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PRESENTATION

Operator

Good afternoon and good morning, ladies and gentlemen, and welcome to today's group results for 2018 full year 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.

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

Thank you, Tara, and welcome to everyone joining us today as we review FCA's full year 2018 results. You'll find today's presentation material along with the related earnings release posted under the Investors section of FCA's group website.

Our call today will be hosted by Mike Manley, the group's Chief Executive Officer; and Richard Palmer, our Chief Financial Officer.

After their presentation, we will be holding the customary question-and-answer session. But before we begin, I just want to point out that any forward-looking statements that might be made during today's call are subject to the risks and uncertainties that are noted in the safe harbor statement, which is included on Page 2 of today's presentation deck. And as always, the call will be governed by that language.

With that, I want to turn the call over to Mike Manley.

Michael M. Manley - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Thank you, Joe. Hello, everyone. While 2018 was an extraordinary year for FCA in many ways, I believe it represents an inflection point for our company. So to begin with, we delivered another record-breaking year of earnings and generated significant industrial free cash flow, enabling us to end the year for the first time cash positive.

NAFTA achieved a record performance with adjusted EBIT up 19% and margin to a new high of 8.6%. LATAM more than doubled margin on EBIT year-over-year and we reached new global sales records for both Jeep and Ram brands. 2018 was also a year we strengthened our business in other ways as well. The agreement to sell Magneti Marelli allows us to strengthen our balance sheet and to make a distribution to our shareholders.



It'll provide more capital stability and flexibility for the group and importantly, it provides a secure and exciting future for Magneti Marelli and its employees.

Now during the year, we completed the most complex and intensive phase of our NAFTA capacity realignment plan with the launch of the all-new Ram light-duty pickup in our Sterling Heights assembly plant. And in the mobility space, we strengthened our partnership with Waymo and the agreement to provide additional Pacifica minivans for conversion to autonomous vehicles. And in addition to that, we confirmed our cooperation with BMW to develop autonomous driving technologies. Now eliminating our net debt and turning cash positive allows us to start paying regular dividends in addition to a special dividend in 2019. This is a significant milestone as the last time we distributed the dividend was nearly a decade ago. So you're accustomed to FCA telling it like it is warts and all and that practice is not changing. So you'll see here that we have learned some lessons in 2018 and encountered some new challenges.

We're extremely pleased with the enthusiastic reception of the new Ram light-duty pickup truck winner already of multiple awards, including North America Truck of the Year. However, we were not pleased with this launch.

We were slow getting up to full production rate. Now there were a variety of reasons for that and we've corrected them and production is now up to full speed. And the lessons we learned have already helped to ensure that our all-new Ram heavy-duty truck is hitting its production targets in the early part of the launch curve, and I'm pleased to say that the all-new Jeep Gladiator is also on track to start production on schedule.

EMEA, longer challenging market for our industry, was no less so in 2018, especially in the second half. And we were not immune to those challenges. Among other things, we had to cope with regulatory disruptions brought about by the introduction of new emission testing rules. We faced significant hurdles in China, including duty changes, the transition to China 6 emission regulations and increased competition, and most concerning was the unexpected slump in the Chinese auto market, which hit hard in the last half of the year. I'm not going to spend much time detailing the challenges the industry faces in 2019. I think most of them are well known, but what I would say is, challenges are not new and one of our strengths that I think we have is that we have consistently demonstrated our ability to face challenges and overcome them.

So I want to spend a little bit of time talking about how we'll do that. Now I won't read each of the points on this slide, but I will call out some common themes. Among them is the fact that we are starting the year with new leadership team members with the experience and the mandate to improve our operations. I personally spent a lot of time with the leadership in APAC and EMEA being in those markets on multiple occasions over the last 5 months. And you will see that we are taking restructuring actions and rationalizing markets in EMEA to bring down operative and administration costs. We also launched a new industrial plan to improve our capacity utilization in our European plants. And that is a problem that has been with us for years. We'll continue to focus on improving our channel mix, an initiative that is beginning to yield results.

And in China, we're aggressively reducing our vehicle-direct material cost and restructuring our joint venture in conjunction with our partners to enhance operating cost and efficiency. We continue to manage our brands closely, for example, even though Maserati is in a quiet period for new product, we'll bridge the gap by developing specialty models and focusing our marketing to areas where we can win.

And by the way, I look forward to closing the sale of Magneti Marelli later this year. I also look forward to exploring options for our other noncore businesses, Teksid and Comau, that will focus on strengthening those businesses. So in short, 2019 will be another important year for us.

But looking even beyond 2019, the to-do list we laid out in our new 5-year plan includes expanding our portfolio with white-space products in high-margin segments. It also includes developing our investments in electric vehicle strategies and capacities in line with our brand identities. And I'm excited about the potential for our brands to build share in their segments well into the 5-year plan.

Now I'm confident that we can do these things on our own, and as I've said in the past, that doesn't mean that we would rule out potential partnerships. We obviously have a number of those already that I think are working well and partnerships that complement our strengths or invest -- or optimize our investments are, certainly, things that we're open to.

