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FCA.MI - Q3 2019 Fiat Chrysler Automobiles NV Earnings Call

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PRESENTATION

Operator

Good afternoon, or good morning, ladies and gentlemen. Welcome to today's Fiat Chrysler Automobiles' 2019 Third Quarter 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.

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

Thank you, Serena. And welcome to everyone joining us today for our review of FCA's third quarter 2019 results.

The presentation materials for today's call along with the related earnings press release has been posted under the Investors section of FCA's group website. Our call today will be hosted by the group's Chief Executive Officer, Mike Manley; and Richard Palmer, the group's Chief Financial Officer. After their presentations, Mike and Richard will both be available to answer questions.

But before we begin, I just want 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 is included on Page 2 of today's presentation. And as customary, the call will be governed by that language.

So with that, I'm going to turn the call over to Mike.

Mark M. Chernoby - *Fiat Chrysler Automobiles N.V. - Chief Technical Compliance Officer*

Thank you, Joe. Well, good morning, good afternoon, everybody. And I'd like to start by thanking you very much for joining us. So today, there are effectively 4 parts of our presentation that we want to give. The first one will be me giving you a quick run through of the operational highlights of the quarter. The second part, which will be normal, Richard will take you through in depth the quarterly financials, and then I'd like to come back and spend some time giving more detail of the actions taken and underway to continue to improve our operational performance in key areas of our business, and I'll also during that part touch on guidance for 2020.

And in the final part as Joe said, we're going to end with our normal Q&A session.

So to begin, we're very pleased with our results as we delivered a very strong quarter for the group. We achieved a record performance with group adjusted EBIT of EUR 2 billion, which was up 5% over last year and a margin of 7.2%, up 40 basis points.

North America also achieved a record result with adjusted EBIT of EUR 2 billion and a margin [of] new high of 10.6%. These results were in large part attributable to the strong performance of our Ram brand, which continues to earn share in the U.S. large pickup market as our sales and share were higher across all segments compared to last year.

Now in Q3, we increased our truck share by 170 basis points year-over-year to 25.4 and what I'm especially pleased with is that, even with this share growth, we were also able to increase our customer transaction prices whilst reducing our overall incentives from the same period in the prior year.

Now I think this is clear evidence not just to the quality of our trucks, but also the Ram brand team's drive and motivation to grow volume, margin and share. And by the way this EBIT margin performance in North America means that the regional team has been able to more than double margin whilst maintaining share over a 5-year period. But it isn't just North America, our team in Latin America continued to deliver strong results and improved profitability with adjusted EBIT up 83%, that's 83% and margin increasing to 6.9%.

Now we all know the challenges that the LATAM region presents at the moment, particularly with Argentina. So I view this is a great result from the team.

Now as you know, we've been working very hard to improve the profitability of our EMEA region and the performance of our Alfa Romeo brand. And during the quarter, we finalized details for revised product portfolio plan in Europe for the A-segment as well as for Alfa Romeo and I'm going to spend some time later during this presentation to detail why we've taken these actions and what the benefits will be for our business. And these actions resulted in a noncash impairment charge of EUR 1.4 billion during the quarter and obviously they are excluded from our reported adjusted results.

Now we also made significant progress in the transformation of our Mack Plant in Detroit where we planned to build the all-new 3-row full-size Jeep SUV. The construction work is proceeding as planned and the plant is scheduled to be completed early next year with production to begin late Q4 2020.

Now, finally as we announced earlier today, our Board and the Board of PSA have each unanimously agreed to work towards a 50-50 merger that would create the world's fourth largest global OEM. And we're not going to add anything to the detailed joint release we made this morning so this call will still be focused as planned on our Q3 results, but I would just like to add the following.

Both companies know each other very well and the personal rapport is excellent. So we've been able to move quickly to get to this stage and without going into too much detail on timing, there is still plenty of work to do before we reach a formal agreement, but what's clear is that the opportunity this represents both companies is very compelling.

Now a merger will bring together 2 strong and complementary businesses to produce a genuine global mobility leader and exploring this combination is absolutely consistent with everything we've been saying for long time about the need for smart industry consolidation. Obviously, all the normal caveats apply, but if we're able to finalize this transaction, there is significant potential value to be released to the benefit of all stakeholders on both sides and that is the spirit in which everyone is working.

Now in the meantime, we're still very much focused on running our current day-to-day business and our attention to that will not change. Now as discussions develop, we'll, of course, keep you informed as appropriate.

So let me turn to the commercial performance of the business. In North America, the overall industry was substantially flat. However, our market share was up slightly year-over-year to 12.1% reflecting the strong performance of the Ram brand, which posted record third quarter sales in the U.S. as well as the continued ramp-up of the all-new Jeep Gladiator.

In Asia Pacific, as you know, the market continues to be difficult, particularly in China and India, and our sales were down year-over-year reflecting lower sales in both of these markets for our locally produced Jeep vehicles, which was somewhat offset by higher sales across the region of imported Jeep Wranglers.

In EMEA, our sales decreased primarily as a result of the discontinuance of the Fiat Punto and the Alfa Romeo Mito as well as a lower overall Fiat brand volumes. However, we recognized our commercial challenges in EMEA also reflect the age of our product portfolio compared with our major competitors, which is one of the key issues we're addressing and I'm going to provide you more details later on this call.

And finally, in Latin America, we had another solid quarter especially in Brazil where we continue to see strong performance, which more than offset continued market weakness in Argentina. And once again, we remain the overall market leader in Brazil with an 18.4% overall share and continue to have the higher share in important segments such as the SUVs, where we had 21.4% share; pickups, 41% share and LCVs where our share was 41.2.

As I mentioned, Richard will take you through the detail of the financials. So I'm just going to quickly give you an overview of the group's Q3 performance.

