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PRESENTATION

Operator

Good afternoon or good morning, ladies and gentlemen, and welcome to today's Fiat Chrysler Automobiles 2019 Full Year Results Webcast and Conference Call. For your information, today's conference is being recorded. At this time, I would like now to hand the conference 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, Stephanie. And welcome to everyone who's joining us today as we review FCA's 2019 full year operating results. The presentation material for today's call, along with the related press release, can be found 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, both Mike and Richard will be available to answer the questions from the sell-side analysts.

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 both the risks and uncertainties that are laid out in the safe harbor statement which is included on Page 2 of today's presentation. And as customary, the call will be governed by this language.

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

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

Thank you, Joe. Well, good morning, good afternoon, everyone, and welcome to the call, and thank you for joining us today. Now 2019 was an important year for our company. And not only did we deliver what I believe are strong financial results, it was a year during which we took a number of actions designed to position our company for sustainable success in the future. Therefore, today, in addition to taking you through the operational highlights for 2019, I want to spend some time summarizing a number of other key actions we took during the year, highlighting, in some instances, the clear progress we have made in a number of areas and in others, what we have left to do. And then Richard will take you through the financials in detail.



So before going through the presentation, I'd like to personally thank all of our employees for their ongoing contributions during such an important year. Your relentless hard work and dedication is crucial to our continued success. So sincerely, thank you. I'm proud to be part of the team with you.

Now to begin with, we're very pleased with our full year performance, as the group delivered strong operational results in line with our guidance, with adjusted EBIT at EUR 6.7 billion and a margin of 6.2%. Now these results were achieved despite the reduction in our consolidated shipments by approximately 400,000 units year-over-year. And we took decisive actions to address dealer stock levels, especially in North America and with Maserati resulting in global dealer stock levels being reduced by over 100,000 units. North America continues to be a standout for the group achieving record results for the fifth consecutive year, with adjusted EBIT of EUR 6.7 billion and a margin of 9.1%.

Ram reached new U.S. sales record in 2019, and for the first time, became the #2 ranked brand for U.S. sales in the highly profitable, large pickup truck segment, reflecting the strength of the Ram brand and consumer passion for our truck lineup.

Now if I turn to Latin America region, we continue to outpace the industry. And I think this is driven by fresh product and industrial discipline from the team there. In Brazil, we regained overall market leadership, while retaining our leading position in key segments such as SUVs, pickups and LCVs. And despite the continuing challenging market conditions in Argentina, we delivered an adjusted EBIT of EUR 500 million and a margin of 5.9%.

Now focusing on Q4 for a moment, the group posted record fourth quarter results with adjusted EBIT at EUR 2.1 billion and margins at 7.1%. North America also posted a record adjusted EBIT for the margin at 10%, again, reflecting a strong close to the year with the full-size truck business.

Now as you know, during 2019, the group reinstated the payment of ordinary dividends after nearly a decade. And based on our strong 2019 results, and as previously announced, we plan to pay a EUR 1.1 billion ordinary dividend to our shareholders this spring, subject to customary approval by our Board and shareholders.

So now let me give you some context to why I see 2019 as such a pivotal year for FCA and how the actions we have taken and intend to take will ensure our continued position as a leading global OEM.

Now clearly, the most significant action taken was in December, when we signed a binding combination agreement with PSA for a 50-50 merger that will create the third largest global OEM by revenues. Multiple work streams related to both closing preparation and integration planning are in place and are being led by senior leadership at both companies, and we do not anticipate any significant hurdles to close in the transaction, either by the end of this year or early in 2021.

Now just to remind you, we target annual synergies of at least EUR 3.7 billion at steady state with cumulative implementation costs of approximately EUR 2.8 billion. And there are 3 major drivers for the synergies. The first driver, which accounts for 40% and relates to platform and powertrain convergence, optimizing our investments in R&D and improving manufacturing processes and tooling efficiencies.

