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FCA.MI - Q4 2017 Fiat Chrysler Automobiles NV Earnings Call

EVENT DATE/TIME: JANUARY 25, 2018 / 1:00PM GMT



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## PRESENTATION

### Operator

Good afternoon or good morning, ladies and gentlemen, and welcome to today's Fiat Chrysler Automobiles 2017 Full Year Results Webcast and Conference Call. For your information, today's conference is being recorded.

At this time, I would like to turn the call over to Joe Veltri, Head of FCA Global Investor Relations. Mr. Veltri, please go ahead, sir.

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**Joseph Veltri** - *Fiat Chrysler Automobiles N.V. - Vice-President of IR*

Thank you, Steffie, and welcome to everybody who is joining us today. You'll find the presentation material we will go through along with the related earnings release posted under the Investor section of FCA's group website.

Our call today is going to be hosted by our Chief Executive Officer, Sergio Marchionne and Richard Palmer, our Chief Financial Officer. After their presentation, we will be holding the customary question-and-answer session.

Before we begin, I would like to point out that any forward-looking statements we might make during today's call are subject to the risks and uncertainties mentioned in the safe harbor statement, which you can find on Page 2 of today's presentation. And as always, the call will be governed by that language.

With that, I'd like to turn the call over to Sergio Marchionne.



**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Thanks, Joe. I'm going to keep my comments to a minimum this morning before I'd pass it on to Richard for a detailed look at '17.

A couple of things. One and -- as you well know, this is the fourth year in a 5-year plan that we launched back in '14. And I think -- when we went back and looked at some of the -- to some of the skepticism that was expressed back in '14 were the likelihood of us making these numbers for '14 and -- for '17 and '18. And I think, as a management team, I think we feel relatively good about the fact that we have -- now we haven't missed a year since the plan was launched, and we have maintained an upgraded guidance notwithstanding the fact that we've lost Ferrari from the midst. And so overall, we feel pretty good about what we've been able to achieve for the first 4 years of the plan. The important thing is that we now are in the final stretch of this 5-year exercise, and we can see the '18 numbers as we originally laid out not only doable, but -- and obviously, we need to do a lot of work, especially in North America to make sure that we execute well on the re-industrialization of the U.S. manufacturing footprint.

We've launched the Wrangler in Q4 of '17. We've -- we're in the midst of starting up the production of the new pickup in the -- and we are in the midst of launching the revised and upgraded Cherokee. These are key elements of our commercial activities in the United States, which still constitute the 2 of those. As you can tell from the numbers, the largest portion of the operating income performance of this house. But at -- I'm -- Joe was kind enough to give me a couple of the comments that have come back from the analysts, at least some of the first reads from the data. Before -- and I just wanted to give you one of the reasons, no matter if we're going to spend a lot of time doing this, we're not going to reconcile the P&L for you and we're not -- people are looking for the impact of the tax reform in our upgraded guidance, so we wait until the third quarter of this year as we have normally done, at which point we'll give you an upgraded view where '18 will be. The important thing is that the numbers we laid out our doable. I think we're looking forward to finally -- hopefully, walking into those meeting in Q2 and telling you that we no longer have debts. That's something that Richard has taken on as a personal sort of objective to beat everybody into a cash delivery mechanism in the second quarter of this year to make sure that we can shed this debt or history that we've had now for quite a while. So I think it's going to be a big day here when we get there. The important thing is to understand -- and I've looked at, by the way, guidance coming from our competitors in Detroit. I think there's a very strong likelihood that we will outperform Ford in terms of operating earnings in 2018. And that's something that if I told any of us in the room here, that would have been doable 5 years ago nobody would have believed us.

So we feel relatively good about what's going on. A lot of work to be done in the next 12 months. We are confirming June 1 as the date in which we do the upgrade for the plan for 2022. It will be done in Europe, probably it will be done in Balocco, which is where the original sort of plan in 2004 was launched. So it's going to be an interesting anniversary. But we're all -- and I think that the important thing is that for us now is to complete what we started back in '14, to deliver '18 properly and to set the stage for the next phase of growth for the group.

And on that basis, I'll pass it on to Richard who will take you through the intricacies of 2017.

**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

Thanks very much. So good day to everybody on the call.

Moving to Page 3 on the slide deck. We have a summary of the 2017 highlights. So as mentioned before, this was the fourth year of our 5-year plan that we issued in May of '14 and upgraded in January of '16, following the spinoff of Ferrari. The results were another record for FCA and do mean that we have met all the key targets in the first 4 years of our business plan.

Our adjusted EBIT was up to EUR 7.1 billion, and our margins were up 90 basis points, 6.4%. Our cash flows were over EUR 2 billion for the year, and we reduced our net debt down to EUR 2.4 billion. The NAFTA capacity realignment is proceeding. We started production of the new Jeep Wrangler in Q4, and we will be starting production of the Ram 1500 and the new Jeep Cherokee in Q1 of this year. We also introduced the new Alfa Romeo Giulia and Stelvio in most of the major markets for the premium customers. We've got some movement from our friends at the rating agencies on the ratings moving -- Moody's and S&P both moved our outlook to positive from stable and Fitch upgraded us. And on the basis of the 2017 results and of the product actions I mentioned earlier, our 2018 guidance confirms our business plan key targets with net revenues at around EUR 125 billion, adjusted EBIT in excess or equal to EUR 8.7 billion, adjusted net profit of around EUR 5 billion and net industrial cash of around EUR 4 billion.

Moving to Page 4. A little bit more information on the key product launches for 2018. So the new Wrangler is in the process of being ramped up in production at our Toledo North plant. It's an all-new vehicle. It has a modernized design but maintains its heritage as the icon of the Jeep brand. It will have an all-new 2-liter turbo with an eTorque mild hybrid and linked with the new 8-speed automatic transmission. So a very important vehicle obviously for the Jeep brand.

Then we move on to the Ram 1500, which is also all-new. The key vehicle for the Ram brand is this vehicle will be built at Sterling Heights with the commercial launch in this first quarter of 2018. We believe it's the most technologically advanced pickup in the market. It features all-new design, both exterior and interior. And also this will come with an eTorque mild hybrid powertrain.

We'll also be launching a new version of the Jeep Cherokee, which will be built in Belvedere following the move. Also this product, it will have an all-new advanced 4-cylinder turbo engine, and that vehicle will also be launched in the first quarter of this year.

And finally in Latin America, we've been substantially absent from the B-segment sedan area of the market. We'll be launching the new Cronos, built in Argentina, for Latin American distribution in the first quarter of '18, which will complete, to a large extent, the renewal of the Fiat passenger car lineup in Brazil with -- we have a new Mobi launched last year -- actually late '16, the Argo launched last year and the Cronos is now launching. There are a lot of product -- lots of product news, important product news for 2018.

Moving to Page 5. We see the financial summary for full year 2017. So our consolidated shipments were down about 60,000 units, driven by NAFTA, which was down 186,000 units, of which 150,000 was due to planning the U.S. fleet reductions, principally due also to discontinued models, that's 200, the Dart and the Patriot. Our LATAM shipments were up 65,000, driven by the new Jeep Compass in Pernambuco and the new Mobi as I mentioned earlier. And EMEA was also up 60,000 units. Our combined volumes were up 20,000 units due to an increase of around 80,000 units mainly due to the Chinese JV, which was up 44%.

