THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

MG.TO - Q3 2018 Magna International Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 08, 2018 / 1:00PM GMT





THOMSON REUTERS

## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

**Itay Michaeli** *Citigroup Inc, Research Division - Director and VP*

**Michael W. Glen** *Macquarie Research - Analyst*

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

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

**Rod Lache**

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by and welcome to the Magna International Third Quarter 2018 Results Conference Call. (Operator Instructions) As a reminder today's conference is being recorded, Thursday, November 8, 2018.

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

---

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

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

Yesterday our Board of Directors met and approved our financial results for the third quarter ended September 30. 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 applicable securities legislation. Such statements involve certain risks, assumptions and uncertainties, which may cause the company's actual or future results and performance to be materially different from those expressed or implied in these statements. Please refer to today's press release for a complete description of our Safe Harbor disclaimer.

As we review financial information today, please note that all figures discussed are in U.S. dollars unless otherwise noted. We have included in the appendix reconciliations of certain key financial statement lines for Q3 '18 and Q3 '17 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 figures for '17 have been restated to reflect these changes.

I now will pass the call over to Don.

---

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

Thanks Louis. Hello everyone. Let me review the third quarter. We set third quarter records for sales and adjusted diluted earnings per share and returned a $629 million to shareholders in the form of share repurchases and dividends. All of our operating segments reported sales growth compared to the third quarter 2017. Although, each were slightly below -- slightly lower than we had anticipated, mainly due to a lower than expected light vehicle production.

Adjusted EBIT was below the comparable quarter in 2017 and was less than we expected. After taking into account the impact of lower than expected volumes, our Power & Vision, seating systems and complete vehicle segments performed substantially in line with our expectations. However, our Body Exteriors & Structures segment reported results below our expectations, mainly as a result of higher than anticipated launch costs and underperformance at certain facilities, largely offset by a favorable customer pricing resolution.

We have reduced our outlook for 2018 primarily reflecting our third quarter results, as well as fourth quarter expectations per lower light vehicle production, lower equity income in our European transmission joint venture, entire costs in our Body Exteriors & Structures segment. Vince will provide more details in a few minutes.

Other highlights for the quarter include, continued sales outgrowth of vehicle production, Magna's recently announced sale of our FP&C business, a J.D. Power Seat award and the upcoming launch of the all new Z4.

Once again, we outgrew light vehicle production in the third quarter. Excluding the impact of currency and acquisition netted divestitures, our consolidated sales increased by 11% year-over-year compared to global production, which declined 2%. The year-over-year outperformance was driven by each of our segments with Body Exteriors & Structures and Power & Vision both up 6%, Seating up 5% and an increase of 50% in Complete Vehicles.

In September, our powertrain unit signed an agreement to sell its global Fluid Pressure & Controls business to Hanon Systems, a south Korea-based global supplier of thermal and energy management systems. The sale price of approximately $1.23 billion is before the assumption of net debt, pension liabilities and other adjustments. We anticipate proceeds of about $1 billion on the transaction, which is expected to close in the first quarter of 2019.

With sales of $1.4 billion in 2017 FP&C specializes in mechanical and electrical pumps, electronic cooling fans and other components. Approximately 4,200 employees across 10 facilities around the world will transition to Hanon Systems. The sale of this unit should be accretive to Magna's return on invested capital as well as EBIT margins for Power & Vision.

This divestiture sharpens the focus of our powertrain business on bringing power to the wheels as a full-system supplier of transmissions and other driveline related products. Proceeds from the transaction will add to our already strong balance sheet and consistent with our financial strategy will be reinvested in your business and/or returned to shareholders.

In October, our Seating System won a J.D. Power Award for Seat Quality and Satisfaction for the second year in a row for the Ford Edge. Our seats are ranked highest in the midsize/large SUV segment. The Edge seats are manufactured at our Mississauga Seating Systems plant in Ontario which employs approximately 400 people and builds seats for the Ford Flex, Lincoln MKX and Lincoln MKT. Seating continues to be a significant growth area for Magna in all regions of the world due to our strong program management and engineering capabilities, as well as our reputation for high quality lunches.

We recently announced that our complete vehicle operations will be the sole source of production for the all new Z4 for BMW. This will be the fifth vehicle model assembled at our contract manufacturing facility in Graz, Austria. Production is scheduled to start in the fourth quarter and will ramp up in 2019. We will also be launching a sixth, as of now unnamed vehicle model in the first half of 2019. This launch further strengthens our position as a world leading brand independent vehicle contract manufacturer.

Our expertise in complete vehicle engineering and production makes us unique as an ideal partner for the industry. With the launch of Z4, the BMW Group continues to be a strategic partner for our assembly operations. Magna Steyr's cooperation with BMW started in 2001 and by 2003 the first BMW X3 assembled in our Graz facility rolled off the production line. Since 2017, we have been producing both the ICE and hybrid versions of the BMW 5-Series. Our complete vehicle operation has more than 100 years of experience and assembled more than 3 million vehicles to-date. In addition, we offer a broad range of engineering and technical services. As our recent joint venture announcement with BJEB demonstrates, we are well positioned to form new partnerships around the world with traditional automakers as well as startups in the new mobility landscape.

With that I will pass the call over to Vince.

---

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

Thanks Don, and good morning everyone. While there were number of puts and takes in the quarter, overall, we posted higher year-over-year third quarter adjusted diluted earnings per share. Here are some of the details.