The second driver, also at 40% is about purchasing savings, where we will leverage our larger scale to improve product costs and gain access to new suppliers, particularly for electric and high-tech components. Now these actions reinforce our drive towards clean and affordable mobility.

Now clean and affordable mobility means that we need to be cost competitive in buying all the electrical powertrain components and batteries. And that means the volume scale effect coming from the size of the Newco will be paramount to ensure we deliver the cost competitiveness we need.

And the third driver, which accounts for 20% of the total, will be related to multiple areas such as marketing, IT systems, logistics and administration efficiencies.

Now these synergies will be net cash flow positive from year one, and we expect from our planning to deliver approximately 80% of the total synergies by year 4.

Now across the group, other notable actions such as finalizing the sale of Magneti Marelli in May, which, by the way, not only significantly strengthened our balance sheet, but also allowed us to pay a EUR 2 billion extraordinary dividend to our shareholders. And in the U.S., we reached a new 4-year agreement with the UAW that builds on our commitment to grow our U.S. manufacturing operations including a \$4.5 billion in investments to expand our production capacity in Michigan and support the production of 2 new Jeep white space products, including their electrified versions.

In 2019, we took several other actions that aren't noted on the page that also strengthened our business and were important in setting our future path, particularly, as we prepare the group for the changes in mobility needs demanded by regulators and desired by customers.

In Europe, we launched a new industrial plan centered around electrification, which will optimize platform utilization as well as powertrain applications. And we also finalized details for a revised product portfolio plan for Alfa Romeo to improve overall profitability.

Now I want to highlight, our new product plan for Alfa, although different from the original intentions, now delivered the brand more products in the fastest-growing segments of the premium market. On a related note, we also announced a breakthrough plan to create a new battery assembly hub inside our historic Mirafiori Complex, which will support our strategy for the group to be fully equipped to meet future demand for an increasingly electrified future. And we've strengthened our network of partnerships to develop e-mobility solutions for electric vehicles by executing agreements within NLX and NRG Group in Europe for both home charging and public charging network solutions.

Now just as we're investing substantially in our future products and technologies, we also need an engineering and product development organization that can deliver on those investments. With a focus on improving our efficiency and speed to market, while also increasing architecture, powertrain and component standardization, we took action late last year to streamline our global product development team by centralizing leadership and bringing together vehicle and powertrain engineering under a common and global structure.

Finally, at the end of last year, we entered into an agreement to sell our cast iron components business operated through Teksid, which is another important step in the implementation of our supplier business plan and will allow the business to be further developed together with a leading player in the cast iron industry.

So as you can see, 2019 was a historic and pivotal year on many fronts and with many great accomplishments.

So let me turn to the commercial performance of the business. The overall market was down year-over-year in each of our regions with the exception of EMEA, where it was essentially flat.

In North America, our sales performance was in line with the industry as we maintained a market share of 12% from 2018. And as I already mentioned, the Ram brand achieved its best year ever, with sales up in the U.S., 18% on a year-over-year basis to over 700,000 units.

Now Jeep volume was down in the year, particularly in the B and the D SUV segments. And this was because we decided to focus on margin rather than chase volume, a choice that helped underpin our strong North American margins. There were still highlights for the Jeep brand and a testament to its enduring popularity, the Jeep Grand Cherokee, achieved record sales in the U.S. of 243,000 units, up 8% from last year.

We successfully launched the all-new Ram heavy-duty at the beginning of 2019, which was awarded Motor Trend's 2020 Truck of the Year on the back of the Ram 1500, winning the previous year's award. It's also worth noting that combined with the Jeep Wrangler, sales of the mild-hybrid V-6 Ram contributed to making FCA, the U.S. sales leader in mild-hybrids during 2019, so the U.S. sales leader in mild-hybrids. And that was enabled by our new 48-volt powertrain technology.