Our revenues were flat at EUR 111 billion. Adjusted EBIT was up 16% to EUR 7.1 billion I mentioned earlier. Our adjusted net profit was -- reached EUR 3.8 billion, up 50% and our net profit doubles to EUR 3.5 billion, following the strong operating performance and also reduction in financial charges as we delevered the balance sheet. Our gross debt was down, including some FX translation effects of about -- by about EUR 6 billion for the year. Our net industrial debt, as I mentioned earlier, closed at EUR 2.4 billion, down from the EUR 4.6 billion we closed 2016 at. And our available liquidity remained very strong at EUR 20.4 billion, of which EUR 7.6 billion is the revolver and the committed credit lines.

Moving on next to Page 6. We show the details of the improvement in adjusted EBIT of EUR 1 billion in the year. All the segments contributed positively to the year-over-year improvement, although APAC did benefit from the insurance recovery from the Tianjin port issue that we've talked about in the year. The margin improvement of 90 basis points to 6.4% was driven by all segments with NAFTA reaching 7.9% margins; EMEA, 3.2% margins; and Maserati, 13.8% margins; with also LATAM starting to see some improvement in its margins with the market conditions getting better in Brazil, reaching 2.3%. The chart also shows the year-over-year improvement was substantially driven by improved sales mix on the bottom chart, which was basically the key driver in all regions and also from Maserati. We have the discontinuation of the lower margin vehicles in NAFTA. We have the strong performance from Ram and the Grand Cherokee. We had increased volume from Pernambuco in Brazil for Latin America where we make the 2 Jeeps and the Toro pickup. And also Alfa Romeo volumes started to grow as did Levante volumes for Maserati.

The pricing negative was substantially driven by the impact of the pound sterling in the EMEA markets and the U.S. dollar renminbi weakening impacting Maserati, partially offset by positive pricing in LATAM to cover cost inflation.

Moving to Page 7. This shows the improvement in net industrial debt during the year. Our industrial EBIT improved year-over-year by EUR 880 million to EUR 12.7 billion, an increase of 7%. And our margins were up to 11.7% compared to 10.8% for the prior year. Financial charges and taxes improved by EUR 700 million mainly due to a reduction in financial charges of EUR 0.5 billion as a result of the gross debt reduction I mentioned earlier, and neutralization of tax credits and deferred tax assets on the tax line reduced cash taxes by EUR 200 million. Our working capital was negative for the year, mainly due to an increase in inventories due to ramp-up of vehicles at year-end, including the Alfa Stelvio and the new Wrangler. Our CapEx for the year was consistent with the prior year number at about EUR 8.7 billion. And FX and other includes the benefit of the sale of our stake in CNHI in the first quarter and some positive FX impacts on our cash flow hedges.



Moving to the segments on Page 8. We start with NAFTA. Overall, NAFTA performed well in 2017, with a strong focus on mix improvement offsetting reduced volumes due to the planned reduction in fleet volumes I mentioned earlier and the discontinuation of Dart 200 and Patriot. Margins improved 50 basis points to 7.9%. And our overall market share was down in the U.S. due to reduced fleet volumes while retail share was substantially flat. Q4 SAAR was substantially flat year-over-year with the U.S. strong at 18.2 million vehicles and Canada also strong at 2 million vehicles. Our U.S. dealer inventory days were slightly higher year-over-year, but this was basically driven by the lower fleet sales. And also overall, our absolute inventory number was down 12,000 units in U.S. dealer inventory. Shipments were down, as I mentioned earlier, driven by the fleet decrease and the discontinuation of the products. Notwithstanding that, our net revenues were down at only 3%, offsetting some of the 7% reduction in shipments due to favorable mix of vehicles and channels. So our adjusted EBIT, as I mentioned, was up to 50 basis points. You can see in the walk underneath that notwithstanding the 186,000 reduction in volumes, we offset that by positive mix, both in terms of the products and also substantial improvement in our sales mix with the retail mix up to 80% of total U.S. sales versus 75% in the prior year.

We had some level of positive pricing in the year largely offset by incentives, and our industrial costs were negative. We had a good performance from the sourcing organization and lower DNA and warranty costs. This was slightly -- these were offset by the cost for the capacity realignment plan, which is substantially complete now. We still obviously are completing the launch of the light-duty truck in Sterling Heights and some higher product costs for content enhancements on the Compass and the Pacifica new models.

Moving to Page 9. Latin America. The Brazilian -- Brazil industry was up 9% year-over-year to 2.2 million vehicles for the year. And in the fourth quarter, was up 14% year-over-year. So an improving trend in Brazil. Argentina was up 26% for the year and in Q4 showed continued growth at around 20% versus the prior Q4. Our market share was down in Brazil from 18.4% to 17.5%, mainly due to discontinuance of Palio vehicles and the ramp-up of the Argo launched in July. In 2018, as I mentioned before, we'll be launching the Fiat Cronos in the first quarter, which is important for our passenger car share as well as the full year of the Argo will also support share in 2018. Inventories were down slightly from the end of Q3 and -- but slightly up compared to the end of last year, ready, frankly, to manage the launches I talked about and also the improving market conditions we're seeing in Brazil.

Shipments were up 14%, driven by the Mobi, the Argo and the Jeep Compass. And as a result, our revenues were up 24% at constant exchange with the extra growth compared to shipments due to the improved vehicle mix. Adjusted margins were up to 1.9% from breakeven in 2016, basically driven by the volume increase and the positive mix due to 45,000 of the 65,000 unit increase being related to the Jeep Compass launch out of Pernambuco.

Moving to Asia Pacific on Page 10. For the year, the industry was up 1% in China and Australia and 9% in India, which was heavily impacted by improvement in the SUV segments of 27% year-over-year. For Q4, China was flat, Australia was up 3% and India was up 6%. FCA combined sales were up 19%. And Jeep sales reached 240,000 units in the region, up 35% year-over-year and accounting for 87% of our sales in the region.

Our inventory levels -- sorry, our consolidated shipments and revenues are down around 9%. And this was offset overall by our improvement in our JV shipments of 44% due to the launch of the new Compass. Adjusted EBIT margins were up to 5.3%. But as I mentioned earlier, excluding the Tianjin insurance recovery, the number would've been around 2.5%. We had a positive mix effect for higher Alfa sales with the launch of Alfa and the non-repeat of the Tianjin sell-down that we completed last year, and also some positive pricing impacts due to non-repeat of discounts related to the sale of those damaged vehicles. Industrial costs were up as we invested in the launch of the Alfa Romeo vehicles and had some negative transaction impacts for the Aussie dollar and the Chinese renminbi. You can see SG&A was also up as we support the launch of the Alfa brand in the region.

Moving to Page 11. We can look at the performance of EMEA. EMEA was up 5% in terms of sales, driven by -- also the market, which was up 3% for passenger car in the EU and 6% for LCV. Our inventories were stable at 71 days, in line with the prior year number. Our shipments were up 5% to 1.365 million units, driven by the launch of Alfa and of the Jeep Compass as well as continued improvement in volumes of the Fiat Tipo family. Revenues increased 4% to EUR 22.7 billion, and our margins were up from 2.5% to 3.2%.

As you look to see -- in the walk below, important contribution both from volume and mix are the Stelvio Compass and Tipo positively impacted our profitability. Also, a negative impact on pricing -- more than half of which was driven by the GB pound devaluation impact year-over-year for



which last year we had some hedge coverages; here, we have none left. And then on the industrial side, strong performance on purchasing savings and manufacturing helps us to continue to improve our margin performance.

Moving to Page 12. We see Maserati had a good year for the brand with sales up 22%, also shipments up 22%. Our adjusted EBIT was up 65% to EUR 560 million with a 13.8% margin for the year. A large part of this improvement was driven by continued improvement in Levante volumes, which is driving strong mix and EBIT performance through the brand.