Record Q3 2018 consolidated sales of $9.6 billion, an increase of approximately 9%; consolidated adjusted EBIT of $699 million down 1% from 2017; record Q3 2018 net income attributable to Magna of $535 million, that's up approximately 4% from the third quarter of 2017, and adjusted diluted EPS of $1.56, a Q3 record for us, up 12%. We generated free cash flow of $637 million. We returned $629 million to shareholders through share repurchases and dividends and lastly we have reduced the top end of our outlook ranges for consolidated sales of adjusted net income attributable to Magna and revised our outlook for EBIT margin for 2018, largely reflecting the third quarter results as well as lower expected production and assembly volumes, lower equity income in our transmission joint venture in Europe, higher cost at Body Exteriors & Structures. I am going to cover each of these in my financial review.

Our consolidated sales were Q3 record of $9.6 billion, an increase on 9% over the third quarter of 2017. We delivered organic sales growth above the market in each of our operating segments. The higher sales largely reflect the launch of new programs offset by a change in production volumes and other programs and foreign exchange, which was negative $180 million year-over-year, reflecting the stronger U.S. dollar.

As expected, our adjusted EBIT margins declined compared to last year. We reported 7.3% in the third quarter of 2018, down from 8% in Q3 of 2017. 30 basis points of this decline was driven by the increase in the proportion of sales generated by our Complete Vehicles segment, which had below corporate average margins. Another 30 basis points reflects lower margins at our Seating System segment, mainly associated with pre-operating costs incurred at new facilities and favorable customer pricing resolutions in the third quarter of 2017. And an additional 20 basis points relates to lower margins in our Power & Vision segment, largely reflecting increased spending for electrification and autonomy.

Adjusted EBIT declined by 1% to $699 million. Equity income increased $17 million or 38% year-over-year to $62 million in the third quarter of 2018. This improvement was primarily driven by our Power & Vision segment which benefited from higher sales related to new program launches, including at Getrag and lower warranty costs, partly offset by higher pre-operating costs in our joint venture with HASCO. Excluding equity income, our EBIT margin declined to 6.6% in Q3 2018 from 7.4% in the third quarter of 2017.

Our effective tax rate declined to 20% from 23.6% a year ago, reflecting a change in our reserves for uncertain tax positions and the benefit of U.S. tax reform, partially offset by higher accrued tax on undistributed earnings. Net income attributable to Magna rose to $535 million from $514 million in Q3, 2017, substantially due to the lower tax rate. Diluted EPS grew 12% or $0.17 to $1.56 for the quarter, compared to $1.39 last year. In addition to higher net income, the increase reflects a 7% decline in our shares outstanding.

I'm now going to look at our segments. Body Exteriors & Structures sales were $4.2 billion in the third quarter, a 4% increase from $4 billion a year ago. The increase in sales reflects new program launches subsequent to last year's third quarter, partly offset by the impact of change in production volumes and other programs, a $79 million negative impact from foreign currency translation caused by the strengthening of the U.S. dollar and net customer price concessions. The segment's organic growth or sales adjusted for the impact of foreign currency translation and acquisitions and net of divestitures was 6%.

Body Exteriors & Structures EBIT rose by $16 million to $322 million as margins improved by 10 basis points to 7.7% in the third quarter compared to 7.6% last year. This improvement reflects favorable customer pricing resolutions and productivity and efficiency improvements at certain facilities, partly offset by higher launch cost and inefficiencies at a plant we are closing as well as some restructuring costs at another facility.

Power & Vision segment sales increased 4% to $2.9 billion from $2.8 billion last year, partly reflecting a 19% increase in sales and Getrag's wholly owned operations due to strong demand for dual-clutch transmissions. This was despite the continued wind down of its North American business.

The overall increase in sales for Power & Vision reflects the benefit of new program launches subsequent to last year's third quarter, partly offset by the impact of a change in production volumes and other programs. A $40 million negative impact caused by foreign currency translation, reflecting the strengthening of the U.S. dollar, a $9 million impact from the divestiture of facilities and net customer price concessions. Organic sales growth was 6% year-over-year.

Power & Vision EBIT declined by $9 million and EBIT margin decreased to 8.8% compared to 9.4% in the third quarter of 2017. This decline primarily reflects our spending associated with electrification and autonomy, higher foreign exchange losses and higher warranty costs, partly offset by an increase in equity income and lower launch costs. If you back out our incremental spending on electrification and autonomy in this year's third quarter, Power & Vision's EBIT margin increased compared to third quarter of last year. Excluding equity income, EBIT margins declined to 6.8% from 7.9% last year.

Seating sales were $1.2 billion, up $2 million from the third quarter of last year. This increase reflects the benefit of new program launches subsequent to the last year's third quarter, offset almost entirely by the combination of a $48 million negative swing in foreign currency translation due to the stronger U.S. dollar, the impact of a change in production volumes and other programs, a $13 million sales impact from the divestiture of a facility and net customer price concessions. On an organic basis sales were up 5%.

Seating EBIT fell by $26 million to $69 million for the quarter as EBIT margins declined by 210 basis points to 5.7% from 7.8% last year. This decline reflects higher new facility costs, favorable customer pricing resolutions in the third quarter of last year and higher foreign exchange losses due to the weakening of the Argentine peso against the U.S. dollar.

Lastly, Complete Vehicles sales rose by $453 million from last year to $1.4 billion, representing a 48% increase. The increase is primarily due to the launch of the Jaguar E-Pace program, which started in last year's third quarter and the launch of Jaguar I-Pace program, which started during the first quarter of this year.