So now let me say a few words on guidance. We expect full year operating performance to exceed our record results in 2018. We see continued strong performance in NAFTA and LATAM with higher year-over-year adjusted EBIT and margin. But it is important to talk about expected cadence



of earnings during the year. Now you should note that the first half the year will see lower year-over-year results due to the fact that we will not repeat last year's benefits of overlap in production of the old-generation Wrangler alongside the new one. And in NAFTA, we will see reduced productions of Ram heavy-duty as we ramp up the production of the new model.

Now in Q2, we'll have reduced production of Wrangler as Toledo North goes down to prepare for the launch of the new plug-in hybrid Wrangler in early 2020. And that is a primary reason why we are currently long on inventory in those model lines. And notwithstanding that, we ended the year with a days' supply 4 days above prior year. So that said, we're going to continue actions to manage dealer inventories in Q1 and Q2, and by the end of the first half, I expect our retail days of supply to be in line with our sales run rate.

Maserati will be down year-over-year in the first half as we apply the same discipline to destock our global dealer network and work to improve the sales performance, which frankly was unacceptable in 2018. And that was one of the key drivers of the leadership changes that we made in our sales and marketing organization.

Now in the second half of the year, NAFTA will benefit from the all-new Jeep Gladiator and Ram heavy-duty, along with more actions to improve margins with industrial efficiencies. EMEA actions will progressively take effect throughout the year with the full benefits being seen in 2020. Now we do expect market and commercial challenges to continue in China albeit with improvement throughout the year. But having visited there on a number of occasions and worked with the leadership team, I think the actions that they have put in place, not just on cost and efficiency but also with our vehicle products, will begin to be shown as we get into the back half of this year. And I'm confident that both of these regions will be key contributors towards our 2022 plan.

Now you will see our year-over-year industrial free cash flows reduced compared to 2018 due to higher CapEx spending on our electrification strategy and the renewal and expansion of our portfolio. Cash flow will also be impacted by the EUR 500 million cash payments for costs related to the U.S. diesel emissions settlement.

And finally, we come into the year with strong product momentum with the launch of the all-new Jeep Gladiator scheduled for Q2, which will enter white space for our Jeep brand. And as I previously mentioned, the all-new heavy-duty will start hitting showrooms this quarter. And we have a full year of the new Jeep Wrangler and Ram light-duty truck, both of which received Motor Trend Vehicle of the Year award in their respective segments.

And with that, I'm going to hand you over to Richard, who'll take you through the numbers in detail. Thank you, Richard.

Richard K. Palmer - Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development

Thank you, Mike. So moving to Page 7, we'll review the financial performance in a bit more detail. Combined shipments for the year for FCA were up 2% with consolidated shipments up 5%, which was driven by NAFTA and LATAM, both up offsetting EMEA and Maserati, which were down. Our joint venture shipments were down in Asia-Pacific and also in EMEA, which was -- which were impacted by the China market and the Turkey market, respectively.

Our revenues increased 4% or 9% at constant FX to EUR 115 billion and our shipments drove around EUR 4.8 billion of increase with positive mix and price of over EUR 5 billion, offsetting negative exchange due to weakening of the U.S. dollar, the CAD and the Brazilian real against the euro. Adjusted EBIT was EUR 7.3 billion with a 6.3% margin, and represented a record performance, as Mike said, up 3% and up 9% at constant exchange.

Margin was down slightly year-over-year due to deterioration of margins in EMEA, Maserati and Asia-Pacific. Our adjusted net profit was EUR 5 billion for the year and was up 34% or 41% at constant exchange. Financial charges were down EUR 300 million due to our lower average gross debt through the year as we continued to deleverage the balance sheet. And our adjusted effective tax rate for the full year was just over 17.5% due to the U.S. tax rate benefits that we had in the year compared to statutory rate as we had tax planning and also pension contributions in the year, which offset some of the unrecognized DTAs in the regions where we were in a loss position.



If we look at our industrial cash, you can see we closed the year with EUR 1.9 billion, up from EUR 2.4 billion of net industrial debt at the beginning of the year, and our industrial free cash flows more than doubled year-over-year to EUR 4.3 billion with the lower CapEx due to program timing a major factor. We also made a EUR 0.5 billion of accelerated discretionary U.S. pension plan contributions in Q3 as you know. Our available liquidity at the end of the year was strong at EUR 21.1 billion. And our gross debt, as I said before, was reduced through the year by over EUR 3 billion.

Moving to Page 8. We show the components of the improved adjusted EBIT. As we did for Q3, we show for completeness the results of Magneti Marelli separately as it will be shown as discontinued operation, as explained in Q3, in our financial statements until closing of the transaction.

The performance of NAFTA and LATAM were fundamental for the 2018 financial results, with NAFTA, in particular, performing strongly with the new products that Mike mentioned. APAC and Maserati had a tough year due to challenges in China, and EMEA profitability was effectively breakeven in the second half with negative volumes and price mix. We will review the segments in more detail over the next few pages.

Moving to Page 9, we see the cash flow for the year. Our net industrial cash position was EUR 1.9 billion at year-end as I mentioned. Industrial free cash flows were EUR 4.3 billion for the year, an improvement of EUR 2.8 billion year-over-year, driven in particular by lower CapEx spending due to program timing. Our CapEx spend for Q4 was starting to show the increase that we expect in 2019 and was up to EUR 1.8 billion. Adjusted industrial EBITDA was up EUR 100 million or EUR 800 million at constant exchange. As I mentioned before, finance charges were down around EUR 300 million and taxes were up approximately EUR 400 million as credits and losses were no longer available to offset our U.S. tax liability.