Moving to Page 13. You can see the performance of our components business. Revenues were up 5%. Adjusted EBIT was up 20% with a 15% improvement in our margins to 5.3% from 4.6%. All businesses showed some volume growth. In particular, strong performance from Marelli in lighting and in its chassis business line as well as good efficiencies on the manufacturing side from Magneti Marelli.

On Page 14. We turn our attention to 2018. The industry outlook shows overall we expect stable to positive markets with the improvements expected to continue in LATAM, slight improvements in APAC and EMEA and NAFTA forecast slightly down, but strong in terms of overall margin -- overall volumes. So NAFTA, you can see we're forecasting out 20.7 million units, down from 21.2 million in '17 with our U.S. markets strong at 17.3 million units and Canada at 2 million units.

Latin America, as I mentioned, we see improvements in Brazil in the second half of 2017. And we're expecting Brazil to get to 2.4 million units, up from 2.2 million in 2017. And so overall, LATAM volumes up to 4.4 million from 4.1 million in '17.

Asia Pacific, substantially flat. And EMEA up 0.5 million units with EU [28] up, driven by Italy and France with some decline in the U.K. and Spain.

On Page 15. Just a couple of comments about the impacts of U.S. tax reform. In 2017, we didn't have any significant impacts as we closed the books to show the effect of tax reform. Our net income was reduced by EUR 88 million due principally to the deemed repatriation tax being booked. Obviously, as you know, this tax will be paid over the next 8 years. We had an immaterial benefit as we revalued our deferred taxes since we have a small deferred tax liability in the U.S., and so a slight benefit to the income of that revaluation.

Looking forward to 2018, as I mentioned earlier, we substantially used all of our losses and credits through the end of 2017 in the U.S. The impact on 2018 guidance, as we've already mentioned, is a saving compared to the prior regime of about EUR 800 million, which takes our effective tax rate to about 25% for 2018.

Other considerations. We don't expect any other significant impacts and no impact on the deductibility of our interest expense or of the base erosion minimum tax as our cushions on both of these items are substantial.

Moving to Page 18. To reiterate -- sorry, Page 16, right? Yes. To reiterate our 2018 guidance, we're confirming our business plan targets for adjusted EBIT, adjusted net income and net industrial cash as they were upgraded in 2016 following the spinoff of Ferrari. Our top line growth will be driven by the launches of the new products, some of which I mentioned earlier. Clearly, key to our ability to reach these targets is the execution of production ramp-ups in the first half of the year for the Jeep Wrangler, the Ram 1500 and the new Jeep Cherokee in the U.S. And just to be clear, they're obviously -- the U.S. dollar against the Euro thus create some headwinds for us. We're basically assuming in this guidance a rate of 120. And there would be some negative impact against the numbers if we continue to see a weakening of the U.S. dollar. The revenue increase is substantially driven by NAFTA, as I mentioned, on the key products. All our business segments are expected to improve margins with NAFTA confirming its target from the business plan at around 9%, up from the 7.9% we saw in '17; also EMEA at around 4%, confirming; Maserati's targeting the 15% level; and components is also confirming a 6%. LATAM and APAC are below the targets that we had in the business plan but are showing year-over-year improvements.

With that, I will -- I've concluded my remarks and I will hand over to Joe to start questions. Thank you.

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**Joseph Veltri** - Fiat Chrysler Automobiles N.V. - Vice-President of IR

Thank you, Richard. With that, Steffi, I think we're ready to take some callers in the queue, please.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We will take now our first question from Rod Lache from Deutsche Bank.

### Shreyas Patil - Deutsche Bank AG, Research Division - Research Analyst

This is Shreyas Patil on for Rod. I have a question regarding NAFTA. I just -- the latest round of negotiations are currently underway. And I was curious if you have any thoughts on where things stand and how you think about FCA's exposure? We know about the scheduled relocation of the heavy-duty Ram to Warren in 2020. But I was just curious about the level of component sourcing from Mexico and maybe just some of the other products being built down there.

### Sergio Marchionne - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

There's no easy answer to your question because it is incredibly complex. We have -- let me put it this way, I think that based on what we know, you and I follow for the bid-ask positions from the U.S. administration on where the other jurisdictions are positioning their views on. Once we relocate the heavy-duty trucks out of Mexico into the U.S., I think we will be fine. And I think that our exposure to any potential tax associated with the withdrawal of the U.S. from NAFTA is manageable and certainly not enough to -- for us to change our forecast. I think that the issue is a little more complex because it -- we have had the chance now to look at this -- at the Canadian proposal that we sort of released yesterday. And I -- our view is that the least within the structure was being proposed by the Canadians, there appears to be the beginning of a solution to this problem. I think we can live -- and a lot of the data that's contained in the Canadian proposal is also more quantified. I think it's left for later negotiation. But the concept embedded in the Canadian proposal is defensible. I think this whole notion of moving away from some of the antiquated terms that we used in NAFTA back in the '90s is a good thing. I'm -- it's very difficult for us to tell you whether this thing is going to be successful or not. I think the U.S. has been trying to get a repatriation of the build of components and cars back in the United States. I don't know how successful. I mean, certainly we -- by us bringing back the heavy-duty, we've done a lot because I think we are adding up 2,500 jobs back into Michigan and having the new Mexican asset dedicated to do something else is an important part of the solution. I think that we're getting closer to something that's ultimately manageable, but I think there's a lot of negotiation that needs to go on. I'm encouraged by what I see from the participants. I think this round of negotiations that's underway in Montréal bears promise, but I -- I'm -- let's wait until it comes through the U.S. They certainly -- has been negotiating very heavily on this issue. I think we need to be careful that we don't -- they don't press too hard that we end up doing more damage than good, right? But I think we're moving in the right direction. And I think the Canadians are trying to help.

### Shreyas Patil - Deutsche Bank AG, Research Division - Research Analyst

Okay. And then just one last one. I was -- maybe for Richard. How should we be thinking about commodities in 2018? It's affecting, obviously, some of your competitors. But I'm just curious what the impact will be for FCA.

### Richard K. Palmer - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

Yes. So we have an impact to about 1.2% in terms of a negative impact on our overall APV, which is equivalent to about EUR 850 million. We are relatively confident that from -- in terms of the sourcing organization, we can continue to more than offset that number, getting to a gross savings of in excess of that and also offsetting with some of the positive impacts of the lower costs in NAFTA for the realignment of the capacity, which, clearly here, was substantially completed in 2017. So whilst we do see commodity prices up, we don't think it's an issue to offset them with other efficiencies.

**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Well, just to translate all that into a very simple statement, we are not modifying guidance from the basis of commodity price increases. I mean, it's built into our calculation as to how much is actually obtainable on the purchases in between technical and commercial savings. And on that basis, we're positive compared to 2017.

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**Operator**

We now take a question from George Galliers from Evercore ISI.

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**George Galliers-Pratt** - Evercore ISI, Research Division - MD & Fundamental Research Analyst

I just wanted to ask around the free cash flow. If I take your net cash target of EUR 4 billion and look at the delta the way you finished net debt in 2017, it would imply free cash flow of around EUR 6.4 billion. Can you just give some insight into what you're expecting in terms of working capital this year and also CapEx for 2018?

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

So George, in terms of working capital, we're -- you saw that in 2017, we had a negative impact on working capital where the volumes are flat and also we had a lot of launches at the end of the year. So we're expecting working capital to improve to a positive number around EUR 2 billion for 2018 based on the volume growth and also some optimization in terms of inventories as we get through the launch process. In terms of CapEx, the -- we closed the year 2017 at EUR 8.7 billion. And we're expecting our number to come in a little lower than that in 2018 as obviously in '17, we had those significant programs, such as the Wrangler and the light-duty Ram. So we're expecting a number between EUR 8 billion and EUR 8.5 billion.