Excluding foreign currency translations, sales rose by 50% from last year and assembly volumes rose 59% to approximately 33,500 units. Complete Vehicles EBIT increased by $7 million from last year, reflecting the benefit of earnings and higher sales and lower launch cost primarily relating to the Jaguar E-Pace, partially offset by higher depreciation and amortization, launch and other costs relating to the new G-Class. Adjusted EBIT margin for Complete Vehicles declined to 1.7% from 1.8% a year ago.

I'm going to review our cash flows and investment activities. During the third quarter of this year, we generated approximately $1.1 billion in cash from operation, including $177 million from non-cash operating assets and liabilities, an increase of 22% from last year, but slightly below our expectations due to slower collection of tooling and engineering receivables. Investment activities amounted to $495 million including $381 million in fixed assets and a $114 million increase in investments, other assets and intangibles.

Free cash flow increased 53% to $637 million in the third quarter. We returned $629 million to shareholders in the quarter through the repurchase of 520 million of our stock, representing over 9 million shares as well as a payment of $109 million in dividends. Since the end of the third quarter, we have repurchased approximately $160 million of our stock.

We announced today that our board approved, subject to approval by the Toronto and New York Stock Exchanges, a new normal course issuer bid to purchase up to 33.2 million of our common shares by presenting approximately 10% of our public float of common shares. This new bid would expire in November of 2019. Let me remind you that under our current NCIB expiring this month, we were authorized to purchase up to 35.8 million shares and we bought back 28.8 million.

Turning to our outlook. Reflecting our third quarter results and lower anticipated volumes in the fourth quarter, we've made some changes from our outlook in August. In terms of light vehicle production, we reduced our 2018 forecast for North America by about 200,000 units to 17 million, and Europe by 100,000 units to 22.5 million for 2018. We've maintained the bottom and brought down the top end of our outlook for total sales. Our new sales range $40.3 billion to $41.4 billion represent an increase of 10% to 13% over 2017. We have also adjusted the sales outlook range for each of our 4 operating segments.

We've also revised our outlook for equity income, mostly reflecting lower expectations from Getrag's joint venture in Europe due to lower volumes and excess manufacturing cost at a particular facility. Our new range is $255 million to $280 million, down from our prior outlook of $270 million to $305 million. As a result, our consolidated EBIT margin outlook has been arrived to approximately 7.7%.

We now project full year interest expense at approximately $95 million which is up slightly from the $90 million we expected previously. Our full year income tax rate is now expected to be approximately 22% at the low end of our prior outlook of 22% to 23%. The combination of these changes has brought down the top end of our outlook for adjusted net income attributable to Magna to the range of $2.3 billion to $2.4 billion compared to $2.3 billion to $2.5 billion previously.

Our full year capital spending is now expected to be approximately $1.7 billion, down from $1.9 billion previously. Note that we have removed $200 million of our outlook related to the 2 facilities in the Southern U.S. that we had planned to purchase from Granite. We have been able to negotiate better terms with the new landlord with respect to these facilities. We now anticipate free cash flow in the $1.8 billion to $1.9 billion range, a slight decline from our prior expectation of approximately $2 billion.

In terms of segment margins, we have made adjustments to each of our operating segments. BES was lowered and narrowed to 7.8% to 8% from 8.1% to 8.5% previously. Power & Vision was lowered and narrowed to 9.3% to 9.6% from 9.5% to 10% previously. Seating was narrowed to 7.5% to 7.8% from 7.5% to 8% previously and our Complete Vehicles segment was narrowed to 1% to 1.3% from 1% to 1.5% previously.

In summary, there were a number of puts and takes in the quarter. With the exception of our Body Exteriors & Structure segment, our operations performed substantially in line with our expectations after taking into account weaker than expected volumes. We expect to continue to outgrow the market, generate strong free cash flow, and reinvest in our business while returning excess liquidity to shareholders.

Thanks for the attention this morning. We will be pleased to answer your questions at this time.

---

## QUESTIONS AND ANSWERS

**Operator**

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

---

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

Wanted to ask about the inefficiencies in the segment and whether an Exteriors and whether that was -- how long that was going to last? How should we think about impact into 2019? Typically in the past, these impacts have lasted a few quarters. And then second, on Getrag with the lowering of the equity income, how does this affect the 2020 outlook? Do you view this as more permanent impact or is this transitory?

---

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

Let me start Rich, and I'm sure Don's going to have some comments. I'll start with our BES group, and we're referring -- I guess, we're referring some of the underperformance. I think the biggest chunk of underperformance versus expectation relates to a facility that are slated to be closed down and as we're working through that shutdown we just had a number of inefficiencies, so that will go away as the facility winds down. With respect to some of the other underperformance, we really can't pin it to any one cause. It's a little here and it's a little there. It's seasonal as this relates to just a little drop of volumes and we're not expecting this to continue to be an impact on earnings, so I think we'll be above this we get into Q4. With respect to Getrag, we -- last quarter we did lower equity income outlook for Getrag and we were pretty clear in kind of why we were doing that. As we look at the Q4 we haven't changed our expectations for what we see in China. It all relates to the joint venture facilities that we have in Europe and they're ramping up on launch inefficiencies, they'd had some additional supplier cost as a result of lower volumes and again a bunch of action plans to improve our operations and so they look out to 2020. I really can't comment we haven't looked at the business plan for 2020, but these seem to be sort of your typical type issues as you're launching programs which should go away over time.

---

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

So transitory on that front. Then in terms of China, with regards to the underperformance in the market over there and some of the mix changes, anything that we should be thinking about with regards to impact longer term relative to what we outlined in August?