Working capital and provisions were EUR 750 million negative with a reduction in year-end payables due to lower production levels in EMEA and increased tax receivables in LATAM, being partially offset by reduced new and used car inventory levels.

While we're talking about the balance sheet, just a brief comment on our pension OPEB funded status. Total pension deficit decreased from EUR 4.3 billion to EUR 4.0 billion with discount rate increases of 60 basis points in the U.S. and 30 basis points in Canada, offsetting negative asset returns through the year. Our OPEB liability was also down EUR 0.3 billion to EUR 3 billion at year-end.

On Page 10, we look at the NAFTA performance for the year. NAFTA volumes in terms of industry were flat year-over-year at 21.1 million units. FCA sales were up 5%, 2.5 million units driven by Jeep, up 146,000 units or 16% due to Compass, Cherokee and Wrangler, partially offset by discontinued Patriot.

Ram sales were up 26,000 units or 4%, driven by the new light-duty, which was up 40,000 units, slightly offset -- offset slightly by lower sales of heavy-duty due to product availability. Fleet mix was up from a low-19% in 2017 to 21% for the year. Our U.S. dealer inventories increased by 4 days in 2018 compared to the end of 2017 due to the new product launches mentioned and also to cover planned downtime in first half '19 for Wrangler and for our heavy-duty launch. We, therefore, expect modest reduction in inventory levels through the first half of 2019.

Shipments were up 10% to 2.6 million units and our revenues were also up 10% to EUR 72 billion or up 14% at constant exchange. Adjusted EBIT margin finished at 8.6% versus 7.9% last year.

You can see in our walk below the themes for the year being fairly clear. We had a strong performance in terms of volumes, pricing and mix to the tune of EUR 5.3 billion in total, which offset the increased product cost for the new products, which is within the EUR 4.3 billion and was worth about EUR 3 billion of that number. And also some inefficiencies due to some of the launch problems we had on the light-duty, in particular, and logistics, which were worth about EUR 1 billion overall.

Moving on to Page 11. We look at Latin America results. LATAM had a strong year and closed with Q4 adjusted EBIT of nearly double 2017. The full year performance shows the business able to rapidly respond to the economic issues in Argentina in the second half. The full year industry was up 7% to 4.4 million units, driven by Brazil up 14% to 2.5 million and partially offset by the reduction in Argentina in the second half, which finished with the reduction year-over-year of 10% to 770,000 units.

FCA sales were up 10% to 566,000 units, driven by the Fiat Argo, Jeep Compass, Jeep Renegade and the new Fiat Cronos.



Our market share in Brazil was flat at 17.5%, was up in Argentina, 60 basis points, and Jeep remained the leader in Brazil SUV segments with a combined share of over 21%. Our inventories were stable compared to last year at 34 days of supply. Shipments were up 12% and net revenues were up 8 -- were up 3% in euro or 21% at constant exchange. Our adjusted EBIT margin rate reached 4.4% with Q4 at 4.6%. So a good run rate going into 2019.

And you can see in the walk for the EBIT that we had a strong performance in terms of volumes with the team -- the plant that basically produces the Fiat brand, up 30,000 units and showing an increased utilization of 10 points to 76%. Pernambuco was up 45,000 units for Jeep and the Fiat pickup with utilization rates up, and we added third shift in Q2 which will help us also going into Q3 to continue to grow in those segments.

Argentina, the plant was down due to the economic situation in the second half of the year. And as you can see, we also managed to get some positive pricing in a difficult environment in Argentina. We didn't offset the whole impact of the devaluations in the second half, so we expect to see some positive pricing going into 2019 as we carry over those actions, and we also had positive pricing in our Brazilian market.

In terms of industrial costs, FX was a big impact negative due to the weaker real for U.S. dollar and Europe -- euro-denominated supply. Also, we had a higher depreciation and amortization for the new vehicles launched.

We worked hard to contain the SG&A costs and allowed us also to invest in advertising to continue to support the new product launches I mentioned earlier. And then we had unfavorable translation for the currencies I mentioned.

Moving to Asia-Pacific on Page 12. We had a difficult year as Mike already mentioned. The industry in major markets where FCA is present was down 4% year-over-year, mainly due to China, which was down 6% and down 20% in Q4.

SUV segments in China were down 8% and 22% in Q4. FCA combined sales in region were down 18%, with our JV sales down 26%. Combined Jeep sales were down 18%, driven by the reduction in the China JV performance, where Jeep Cherokee volumes were particularly disappointing.

Our inventory days' supply were down 6 days to 80 days at the end of '18 as production was adjusted to demand. Consolidated shipments were flat at about 85,000 units. Our net revenues were down 13% to EUR 2.7 billion due to negative mix -- vehicle mix and market mix.

Our loss for the year was EUR 296 million. As you can see in the walk below, this was driven by lower volumes and negative mix as we had less BUX volume in China, offset by more volume coming out of our Indian-produced Compass. Net price was negative due to actions in China, driven in part by duty changes and actions to sell down stock as we come through the first half of this year into China 6.

Our G&A and advertising were positive contributors as we continued to cut cost and simplify the structure as Mike mentioned earlier. And our JV results were down due to a loss. And we had a nonrepeat of the Tianjin insurance recoveries of last year, which was worth about EUR 92 million.