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**George Galliers-Pratt** - Evercore ISI, Research Division - MD & Fundamental Research Analyst

Great. And then just on the tax savings, the EUR 800 million, which you flagged, is that both on -- is that a similar number both in terms of the P&L impact and the cash impact? Or was that specific to the P&L?

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

It's a similar number in terms of both P&L and cash compared to the prior regime applied to the 2018 guidance. So if we calculate the tax charge on 2018 with or without the tax reform, we get a benefit both in cash and in tax charge. Year-over-year, we do have an increase in cash taxes in the U.S. notwithstanding the benefit of tax reform because, as I mentioned, we've used up credits that we had accumulated and also some deferred tax assets in the U.S., so our cash taxes, we expect to go up from about EUR 0.5 billion in 2017 to EUR 1.2 billion, EUR 1.3 billion in 2018.

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Did that make sense? Did it make sense to you?

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**George Galliers-Pratt** - Evercore ISI, Research Division - MD & Fundamental Research Analyst

To me?



**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Yes.

**George Galliers-Pratt** - Evercore ISI, Research Division - MD & Fundamental Research Analyst

Yes. It makes sense how you describe it, yes. It's just...

**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Okay. That's all I -- no, that's how I wanted to describe it, right? I'd -- I found it intriguing. Cash taxes are up 2017 to '18. They are not on an accounting basis, '17 to '18, just to be clear.

**George Galliers-Pratt** - Evercore ISI, Research Division - MD & Fundamental Research Analyst

Right.

**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

So the P&L is going to reflect a better tax charge than the cash pool. The cash pool will be in excess to '17. And it's built into the number -- it is built into the 5 -- into the number of EUR 4 billion of cash that we're forecasting for the end of 2018. All right? Are we clear?

**George Galliers-Pratt** - Evercore ISI, Research Division - MD & Fundamental Research Analyst

Got it. Yes, that's clear.

**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Good.

**Operator**

We now move on and take our next question from Brian Johnson from Barclays.

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

I wanted to continue our kind of dialogue around pickup trucks that we've put on several recent calls and those auto show. We talked at the other show about the plan to run out Warren to push with the low end of the market, and in the past are pretty clear whether you connect where you're headed at the higher end of the market with the Ram. That's a very similar strategy, of course, to where Silverado is heading. But I want to get to sort of a push back we've got and we heard this from your -- one of your competitors yesterday calls that brand loyalty is so high in the pickup truck market, it's unrealistic for competitors to think that they're going to get share away from, what they would describe as, the nation's top-selling truck. And so how are you thinking about the brand loyalists? Are there some pent-up demand as they wait for the new Ram? How do you think about the jump-ball segment and positioning the Ram there?



**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Go ahead. I'm intrigued by Richard's answer to the question. Go ahead.

**Richard K. Palmer** - *Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings*

So as the Ram brand leader -- so I think you saw the truck that we built in Detroit.

**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Can I help you and give you an answer? I -- but -- we're not going to enter into a discussion. A couple of data points and then we can put it to bed. The first one is that when we started this process back at the beginning of the cycle, back in '09, '10, we've actually increased share by about 50% in the pickup truck market. So -- and then we picked up that share in a growing market. So technically, we've -- that growth was available to everybody. The fact that we've picked it up and positioned Ram back in '09 properly in this market is a good sign. I don't think -- I'm not interested, by the way, in starting a share war in the United States. That is not what the objective is with the new truck. It certainly is not the objective in keeping the older version of the Ram in place. It was designed to try and cover a market need, especially on the fleet side. And the commercial fleet side would be ill-suited by the technology that is now embedded in the new pickup trucks. So whoever was on the call yesterday was claiming -- from our competitor was claiming sort of the importance of brand loyalty and the inability to dislocate aficionados from the truck, God bless them. I mean, I don't want to sort of disturb their view of their brand, but I think if they're accomplishing up, more power to them. I've got a very humble ambition of trying to position what I consider to be the most technologically advanced truck in the marketplace, and then fill in the bottom end of this thing on the commercial fleet side with something which is both priced and technologically relevant for that segment and nothing else. So I -- don't drag me into a discussion about pricing and market share, what we're going to do to Ford or to GM or Silverado. We're just going to do our best. And I think we'll leave it at that. Did that answer your question, Brian?

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

Yes. So a follow-up and kind of thinking about that commercial end of the market, are you seeing anything or are your dealers talking about anything out of the tax reform? Not the -- not at your level with the cash taxes, but small business people who now enjoy passive deductions, it seems to be some improvement around the ability to write-off pickup trucks. So have you looked at that? What are the dealers saying? Do you think that will help the math in the commercial end of the market?

**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

I think that there's an incredible level of optimism that we're picking up from a dealer about it, about what effectively the customer base is and how the customer base is going to react to tax reform in terms of purchasing a new vehicle. So I think our -- overall, I expect -- Richard made reference to the 17.3 million number. And I keep on being shocked at the level of granularity that we're using in giving you a forecast out. It's incredibly accurate. I'm impressed. But 17.3 million reflects, I think, the level of optimism about the way in which the commercial sort of truck side is going to react. And I think '18 is going to be a good year. I think it's the first year post-tax reform. I think you're going to see the benefits. Eventually, the system will metabolize the tax rate, and this issue will eventually taper into normality. But right now, I think '18 is going to get a boost.

**Operator**

We now move on and take our next question from Adam Jonas from Morgan Stanley.



**Adam Michael Jonas** - *Morgan Stanley, Research Division - MD*

Just first, a kind of clarification. If I look at the delta of your year-end net debt moving to the EUR 4 billion net cash. And I believe you reiterated in Detroit that there was nothing one-off in there. That's true underlying free cash flow, including the increased tax -- cash tax as you mentioned. Can you just confirm that? Because if that's true, EUR 6.5 billion of free cash flow, you are going to be well above GM and Ford, and you're probably nipping up the Germans there. Just wanted to kind of laminate that statement.

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**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Yes. I'm confirming the statement. I don't -- I can't comment on the comparisons you've made. I mean, that's how it's going to be. (inaudible) I haven't analyzed the number, Adam. But the number that we gave you includes no one else.

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**Adam Michael Jonas** - *Morgan Stanley, Research Division - MD*

Okay. Sergio, this is your last year, last full year. What do you want to be remembered for?

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**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Being able to answer your questions, Adam.

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**Adam Michael Jonas** - *Morgan Stanley, Research Division - MD*

All right. Then let me finish with something real quick and we'll move on. You -- back in 2004, when you were first introduced to the auto industry, a lot of people were thinking, who the hell is this guy, right? I was one of them, frankly. We hadn't seen anything like you. You took EUR 2 billion, roughly, and you turned it into, I think, around EUR 72 billion. And more important than that, there are many hundreds of thousands of families across many nations that are better off because of you and your team. And you beat the skeptics every step of the way. So I just had to say, God bless you, Sergio. We're never going to see anyone like you again. I don't care what people on this call think of me for saying that. I don't care at all. I just had to say that. Thanks again.

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**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Thanks, Adam.

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**Operator**

We now take our next question from John Murphy from Bank of America, Merrill Lynch.

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

Just to -- a first question. I mean, when you spin Magneti Marelli, Sergio, what do you think could be an appropriate leverage ratio there? Meaning -- I mean, you talked about \$1 billion of EBITDA roughly when you were in Detroit for Magneti. Could 2 to 3 turns be normal? Or do you think you'd kind of shoot a little bit lower than 1 turn range?