---

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

Well, I wouldn't go update the -- what our expected volumes in the New Year. We're going through business plan reviews. Right now there's lot of moving parts as far as volumes there. And overall, it looks like the DCT take rates are still positive and we're having a number of discussions with the number of customers, so -- and we'll wait till end of January just to finalize everything and we'll give an update then.

---

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

And then real last one for me on free cash flow longer term. You dropped the current year a little bit just as we think about the broader term, anything structurally changing with regards to free cash flow generation? I noticed you talked about some working capital headwind that seems to be probably transitory, but anything there Vince that you'd share with us as we think about the $2 billion target?

---

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

Sure, Rich. So if you recall last quarter we talked a bit free cash flow excluding the $200 million for those couple of facilities. This would be about $2 billion -- approximately $2 billion. We brought that number down of kind of $1.8 billion to $1.9 billion. $100 million of that change is strictly due to working capital, that's timing. That will come back, so we'll get that back in 2019. And as I look at Q4 and we brought down volumes and margins at the lower end of our previous guidance, depending on where we end up, that might have plus or minus another impact in the quarter. But as you kind of look out to -- maybe your question was -- we've been referencing over $6 billion of free cash flow '18, '19 and '20, that's something I see at this point in time that we'll say that we're not going to get there, so confident even with little bit of softening in '18 and part of that is timing that were also on track for our 2020 outlook.

---

**Operator**

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

---

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

This is Aileen Smith on for John. First question, can you give a little color on what you're seeing from a commodity cost perspective and how this differs across your segments, especially in terms of contracts and who's on the hook for various changes? As we understand it, much of your metals cost is ultimately passed through to the customer. Whereas some other commodities like resins you guys are on the hook for. Did that impact your Seating margin or other margins in any material way in the third quarter?

---

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

Yes, [Amy] I think if you look quarter-over-quarter, so Q3 '17 to Q3 '18 and look at the impact of commodities is insignificant. And you've got a couple of moving pieces. Resin was a headwind, which would have impacted our Seating group and our BES group. Going the other way was actually, the net impact of steel and scrap revenue was an overall positive. But when you kind of put it all together the numbers are pretty small, even when you look at each one of the segments, the commodity impact in Q3 was pretty negligible. And if I look at Q4 -- Q4 to Q3, we're seeing a little bit headwind quarter-over-quarter and that's coming strictly from resin pricing. But, again, it's not -- Amy, it's not -- it's again not significant that's going to the moving margins in any way.

---

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

And then just to clarify your comment on the capital spending outlook. We should be thinking about the $1.7 billion and $1.9 billion as essentially similar on a core basis with the difference just being that acquisition of facilities that you mentioned you got better terms on. Or have you structurally reduced your CapEx spending plan in anyway?

---

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

No, Amy, the -- you're -- the $200 million reduction in those 2 facilities that we talked about last quarter we were going to exercise our right to buy them, this new land or we were able to negotiate lease terms that made more sense to us. So that's the only change in the CapEx spending. But recall, as you we talked about longer term kind of outlook on capital back in January, we're still expecting capital spending over the next couple of years as a percentage of sales to come off. And capital spending it -- I think it's peaked at the $1.7 billion. We should see some slowdown as we look into '19 and '20. Having said all that, it is good opportunities for programs that grow the business. And at the right returns, we'll allocate capital. We don't have a shortage of capital to invest in the business, but we'll only do that if it's good for our business and increase value.

---

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

Yes, Don here. I agree there with Vince just said. We have been focusing quite heavily for over the past year -- more than past year on getting our free cash flow up and that includes getting the capital spending down. So we got -- we've taking -- we're looking with a lot of scrutiny on our capital, offset obviously what Vince has said, if we get good opportunities for some new business areas we're going to pursue them. But we're taking a pretty close look at capital.

---

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

And one last question on for Don and Swamy. I appreciate the Fluid Pressure & Controls business no longer fit with your strategic vision on the drivetrain and driveline side. We getting a pretty hefty cash inflow as a result of that divestures? So as you think about your product capabilities where within your broader portfolio might you look to augment through investment or acquisitions?

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

Yes, Swamy do you want to answer that or you want me to answer it?

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

Yes, you can start Don or I can. From the perspective of the driveline as well as the transmission, I think we have a pretty good product roadmap of addressing what we have as products today, as well as the hybridization coming about 50%, 60% of the market, ultimately leading to the fully electric vehicle. We'll kind of look at the value stream inside and focus on the software power electronic competence side of things. We have a solid base as we stand today, but we'll look enhancing that and look at the value proposition within the product line.

**Operator**

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

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

My first question is on the WLTP. Can you talk a little bit about what you're seeing in Europe? How that -- in fact -- like, how that affected your customers, what the flow through was to the pull on Magna? And a little bit on what your sense on how that impacted the demand side as well, because it appeared there were some pretty good pull forward of sales in August.

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

Yes, Peter, let me try -- let me start and Louis may have some additional comments. As I look at our production forecast in Europe, we've been bringing down our outlook for couple of quarters between sort of what we did in the last couple of quarter. We've brought down our expectations for production in Europe by about 200,000. We're bringing the units down another 100,000 this quarter. I think we've caught a lot of that in our internal forecasting. As I look at even Q3 were volumes came in Europe and what our forecast was, it was bang on. So I think our numbers had anticipated most of it in our previous forecast. Louis do you have any...

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

We -- I think with that adjustment that we made to our forecast last quarter, we've pretty much covered off the risk of the WLTP and we had 150 in Q3 and 50 in Q4 and I think that's good. We're taking our numbers down little bit more in Q4 now, so I think we're covered off.

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

But how are you seeing it impacting you? Is it just some of your customers their volumes are down as they struggle to get -- and is it across the board or is it like weighted with certain customers?