We're working with our dealer network to achieve and maintain discipline [with] stock levels continues to be one of our top priorities. And in North America, our dealer stock is now in line with the demand whilst at Maserati we continue to make progress. There's still some work to do, but we expect it to be completed by the end of the year. And primarily because of the stock-related efforts, our total shipments for the quarter were down nearly 100,000 units year-over-year. However, through pricing discipline continued focus on improving in mix and rigorous cost control, we were able to more than offset the impact of lower volumes and delivered record adjusted EBIT of EUR 2 billion and a record margin of 7.2%. And here, I would like to thank all of our regional teams. I think delivering a record quarterly result despite taking out 50,000 vehicles from dealer stock during the quarter is a great achievement. And you can see they also effectively held revenues flat year-over-year with disciplined mix and pricing actions and this continued with aggressive cost out initiatives, which we will continue to benefit from going forward and that was what yielded a record group margin.

And lastly, we generated positive industrial free cash flows of nearly EUR 200 million, notwithstanding the CapEx spending of over EUR 2 billion and our liquidity remains strong at nearly EUR 24 billion.

So as I said, overall, we're very pleased with the results for the quarter and the momentum it provides us as we go into Q4. And on the back of this result, both in the quarter and year-to-date, we confirm our guidance for the full year.

And with that, I'm going to hand you over to Richard. Thank you.

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

Thanks, Mike. So starting with Page 5. As Mike mentioned, we had record results for the quarter with an adjusted EBIT margin for the group of 7.2%, which was achieved along with further reduction in our North American dealer stock levels of 40,000 units. This North America stock reduction compared to a stock increase last year and was the main reason for reduction in shipments of around 80,000 units.

Net revenues were flat at just over EUR 27 billion for the quarter with positive FX translation, pricing and mix offsetting the volume reduction. Adjusted EBIT was up 5% year-over-year to EUR 82 billion and adjusted net profit was down 6% due to an increase in the adjusted tax expense rate to 25% from 17% last year, mainly due to the non-repeat of a U.S.contribution last year and a change in FX impact on Mexico and Argentina nonmonetary assets.

The adjusted net profit excludes the impairment charge mentioned earlier of EUR 1.4 billion pretax. This noncash impairment charge relates to the changes Mike mentioned regarding our product plan going forward leading to a rationalized European plan, which will focus on [our] certain vehicle platforms to facilitate electrification and portfolio renewal, while maximizing investment efficiency and part commonality. The charges relate mainly to the Alfa Giorgio platform for EUR 800 million and the A-segment mini platform in Europe for EUR 400 million.

Industrial free cash flow was EUR 178 million positive for the quarter, up from EUR 98 million negative last year. And our available liquidity increased by EUR 0.3 billion as a consequence of the industrial free cash flow and some positive FX translation, which offsets the cash used for a bond repayment of EUR 0.2 billion in the quarter.

This strong Q3 operating performance as Mike mentioned allowed us to confirm our full year guidance.

Moving on to Page 6. We look at the adjusted EBIT development year-over-year. Adjusted EBIT grew by 5% as mentioned and consolidated shipment volume was down 94,000 units for the group mainly due to the dealer stock reduction actions mentioned earlier. This impacted us -- this dealer stock reduction impacted adjusted EBIT by around EUR 450 million and was offset by positive mix of EUR 300 million mainly in North America and Asia Pacific, positive price of around EUR 200 million contributed by North America LATAM and Asia Pacific and good cost control over industrial costs and SG&A as well as positive FX translation of EUR 75 million.

The Q3 result takes us through year-to-date adjusted EBIT of EUR 4.6 billion and allows us to confirm our guidance as mentioned earlier.

Moving to Page 7. We look at the industrial free cash flow which -- and a seasonally weak cash flow quarter remained positive as mentioned earlier.

CapEx was EUR 2.2 billion for the quarter as we continued progress on the important Grand Wagoneer and 3-row [E] SUV projects in North America, in particular. Working capital was negative EUR 0.4 billion, primarily due to EMEA seasonality, which was, however, contained compared to prior year due to the more [safer] level of production from Q2 to Q3 and further reductions in inventories. Changes in provisions was negative due to continued reduction in dealer stock, mainly in the U.S. and Maserati.

Financial charges and cash taxes were lower in the quarter due to timing of tax payments. Our net industrial cash in September was EUR 3.7 billion, up from EUR 3.3 billion at the end of June reflecting the EUR 0.2 billion positive cash flow and net positive FX.

Our year-to-date industrial free cash flow now stands at EUR 0.7 billion and our fourth quarter industrial free cash flow is expected in excess of EUR 0.8 billion compared to EUR 2 billion last year, that means we're feeling confident about our more than EUR 1.5 billion free cash flow guidance for the year.

Moving to Page 8. Shows our adjusted EBIT performance by segment. Both North America and LATAM had very strong quarters, up 4% and 83%, respectively, with North America margins at a record 10.6%. APAC has significantly reduced its losses year-over-year and Maserati continues to [reduce] its stock levels.

Now I'll get into the individual segment starting with North America on Page 9. Shipments were down 11% to 600,000 units for the quarter compared to sales slightly up to 641,000 units. So as mentioned, dealer stock was further reduced by 40,000 units to 71 days of supply.

Shipment nameplate mix was positive with new Gladiator 31,000 shipments, offset by reductions in lower margin nameplates.

Revenues were flat with favorable nameplate mix and FX offsetting the lower volumes.

Adjusted EBIT was improved due to positive nameplate mix, partially offset by negative market mix due to higher fleet and Canada volumes, which nearly offset the reduced 73,000 of volumes.

Net positive pricing related mainly to the new Ram heavy-duty. There was a good performance on industrial costs with product cost for the new Ram heavy-duty offset by efficiencies on manufacturing and logistics and also cost actions related to SG&A for the quarter.

The other column is principally due to FX translation from the stronger U.S. dollar.

On Page 10, we see the APAC results. Combined shipments were down 24% to 35,000 units, driven by China JV shipments down 26% and consolidated shipments down 11%. Net revenues were up 18 due to favorable mix and with the new Wrangler volumes increasing.