On Page 13, we show you the EMEA results. Sales were down 4% in a market which was down in Italy 3% and the overall EU28+ EFTA was flat year-over-year. For passenger car and for LCV, the industry was up 4%, but with Italy down 3%, our share was down 30 basis points primarily due to Italian market. Our overall inventories in terms of days' supply were up year-over-year at 88 days, but down from 98 days of September '18 as we continue to manage the supply chain down to demand as we clean out some of the inventory we have in channel mix issues.

Shipments were down 3% and our revenues were flat at EUR 22.8 billion, with positive vehicle mix offsetting some of the volume reduction.

Adjusted EBIT margin for the year was 1.8%. As you can see in the walk below, we were down about EUR 0.5 billion in terms of volume mix and net price. That was also predominantly -- 60% of that was in the second half of the year as we dealt with the WLTP introduction. We offset some of that with actions in terms of industrial cost and some favorable FX on buys in USD and Turkish lira production, and that got us to the 1.8% margin for the year.



On Page 14, we move to Maserati. Maserati had a disappointing year in terms of sales performance with global sales down 28%, and in particular poor performance in China where our sales were down 43%. That led to our shipments being down 32% and net revenues being down 34% and adjusted EBIT down EUR 400 million from EUR 560 million to EUR 150 million for the year. So our margins were impacted down from 13.8% to 5.7%.

As we move forward to look again at 2019, we show our inventory outlook on Page 15. So NAFTA, we're forecasting a slight decrease in U.S. industry from 17.7 million units to 17.2 million for the year. And we're forecasting Canada and Mexico to be stable at 2 million and 1.4 million units, respectively. This is slightly down from our Capital Markets Day guidance, which was at 20.8 million for NAFTA.

LATAM, we've revised that down slightly also basically due to Argentina being down 0.2 million units year-over-year. And that compares the total forecast of 4.4 million units flat year-over-year compares to an increase in our Capital Markets Day forecast up to 4.7 million units.

Asia-Pacific, we've revised down significantly from 36.9 million at Capital Markets Day to 32.6 million, driven by China, which we forecast to be flat year-over-year. And EMEA is also down from Capital Markets Day by about 2 million units, driven by lower industry in Turkey, the U.K. and Italy, in particular. And we're expecting, year-over-year, a slight decrease in EU industry from 18 million units to 17.8 million units.

Mike already explained the guidance.

So with that, I will hand back to Joe, and we'll take questions.

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

Thank you, Richard. Tara, that concludes our opening remarks. So with that, I'm going to turn it back over to you. And we can start taking questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Rod Lache from Wolfe Research.

Rod Avraham Lache - Wolfe Research, LLC - MD & Senior Analyst

I wanted to ask you if you can just give us a little bit more color on the outlook for 2019. At the Capital Markets Day, you talked about CapEx going up by EUR 3 billion through 2020. Is it already rising by 2% to 2.5% or something like that in 2019? And can you give us a little more color on how you're thinking about industrial costs? You talked about an increase through 2022, but it seems like a lot of that until now was content related as opposed to structural or fixed costs. How should we be thinking about the structural costs going forward given some of the statements you made about restructuring?

Richard K. Palmer - Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development

Well, I think, Rod, obviously, our structural costs we're managing extremely carefully given the performance in some of the businesses that we just talked about. And so I think -- I don't think we're seeing any increase in structural costs going into 2019. We're taking actions to take out cost across our portfolio and in particular in EMEA and Asia-Pacific. And so I don't see us going forward with any significant cost increases in the short term, as we work through, obviously, some of the performance issues we have in those businesses. In terms of CapEx, we're forecasting to be around EUR 8.5 billion for 2019, which is up EUR 3 billion compared to where we finished 2018. That number is substantially consistent for 2019 with the sort of run rate we expected through our plan period. It includes investments in renewing products as well as new products, in particular, Grand Cherokee and Grand Wagoneer in the U.S., and it also includes electrification investments across the portfolio for -- obviously, for the compliance



challenges that we have in the industry, in general, which is about 20% of the number. So -- and going into '19 -- going into '20, we'll give you better view on CapEx, obviously, as we get closer to '20. I don't see it being significantly different to the sort of run rate we're looking at for 2019.

Rod Avraham Lache - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. And you commented in your deck about improvement that you expect in the second half in EMEA, Maserati and Asia-Pacific. It sounds like some of that is cost savings and some of that is just cycling through some of the inventory adjustments. Can you just give us some color on what would be the big drivers of that back-half improvement?