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

Yes. I mean, a with a lot of our business as you, like 70% of our business in Europe is with the German 3 and that's where we have focused most. There wasn't all there, but that's the biggest impact for us.

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

And when do you expect that they will have worked their way through this and will be up to normal volume, so you expect that by Q1?

---

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

I think, as you get through this year we should get through the bulk of it Peter.

---

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

On the plan that you referred to Vince in the Body Exteriors & Structures segment were there are some inefficiencies at a plant that you're closing. Can you -- are you prepared to quantify what the negative impact was on the quarter?

---

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

Yes. It was around -- Peter, around $10 million.

---

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

And then finally on the aluminum and steel traffics which we understand remain in place despite the new trade agreement among the 3 countries. I'm just wondering if you have any particular insights from your contacts within government and industry on whether you anticipate that those traffics are going to go away.

---

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

My best guess is it would be probably similar to anybody else's. We're certainly keeping touch with the various parties. Our -- my expectation would be that by the end of the year, hopefully the tariffs within -- between Canada and the U.S. would go away, and also within the U.S. and Mexico. I'm not sure whether the results for -- the selection changes things down there in regards to the plans on tariffs. I think it's -- my view is the tariffs are hurting our -- the U.S. plants more than they are hurting other areas because of their some duty drawback and remission programs in place. So there's huge pressure. Certainly Canada wants them go away, Mexico wants them go away. I think generally speaking, people in the U.S. would want them to go away as well and because they see the negative impact they're having. So I can't project but if somebody wanted me to guess, I would hope that by the end of the year they would be removed. What happen as far as tariffs from the Europe, they're not as substantial, certainly in our case anyway and there's program we can apply to. I would hope that there would also be something there, but I don't know. In China, I would expect that that may go on a longer. But I think includes the dynamics of interim elections we'll just have to wait and see. Well, certainly everybody is applying the pressure and talking to right people. Just have to see what happens.

---

**Operator**

Our next question comes from the line of Rod Lache of Wolfe Research.

---

**Rod Lache**

Just following up on that. Can you just remind me the U.S. portion of the tariffs that may or may not go away? What's the full year quantification of those? I know it's largely back half?

---

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

Yes. Good morning Rod. If you look through the quarter what we've been able to identify to the cost of tariffs is about $8 million incrementally and say almost all of that was in our BES Group. How much of that was -- can't figure what -- how much of that was China -- do you have...?

---

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

Very little.

---

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

Very little at this point in time. I think the -- if you look at to kind of Q4, I think the China impact will be little bit more. But as we look at it, it all depends on what happens to the rate of tariffs. It's currently at 10% for things in from China that was just 25%, and the U.S. tariffs don't go away and we're looking kind of fast forward to '19 that impact to be about $15 million a quarter. But, again, that's what happens if these go to 25%, if U.S. tariffs go away -- retaliatory tariffs go away, a whole bunch of open questions at this point.

---

**Rod Lache**

And for Q3 can you just -- you've may have mentioned this. But just could you help quantify the unusual items that affected the year-over-year comps vis-Ã -vis the launch class and customer settlements and Seating and Body Exteriors. And how should be thinking about the outlook for those? They diminish into Q4 is there -- should we be thinking about residual impact from some of these or from some of the inefficiencies, is it going to Q4 and early next year?

---

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

Yes, there's -- so let's start with the question about resolutions. In the case of Seating was that -- it's sort of a year-over-year comparison where they were items last year and they are not here this year. So when you just do the math A minus B, and that reduction. I think there was couple of settlements in our BES group and when you look at the kind of impact in the quarter that helped our margins in our BES group by about 0.7% -- at BES. So obviously on a consolidated basis this would be a lot less. And there is 2 components of that. The largest component related to a program that is under production, so that's going to be non-reoccurring. There was another component -- the smaller component where there were some pricing released, go back to couple of earlier quarters in the year, but the benefits going to continue going forward. So that will continue positively impact the numbers in '18 and '19 and so on. With respect to the launch of new facility costs, we did say that versus expectation cost were little higher, probably running little higher also in Q4. Rod, it's a real challenge to try to pinpoint what those costs are going to be in any quarter. Some costs get -- depending on where the program and how it launches whether it ramps up faster, whether it ramps up sooner, some of those costs get pulled forward, sometimes it get pushed back, so as those programs start to launch, those costs will go away.

---

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

I think the -- just to add little bit on the BES and the launches we've got a lot going on and nothing that's really concerning me. Most of them are just getting through the final stages.

---

**Rod Lache**

And just 2 other sort of longer term questions. One is, are you experiencing any changes in terms with your customers vis-Ã -vis payments or pricing. You alluded to the working capital issue and the number of suppliers have talked about that. And in Power & Vision, long term margin north of 11%, I think is what you put out for 2020. Your exit rate here at the end of 2018 is in the high 8s. Is that still something that in the next year, year and half you are to looking at?

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

Yes, let me just comment on working capital payment terms. We haven't seen any changes all in terms of payment terms receivables. Plus receivables are paid as scheduled. One I referred to in my formal comments, Rod, was related to tooling and engineering, our receivables and it's pretty normal. Sometimes these things just take little longer to collect. But nothing that we're seeing that's in any way different than what we've seen in the past. With respect to Power & Vision's margins longer term, we -- again, we're updating our business plan. Actually there's number of moving pieces on there. We expect to benefit from growth in equity income which is going to help growth margins. We continue to expect overall growth in margins as some of the launches that are taking place in a Power & Vision group generates the sales. The one thing, as I look at longer term is, what happens to electrification and autonomy costs and do those move up? And we're working on a number of things and lot of opportunities. So as possible as we start to look at some of these opportunities, start to book some of these opportunities that there may be some additional costs which could offset some of that margin growth. But all in all, we're pretty confident in terms of the expansion in margin longer term in this group.