Net price was positive due to the non-repeat incentives related to China 5 transition last year. Notwithstanding the top line challenges, the progress on commercial discipline and cost reduction has allowed the team to minimize the loss in the quarter.

Industrial cost and SG&A were both positive as the team focused on simplifying the organization structures between the joint venture and FCA, particularly in China, and reducing duplicative cost.

The equity result for the JV in China deteriorated by EUR 17 million due to the decreased volumes as mentioned earlier.

Moving to Page 11, we show the EMEA region. Combined shipments were down 4% to 270,000 units. LCV volumes were flat and the reduction was driven principally by passenger car volumes and in particular the discontinued Punto and Mito vehicles as well as the 500X. Dealer inventory levels were up from 73 days to 93 days and dealer stock was 250,000 units at the end of the quarter, a slight reduction from the June level. We're targeting to further reduce dealer stock over the next few quarters to support the focus on better profitability through the entire retail sales channel.

Net revenues were EUR 4.7 billion for the quarter, down 6% in line with the volume decrease.

Adjusted EBIT was a loss of EUR 55 million, driven by the seasonally lower volumes as well as negative pricing. Industrial costs were negative due to EUR 30 million of compliance cost, EUR 20 million negative FX on U.S. dollar purchases, offset by net efficiencies in purchasing.

SG&A was reduced by EUR 57 million, split between lower advertising spend and the impact of restructuring actions on G&A costs. Other include improved results from both FCA bank and Tofas.

Next on Page 12, we'll review LATAM's results, which were very strong for the quarter. Shipments were in line with prior year, 150,000 units with Brazil up 8%, offsetting Argentina, down 26%.

Revenues were up 10% to EUR 2.2 billion with positive net pricing of EUR 126 million of which about half was due to the recognition of a one-off indirect tax credit. The adjusted EBIT of EUR 152 million showed strong margins of 6.8% for the quarter. Mix was positive due to lower volumes of the Fiat Toro pickup -- sorry, mix was positive due to higher volume of the Fiat Toro pickup and improved performance from the after sales business. Industrial costs were negative due to input cost inflation on purchasing and the non-repeat of a reserve adjustment in the prior year.

On Page 13, we see Maserati. Sales were down 29% with similar decreases across all models.

On a regional level, North America had the largest reduction of 37%, while China was down 17% and EMEA down 33. In China, there is a lot of focus on destocking China 5 units and that was substantially complete at the end of September.

Shipments were down 48% as dealer stock reduction continues with 1,500 units taken out in Q3. Revenues were down 38%, which drove Maserati into a loss for the quarter of EUR 51 million. Absent destocking actions, the loss would have been about half that number.

Year-to-date, Maserati's loss of EUR 159 million is substantially all related to destocking actions and the adjustment of residual values in North America that we booked in the last quarter. Clearly, the focus of the team is for Maserati to start making money again in 2020.

On Page 14, we will turn to our full year guidance. Our industry outlook is substantially unchanged for NAFTA and EMEA. Argentina continues to be very soft and we're reducing the forecast to 0.4 million units from 0.6 previously. Also the China weakness continues, and so we adjust that down by 400,000 units for the year, down 6% year-over-year.

Given this outlook and reinforced by our strong Q3 results, we confirm our full year financial guidance. This implies the Q4 adjusted EBIT of EUR 2.2 billion with seasonally higher Q4 volumes, driving the improvement versus the Q3 EUR 2 billion.

We expect North America and group margins to be in line with Q3 levels. I already talked about Q4 industrial free cash flow, which we expect to be in excess of EUR 0.8 billion and so take us to our guidance of more than EUR 1.5 billion for the year.

Lastly, and for clarity, I want to note that as management we do not expect that the impairment charge will have any impact on the company's dividend policy, which is based on our longer-term earnings power, and specifically, on adjusted net income performance and obviously our liquidity levels, which are strong, as I mentioned earlier.

I will now hand back to Mike to continue the presentation. Thank you.

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

Thank you, Richard. So this is part 3 of the presentation with you guys today. [Alison] , I realize it's not customary for us to provide guidance for the upcoming year this far in advance. However, we believe, it's important to make an exception this time.

Now, as you know, I've been in this position for 15 months and as I've laid out on this page, the leadership team, including the new members we have added, I think has accomplished a great deal which has helped to put the company on a very solid foundation. But we still have some challenges. And in fact, you've heard me talk about these issues on previous earnings calls regarding our performance in EMEA, APAC as well as with Maserati.

Now we're very confident that we have a clear path to having these parts of our business return to our expected profit levels, which combined with our strong position in North America and LATAM will generate long-term sustained profitability.

And while we expect improvements next year, some of the underperforming areas will require a longer period of time to achieve the performance we expect and therefore the 2020 targets laid out as part of our Capital Markets Day last year are really not reflective of where the business is today. And in fact, when I look at the consensus of the sell-side analyst community, most of you have the same belief.

Now given all of this, I want to recap some of the actions we have taken to address these challenges and give you some context of our expectations for the coming year. I'm going to begin with Maserati. Now on our last call, I provided you the details of our future product portfolio plans for the brands, and you can see them again here. Now the strategy with Maserati is to refresh or renew the entire portfolio by 2023, with product action starting next year. The first all new product you will see is the Maserati sports car, which we'll launch late next year, but you're going to see it probably in the first half, which will also include a cabrio version to launch in 2021. Now this vehicle is already highly anticipated and it will be available with a full battery electric powertrain and provide defining expression to the brand. Now this will be the pivot point for Maserati to enter the ever-increasing electrified world as all products launched thereafter will also be available with a full BEV variant.

Next, we'll expand the portfolio with an all-new D-segment UV in '21 and this will be followed by launches of the next-generation versions of GT and GC Quattroporte and Levante. And you know, I've made a number of leadership changes in our Maserati team and the leadership team is in place and we'll have completed the subsequent restructuring of our commercial division by the end of the year. Now, this is very important because what we've been able to do during this period as we've destocked our dealers is really think about the structure, the skills and the leadership we need in this critical resource area for us to go forward. And as I said, I'm very comfortable that will all be in place and delivered by the end of this year.