**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

I -- the answer, to be honest, John, is I don't know. But the important thing you've got to realize is that whatever guidance we're giving you on the cash does not include any dumping of cash on this spin. I forgot to -- did I mention -- did you mention it? I did not -- this issue about Marelli is going to the board in February. So hopefully, after the board meeting we'll be able to tell you exactly what we do because we need to incorporate it in the plan of '18, '22 that we're going to show you for -- on June 1. But the December 31 cash balance that we show for FCA does not include the potential impact of any leverage that we'll move with Marelli on the spin. So it's additive to that number, whatever that number may be. But obviously, it's a zero-sum gain when you add up Marelli and FCA at the end of the day. I don't know. We'll do the prudent thing. And there's no use overlevering these things. We'll put -- is only put in the -- we'll put whatever debt is required by the market, but it's going to be a midrange leveraged position, nothing extreme.

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

Okay. And then a second question on net price. Particularly, in North America in the fourth quarter, you had a real significant positive, EUR 130 million. Ford was talking about net price down EUR 75 million. So I was just curious, what you think is going on in the market that you're able to price so strong and Ford is slipping a little bit? And also, more -- maybe more importantly than just the fourth quarter, as you think about the net price gap in some of your products, is there more opportunity to simplistically get closer to your competition on price? Or do you think you've closed that gap at this point?

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

I don't think we've closed it. I still think we're pricing off the competition. Not across all segments, obviously, I think in some part of the Jeep portfolio prices at a premium. But I think we still have pricing gains to be made. I don't know -- most of these, I think, should be recovered in '18, by the time we finish the '18. So I think we'll finish the fourth quarter on -- our -- with our competition. In terms of what the other guys are seeing, I think a lot of the pricing issues that you're seeing is mix and not necessarily -- I'm looking at Richard. I mean, do you think it's purely mix? Or do you actually think that there's stuff in price brand? I mean, there is pricing pressure on the marketplace. That's not singled out. And we have seen, in some cases, in cent to spend go up, which has negatively -- and some of those is also the residual impacts of inventory overhangs in some of our competitors. We're trying to clear the debts. And that -- that's something that we have learned early in and off in our life in -- back in 2009 that we would never -- that we will never allow that to happen. So we've been very, very careful about allowing inventory builds that could not be, in our view, digested. So we are probably in a slightly better place than most others. We continue to watch it. But I don't think we have suffered -- we have not -- I -- I mean, I'm -- we haven't suffered a net price decrease on our vehicles, I think, overall so...

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

Okay. So there's no room to close that a little bit?

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

There is. There is. It's built on the numbers, John.

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

Okay. And cost for capacity realignment in 2017 that will not repeat in 2018, do you guys have a ballpark number or hopefully sort of a specific number that we could use?

**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

The one that Richard keeps on threatening me with is about EUR 300 million, isn't it? He's now nodding, so I must have gotten it right. It's about EUR 300 million.

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

That's perfect. And then just lastly, I mean, I saw him mentioned of Alfa returning to F-1. Just curious what that means for your Alfa brand, what the cost will be. And then for you, Sergio, I mean, it's like 2 children racing each other here. How are you going to pick between Ferrari and Alfa in the fight there?

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**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Well, let's be clear, Sauber of Fortune has the not enviable distinction, I think, having ranked last in the Formula One last year. So I think my -- many expectation on this child would try and take on sort of the contender for the title position of Formula One is a bit optimistic. I think I still have time to try and make the choice about the children as we go forward. And hopefully, I will no longer be the CEO of FCA by the time that happens, so I will not be conflicted. I may be emotionally, but I'm not in principle terms. The real issue is that I think, from an Alfa standpoint, as you all know, it has a pretty successful history of Formula One that won the race. I think it's -- as we look at the circus and way in which Formula One is shaping up, I think there's going to be an opportunity for carmakers to be associated with smaller teams. And in fact, where you get the name back on the track to race -- I would -- given the magnitude of the forecast that we have on the table for 2018, I don't think that the number that we're paying Sauber for the sponsorship requires separate disclosure, notwithstanding the attempt by Richard to become so incredibly granular about the results that I find it almost shocking. The numbers -- we're not going to forecast because of the sponsorship. We have enough money to cover it out of marketing Ram. So I'm really looking forward to 2018. I think it's going to be an interesting year.

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**Operator**

We now move on and take our next question from Martino De Ambroggi from Equita.

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**Martino De Ambroggi** - *Equita SIM S.p.A., Research Division - Analyst*

Three quick questions on the guidance for Richard. First, you mentioned the dollar assumption is \$1.20. If you could remind us the sensitivity under the currency meter? Second, you mentioned EUR 2 billion networking capital effected this year. I was wondering what is the underlying assumption in terms of volumes because I clearly understand the beginning -- at the beginning, you have this sell-in of the new models. But for the full year, I suppose there should be -- there will be some volume growth underlying. And the third is on the R&D capitalized and what is the balance that you have in your guidance considering in 2017, it was positive by more than EUR 1.1 billion at EBIT level?

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**Richard K. Palmer** - *Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings*

So in terms of USD sensitivity, every cent of weakening of the U.S. dollar, in terms of translation, is worth about 60 million negative for translation. And there's a smaller impact on transaction as we have about half of the exposure hedged. But basically, it's about 60 million percent of weakening. In terms of working capital, we're growing the business. We have a negative working capital position. So that is basically the answer. And we obviously -- to grow the business throughout 2018. And then on R&D, yes, the number's going to come down a few hundred million. But I don't think -- that's not going to change our results for 2018. It's all embedded in the projections.

**Martino De Ambroggi** - *Equita SIM S.p.A., Research Division - Analyst*

Okay. And the second question is for Sergio. I know you already discussed it during the Detroit event, but you changed your view, telling that you are not anymore looking for a partner. If you could elaborate a little bit more, if it's just a matter of the fact that you are in a much better shape or it was impossible to find a potential interested partner? Or what else?

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**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Or both. I mean, at the end of the day, you're looking at a balance sheet of -- whether it's EUR 4 billion, EUR 5 billion. I mean, we're now looking like we're joining the rest of the -- sort of the other motor ranks. We were the only leveraged automaker in the world. We're no longer leveraged. And I think we're now fighting with equal arms from a financial standpoint with our competitors. You've seen sort of our progression in operating performance. We have identified since we introduced the discussion on Capital Junkie. A number of initiatives that guaranteed us, including some painful ones in the U.S. about reindustrializing the manufacturing footprint. We have identified now a number of initiatives that allowed us to get to the plan. I asked Joe to show me what we originally showed you in 2014. I keep on forgetting this. But when we gave you the plan in '14, we assumed that we were going to be debt-free. But with little cash at the end of '18, I'll just remind everybody that we distributed an asset worth EUR 20 billion to the shareholders in the interim. And we're now forecasting a EUR 4 billion cash balance. But we've got a long, long way. And I think we've proven -- not -- this is not just a reflection of me, it's a reflection of this management team, which, I think has embraced the project back in '14 with a certain degree of vigor that it's executing it now. And I hate to say this, but it's executing in almost perfectly, which is -- and maybe it's a bit of a stretch, but it certainly is doing a phenomenal job of executing the plan. I think that those elements will continue post my retirement. That's what we've been trying to build here. Since I started this project back in '04, is a leadership class that understands what matters in running these businesses, then I'm confident that it can continue to execute well, which means that the necessity to find a partner, to try and guarantee our survival, going forward, is put to bed. I mean, we're done. And by the way, I go back to what I said, I had an opportunity to say this in an interview. We were -- nobody came to the invitation. So it's no use dreaming in technicolor about the fact that you're going to do stuff. So we're going to run our business and we're going to run it hard. I think in the '18 forecast is an indication of what this machine can produce. And I think -- I have every expectation that '18 to '22 is going to be of that caliber, obviously, subject to market conditions. But fundamentally, we will continue to execute well. And it doesn't take a dancing away from the conclusions that were contained in Capital Junkie. Capital Junkie is as accurate today as it was back in '14 when I -- '15 when I showed it. This is something which is endemic to the industry. All industries, which are disreliant on capital expenditures would benefit from consolidation. You don't have to go to Harvard to figure this out. I think most people will tell you that it's common sense. In an ideal world, people who are rational economically would do it. But this is not an industry which is driven by what I'd call that highest level of economic rationality. It just isn't. So let's take it for what it is and let's drive it down park. And I think that given the parameters of this industry, FCA is well positioned to be a top performer. That's all I care about.