**Operator**

Our next question comes from the line of Brian Johnson with Barclays.

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

Yes, couple of questions. A little bit more kind of management, culture and strategic, then the housekeeping. The first vis-Ã -vis the bodies and the launch costs. Launches especially for a business that has good backlog are a fact of life. How are you comfortable that you have the right processes in place at the factories that means the launches coming in '18, '19, especially in this choppy environment with less macro tailwinds to cover up launch issues are going to be smoother or is this just kind of a fact of life. Customer schedules fluctuate and we have to keep that in mind as we think about 2019 margins.

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

I am actually quite pleased with the progress we made over the last number of years in our world-class manufacturing and that includes program management. The program management to a large extent dictates how successful our launches are, just being going through -- cover half the company on our method adept of our management down to our plants. We have over 300 plants and we've got pretty -- we're in pretty good shape. I think in some of the new areas, getting the right software people, developing new products, especially as we move to electrified drivetrains and our ADAS, those are harder to predict, just because they're brand new products. But I am not going to -- we're launching almost $10 billion of new sales every year. But for the most part, I'm pretty comfortable we have very good processes and it comes down to people as well. We've got pretty good bench strength. We focused pretty heavily over the last few years on developing that. So overall I'm pretty comfortable with what we've got. We still have the odd one here and there and most the launch issues we're having right now, quite frankly, are not that surprising. And there are just some really big launches, so they can fluctuate up and down a couple of million dollars easily in the quarter. But for most part we're pretty comfortable.

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

Second question and it sort of both the managerial, but ties to your existing free cash flow guide. So if we're going to be in this period of choppy macro inflationary pressures, A, how do you change your man experience to manage that. And B, in terms of the numbers does it affect your thoughts on your current free cash flow guide in terms of your longer term targets $6 billion from '18 to 2020.

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

Not sure of an answer what you're asking to clarify, but not. I think for the most part we're -- the way we're structured and we're looking now at what -- if there's a downturn where we think would occur, what actions would we take at the corporate office. So most of our groups and plants are fairly autonomous and have good control over their costs, so they they're pretty quick to react because everybody is paid on profitability. So to the extent that the volumes are where we expect them to be, we expect them to soften a little bit and we're pretty comfortable with our cash flow generation. If we see things slowing down or launch are being pushed out, then we can also take down some of the cost for the launches as well as capital. But as I said already, we've been focused pretty heavily on tightening up our capital to get our free cash flow up and, I think, you can see we have been achieving some of that.

---

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

And just to clarify that $200 million for the facilities. That mean you leased instead of purchased appliance or how did that...

---

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

Brian, the background to all that is, we have been leasing these facilities for quite some time. And as part of our lease arrangements we have the right to buy these as the landlord chose to sell the properties. So we had this right and we had exercised this right. But another party came in and was interested in the properties. So we were able to renegotiate the lease terms with the new landlord with more favorable terms, so we decided to continue to leased the properties, but obviously parts of this method adds flexibility in P&L perspective.

---

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

And hence the change in the CapEx guide.

---

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

Correct.

---

**Operator**

Our next question comes from the line of Itay Michaeli with Citigroup.

---

**Itay Michaeli** - *Citigroup Inc, Research Division - Director and VP*

Just 2 clarifications. First on the plant at the Body Exteriors with the inefficiencies that you plan on closing, can you share when that plant will actually be closing? And then, just secondly, hoping you could just share the dollar spend on electric and autonomous in Power & Vision in this quarter?

---

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

Yes, the plant that we've announced the closure of, it's halfway through next year. So that -- and they have production and that's what some of the efficiencies are. So the second part of the question is --

---

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

So in terms of the -- if you look at the incremental costs of electrification and autonomy and our Power & Vision Group year-over-year, itâ€™s pretty long tracked. And we talked about it being about a $100 million incrementally in '18 versus '17 and we're on track to kind of do the math. On our Power & Vision segment, the impact of that incremental investment was a negative impact on their margins -- that segment margins of about 0.8%.

---

**Itay Michaeli** - *Citigroup Inc, Research Division - Director and VP*

0.8%, Perfect. That's helpful. And maybe more broadly, hoping you can kind of comment on what you've seen in the ADAS growth this year, perhaps as well on booking activity. And whether you're starting to see maybe an uptick in booking activity from the increased spend on a level 4 already synergy between the level 4 development and kind of traditional ADAS and level 2.

---

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

Swamy, do you want to take that?

---

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

Yes. I think from the internal perspective, we are kind of on track, looking at the general availability in the market versus what we're booking. As well as compared to the target as we stand today, we seem to be proceeding well even incrementally better than what we had done last year. But as the year comes to a close, I think, we'll be able to better quantify that. On the other topic of touching on level 4, I think the level 4 activity has been there all along. I think -- but with what we're doing in our core development with lift, we will start seeing synergies in some of the fundamental aspects of algorithms and so on. But it's too early to directly quantify and link it to a program. I think, I would definitely say we're positively looking at the ADAS compared to year-over-year.

---

**Operator**

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

---

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

I'm just looking at Slide 25, and also comparing it to the original guidance pack early in the year. So just when I look at the individual segments, I want to make sure I understand the changes and whether they have implications for the long-term. So body and exterior, does this reduction from originally 8.1% to 8.5% now down to 7.8% to 8%, is that entirely from a plant issues that we're seeing?