And you can tell, I hope that I'm really excited about the plans for Maserati because I think we'll have addressed the weaknesses that were inherent in the business for a period of time. But we think it is important to share the vision with the brand's stakeholders and we plan to do this by our special event, which will be dedicated to Maserati and is planned for the first half of next year so details of that will follow very, very soon.

Now as you know, I'm not been happy with the performance of Alfa Romeo. And while I fundamentally believe in the brand, we must make sure that any investments that we make generate an appropriate return. Therefore, we spend a lot of time and we're going to refocus our portfolio of actions for the brand to segments and geographies where we have successfully competed in the past. And we'll also maintain the brand's premium position in the marketplace.

Now as a result of this, in the near term, the new portfolio for the brand is significantly scaled-back with a corresponding reduction in capital spending, and I believe these actions will allow the brand to return to profitability. And while there are no product actions planned beyond what you see here, obviously, I wouldn't rule out that possibility in the future, depending on the performance.

Now for our EMEA region, I'll spend a little bit of time talking about this area. I think really we have 3 structural issues that we're in the process of fixing. Firstly, the average age of our portfolio is the highest in the industry and this affects our ability to gain margin and share. I mean, notwithstanding that, as you know that Fiat 500 continues to perform very well, but that's because it's an icon of the brand. And it's important for us to address this and our product plans will progressively reduce the average age of our portfolio by approximately 4 years in the coming years.

Now these product actions start next year, and they're building cadence going forward. And remember all of these product plans include a full range of electrified powertrains.

Now the second issue in EMEA is that Fiat has a very high exposure to the A-segment, which as you know, is relatively low margin. And we -- I believe, have relinquished its strong historical presence in the larger higher margin B segment, where by the way, we still have an established car park of approximately 6 million vehicles. Therefore, in the very near future, you will see us restructure our product portfolio to refocus on these higher volume, higher margin segments and that will involve a move away from the A-segment and as Richard explained, that drives one of the impairment charges that we're taking.

Now the third issue that I think we've got is a historic underutilization of our European plants. And although much work has already been done to change this profile with the localization of Jeep and some of the investments in Alfa, this work will be completed as our current plans and future product cadence will enable us to progressively reach full manpower utilization by 2022.

And in the meantime, as you can see on this page, the restructuring actions we started at the beginning of this year are now yielding results, and this will remain a constant focus for the EMEA team going forward.

I do just want to say that these issues in EMEA will get fixed with or without a merger, but resolution will be considerably enhanced both from a speed and the cost perspective in the proposed merger announced this morning.

Now with all that taken as a backdrop, let me share with you our guidance for 2020. Now as Richard pointed out earlier, we confirmed our 2019 guidance on the back of record Q3 results. And looking ahead, there are a number of items that challenged our results this year that we don't expect to repeat in 2020.

Now perhaps the biggest tailwind we're going to have going into next year is the non-repeat of the impact from our disciplined approach this year related to dealer stock, which included about 130,000 units of volume in North America and 7,000 units from Maserati. Now this along with positive contributions from having a full year of the all-new Jeep Gladiator and Ram heavy-duty is expected to more than offset the negative impact from several items, which will include 14 weeks of planned downtime of production of our Ram 1500 classic. Now we need to do that so we can [route all] that plant to begin producing the all-new Wagoneer and Grand Wagoneer, which will happen in the very later this year in Q1 2021 and remember that's white space product for our Jeep brand very, very high margin segment. So we expect significant future margin expansion and volume from that area as those vehicles come online. We also, as you would expect, have higher regulatory compliance cost in North America and EMEA and high CapEx spending year-over-year from planned product portfolio actions and development of electrified powertrains.

Now taking all of that into account, we're confident that in 2020, we can deliver even higher results than we've guided you to for 2019 as we expect to deliver an adjusted EBIT of over EUR 7 million, which will be a new record for the group and industrial free cash flows will be in excess of EUR 2 billion. And when I look out beyond that, 2022, we broadly see that our margins will be in line with the targets from Capital Markets Day, particularly those in North America, but in some of the regions we still think there will be lower volumes driven by some of the markets. If you think about

Turkey, Argentina, China, the dynamics at this moment are difficult and we think that in some of those markets, they will remain that way for a period of time.

As I've already mentioned, the refocus on Alfa and Maserati as premium and luxury brands and that will mean our prioritization of margin over volume. And we have made some product plan changes, moved some product back such as Alfa. And we've done that to make sure that we smooth our CapEx over this period of time. And I've just spent some time going through EMEA, [while most into] our Capital Markets Day was that we did not foresee the deterioration in EMEA that we've seen. We are very, very confident in the plans that we have in place. And as I said, should the merger go ahead, I think they will be significantly accelerated. And I'm comfortable that they will be addressed, but obviously, these things take some time.

So with that, Rich, do you have anything to add before we....

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

No.

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

Joe, I'm going to hand it back to you for Q&A.

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

Thank you, Mike. Before we do start the Q&A session, I just want to point out that while FCA has announced that the company is in discussions with PSA regarding a possible merger that the company is not in a position to discuss this matter any further today than what has been disclosed in the press release that was issued earlier this morning. Therefore, we appreciate your cooperation during the Q&A session by holding any questions related to this matter for the call.

With that, I'm going to turn the call over to Serena, and we can begin the Q&A session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Rod Lache of Wolf research.

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

You're going to challenge me to not ask anything about this PSA, but I'll give it a shot. Thanks for taking my question. First, maybe just preliminary thinking on 2020 that you laid out. Just based on in Europe, the industry pricing announcements that you're seeing, do you have any updated views on regulatory costs that would be absorbed and what you're expecting will be passed along? And also related to Europe, that average age of your portfolio increasing to 6.5 years, it sounded like that was deliberate at least as of a few years ago, just because the returns were relatively low in the mass market there. Can you just elaborate a little bit more on what's changed and what's convinced you that that you can actually achieve those kinds -- appropriate level of returns within that market?