Michael M. Manley - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Yes, sure, Rod, this is Mike. Let's take China first. I think from the start on the industry level, my view, whether it's right or wrong but it is the view that I have is that industry in China will be bumpy again in the first half. And then as we get into the second half, we'll see some year-over-year growth. So I think there'll be some industry help in the second half. A lot of the work that the team in China has done has been focused on our direct material cost, some of that you can get to quickly. Some of that, because it involves reengineering and testing, takes a little bit of time. So when I think about the amount of work that they've done and really the flow of that coming through, it will begin in the second half of 2019. And then you'll see, as I think I mentioned, more benefit in 2020. In EMEA, some of their actions are more -- will be -- will have an impact quicker. Some of the restructuring actions we started this process. I mean, looking at our structures early at the end of '18. So some of those we'll get the benefit from. But as we change our channel mix, I think that's where EMEA nearly need to continue to really focus. And it's a balance because as we make this transition, we bump into a headline number that says our share has dropped. And what's important for us is that we don't react to that in the way that we've done historically. So I think as we increased penetration into retail channels, that takes a little bit of time. I mentioned I've seen some traction on that, which we have. For example, we're seeing an improvement in the retail channel and we're also seeing some improvement, slight share improvement outside of Italy, which I think is good for the balance of the business. And Maserati is really focused on the first half of cleaning down their inventory levels. As I mentioned, I'm not happy with the '18 sales result. The new sales team that's on board led by Harald. And as you know, we appointed a new Head of Sales and Marketing. I've really worked on what I think is relatively comprehensive plan for this year. But we need to make sure that we get our inventory where it is because it also speaks the engagement of our dealer body around the world and that really will take the first half for us to complete that process. Does that help?

Rod Avraham Lache - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. Yes, it does.

Operator

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

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

I just wanted to focus on 2 products in North America, and obviously the [big easier.] When you look at Wrangler as well as the Gladiator. I'm just curious where you think the volumes can go with those combined programs in Toledo North and Toledo South. I mean the Wrangler is already running I think mid-200,000 -- 200,000, around 200,000 plus or minus. It kind of historically itself had been 150,000. So it's a big -- been a big step up already where it exists, but I'm just curious as you think about the opportunity for that plus the gladiator, where you think these volumes can go sort of on an ongoing basis?



Michael M. Manley - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Yes. thanks. I'll start, John. Firstly, we looked and tried to do as much work as possible to see if we felt that there would be large percentage of substitution between the 2 vehicles. And in our plans, we are expecting somewhere the order of maybe 10%, 15%. So as I think about the combined volume going forward, that really, I think, gives some illustration of maybe people moving from Wrangler to Gladiator. In terms of where the volumes can go, I have no doubt that given the reception we've seen on Gladiator that the production that we have this year will be very quickly taken up by our dealers. And then hopefully, we'll see the market take it up equally fast as it arrives. Wrangler, our max point on Wrangler is difficult to cool because the traditional peak selling period for Wrangler is around spring and as we get into early summer, as you know. So when I think about the fact that Wrangler has been up double-digit numbers and even in January, which is relatively low number, it was up over 8%. The headroom, I think, for both notwithstanding the 10% to 15% substitution got to be, I don't know, 50,000 units, something like that, maybe more.

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

Okay. That's helpful. And then as we think about the Ram and the light-duty and the heavy-duty, I mean there's obviously a lot of competition coming in to the market. I think we often get a little bit kind of confused about talking about market share but your key customer being your traditional Ram and HD buyers as well as some folks sort of on the margin that you might be able to conquest. How do you think about those programs and their success you sort of -- and then you determine really the opportunity that you have in 2019 and 2020?

Michael M. Manley - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

John, I apologize. Could you just repeat the first part of that question? For some reason, I lost you.

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

Well, I think there's often this view that there is these market share shifts in the pickup market. And that is I guess mathematically true in any given year. But the reality is you have new products on the light-duty Ram and the heavy-duty Ram, which should bring a lot of your buyers into the market, which should help your market share just on pure math basis. But I'm just curious as the competition is ramping on the Silverado and Sierra and the HDs at GM, how you kind of think about sort of the market dynamics there and the upside opportunity for you from your core buyers and maybe some conquest buyers?

Michael M. Manley - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

Firstly, when I look at the development of the brand on Ram light-duty, the area that we focused from when we launched it all the way through now was to drive our conquest-to-defection ratio and our loyalty. And as I look at that measure, Ram now is one of the most loyal light-duty pickups in the market. And the last time I checked, which was maybe, I don't know, 2 months ago, we had the highest, the best conquest-to-defection ratio. So that gives me comfort. And when I lay on top of that the awards that it won, the North American Auto Show as well as Motor Trend Truck of the Year, I'm feeling very positive about the vehicle. Heavy-duty for us is obviously a vital segment. And last year, we were the oldest truck in the market, we were basically flat. I mean the segment that went down. So we actually grew share if you take January as an example. And that's with our old truck. So I think that you will see sustained opportunity for us to grow share, notwithstanding the monthly fluctuations, John, that you referred to, which frankly in this market happen, maybe 3, 4, 5x a year. But if you look at just light-duty and what we were able to achieve over 2018, I think we got a fairly significant share gain notwithstanding the peaks and troughs that were in the year. So the other thing that I would turn to then is obviously the price and dynamics and clearly, when you've got a lot of activity in the market, everybody is looking to demonstrate their truck is better and they tend to refer to share. But what I actually think you may see is a bit more price discipline, even though '18 was pretty good because the other thing you get when people launch a new vehicle is they tend to use that as an opportunity to be very disciplined in terms of incentives and disciplined in terms of how they want to change their mix. That's good for us. What that means is, if that's true, and I think it will be, then it's going to come down to brand and to product. And as I said, we worked hard on our brand. And if the awards are anything to go by, we've got very competitive product and we used the same recipe for heavy-duty. So yes, there are going to be some launches in the marketplace. But I think we're positioned very well.