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**Operator**

Our next question comes now from Max Warburton from Bernstein.

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**Max Eliot Adair Warburton** - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Just got 2 questions, please. The first one is on the 2018 guidance. So I'm very reluctant to sound like I'm questioning it, given all the achievements so far. But it is -- it's still a huge increase year-on-year, certainly compared to your peers. What are the biggest risks here? Is it safe to assume that Jeep is the biggest problem here, given -- if I go back and look at 2014, Jeep seems to be the business that's farthest away from its original volume target, yet it's still delivering good profitability. Can we just hone in on what you most worry about in '18?

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**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

In '19 or '18, Max?



**Max Eliot Adair Warburton** - Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst

Sorry, in '18. The '18 number.

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

I know you wish you were already in the post-Sergio here as though you can pick from the next guy. But listen to me, I think that it's -- and we've had this conversation for about the -- sort of the cruel side of Richard's desire to have volume ambitions spelled out in the number of cars in our plan, which we keep on paying over and over again because when we included a 7 million number in the 2014 plan, we even -- we've had to explain deviations for that number forever. The reality is that the Jeep brand and the Ram brand together plus Maserati and the others, have been well in excess of our profitability ambitions that we had embedded in the plan. It's allowed us to bring forward a set of numbers, which are totally consistent with the '14 to '18 plan, although in our completed is a mix that we had in mind. And that -- and on that, by the way, is the way we manage this business. I mean, we're committed to deliver financial results, and we let ourselves the freedom to adapt and change and modify the execution of that plan in a way they guarantee delivery of the financial results. I think that the biggest risk to answer your fundamental question about '18, and it's a post-Q1 event because Q1 is about -- I mean, Q1 reflects so many startups in terms of the Cherokee and the Ram. Their volumes will not really be visible until Q2 to Q4. Is that we screw up all those launches, and then we can't deliver the volumes that are built into the plan to guarantee the nearly EUR 9 billion in operating profit that we set for ourselves in 2018. That's the real issue, is that we can't make it. And that we keep on slipping on execution. It's happened before, by the way, in this industry. We're not -- and even in our own cases, we've had instances where some of our startups have been delayed. We had issues when we launched the Cherokee because of transmission matters. There's a whole part of issues. I think we've derisked most of those choices in 2018, but it's possible. Unlikely, but it's possible.

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**Max Eliot Adair Warburton** - Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst

Okay. You said something fascinating in Detroit, and I wasn't in the room, so it maybe misreported. But you said, "If I missed 50,000 Jeeps, then I'll have a private discussion with Manley. But if I missed the EUR 9 billion that's in EBIT, we're having a public discussion with all of you, and that's not a good discussion." I mean, what -- how far short does the Jeep fall for the number to be at risk?

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

I don't -- and to be perfectly -- I don't even know how to answer your question, Max. And I'm not trying to avoid it because I don't -- you know what -- I mean, if I missed 100,000 Wranglers, I'll feel the pain. But I have to miss 100,000 Wranglers, which is roughly -- it's not 1/3, but -- I mean, it's probably 40% of what the machine will deliver. So that will be painful. But it's -- the equivalent to 100,000 Wranglers is 160,000 Grand Cherokees, it's 300,000 Cherokees. I mean, there are multipliers associated with the Jeep portfolio depending on profitability. So a lot of it is product-specific, but the biggest risk, if you have to ask me, is that I can't produce enough Wranglers with the new car. That's the one that's got the biggest profit potential. And what's also attached with it is the global expansion of the Jeep brand because we've been underselling internationally because of the local demand in the U.S. And so it's part of the complicated relaunch strategy of Jeep, which embeds a relatively significant export function out of the U.S. into whole parts of the world, which has been historically shortchanged because of the lack of availability of Wrangler. So it's a complex structure, but that's probably the weak point, the weak sister of the package. Everything else will work through okay.

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**Max Eliot Adair Warburton** - Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst

Okay. Very helpful. And then my last question is just on the succession. You're having this event on the 1st of June, are you going to announce your successor there at the same time? And if not, why not?

**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

The answer is not because I think that what we're going to be discussing on the 1st of June is the plan. And the plan embeds the collective ambitions of the group of leaders that will be there that day and that have been running this company now for a number of years. My successor is coming from those ranks. So you don't have to go outside and look at other industries. We're not into fashion or aircraft making or anything else. We're going to stick to people who have been in this business now for a number of years. The -- my successor will be in the room. And to the extent that this reflects the collective ambitions, it will be fine, I mean. It's not as if we're going to start making hot chocolates starting in 2020. We're going to make cars, and we're going to make cars which are in-line with the brand strategy that we've laid out. The execution of that strategy, the way in which this organization responds to the challenges that it face, but the market will be my successor's problem. He'll have to adapt to those challenges. And as you see here in this particular case, it may imply significant shift in execution strategy. We did that in the U.S. when we dumped cars and we embraced SUVs and pickup trucks. That was not built into the 2014 plan. It had to be adapted to make sure that we could deliver the numbers. And I would expect the same level of dexterity and nimble behavior from my successor. But he'll be in the room, so you'll be able to judge from the number of people who may be presenting that day as to whether you think there's somebody who's worthy of being the leader of the south going forward. I don't have a bloody doubt on my mind, Max, good leaders in that room. And I also don't have any bloody doubt, Max, that there's more than one leader in the room that could do that job. As a matter of fact, I have no doubt, Max, that we're breeding not only my successor, but the next group. And that, to me, is equally important. We have enough management depth in this house to run this thing well beyond my successor's tenure.

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**Max Eliot Adair Warburton** - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Right. I think we'll all be looking forward to the 1st of June. See you there.

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**Sergio Marchionne** - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Thank you, Max.

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**Operator**

We now move on and take our next question from José Asumendi from JPMorgan.

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**José Maria Asumendi** - *JP Morgan Chase & Co, Research Division - Head of the European Automotive Team*

A couple of questions, please. Richard, can you quantify the realignment charges you took in '17 in North America? Just give us some guidance on that. Also if you could quantify how much additional capacity is coming on stream in 2018 in the U.S. And roughly, how you're going to utilize the destination capacity between Ram and Jeep of your first block? And second block, beyond the suppliers, we'd love to hear about the profitability or the underlying EBIT margin of Magneti Marelli. I know it's a bit early in terms of the planning to yourself, but it does sound like it's ahead of the number you reported for component. And can you take this to an 8% margin business in the next 2 years?

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**Richard K. Palmer** - *Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings*

So the number for 2017, was up EUR 450 million for the capacity realignment costs. So we're going to save EUR 300 million of that going into 2018. Obviously, there's still some completions, particularly for Sterling Heights. In terms of capacity, clearly, we have SHAP coming up. That plant can produce more light-duty Rams than they produces at the plant at Warren. I think the number's about 50,000 more. And then also the new Wrangler is coming up at Toledo North. We can produce about 50,000, 60,000 more Wranglers in that plant than we could at the previous as a plant.