---

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

It's from some of the things we talked about in Q3, so launch and other underperformance, little bit impact of volumes. And in Q4, we had some additional costs, launched new facility, little bit more commodity and a little bit more underperformance that are we're seeing.

---

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

David, so some of that's already been taken place in Q3. And so like Q4 versus previous expectations, I think the -- we got higher launch costs than we had previously expected, which I think is the biggest impact in volumes. So as you look at longer term our launch cost to go way, again performance of -- I mean, again, it was here and there. Its little bit on a lot of places. So longer term our views in this business haven't changed.

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

And then, on Power & Vision, the same thing that you were 10%-10.5% originally and now you're down to 9.3% to 9.6%. I'm not entirely clear why it's come down so much.

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

Go ahead, Louis.

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

It's really Getrag. Again, last quarter we talked about some of the changes that we had, some of the impacts from Q2 and changes to our expectations for equity income. And then of course this quarter the biggest changes are related to our European joint venture.

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

And so sorry, from the discussion I'm not clear is this a sustainable problem or you can see just resolving itself over time.

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

Well, we talked about it in terms of Getrag in the quarter, the only impact relates to the joint venture in Europe. And the European joint venture is going to through a launch. It's ramping up. And it's actually one facility there and we're seeing some inefficiencies, hard labor, hard scrap, premium freight all these things you typically see when launch costs are higher than what we expected. We're seeing some supplier claims related to lower volume as -- because the ramp up is still little bit -- just overall a little slower. Than -- those are additional cost with similar volumes which is also hurting us. So the plan is in place. So we're expecting some improvement. I think we got to get through this business plan to kind of look at -- as the market's moving, we'll also shift from manuals to DCTs, how does it impact the joint venture, how does it impact our wholly owned operations. We've achieved some higher growth in our wholly owned operations which are on the DCT side of the business. We'll have to quantify that as we get through the business plans. I just don't have that clear visibility at this point.

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

And so lot of moving pieces, we have a full court press in this and we've also got the joint venture partners also heavily involved. So can give some more update on what's happening in the New Year. We will have more clarity then.

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

And the adjustment from the beginning of the year, if you will, we talked little bit about the impact on 2020. We provide that in our last quarter as it related to the decline in sales, lot of that being China. So that's already up from last quarter level.

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

We haven't adjusted channels in this quarter. We will change it.

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

And the wholly owned is picking up. Is there anything specifically going on there?

---

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

It's entire volumes are on DCTs in Europe.

---

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

So it's just higher than you expected, nothing to read into it beyond that.

---

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

No, We were expecting growth and are seeing a little bit better growth than what we had anticipated.

---

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

And then the last one was just the Complete Vehicles come down quite a bit this year from the original guidance.

---

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

David, we started off 1.5% to 2% at January. Last quarter we brought it down to 1%-1.5%. We're essentially narrowing the range -- the top end of the range 1% to 1.3%. If we think about the -- this historically vehicle business, the biggest impact really is the G-Class, which we talked about last quarter. And the ramp up the volumes have been less than we anticipated and we had talked last quarter about a couple of supplier issues. We were behind one of those issues as getting some components still up. There is another component that had impacted us in Q3, but I think we are essentially behind that. But kind of when you put that all in place that just results in the narrowing of the range right now in November versus where we were in August.

---

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

Okay. So it sounds like it's fairly temporary stuff related to the ramp. That's fair?

---

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

That's fair, that's fair.

---

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

Yes, related to the ramp and supplier issue, but that's -- so it's on G-Class we are seeing this good demand. Also I think -- everyone we can bill, are billed so -- and we are in much better shape now.

---

**Operator**

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

**Michael W. Glen** - *Macquarie Research - Analyst*

Just to go back on this discussion regarding -- maybe perhaps a potential rollover in production volumes. Can you describe at what level do you think that you would start to see -- like what level of production the client would we need to see for you to start to see a material decline in your margin profile?

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

Yes Michael, when you look at an overall production volumes in North America, we started the year at E17.4 million and sort of tabbed down to 17 million. Last year we were even higher. They are healthy volume levels. Sure it's come off a bit, but some of them are at really good levels. The macroeconomic environment in the United States is still very favorable. And keep in mind -- and as I was working through our sales growth by segment, you'll recall in every segment organic growth was positive and more than offsetting even slight reduction in overall volumes. So it's hard to say. I think it depends, if there is a significant downturn in volumes that could be an impact. But if those volumes stay where they are or come off a little bit and we've got this organic growth. It's a matter of managing how we employ capital and how we expand facilities and can we continue to produce more in existing facilities because maybe there's more capacity, maybe we're not running as much overtime as we're running today in certain facilities, it's hard to say, Michael. Really depends on how -- if there's a change, how quick the change is, how temporary, how long the change is and so on.

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

Yes, and how erratic it is. It is very difficult to adjust if you have big swings up and down. But if we know a quarter in advance or 2 quarters in advance and slightly declining, you can pick the actions you need.

**Michael W. Glen** - *Macquarie Research - Analyst*

And relative -- if we're looking say relative to the last downturn we went through, are you positioned differently to adjust the way you spend quicker this time around versus last time?