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

And, Mike, you gave us sort of a very helpful 50,000 unit potential headroom on the Wrangler and Gladiator there. When you think about the Ram and the HD, what kind of headroom do you think there is in 2019 versus 2018? I mean like obviously you said, I mean, your fight with older trucks, you got the new trucks in there. What kind of headroom do you think you might have in '19 versus '18 on those trucks?

Michael M. Manley - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Well, I think it's more about where that headroom will be. Obviously, the retail market is where you're seeing a lot of fluctuations, but we've had a very long-standing weakness in, what I think, is an important part of the fleet world and that's commercial fleet business. Our strategy of having our classic truck alongside our new truck gives us the opportunity now to really try and conquest and penetrate in that area. It's not been a strength in the past, but that to me remains upside opportunity. So as I think about 2019, what I'm really asking the sales team to do is to focus on our price and our mix in the retail channel. Improve that. And we saw a lot of improvement in terms of our average transaction price through 2018. It was up roughly 10% from the beginning to the end of the year. But in those areas where we've been performing particularly poor, like commercial fleet, where our market share is well below our retail market share, is where I think we can really see some upside leverage in our classic strategy. In terms of putting a number on it, if I may, John, I don't really want to do that. But my sales teams will probably tell you I do have a number in mind. So if I may, I'll just duck that part of the question.

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

We'll ask it at a later date. Just lastly, when you look at the dividend decision, I mean, obviously, there is the ongoing and then the potential onetime post Magneti. I'm just curious, as you look at the balance sheet, the cash flow, the stepped-up need in CapEx and investment in product, which seems like there's opportunity to invest that money in a very productive way over time, how do you make this decision around the dividend? I mean there is a lot of uncertainty there in the market. There's a lot of product investment that needs to be made. It seems like it might be more prudent to hold of a little bit, but I'm just curious how you're in the system of Fiat Chrysler from the board level to your level. How this decision is being made?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

Look, John, I don't think this is given to any other company. Clearly, we've looked at our actions going forward. We've looked at our current balance sheet position. As we said we delevered significantly in 2018. We've got one agency to give us investment grade credit rating. Our outlook is very positive. I know there be some people looking on our guidance for '19 and thinking it's disappointing, but I think we're coming of record year in 2018 in a series of year-over-year. I think to some extent, there is a bit of reset in some way to some of our businesses, which we clearly need to work on. We're not happy about it, but we don't think it's life threatening in any way. So I think we're working through those issues. We have some good big product coming in the future that will sustain the NAFTA business and the Jeep business in particular. A number of our key products, as you know, are new in the markets as we sit here today. So if I look at our projections into 2019, and including the proceeds from the Magneti Marelli sale, I think we're pretty confident that when we go

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formally with shareholders meeting and everything else on the dividends, on the ordinary dividend and the extraordinary dividend then those things make sense. It's been a long time since our shareholders have received any dividend from us. Focused our cash flows exclusively on improving our balance sheet, improving our broader product lineup. Pretty confident that we can continue to do that. And finances -- finance the dividend going forward.

Operator

And we will now take our next question from Martino De Ambroggi from Equita.

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

The first is a general question on the pricing environment. If you can -- if you could elaborate a little bit on the trend that you expect for you in 2019 in the different -- in the 4 main regions? And the second question is a more precise question on the CapEx side. You already answered, but maybe I missed the reason of EUR 1 billion -- roughly EUR 1 billion lower CapEx last year. And I was wondering if the EUR 45 billion plan over the 5 years is still confirm? Or it must be adjusted for Magneti Marelli deconsolidation?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

I'll take the CapEx questions if you want. Mike? So our CapEx was a bit lower in 2018 due to timing through the year and also maybe you're looking at the final number ex-Marelli is

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but obviously, through the year, we've been talking about a number with Marelli, which is EUR 600 million higher. So that's the difference. And going into the EUR 45 billion, that was ex-Marelli anyway because we were either going to spin Marelli or make some sort of transaction, which is what we eventually did. So that number was already excluding Marelli. Obviously, there are things in that number, which will obviously need to be approved through the next few years. And so it's obviously not an absolute commitment to spend EUR 45 billion. We were viewing, on an ongoing basis, various parts of our business plans you can imagine. So that's the spend that we indicated. We expect to spend a large part of it. But obviously, all the business cases need to stand up individually as we go through the next few years.

Michael M. Manley - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

And I'll take up the -- our view on the industry around on the region. So very quickly if I start with LATAM? Obviously, we've seen improvement in Brazil following the election. We think that improvement is going to continue into this year. Argentina, last year after first quarter, significant contraction. We think that will continue at least through the first half, maybe through -- into the third quarter as you know, the election's scheduled for that period, very much dependent on how the broader economy recovers but with forecast in Argentina to be down. But in total, LATAM to be basically flat. NAFTA, I think, I talked about a little bit earlier in terms of our view on the industry, just slightly down this year, but the indicators seem relatively strong at this moment in time. Europe, I think will be, again, broadly flat to maybe slightly down with obviously Italy being our big market. And I think that will be flat. January was down slightly. But I think as we get into the back end of the year, it will recover. China, the first couple of quarters down, recovering in the fourth quarter. So flat basically. And that's my whirlwind tour of how I see the industries.