**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

On an annualized basis.

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

On annualized basis, yes. So obviously, we're ramping up in '18. But on a full year annual basis, those are the deltas in terms of the -- those 2 key products for capacity. For Marelli, obviously, we'll give you a better look at Marelli as we go through the process. We'll be discussing as a board as the boss said earlier. I don't see any reason why Marelli, through its business plan, can't get to the source of margins that you mentioned. Clearly, there are parts of the business that are stronger than others. But overall, I don't see why it can't get to the 8%. We've seen good improvements over the last couple of years. But we'll give you a bit more detail there as we go through the process for the spin.

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**José Maria Asumendi** - JP Morgan Chase & Co, Research Division - Head of the European Automotive Team

Very good. On interest charges, are we still in EUR 300 million or so reduction in 2018 versus '17?

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

In terms of -- yes, not far off. EUR 150 million, EUR 200 million. Yes.

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**Operator**

We now take a question from Philippe Houchois from Jefferies.

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**Philippe Jean Houchois** - Jefferies LLC, Research Division - Equity Analyst

Two questions from me. The first one on -- in the South America, it used to be the most profitable part of Fiat for years, double digits, et cetera. And it's a struggle now to get to those levels for you, but for others as well. Is there something that has fundamentally changed in the structure or the economics of South America that we should not expect? I mean, you've certainly guided it down compared to the previous performance. And just wondering, I think, one of your competitors, Carlos (inaudible), kind of hinted that you might be interested in some consolidation there. Do you think that we should see consolidation in South America and -- as a condition to go back to the attractive level of profitability? Is my first question and the second one I...

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

So let me give you the answer to the first question. The answer to Carlos (inaudible) request for consolidation is no. He doesn't have anything in Latin America that I wish to consolidate with. That's the first problem. Secondly...

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**Philippe Jean Houchois** - Jefferies LLC, Research Division - Equity Analyst

Not just for you, just in general. Yes.

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

If it were in general, then I think you can find a suitable partner elsewhere. I don't think we are in a dominant position in Latin America. We will continue to hold it. What's missing, Philippe is 1 million cars in Brazil. Against the forecast for 2018 for -- the cost for 2.4 million cars. People forget

that, that market was clocking between 3.4 million and 3.6 million after 2012 or '13. We're missing 1 million cars. And we've seen the impact of volume loss of that caliber on the market. We've seen it in the U.S. when we went down from 17 million to 9.5 million cars in 2008 and '09. So I think we need to be careful. We understand that this business is incredibly volume sensitive. And when you end up losing that kind of volume support from the market, you end up bleeding. I think we have done a commendable job between our operations up in Pernambuco, our recommitment to Argentina that we've done through our plant in Cordova and to the local market. We have done a commendable job of restoring profitability to these levels. I expect that progress to continue as the Brazilian market recovers. And I zeroed out that, that will also happen. Whether we get to a number like 3.4 million by 2022, I can't tell. I think Richard's view is about us reaching 2.4 million for Brazil in 2018 is eminently doable. And certainly, based on a forecast that I've seen is probably -- we can probably go slightly in excess of that number. I think that, that market is recovering from a variety of shocks, most of which, by the way, were politically induced that have to do with succession at the level of the President of Brazil. There are elections, which I'm -- in play now for 2018. I think you're going to see clarity as we work our way through the remainder of this year. And I think the numbers are relatively safe.

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**Philippe Jean Houchois** - Jefferies LLC, Research Division - Equity Analyst

Okay. So your view is we need to get the volume back up to historic level, et cetera? There's nothing structurally different that would prevent you from going back to very high levels of profitability, especially when you are (inaudible) footprint?

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Correct. So there's nothing that will prevent us from going back up to double-digit performance at the right level.

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**Philippe Jean Houchois** - Jefferies LLC, Research Division - Equity Analyst

Okay. And the other question, just a bit housekeeping for Richard. I don't think you've given us any number on your -- end of your pension deficit. Any indication of what it might be? I think the last number we had from you was EUR 9 billion at the end of Q3 for the provision. Discount rates have gone up. Can you comment about what the deficit might be? Pension, OPEB and any kind of reduction in your requirement just to put cash into those pension plans.

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

Yes. The pension and OPEB is down slightly because of exchange, but it was slightly up in dollar terms, but down in exchange as it's EUR 7.6 billion for some pension OPEB. We had -- we did have a discount rate impact in the U.S. The discount rate went down from 4.4% to 3.8%. We also had a very strong asset returns in the U.S. that offset that impact. So it's relatively flat, slightly down year-over-year mainly due to exchange.

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**Philippe Jean Houchois** - Jefferies LLC, Research Division - Equity Analyst

Okay. So you don't anticipate that you have to put cash into pension in '18?

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

No. Nothing significant beyond what we did already in '17.

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**Operator**

We now take our next question from Monica Bosio from Banca IMI.

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**Monica Bosio** - Banca IMI SpA, Research Division - Research Analyst

I understand that the execution on Jeep is crucial for FCA. I'm just wondering if you can just give us an indication of what kind of volumes would you have in mind behind the 2018 target. And if you can give us some flavor also for the volumes of Alfa and just some -- further comments on Alfa and for F-1.

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

Monica, we -- yes, well, I think we're committing to the financial targets as we outline them. I don't think we want to get into a discussion about specific volume targets for the brands. The brands obviously are focused on delivering the financial results that we've outlined.

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**Monica Bosio** - Banca IMI SpA, Research Division - Research Analyst

Okay. I'll do my map.

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**Operator**

And now a question from Michael Tyndall from Citi.

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**Michael J. Tyndall** - Citigroup Inc, Research Division - Director

It's Mike Tyndall from Citi. A couple from me, if I can. I guess the first one's for Richard. Richard, if I look at Slide 22 of the deck, industrial costs for NAFTA, you've got a negative 104 in Q4. But I can't square that away with what you've reported throughout the year. So I'm just wondering was there some sort of reclassification on the industrial side versus volume and mix? And then just looking at that negative, is that a one-off? Is that related to, perhaps, bonuses that you're paying? Or is it a function of we are now building cars that are more expensive and as a consequence, we expect to get better pricing and that's a trade-off for that? That's kind of the first question. The second question relates to CO2, and I'm not sure if, perhaps, it's too early to talk about it. But I wonder if you could -- a read on what your average CO2 was in 2017 in Europe versus the 120 in '16? And in my head, where I'm struggling a little bit, is the guide is for R&D to go down, for CapEx to go down, and that seems at odds with everybody else that is paying up to try and meet the forthcoming CO2 targets. I'm wondering perhaps is it a case of the savings are so big in North America that it's obscuring what's happening in Europe. But if you could talk through that, that would be great.

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

So in terms of the industrial costs to NAFTA, as you've seen, we've been negative through the year not that the fourth quarter should be higher, but basically because of the intense activity on the completion of the NAFTA realignment and the launches of some key vehicles. So that's really the key driver for Q4. In terms of your question about CapEx and R&D, the answer is yes. I think we've been very clear how much money we've been spending on the product lineup for Jeep and for Ram. And so those significant projects coming down in terms of activity going to '18 offset the spending that we are doing on the areas that you mentioned in 2018 and beyond.

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**Operator**

We now take our next question from Richard Hilgert from Morningstar.