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

Yes. Sure, Rod. This is Mike. I'm going to go first and Richard can chime in. I have to tell you that when I look at the pricing in Europe, in particular, for electrified vehicles, I'm actually much more encouraged now than I was a few months ago, particularly on the full battery electric side. Take rates seem to be improving and there seems to be a degree of discipline in the market for pricing.

Obviously, it is very early, really, and we'll see it to develop a more as we get into next year, but as I said, I personally I'm more optimistic now than I was several quarters ago. We still carry in our plans just as a matter of record about a 60% recovery. But what we've also done with all of our teams is recognize what that delta would be and we've effectively tasked them to go and get it from the other areas of the business because we've got a big drive on efficiency and costs as you've seen.

Interesting second part of your question, let me give you the answer in this way. The first 10 years of our existence, as you know, we didn't have a huge amount of resources. By the way, the characteristic that I'm going to describe now still exists in the company so don't think just because I've described this characteristics, we suddenly think we can invest in everything. But what we wanted to make our investments was in those vehicles and those products and those regions that we felt, given the limit of resource that we have will give us the quickest and best return on the money. And you can see that coming through in our margins, both in North America as well as the Latin America and that meant that some parts of our business, we challenge those teams to survive for a longer period. The consequence of that is obviously an aging fleet. What we also saw was because of the need to pullout of some segments because of the age of the vehicles, we were effectively walking away from historical strong point for our Fiat brand in our EMEA region and now, given the fact that the A-segment will be intense margin pressure, it's appropriate for us to move back in, not just to take advantage of the 6 million vehicle part that we've got in there, but also as you know, the biggest segment and its's a much higher profit segment than the A-segment and I think it's the appropriate time for us to do that.

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

Okay. Thanks for that. And just lastly, obviously, the UAW negotiations haven't begun yet, but just at a very high level, any thoughts that you can provide on the patterns that has been established? And does your fourth quarter free cash flow guidance include an estimate for the signing bonus?

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

It's Mike again on this. The fourth quarter cash flow does include an estimate on the signing bonus that is embedded in there. What I would say is obviously each of us, each of the big 3 in Detroit are in different conditions in terms of labor workforce. I don't want to get into too many details. I understand that now the Ford negotiations will go to vote and we'll be up next. For us, we've continued to work with the UAW during this period, and I'm hoping to be able to get to a conclusion of the negotiations and get on with building great cars in the near future, but beyond that, I don't want to get into speculation of what may work and what may not work here.

Operator

We'll now take our next question José Asumendi from from JP Morgan.

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

Two questions, please. As we think about your 2020 guidance, Mike and Richard, can you comment a bit if you are making substantial improvement of profitability, both in Europe and APAC, or is everything related to North America and Brazil? And second question, Slide 18, I think very good wrap up of what's going on in Europe, I mean, clearly you are taking a lot of action there. When I do the math, it looks to me like you need to go through another wave of headcount reduction, get closer to reach, sort of, 10% to 11% labor cost to sales ratio. So Mike, just we love to hear from you, please. Do you think there's another wave of headcount reduction that is similar to a 5,000 level that you will execute in the coming sort of 18 months to return the business to solid profitability? And also, if you could comment on your thoughts on the SUV mix, you're planning 18 months out, because I think -- so [if] the SUV mix and that labor cost to sales ratio are key to return the business to profits.

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

This is Mike. I heard the first part of question. So I'm going to answer that. And then we're going to ask you to, if you may....

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

I'll repeat the [stuff].

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

So your question in the first part was, is that 2020 number that I gave you how much improvement in NAFTA and EMEA [and] China. What I can tell you is we do see improvement, we do see a return to profitability in both of those regions, but it is not the material driver of our improvement year-over-year, which again will be a record year for FCA should we deliver on this guidance. But the work that we have done, we're already seeing improvements. If you look at China, for example, and Richard took you through, you can see the restructuring work and the cost out work coming through strongly in our price and our cost. What China now needs is volume. Those things, I think we've done half of the work and the commercial teams are relaunching our marketing efforts in the fourth quarter, and they'll obviously gain traction. So I'm expecting them to return to profitability, but not to be the material drivers of, again, another record year for us. And the same with EMEA, we've done a number of actions that you are going to begin to see the benefit because our portfolio will begin to get renewed next year with the launch of our full battery electric Fiat 500, our plug-in hybrid Jeep Renegade, our plug-in hybrid Jeep Compass as well as refreshers on our Alfa products in the marketplace. And if you would mind just repeating the second question, we try and turn it up on our end. I think it maybe us.

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

So the second question is basically Europe profitability, you're clearly making inroads, you're taking action. It looks to me like probably there's another wave of headcount reduction you need to do in order to get closer to the 10% 11% labor cost to sales ratio I've done the math it looks like you're targeting a 5,000 headcount reduction. And so I think there's another wave of headcount reduction you need to do in this region in order to improve substantially the profitability. If you agree with this statement or not? That's the first thing. And second, if you could comment on your share of your product mix in Europe, a year out, the share of SUVs, how do you see that evolving, please?

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

Yes. I think I've got most of it. So if -- I'm going to try and answer all of it, but if not, just obviously, come back to me. Hang on, my line is gone. Problem in the mic.

The headcount reduction we referenced is 90% already done. If you look at the efficiency measures that we have, whether that's vehicle produced by headcount or percentage of headcount revenue, we are leading in the marketplace already. I think that's certainly on the commercial side and the brand side. So I think the work that they're going to do that they have now basically completed, it will put us in very good shape. We still do have some work in terms of the headcount utilization in the plant. And as I mentioned, we're confident that we'll reach full utilization of the headcount by 2022, but I do think that they're very, very important drivers of the -- of getting EMEA back to a good levels of profitability in the future. That was -- I believe that was a third point.