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

I don't think we're positioned any quicker. I mean, the last downturn was -- I mean, that was we thought a precipice. So I mean that was pretty dramatic. If anything, we don't expect that has all sorts of different things going on. If there is a big downturn then I would expect we could take advantage of some buying opportunities. But we're -- I don't think unless the world is coming to an end, some of that will happen again. We have the same leverage we did before. We just have to look at them and if there is a downturn, and I don't want to panic and lose a lot of very good people. So we'll -- we have to take the appropriate measures. Relative to the previous downturn how well better positioned is that we're geographically more diverse -- customer wise we're more diverse. So that definitely will help us. You need downturn in every market to have the same kind of impact.

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

And we are generating profits in every one of those regions. And if you go back the last downturn, most of our business -- business in Europe, where the money was being made was in North America.

**Michael W. Glen** - *Macquarie Research - Analyst*

And just one final, can you remind your content on the GM, and in particular the Silverado. And is that something that you expect to be a tailwind to your North American business through 2019.

---

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

Yes, it should be a tailwind. Our content -- I do not have it for Silverado specifically, but for the whole T1 platform and versus K2XX we are moving from above $1,800 of content to both $2,100 content, and it is not significantly different between the SUV and the pickups. So that's -- that will be a positive for us as we transitioned. And that's just going to go on this year and next year and even into 2020 by the time the SUV is launched.

---

**Operator**

Our next question comes from the line of Sinkevicius Armintas with Morgan Stanley.

---

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

Can you give us a number for the real world customer pricing resolution at BE&S this quarter?

---

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

I talked about the -- actually I gave you some margins guidance on that. The impact was positive of 0.7% to our BES segment year-over-year.

---

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

Positive to BE&S margins?

---

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

Yes.

---

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

And then with regard to China what is your -- the view of your regulatory team and as far as stimulus developments for the next year.

---

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

I am not really on top of it. I think we had a discussion in our last management meeting here. I think it's -- everybody has got an opinion on it. I suspect the China, probably does not want to have a big fight with the U.S. They are willing to move a little bit in some of these areas, they probably are. I think they also realized that things are slowing down and they had -- do have some levers they can move. But beyond sort of high level, I really can't make a comment. I mean we just have to wait and see what they do.

---

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

And then I can appreciate there is a lot of moving parts with regards to China, but if you can short of --- early on how you are thinking about China and global production for 2019. Just help me out sort of at a high level, directionally perhaps.

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

I think for -- we are looking at China for us, I think it is more important to look at the platforms we are as opposed to overall volumes. And again we're in the middle of running through our business plans. I hope that we should be in a position to give you some better powder on where we see China being in 2019 when we get through our business -- January update for you.

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

We are expecting China to be down about 6% in Q4 relative to prior year.

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

On volumes.

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

On volumes.

**Operator**

Our next question comes from the line of David Tamberrino with Goldman Sachs.

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

I just have one for you guys. What are you seeing in the Seating business globally? Or the largest competitor out there is in a little bit more of a challenged spots obviously on the seat structure side. But what I understand if there is an opportunity for you to potentially gain some share over the next couple of years.

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

Yes, I do not want to talk about our competitor. I think it's -- people know what the challenges are with them. We are just being focused on our business. We are seeing -- we have seen good opportunities and we are seeing growth there and we continue to see good opportunities and I think we are going to continue to see growth. And we are looking at -- we can grow organically and we can also try and look at if we, there are is small bolt-on acquisitions. But we like the Seating business. We are very small in Asia, so we are growing there, but its -- I think there is going to be lots of opportunities going forward. Based on our capability and partly based on what the customers are kind telling us they are interested in doing as far as growing our business.

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

And then within that is there any bifurcation between the Gett business doing a complete seat or is just that seat structure side in terms of your preferences?

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

Well whenever we look at business, we not look at margins. We look at return invested capital. And typically if you get a Gett program and you do well at it, you can get better return on invested capital. But we do have a lot of good technology and some new unique technology, especially in the SUV segment of the metals, so that's an area we're seeing some growth in. And we are looking a bit more vertical integration in a few different areas. So we are seeing group has a has a strategy when it -- other areas that we participate in. And obviously for vertical integration would be cut and so on and some other components. So it's -- overall, we do see it growing. We do see it as a good business. The margins have been squeezed in the last number of years, but that's a trend we've been seeing for the last little while. So we'll give an update on -- in January. But it's -- I think we're seeing some pretty good opportunities right now.

---

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

Got it that's helpful. And just one clarification, you mentioned about $15 million of China tariff impact for the fourth quarter. That was at the 10% rate, correct me if I'm wrong. And which segments are you seeing that in?

---

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

Actually the $15 million a quarter, what I was referring to was 2019 and that was on the assumption that the U.S. tariffs on steel and aluminum remain. And the tariffs in China move from -- there was some movement from 10% to 25%. The impact in Q3 was $8 million and substantially all that was with our BES Group. For the fourth quarter we're expecting tariffs to be a little higher -- $12 million shouldn't get to the $15 million level. And that's primarily in -- most of it's in our BES Group and its little impact in that -- seeding a little bit of impact in our Power & Vision Group.

---

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

And that's our best guess. There is a lot of moving pieces here. If they remain longer, will make it more pressure to the supply chain, we're going to have more discussions with our customers and that's [typically within appropriate pricing]. The remission programs, how successful are? So there is -- that's our best guess. It's quite complicated.

---

**Operator**

And we're showing no further questions on the audio lines at this time. I'm going to turn the conference back over to you.

---

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

Okay, I appreciate everybody calling in today, and we looking forward to get in to our business plan, internal business plans and giving our updated guidance in early January. So have a great day to everybody. Thank you.

---

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

Thank you.

---

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

Thank you.

---

**Operator**

Ladies and gentlemen, this does conclude today's conference call. We thank you kindly for your participation and ask that you kindly disconnect your lines.