -- Swamy, you want to comment? I don't think we can mention what we're selling it for because it's probably confidential. I don't think the customer would want us to. Anything to add to that, Swamy?

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

Yes, agree.

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

Yes. Needless to say, this is a new technology and it's more competitive. So we think as we get this auto-qualified and people started putting vehicles that they're going to be -- we believe it's a competitive, technically superior solution, so we would expect it to continue to win business. But I don't really want to disclose what the value is.

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

Yes, just a somewhat follow-up. What we've heard from different LiDAR manufacturers is kind of the price point OEMs are looking for is in the \$100 to \$200 range, maybe even below \$100 at that scale. And some of the testing LiDAR that's out there in the market is maybe in the couple of \$1,000 range. So are we off base in how we're bucketing those?

Seetarama Kotagiri - *Magna International Inc. - Executive VP, CTO & President of Magna Electronics*

I think it depends a lot on scale and how many units it's going to, right? So it depends on the platform once you look at it. The \$100, \$200 that you're talking about is a public figure that everybody is trying to hit. I would say that it's something forward looking. I don't think we can go beyond that in terms of information right now.



MAY 10, 2018 / 6:30PM, MG.TO - Q1 2018 Magna International Inc Earnings Call

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

As the volume goes up, these will come down drastically. That's a pretty aggressive target, but we've got what we believe is going to be as competitive as anybody else is doing and as good a technology. And we won the first one. And I think getting the first contract on a program really makes it easier for other people to say, okay, we've gone through all the testing, auto-qualifying this thing so that people believe in it. So I think it's a lot easier to get new future contracts. And I hope that ramps the volume.

Operator

And there are no further questions at this time.

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

We would like to thank everybody for listening in. For those of you who did at our Annual Meeting and also for listening on the call today, we're off to a good start in 2018 and lots of positive things went on. I hope over time as we spend more time with the investment community with the new segmented reporting, explaining what's going on, that we will get -- our multiple will be more reflective of an innovation company rather than just an excellent manufacturing company. So hopefully, we can continue to show some of the technologies we're bringing to market, and we'll be successful. So I appreciate everybody's attention. Thank you.

Operator

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

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