The last thing was percentage mix of the SUVs. The -- obviously, the market moved it that way. I believe that the actual volume of the SUVs will grow, the percentage mix as we bring on the B segment moves that is well planned now. The percentage mix of our sales will probably hold or be slightly diluted because that B segment is much bigger than the segments we play in. And we have I think a really good strategy to maximize our play there with the brands that we have got. LCV, you've heard me say it before is very important for us as a group, I have aspirations for us to become the #1 LCV manufacturer in the world. We have a long way to go, but I think the team is very, very focused on that. So you will see moves over the coming years to help us develop in that area.

Operator

We will take now our next question from the line of John Murphy of Bank of America.

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

Just a first question to follow-up on focus on Slide 18 in Europe. The way you're talking about this is manpower utilization, not plant utilization. So I'm just curious, if you might be able to move some folks around it and close the plant and then also as you're talking about not being up to full utilization on a manpower basis until 2022, is there any opportunity to maybe sort of in-source some of the work you are doing outside, to try to utilize some of your labor and really make them efficient as opposed to a drag?

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

Yes. John, it's Mike again. Absolutely, that's what we've been looking at to try to get as much efficiency as we possibly can across Italy. I have to tell you that we're working very, very closely with our unions who have been not only recognizing that this is an important thing for us to fix together, they've been helpful in this process as well. I tend to talk about manpower utilization because a number of our plants, as you know, are not exactly new plants, they were built a number of years ago. So technically, they have a technical capacity that's significant, we would never [toll] them up for that technical capacity. So even though we still look at technical capacity and harbor capacity, manpower utilization and the efficient use of our headcount is also equally a good measure. Working with the unions, we have been able [to from] some manufacturing hubs to move some people around and will continue to do that through the period between now and 2022 as well.

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

But is there potential of potentially in-source some work to get that manpower utilization up over the next 3 years?

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

We've challenged our manufacturing guys to look at that, what can we do to in-source. As you know, we do some plastics internally, we do some components internally, can we build up some more modules that are currently outsourced. We have -- let me put it this way. We like pressure in the system, we put plenty of pressure in the system.

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

Okay. And then just a second question on North America. I mean, one of the stories that's really benefiting mix is the bonus depreciation or accelerated depreciation on gross vehicle weight of more than 6,000 pounds for all businesses. I'm just curious, as you look at this, how much do you think you may have benefited from that in North America? And how long that may last? I'm just trying to understand how much of your vehicle sales are actually to small and large businesses, whether they classify it as fleet or not? And how much are they benefiting from this?

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

It's impossible for me to be -- be anything, but offer my own speculation on the subject. Obviously, I think it does help. For me, when I think about our truck business in particular in North America, it has always been very tightly correlated to, for example, housing starts and what is happening in the housing market. I think from our point of view, when I look out for that, that will be relatively stable, but as you said, there is no doubt that ability for people to accelerate the depreciation has been a benefit, how much, I don't know. I think for us, when I think about our margin, that ability to grow share as well as increase our transaction prices and reduce our incentives. So our dual truck strategy in the 1,500 market price I think is showing that it will work. And as I mentioned before, notwithstanding the drop in wholesale that we made to take dealer stock down the ability to help, hold and drive mix in the right way as all benefited the North American business. And I think the results show this themselves.

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

And just to follow-up that on Slide 9, I think you're being very humble in the way that you're showing the volume and mix bar [is] negative. I mean, with 73,000 less shipments, volume must be a big negative, which means that mix must be a huge positive in the quarter. Any way, you guys could breakout the 2 different segments there, Richard? I mean, it's a big story of the mix here.

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

It is, John. And it has been through the whole year and there's the theme of the management team in North America following the industry realignment and the focus on the higher-margin segments. So something we can definitely think about going forward, given, obviously, that we expect it to get better with Grand Wagoneer, Wagoneer, 3-row [e] SUV, et cetera. So maybe you've given me an idea for some marketing of our North America results going forward.

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

Yes. We'd hope to see that breakout, it would be helpful. Jim, just lastly on the UAW. I know you can't get into details, but can you just give us the percent of workers that are temps, the percent of workers that are in progression and the percent that are senior, because I believe it's pretty different than what we're seeing in GM and Ford.

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

Yes. We have the most, as you know, and I [don’t] have hundreds of numbers in my head. I have to tell you, I don't have the exact percentage. So I apologize, but I'm looking at Joe, who should have even more numbers in his head than I do. Could you get the exact percentage so we can get back and answer the question for the guy. So we'll come back on that before the end of the call.

Operator

We'll now take our next question from Brian Johnson of Barclays.

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

One of the businesses we used to have more visibility into was Comau. Teksid was obviously much smaller. It's now buried in the other eliminations. Can you just give us a very rough sense on where that business is trended since we last really saw it, which was about EUR 2 billion of revenue and about EUR 1 billion of trading profit?

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

Yes. Brian, it's -- you're right. It is buried in the other line. The business is slightly below the EUR 2 billion revenue you mentioned. Obviously, it's relatively cyclical based on investment levels, but it's slightly below that number and it's running EBITDA of about EUR 80 million for this year. And we expect that to grow in 2020, has a pretty healthy backlog for the business. And we'll give you a bit more visibility as we go into January on how Comau is performing.

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

Okay. So fair to say that's been somewhat hit by the slowdown of factory capacity additions in China. Or is that about some EBITDA rate you would have had in '16, '17?

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

Sorry, Brian, I can't hear you. You're asking us a question, or are you making a comment?

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

Would that affect the factory slowdowns and factory openings in China. (inaudible) the EBITDA down from where it would have been in, say, '15, '16?

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

Sorry, Brian. I still can't hear you, you keep breaking up. So let's go to the next question.

Operator

We'll now take our next question from Thomas Besson of Kepler Cheuvreux.