The successful launch of the all-new Jeep Gladiator, which was named 2020 North American Truck of the Year, marked the brand's return to the pickup truck market. And by the way, I hope you all had a chance to see our Groundhog Day spot, which started the Jeep Gladiator, and notably won the USA Today's ad meter for the best overall advert last weekend's Super Bowl.

Now in Asia Pacific, as you know, the market continues to be volatile, particularly in China. And each of the markets in which we compete were down year-over-year. You will know because of our quarterly calls that we have taken a number of actions in the regions to improve our performance.



And I think when you look at these results, you can see some of that work coming through. And as you will also see, we ended up with a substantial year-over-year improvement in performance across a number of the key leaders in the business. And that's due to the entire leadership team. And great cooperation, I think, with our partners that has moved swiftly to improve efficiency and remove cost. And I think now what they're creating is a phenomenal base. So the job now that we have to do, of course, is rebuild our volume. And to that end, we also spent some time with our partner, agreeing a revised product plan, which is now under development.

Now as you know, rebuilding our volume will not be an instantaneous result, but thanks to the work completed last year, I think we have a solid, efficient base to build on, which we intend to do through 2020. So I think given where we ended 2018, the team in Asia Pacific did a very good job for us.

Now in EMEA, our sales decreased predominantly as a result of 2 things: firstly, the discontinuance of the Fiat Punto, Alfa Romeo Mito and certain Giulietta models; and secondly, and we've spoken about this in the past, we stopped central O-K registrations. We did that because we believe this action will have long-term benefit on our margins and our residual values, which we and our customers will benefit from.

Now we've talked on occasion about EMEA, but I would like to be specific about the combinations of actions taken and underway to return the region to sustainable profitability.

Now during -- in the year, EMEA team took a number of actions to restructure our business. Streamlining headcount and removing significant costs from the region. They also exited from and restricted volume to a number of very low-margin channels. And obviously, it's a volume drop that gets the headline, not the strategy.

For this headcount, cost and channel restructure was necessary. But as you can see from the results, there's still work to do, and it is, frankly, very much underway. Now one key area that we need to address is on the product front. Now obviously, as a group, we continue to prioritize our capital resources, and as such, over the last few years, we needed to complete key investments in other regions and brands.

As a result of that, our EMEA region, not only are the oldest showroom in Europe but we also effectively exited the important B segment where Fiat has traditionally had great success. And clearly, this has held back our team's ability to generate volume and margin. This is now being addressed.

As you know, we announced significant investments in our Italian manufacturing footprint with key new products. As these new models come on stream over the next few years, we'll see a progressive reduction in the average age of our showroom and a consequential improvement in performance.

This process starts this year with the launch of the all-new Fiat 500 and the plug-in hybrid versions of Compass and Renegade. And clearly, the merger with PSA also has a potential to accelerate this European transformation. So in EMEA, a lot of good work done by the team. Obviously, much more to do. But I said, it's similar to Asia Pacific, creating a very efficient firm low-cost base is fundamental to be able to build a sustainable business.

Now moving on to Latin America. Here, we had another market-leading performance with both sales and market share up year-over-year, primarily driven by strong sales of the Jeep Renegade, up 20% -- 28% year-over-year, while Fiat Toro [slider] pickup trucks were up 12% and 7%, respectively.

Now as I previously mentioned, Richard will take you through the detail of the financials. So I'm just going to quickly give you an overview of our annual results. We achieved strong operating results and higher margin, thanks to positive net pricing and mix, cost discipline and industrial efficiencies, notwithstanding, that our consolidated shipments were down approximately 400,000 units. We also generated strong industrial free cash flows of EUR 2.1 billion that includes CapEx spending of EUR 8.4 billion, which was up significantly from the unusually low level in 2018.

Our liquidity remained strong and increased by EUR 2 billion to just over EUR 23 billion at the end of the year.