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

Okay. Last question on the raw material assumptions in your '19 guidance?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

So we have EUR 750 million of raw material and that will include tariffs in there as well in terms of the 301 and 223 issues in the U.S. So not far off the number we had for 2018, in fact, which was about a EUR 850 million. The mix is a little bit different. In terms of steel being the predominant inflated commodity based on our current assumptions. Obviously, there's a lot of volatility in the pricing at the moment. But at EUR 750 million, we expect to more than offset that with purchasing savings, technical and commercial through the year. So we'll offset the headwind with the actions in terms of efficiencies.

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

So you expect that balance around 0?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

No, I expect a positive balance of about EUR 500 million.

Operator

And we will now take our next question from Adam Jonas of Morgan Stanley.

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

Two big questions. Mike, can you confirm whether FCA will bring back the Dakota mid-size pickup? Everybody else is doing it.

Michael M. Manley - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Well, as you know, Gladiator is going to go straight into that segment. So technically, that's a technical answer even though it's a very much a lifestyle plan, it won't be on the commercial end on the pricing. That's for sure. I think we'll be able to get significant pricing for that vehicle. One of the things that's important for me when I think about our overall commercial vehicle business is given the strength that we have is Fiat professional here in Europe and the rest of world with Ram and with Fiat is that where we sit today, the only vehicle missing in our portfolio is metric ton pickup, which is mid-size pickups in the U.S. I'm working hard with the team to try and solve that. I haven't solved it yet, but if that gets solved, it will give us the opportunity to bring a mid-size truck in the marketplace. Obviously, some of our competitors are going to launch their new mid-size truck. So it's -- as all segments are, they tend to get more competitive. But once we solve that metric ton problem, which we will, then we'll be able to decide because it's a slightly different configuration to the U.S. We'll decide if we move onto the U.S.

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

Mike, just as a follow up to that answer there. Is it unreasonable to assume there may be -- that as you solve that metric ton problem that there may be some expenses in the forward year related to exploring that problem?

Michael M. Manley - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

No, I wouldn't see any significant expenses in terms of the exploration of that problem. Obviously, you will see some CapEx to solve the problem, but no expenses in the exploration of that.

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

Understood, understood. Okay. And then finally, for Europe, and Sergio, I know you're listening here from above, does something radical need to happen in Europe to address continued structural costs and competitive factors in the region?

Richard K. Palmer - Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development

Adam, I'll, if I may, step in and answer that. I think when I look at Europe going forward, obviously, one of our issues, and let me focus on our company, has been historically, we have not had, I would say, strong utilization of our plants. And obviously, that to certain extent has weighed on us. So I think the industrial plan that we announced to a very large extent solves that issue as long as we can make the sales volume associated with that. And then again in our business, and this is what we're working on, we need to remove some of the costs there so that we can become more competitive. But I mentioned earlier that, we're open to partnerships. One of the key things that will solve it ultimately is scale, whether that scale comes because people leave the market or whether it comes because you form partnerships, we'll obviously see. So we have a number of partnerships already that have worked well for us. We work with Peugeot on commercial vehicles. You know the BMW one as well. So I think what you're going to see is more collaboration in Europe to try and drive the scale that will drive the costs down, particularly as you get into the early to mid-'20.

Operator

And we will take now our next question from Dominic O'Brien of Exane.

Dominic Patrick O'Brien - Exane BNP Paribas, Research Division - Analyst of Automotive

It's actually just a follow-on from what Adam was saying. And so on this partnership side, could you just explain what you really think of it just conceptually. Have you already have discussions with anyone on this? And would you choose to limit to sort of an arm's length technology share or could you consider sort of integrating more deeply with another OEM? And just following on from that. Richard, you mentioned that for each CapEx investment, the economics would have to stand out for itself. And -- does it make economic sense for Fiat to develop another generation of its small and mini car platforms on its own? Because as an outside observer, it just seems that economic case to those now is more -- well, greatly diminished I would say.

Michael M. Manley - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

So, Dominic, I'll try and get to the answer to the first question for you. Following on from my previous answer, obviously, what we're looking for is scale in any platform and how best for us to get that scale. What's becoming increasingly apparent is that with the different types and the different approaches to

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go to and

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in that area is that the concept of a really true global vehicle is probably not what it was a few years ago. So how do we find scale? We can either find it within our brands and I think we have opportunity to do that, or we can find it with a partnership. And as long as that partnership is with people who have very similar values to us and has ended into a win-win basis then we'd be interested in talking to people. And by the way, we're talking to people all of the time and have in the past. So whilst we're already talking to people, the answer is, yes. But that's something that's not new today. It's something that's been going on for some time. The scope of any partnership will very much depend upon those talks and the opportunities that are there. So it's difficult for me to say would I restrict myself to something. What I'd like to try to do is to find the best partnership that's

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a particular situation out.

Richard K. Palmer - Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development

With regard to... Dominic, have you got a follow-up?

Dominic Patrick O'Brien - Exane BNP Paribas, Research Division - Analyst of Automotive

No, no, go ahead, sorry.