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

It's Thomas Besson of Kepler Cheuvreux. Two questions, please. First, I'd like to come back to [John] question on the assumptions for 2020 in the NAFTA region. Can you just gives us a vague idea of what you're thinking in terms of the overall light vehicle market development and the segment of pickup trucks which has been, I think, as you've mentioned several times, a key driver for the improvement we've seen in 2019. Do you want the second question now or later?

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

No, that's okay. I think we're not looking at any significant change in terms of the market conditions in North America in 2020. And we're looking at, frankly, we're not looking for any miracles on the top line either beyond the elimination of the impact we had in 2019 of the dealer destocking, as we mentioned earlier.

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

Tom, this is Mike. Let me just clarify, when you say light vehicle, you're talking about the truck market, like commercial vehicles of 1,500, 2,500?

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

Yes. I was thinking about your market assumptions because we have seen U.S. market very strong for number of years. And a few people are start to thinking that this market may drop specifically, on the heavy trucks side, with the boost we've seen in [2019] ?

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

Yes. Now I understand and I would agree with Richard. Our assumption is a slight moderation in overall industry, some continued movement back, some continued, but slight movement to UVs and on the truck market relatively stable.

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

Okay. Very clear. Second question, I'm sorry it's borderline with what we're not supposed to talk about. But you've made very clear presentation of some of the weaknesses you have in Europe. I just like to understand the time line of investment into segment or other areas in Europe, while you may be merging with another larger [urban] company over, let's say in 15, 18 months. So how are you effectively working out this kind of investment with the possibility that the plans may have to be adjusted?

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

Yes. I think that's -- so I'll give you the answer to that question. Obviously, when we think about the potential synergies and we have clearly done a lot of work to calculate those. We've looked at the best convergence in terms of platforms, technology, purchasing, all of the normal areas that you would expect. What is absolutely clear is that there are some projects that are time sensitive, particularly as you go into the later stages of compliance of 24, 25, 26 in Europe, but we also recognized the time that it takes for us to produce vehicles through the normal cycle. So I think we've taken a reasonable view to make sure that the synergies we're talking about in terms of steady-state are real, and I think we have hard to reflect that there are some investments that need to continue to make sure that compliance is achieved. But I don't want to -- even Joe has forbidden me to talk too much about it. So obviously, as we work our way through this, I'm sure there will be plenty of opportunity for us to discuss in more detail the plan.

Operator

We'll now take our next question from Stephen Reitman of Societe Generale.

Stephen Michael Reitman - *Societe Generale Cross Asset Research - Equity Analyst*

Question on North America. Could you comment really on the mix improvement that you've seen with heavy-duty and Jeep Gladiator, how pricing has-- how pricing has improved, what the inventory situation is like -- [that they supply] end of life on those vehicles? And as we go into next year, and you take down Warren, Fords and stopping the DS production. Do you think that vehicle has really come to the end of its natural life, running the 2-track strategy and the DT takes the load now on that from now -- what from now?

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

I'm going to reverse order the question. Absolutely, not. The -- I think, the DS, DT combination works very, very well. I think the Ram brand team have got the pricing right, I think they've put a lot of thought in terms of where the models overlap and where the models don't overlap. I think they've got good sense of their target market and they're obviously clearly -- they're clearly, looking to maximize both of those vehicles. So no end-of-life on DS that I'm prepared to accept at this moment in time.

In terms of pricing, if I just take for example, in Q3, we have seen just under 5% improvement in our ATPs and our incentives down roughly 2%, and I would say it's pretty typical for what we have seen year-to-date since the launches have come on stream, I think it's just over 5% year-to-date for our light and our heavy-duty trucks. So very pleased with that. Some of that is mix, obviously some of that comes in a reduction in the incentives because of the quality of the trucks. And as you probably know our truck is the only truck to have won, for example, the Institute of Highway Safety's, Top Safety Pick Plus, I think it's the only pickup truck that's won it. And it's just another reflection of the quality of the truck.

Stephen Michael Reitman - *Societe Generale Cross Asset Research - Equity Analyst*

If I could ask just a second follow-up question on Europe and impairment you've taken on the Giorgio platform. Again, I know that you don't want to say too much about the talks you are having with PSA, but what if we want to make an assumption, therefore, that this is already taking this into account and that there may be future platforms or even more -- even on the Alfa Romeo side maybe would be transitioning to other platforms?

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

One thing that you can take -- there are going to be 2 comments that I make. One of the things that you can be sure of is if the merger goes ahead, we're going to choose the best platform across the different criteria of decision-making to make sure that we end up in the right place and we'll make our conversions as fast as possible. With regard to the impairment that we have taken, I want to be a little bit clear, if it's okay. The Giorgio platform is a phenomenal platform and has done well underpinning Giulia and Stelvio. Remember, what we needed to do though is make sure that it's capable of full electrification going forward. So there's been significant changes to that platform to enable not just a full battery electric, but plug-in hybrid. We've changed the suspension, we've updated all of the electrical architecture in that so that it can take the next-generation infotainment as well as very, very advanced high-tech features.

That level and that degree of change, remember, it's a real-world drive platform. And if you look across the 2 companies, there's not many real-world drive platforms. So it's incredibly likely that it will be required going forward. But that level of change means an impairment to the original platform.

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

I'm just going to -- I'm just getting the answer on the question in terms of in progression and temps. We have 59% of our workforce in progression and 13% of temps.

Operator

We'll now take next question from Adam Jonas of Morgan Stanley.

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

First, I just want to say I just have this image in my mind of Sergio up above, taking a nice long drag looking down on you and saying, Mike, Richard and John, proud of you, well done. A couple of questions on -- couple of questions on EVs. Can you possibly be specific on how much you're actually paying Tesla for the pooling credits? There's just so many while I have seen numbers ranging from EUR 200 million to EUR 2 billion. Can you just help us and genuinely to help with that delta from '19 to '20 on that? My first question, and then I have just have one follow-up.

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

Love you to death, but no.