And lastly, in Q4, Moody's improved its outlook on FCA's credit ratings from stable to positive, and S&P placed FCA's ratings on credit watch with positive implications.

And with that, I want to hand over to you, Richard, to take everyone through the detail.

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

Thank you, Mike. Good afternoon, and good morning to everybody.

So I'm going to go to Page 5. In terms of revenues, we reached EUR 108 billion for the year, down 2% or 5% at constant exchange with positive mix and pricing offsetting for around 3%. Adjusted EBIT was substantially flat year-over-year at EUR 6.7 billion, with margin up slightly to 6.2%. Adjusted diluted EPS was EUR 2.74 a share, down 9% from 2018 due to an increase in the tax rate from 17% to 24% due to the non-repeat of tax planning and pension contributions in 2018, and increased U.S. EBT offsetting EMEA losses where no DTAs were booked.

Financial charges were reduced by EUR 50 million to EUR 1 billion for the year. Adjusted EBIT margin for Q4 was at 7.1%, up from 6.2% in 2018 and totaled EUR 2.1 billion. Adjusted net profit for the year excludes EUR 1.6 billion of adjustments relating mainly to the impairment charges taken in Q3 and restructuring charges, up from the adjustments in 2018 of EUR 1.4 billion, which included the accrual for the U.S. diesel matter.

As Mike mentioned, the industrial free cash flow for the year reached EUR 2.1 billion, taking available liquidity, up EUR 2 billion from last year to EUR 23.1 billion. This liquidity increase was driven by the EUR 5.8 billion proceeds from the Marelli sale, less EUR 0.4 billion of that cash deconsolidated, less the dividends of EUR 3.1 billion, and EUR 2.7 billion of debt repayments, plus positive FX translation of EUR 0.2 billion, and then the cash flow for the year.

In Q4, liquidity was down EUR 0.7 billion, due to debt repayments of EUR 1.9 billion, offset by the cash flow of EUR 1.5 billion.

Just quickly, before I leave Page 4, I wanted to take the chance to update you regarding the settlement we reached with the Italian Revenue Agency regarding the Italian tax audit issue that was reported in the press during December.

We closed the settlement with no cash obligation or penalties due. Just to make it clear, the Italian Revenue Agency had issued an audit report, which proposed to increase the taxable gain on the transfer of Chrysler U.S. to FCA N.V., for the purpose of the merger in 2014 into FCA N.V. We settled that issue.

Under the terms of the settlement, we agreed to increase the taxable gain by EUR 2.5 billion. That taxable gain will be entirely offset by EUR 400 million of tax losses, which had previously been forfeited and EUR 2.1 billion of Italian tax loss carry-forwards, which have not been recognized in the financial statements. So as a result, we have no cash or P&L impact and no financial statement impact, apart from the reduction in unrecognized deferred tax assets.

We still have substantial Italian loss -- tax loss carry-forwards remaining after the settlement.

Moving to Page 6. We illustrate the adjusted EBIT development by driver. Adjusted EBIT was substantially flat at EUR 6.7 billion, and margin was up to 6.2%. As we mentioned, shipments were down 383,000 units at a consolidated level, driven by both sales performance and significant dealer stock reduction. This accounted for a margin loss of about EUR 1.6 billion, partly offset by positive mix, mainly in North America, but with all regions contributing.

Industrial costs overall were slightly negative, with North America strongly positive, offsetting EMEA and Latin America. Cost discipline was evident in SG&A with all regions showing significant efficiencies. The other bar relates principally to positive FX translation offset by lower equity income from our JVs.

Moving on to Page 7. We show the industrial free cash flow for the full year, which reached EUR 2.1 billion, down from the prior year due to an increase in CapEx to EUR 8.4 billion for the year. Q4 cash flow was EUR 1.5 billion, down EUR 0.6 billion compared to Q4 '18, due to the higher CapEx, offset by seasonal Q4 positive working capital of EUR 1.5 billion due to the reduction in inventory levels in all regions. Trade payables were higher, offsetting negative impacts of the payment of the UAW bonus in the quarter.