Richard K. Palmer - Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development

With regard to the platform, I think we have a very strong position in the mini car platform historically. Obviously, Italy is the biggest market in Europe for that. 500 or Panda vehicle, Ypsilon vehicle, they're all very strong competitors. They make

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for us. Obviously, the

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challenges going forward create an economic challenge in that platform as they do in others, frankly. I think -- back to your prior question, I think we have enough volume ourselves to build a business in that area. We need to be extremely careful about spending capital efficiently to differentiate as a brand that we offer but to maximize the commonality of the vehicles and the powertrain offerings that we have, including electrification. And if we can find a partner do that with, as Mike talked about, it would help the scale, but I don't think it's absolutely necessary because we already have a lot of scale in that segment and it's about us making sure that we find commonality and maximize efficiency. We have a great plant in Poland which does that very well today. And so I think going forward, we can continue to be competitive in that segment.

Dominic Patrick O'Brien - Exane BNP Paribas, Research Division - Analyst of Automotive

Okay. That makes sense. And just one follow-up on a different note. For the 2020 guidance, the EUR 9.2 billion to EUR 10.4 billion of adjusted EBIT, is that now off the table? And should we think of these 2019 guidance as we're basing those expectations?

Michael M. Manley - Fiat Chrysler Automobiles N.V. - CEO & Executive Director

No, absolutely not, Dominic. I would like to give you my -- if you like, my thought process with regard to that. So one of the things that is becoming very, very clear, if you look back from 2014 to where we ended up is, what's very, very important to us is obviously the numbers. We lay out what we think is a root to getting there but we have proven to be very flexible in terms of if we need to change, if we need to switch, we will do that. But very much focused on the numbers. So let me just think about 2020 with you and see if what I say makes sense to you. So if you strip out Magneti, we ended up with a -- was it 6.1% margin, Richard? 6.1% margin and we targeted 7.5% to 8.5%. So on the margin front, I think here, we have every opportunity to get to a margin within that range whether it's the low end of the range or not, it could get to within that range. Now obviously, you have to have NAFTA at least 10% plus. And we hit 10% plus in NAFTA. It just needs to be sustained. And I think some of the product launches that we've got planned and are scheduled as well as some of the work that we're doing on our cost and efficiency is going to make it much easier for us to do that. And then that 6.1% was based upon very difficult circumstances in APAC, for example, EMEA and Maserati's performance. And I think the work that we are doing as we get into 2020, you'll begin to see the benefits. So on the assumption that we can get to that margin range then it's about revenue. And as I said, you'll have Gladiator for full year, heavy-duty, LATAM, they'll have the new Strada, for example, plus other launches that are there. So I wouldn't put 2020 out of the picture. I think it's something that is still very much there. And if our opinion changes, we'll let you know.

Operator

And we will now take our next question from Philippe Houchois from Jefferies.

Michael M. Manley - *Fiat Chrysler Automobiles N.V. - CEO & Executive Director*

Tara, why don't you go to the next question, please, and if Philippe is...

Operator

Sure. So we will now take our next question from Thomas Besson of Kepler.

Thomas Besson - *Kepler Cheuvreux, Research Division - Head of Automobile Sector*

It's Thomas Besson with Kepler Cheuvreux. I have a couple of questions for you. I'd like to first come back to the question on from John on the dividend. Can you give us an idea on the timeline on when we're going to know what dividends you suggest and what dividends is approved in terms of regular dividend and confirm that the special deal will be EUR 2 billion once the Magneti Marelli deal is closed?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

Yes, well, the dividends will be confirmed as we go through the AGM, which is the middle of April. So that's the timeline. And so far what we've talked about is our dividend policy through the plan for ordinary dividends will be 20% of net income overall through the plan period. And the special dividend related to closing the transaction for Marelli will be EUR 2 billion subject to the approval. So that's the timeline.

Thomas Besson - *Kepler Cheuvreux, Research Division - Head of Automobile Sector*

Great. And when you talk about 20% of net income, it's the published net income not the adjusted net income, right?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

It's the adjusted net income, basically, because we regard the -- obviously, the nonrecurring items are nonrecurring items. So...

Thomas Besson - *Kepler Cheuvreux, Research Division - Head of Automobile Sector*

Thank you very much for the clarification. I need another one if I may. On Magneti, the contribution of the business improved substantially in '18 versus '17. Even if that goes away, do you mind explaining why, please? And can you confirm also that the EUR 1.9 billion net cash you are showing in your press release is excluding Magneti Marelli?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

Okay. So ex-Magneti Marelli, won't have any significant impact in terms of cash beyond the proceeds which we talked about in Q3 of around EUR 6 billion. And so the business itself generated -- if we look at the EBITDA, it was in line with our expectations. It's just over -- just around EUR 900 million. There were some D&A changes because of the accounting for the transaction going into Q4. But in terms of EBITDA performance, it was actually slightly -- it was basically flat year-over-year.



Thomas Besson - *Kepler Cheuvreux, Research Division - Head of Automobile Sector*

Okay. In terms of the net debt post -- at EUR 1.9 billion is excluding the Magneti Marelli?

Richard K. Palmer - *Fiat Chrysler Automobiles N.V. - CFO & Head of Business Development*

Yes, the EUR 1.9 billion includes the whole business, but when we sell Marelli, will get the proceeds and that will be it.

Operator

I would now like to turn the call back to Mr. Veltri for any additional or closing remarks.

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

Thank you, Tara. With that, we are going to close today's call. Again, I would like to thank everyone for joining us today. Have a pleasant afternoon. Thank you.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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