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

Okay. Then, we'll move on. I love you too. So I'd love you more if you answered the question, but we'll take that offline. What about the concept. I mean, you're writing a check to kind of competitor for pooling. I understand that, that's an optimal decision relative to paying fines or to develop something ahead of a potential merger that may or may not go to start something that you cannot finish kind of thing. So I totally understand the value of the flexibility there given the circumstance. But would you also consider purchasing a complete electronic skateboard, if you will, or basically contracting with someone like Tesla as a supplier for a substantial part of the electric vehicle. Is that like a make or buy decision, how do you approach make or buy in term of EVs at this stage?

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

This one, I can give you my view and opinion on, Adam. Firstly, our relationship with Tesla goes back obviously a long way and we have...

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

It's been a one-way relationship.

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

For sure, in terms of these transactions, it's a one-way relationship. But the relationship has helped us. When I think about the credit pooling, so let me just step back from this. We -- FCA are absolutely committed to the journey of reducing CO2 emissions around the world, and we're absolutely, committed through our own sustainability policy to drive significant improvements in this area. What I don't want FCA to be -- I don't want FCA's sustainability practices to be totally and only driven by compliance needs in the regions. FCA has a vision beyond that, and that will become more apparent in the months to come. So I viewed the Tesla relationship somewhat as a hedge because we begin to launch obviously our electrified vehicles next year and into '21, technically, we could with very high penetrations in '21 reach compliance on paper. The reality is, it's still not entirely sure, even though I made positive comments, which I do believe at the beginning of this call, still not 100% sure of take rates [in] real price and recovery. So for me, the Tesla was a hedge, but it's done in '21. Because in '22, we get the full benefit of all of the investments that we've made. And as I've said before, if the merger goes forward, that will be even more beneficial for us for obvious reasons. But it is not something that is done other than to be able to give us, if you like a floor on the cost that may be there in the marketplace.

In terms of would we be open to buying a skateboard from other people. I mean, that is the -- probably if you think about what we're going to hopefully achieve if the merger goes forward, we're going to do that on a grand scale. Therefore, it would be wrong of me to say, no, I wouldn't be interested in someone else's skateboard because it basically talks about conservation of capital. And there are certain things that I strongly believe the customer will be agnostic to and that is one of them so as long as you can tune the suspension, and tune the drive to suit your brands, which you can do.

Operator

Our final question comes from Philippe Houchois from Jefferies.

Philippe Jean Houchois - *Jefferies LLC, Research Division - MD*

I've got a few. The first one, staying on the subject of Tesla. When you guide to an adjusted EBIT above EUR 7 billion next year, does that include any payment to Tesla, or would you treat those as nonrecurring?

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

It includes the utilization of any credits that cover any compliance in the income statement, yes included Philippe.

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Philippe Jean Houchois - *Jefferies LLC, Research Division - MD*

Okay. All right. That's great. Now I'm just wondering about, in Q4, I know it's sensitive subject, but how much help are you getting from the fact that GM might be a bit low on inventories and is that kind of give you confidence in terms of the guidance that you're returning today, give you a bit of upside. What can you tell us about this?

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

None of our Q4 expectations have been adjusted or made on the basis that GM may or may not be short on certain product lines. If you look at their overall levels of inventory in the marketplace, no, I couldn't talk specifically to mix maybe there's the odd vehicle that's sold out, but GM were able to maintain their sales velocity through the quarter. I expect them to be looking to do the same in the fourth quarter, and that has no impact on our outlook. If that changes and there is an impact obviously, we'll take advantage of it, but that's not embedded in our forecast.

Philippe Jean Houchois - *Jefferies LLC, Research Division - MD*

Okay. Thanks for the metrics and [come out for the update] . Just wondering where you are in the process. Because I guess, whether there is a merger with the PSA or not, et cetera, you are committed to separate income out eventually. So what progress are you making there, which was, I guess, you're running multiple tracks sales, IPO or whatever. What can you tell us and can you even get us something tangible on valuation?

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

Well, I think, Philippe, as we go through the process, we'll keep you updated on various aspects, including this one. So I think it's a bit premature to start talking about these items until we have a clear way forward that we [enhance] together. So we'll be doing that eventually.

Philippe Jean Houchois - *Jefferies LLC, Research Division - MD*

Okay. And if I squeeze the last one for Mike, maybe this is more. I'm just looking at -- you're terminating some of B segments, you want to move your shift to your mix from A to B, makes a lot of sense. I'm just wondering about the hiatus we have between what's missing in line up and how you're going to deal with dealers? I mean, the health of dealers, particularly in Italy, it is a kind of ongoing or recurring topic at FCA or Fiat? And how can your dealers cope with what seems to look like some product interruptions in some -- what has been traditionally key segment for Fiat?

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

Well, obviously, what we're going to try and do is make it as absolutely smooth as possible. I don't want product interruption per se. And we have enough industrial capacity to make sure that there is minimal impact to our dealer body. In fact, what I'm hoping to be able to do by reintroducing them to back to a bigger segment is actually improve their volume fully.

Operator

That concludes the question-and-answer session. I would now like to turn the call back over to Mike Manley for closing remarks.

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

So again, I would just like to end by, again, thanking everybody for making the time to be on the call today, and for your questions. Obviously today, is a very important day, not only do we report solid earnings for the group showed continued improvement, record earnings, record margins, which I would like to personally thank all of the team within FCA to deliver -- for the delivery of this. I think it genuinely takes a strong effort and I know many of my colleagues are on the phone. So I'm going to start by thanking you guys for everything that you've done. We've obviously -- it was important for us to give you that view on 2020, and the discussion really in more detail of the programs that are well underway to underwrite what we've just talked about. And of course, the announcement this morning, which we've made a commitment and PSA has made a commitment that we'll keep you -- we'll keep you up to speed. So I'm going to end with that. Thank you for your time, and we'll talk again soon, I'm sure.

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

Yes, with that, Serena, I think we're going to close today's call. And I'd just like again to thank everyone for joining and have a pleasant today.

Operator

That will concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