For the year, industrial EBITDA was EUR 11.8 billion, slightly down year-over-year. CapEx increased back to a more normal level compared to 2018. The overall impact of working capital and changes in provisions was negative for EUR 0.2 billion with a further reduction in new car inventories and positive payables timing, partly offset by increased tax receivables in Latin America and the payment of the UAW bonus, as mentioned, as well as the impact of reduced dealer stock levels, mainly in North America, but also in Maserati and EMEA.

Financial charges and taxes totaled EUR 1 billion, down EUR 0.6 billion due to lower cash taxes of EUR 0.5 billion and reduced financial charges for EUR 0.1 billion. Net industrial cash at end December was positive EUR 4.9 billion, up from EUR 1.9 billion at December 2018 and driven by the free cash flow of EUR 2.1 billion, the Marelli sale proceeds, less the dividend payments and also offsetting the impact of IFRS 6 -- sorry, IFRS 16 leasing adoption of EUR 1.4 billion.

While we're on the balance sheet, a comment on our pension plans funded status. The aggregate pension deficit increased from EUR 4 billion to EUR 4.3 billion at year-end, with a decrease in discount rates in the U.S. of 110 basis points and Canada of 70 basis points, only partially offset by asset returns of 19% in the U.S. and 15% in Canada.

If we go to Page 8, we see from a segment perspective, North America had a record year with adjusted EBIT at EUR 6.7 billion and margins at 9.1% despite the lower volumes due to continued dealer stock discipline. Latin America confirmed its strong trend of year-over-year improvement despite the ongoing economic crisis in Argentina, where the industry dropped 43% year-over-year.

EMEA and APAC continued to have operating challenges, though, APAC improved significantly year-over-year. Maserati was also impacted by continued efforts to reduce dealer stock.

Moving on to the individual regions and starting with North America on Page 9. Shipments for the year were down 9% to 2.4 million units compared to sales, down 2% to just under 2.5 million units due to the reduction in dealer stock already mentioned. Revenues were up 1% due to positive mix and price and positive FX translation, more than offsetting the shipment reduction.

Adjusted EBIT margin increased from 8.6% last year to 9.1% this year due to positive mix from the new Ram Light Duty and Jeep Gladiator, offset partially by higher fleet shipments even if the fleet growth was skewed towards commercial fleet for the Ram Light Duty classic in particular.

For Q4, adjusted EBIT margin was up from 8.6% last year to 10.0% due to better price performance and cost actions more than offsetting product cost increases. Net positive pricing was driven by the new Ram heavy-duty and price actions across the lineup, offsetting negative FX mainly due to the Canadian dollar. Industrial cost was positive for the year due to reduced logistics and launch costs plus net purchasing savings, offsetting increased product cost, again, due mainly to the new Ram heavy-duty. SG&A reduction was mainly due to cost actions in G&A and efficiencies in advertising spend. The other category relates mainly to FX translation benefits due to the strengthening of the U.S. dollar year-over-year.

Page 10, we see the APAC results. Combined shipments were down 29% to 149,000 units, driven by joint venture shipments down 42%. In the joint venture, the Grand Commander was flat year-over-year with Compass, Cherokee and Renegade all down. At a consolidated level, Wrangler volume was up, offsetting Compass down in India. Net revenues for the year were up slightly to EUR 2.8 billion due to favorable vehicle mix from Wrangler, offsetting lower volumes and the non-repeated incentive moves in 2018 regarding the China import duties changes.

Despite the commercial challenges, the adjusted EBIT loss was significantly reduced compared to 2018 from nearly EUR 300 million to EUR 36 million. This was achieved with improved mix, as mentioned, better management and distribution to avoid one-off price actions necessary in 2018 and reductions in manufacturing costs as well as in local SG&A costs as duplications were removed from the organization and efficiencies in marketing spend were found.