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

I would like to get your perspectives from the rearview mirror with the current 5-year plan and looking out the windshield into the vista to come. On the rearview mirror side, Sergio, one or two maybe big items for you that are lessons learned by the organization that really need to be applied and be fundamental to the organization in the next round of 5-year planning. And for Richard, some of your perspectives on the lessons learned on the finance side and the capital structure side over the past 5 years that need to be applied going forward. And how do you see yourself or see the organization as being capital funded, capital structured? And what are the focus areas of funding? We've gone from a very onerous net debt position to being net cash over the past 5 years. So that's been a big focus. Do we see a change then in funding in R&D in capital expenditures? Do we start to see dividends? How should we be thinking about the way that the company's going to develop its overarching capital deployment going forward?

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Richard, if I can just try and take Richard off the hot seat here because otherwise he's going to get himself into trouble. This question about what we do with capital structure for the group going forward is best reserved for the June 1 presentation. It needs to go through a scrubbing process with the board, which is ultimately responsible for this business. And we're going to go air all our so-called dirty laundry or versions of our dirty laundry with the board between now and June 1. And I think that Richard will be a lot more comfortable giving you his views on structure and share buybacks and dividends then. In terms of the things that we've learned, a couple of -- that we have learned here all the time. I mean, if I had known that the U.S. market was going to go 2/3 UVs and pickup trucks back in 2014, it may have saved me a few hundreds of millions of dollars to try and get that done. I mean, certainly, we would have postponed positions like the Chrysler 200 and maybe the Dodge Dart early enough in the process to try and redevelop our resources to something else. The good thing about this is that the decision to reindustrialize the way in which we have done the set of pay backs from less than 6 months. We've properly executed. So we actually -- it may have been a painful decision at the time, but the correction mechanism, I think, made the pain a lot more tolerable than it would have been otherwise. The other thing that I think is -- that I certainly have learned going back to 2014 is that this place has actually -- in a sense, at least for part of the plan, it's now grown. Its capability of producing leaders that were sufficiently deep international until we move it around. And that's something that I think we started investing and now halfway through the plan to make sure that we got people who are sufficient, that they adapt to foreign environments regardless of what their origins and whether they're Europeans or North American or Latin Americans. To try and allow them to have a global reach that allows them to sit at the table and effectively comanage this business with the CEO or the leadership of the house. We've invested in that process now. I think I feel relatively comfortable that we've put that to bed. And as I mentioned earlier when I was talking to Max, I think that we have adequate resources to be not only with my succession, but the succession that comes thereafter, but it's going to be -- it requires a very careful nurturing of the DNA of the leadership class here. And I think that we started this process as early as 3 years ago. And I think we're deep enough now to face the next one. I don't know whether you want to add anything else to hear, to your cat, to your financial learnings from the last -- it's kind of hard to learn anything. When you owe money to people, you just pay them back. That's the rule #1 and -- Richard?

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

Somebody poll the wisdom on that now. I think the other thing we've done -- we've focused on and we need to continue to focus on is the importance of the brand. Because, I think, from a financial point of view, a dollar spent on one brand isn't the same as the dollar spent on another. And I think that's something that we've learned, and it's been clear from the way our financials have performed. And it needs to be maintained as a key focus going forward.

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Yes. And I think that what distinguishes us from the rest of it -- I mean, obviously, the premium brands are very keen on their brands. People who play in that space, by definition, fight and protect the brand aggressively. People who have got sort of a mixed background, like us, which still play actively in the mass market and have made forays into the premium side has to learn the discipline of keeping these brands distinct. And I think we've -- we are learning. We have learned a lot and I think we continue to learn on how to do that well.



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

Okay. And then just -- if I could follow up briefly. Not getting into and stealing any thunder from the June meeting on the finance side, is it safe to say though that with the cash focus no longer needing to be on the debt reduction side, it makes sense that we could see, on a percentage basis, increased investment in R&D, capitalized development, capital expenditure, along with some of these other things at some point?

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

No, no, no. No. I'm going to keep on saying no when you're talking to me because I think that that's going to be the instinctive response of a traditional player in this market. If Capital Junkie is true as a thesis that was especially in 2015, we can't change colors. And I think one of the things that came along with being poor, which is in a way in which we started our life back in '04 and again in '09, is one of the things that you learn, you learn how to do with less. And that's something that we cannot -- I have not forgotten and I think there's nobody in the leadership team that has forgotten what it felt like at the time. And I -- whoever comes after us needs to have the same level of consciousness about the importance of the usage of capital. This is key. Because this business will kill you if you misuse cash. And when you're making cash and you're accumulating it, the easiest thing to do is to go stir-crazy and start spending it. So by all means, when you hear about this plan on June 1, you should be the first person to criticize any attempt at recreating expansion as theories that are designed to conquer the world at the expense of shareholders. Our biggest obligation that we have is to be fair not only to our people and to the constituency of people whose lives have been entrusted to us, but also to be fair to the people who provide us capital and to compensate them for that usage, including share buybacks in the event that cash accumulation were to justify it. I'm a big proponent of contraction of capital. I think -- if I can give any advice to my successor and to the board is there it should be an integral part of the plan coming forward until 2022. So I'll leave it at that and then we'll park it for June 1.

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**Operator**

And we now take a question from Lello Della Ragione from Intermonte.

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**Lello Della Ragione** - Intermonte SIM S.p.A., Research Division - Research Analyst

Three left from my side. On free cash flow for the first one. You mentioned about CapEx and working capital. I was wondering especially on the working capital side if the fact the launches of Jeep will change the usual pattern that we have. Meaning, a negative in the first and third quarter and very positive toward the other one. Or is there any other strange pattern that you see in the free cash flow over the course of the quarter in 2018? The other question relates to Alfa. On the Alfa side, on profitability, if you can comment. In the past, you aimed at the -- being positive. We understand that we are not still there due to the Chinese and NAFTA also deliveries where we send at this point. And the other one relates on the issue of Maserati in China. If that thing is -- I mean, we are not seeing it probably in deliveries but -- that profitability was quite high. And we're wondering, it seems the extended holidays in Italy, if that issue is solved, especially on Levante or you're just delivering in other regions for the time being?

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**Richard K. Palmer** - Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings

So as we mentioned before, the first quarter, we're ramping up the key products. So we're going to see positive impact from the launches in the volumes of those new products from Q2 onwards. So that's what's going to impact the free cash flow profile for 2018. In terms of Alfa, we've talked about...

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**Sergio Marchionne** - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

It's not profitable in '18. Let me take Richard off the hot seat here. We're still building the brand. Obviously, the losses are shrinking but we need more volume. So that's the objective.

**Lello Della Ragione** - *Intermonte SIM S.p.A., Research Division - Research Analyst*

On Maserati in China?

**Richard K. Palmer** - *Fiat Chrysler Automobiles N.V. - CFO and COO for Systems & Castings*

Maserati is performing fine in China, no particular issue. We just need to continue to build the performance, particularly, I think of Levante. I think we've done a good job so far. But it's clear that Maserati's known as a luxury sedan brand in some markets. I'm not sure that the Levante yet is as visible as it could be. And we have -- we still have room to improve performance. From a profitability point of view, you saw the year, it was a good performance. And we don't have any inventory issues or anything else. We just need to manage the supply chain, no disagreement.

**Operator**

Thank you very much. Ladies and gentlemen, as there are no further questions, that will conclude the question-and-answer session. I would now like to turn the call over back to Joe Veltri for any additional or closing remarks. Thank you.

**Joseph Veltri** - *Fiat Chrysler Automobiles N.V. - Vice-President of IR*

Thank you, Steffie. And I think with that, we'll close today's call. And I'd like to once again thank everyone for joining us. Have a pleasant day.

**Operator**

Thank you. Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation. You may now disconnect.

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