Other category relates mainly to the reduction in the result of the China JV by 50 million, primarily due to the lower volumes mentioned. On Page 11, we have the EMEA results. Combined shipments for the year were down 8% or 108,000 units to EUR 1.3 billion. The main reductions were in the Fiat brand for 75,000 and the Alfa brand for 30,000 units. 50% reduction was due to discontinued Fiat Punto, Alfa Mito, and versions of the Alfa Giulietta. Dealer stock levels were down to 239,000 units from 259,000 at the end of the prior year.

Full year net revenues at EUR 20.6 billion were down 10%, primarily driven by the lower shipment volumes at consolidated level and negative net price. Adjusted EBIT was nearly breakeven for the year, down EUR 400 million from prior year. Volume was down 119,000 units and accounted for EUR 250 million negative, offset by some positive mix for lower kilometer 0 channels.

Net price was negative due to the increased discounts to maintain the competitiveness of the portfolio. Industrial costs were negative due to compliance costs, up EUR 120 million and negative FX impacts not offset by efficiencies, with some positive warranty provision adjustments in Q4. SG&A reflects restructuring actions on labor and overheads as well as efficiencies on advertising spend.

Moving to Page 12, we review the LATAM results. Shipments for the year were 577,000 units in line with sales of 580,000 and down 1%, with increased volumes in Brazil, up 49,000 units, offsetting a 46% reduction in Argentina. Revenues were EUR 8.5 billion, up 4% year-over-year, with positive net pricing and mix, partially offset by negative FX impact. Adjusted EBIT increased to EUR 501 million with margins up from 4.4% to 5.9%.

Net price was positive due, mainly, to indirect tax credits and positive pricing actions in Brazil more than offsetting negative pricing in Argentina. Industrial costs were negative with industrial cost efficiencies offset by negative customs duties between Argentina and Brazil, and foreign exchange impacts on imported goods with a weaker real and the non-repeat of prior year adjustments.

Q4 performance was good, with margins of 5.9%.

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

So just before you move on to Maserati, I just want to add a few things because I know you're going to take us line by line through Maserati, but just a few comments from me. Obviously, 2019 was a tough year for the brand, and we've talked about this, I think, on previous calls. But I'd like to say I'm very pleased with the work that the team has now completed, and I feel incredibly positive about the future.

Let me just run through a couple of things that we did do in 2019 that I think give me, not just cause for optimism, but certainty in terms of the way and the trajectory I think that business is going to run.

We now have a completely new leadership team with key talent recruited both from internal and externally. And the overhaul in terms of leadership is now finished, everyone is onboard and very, very focused on what we need to get done.

Mike showed you on a previous call that we've revised and launched new product plan. That, to me, was a very, very important part of the work that we needed to get done because it gives the brand a strong, manageable cadence and new product. And as well as allow Maserati to enter into key white space. And as you know, it also provides full electrification options for every model. A lot of the work that we did resulted in dealer inventory being reduced by 50%, very painful, but necessary and now behind us. And by the way, I think it is worth noting, you may well -- you were going to do this, Richard, but I will now do it for you. It is worth noting that without that dealer inventory destock and the residual value adjustment that we took in 2019, Maserati would have substantially been breakeven.

Now as I think about 2020 and the second half of this year, we began the relaunch of refreshed several models in the range as well as the all-new super sports car. And because I think a lot of that work that I talked about is now completed and the product plan is set. I think it's time to share, in detail, our plans with all of you on the call. And in May, the Maserati team will host a Maserati Day, so you will be able to see why I'm very excited about the future of this brand.

So Richard, with that, if you want to do the formal finance thing that you do?

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

I think you covered it, Mike. I don't think I want to repeat the same messages. Obviously, the fourth quarter was very much in line with prior quarter performance, continues to see the effects of destocking on the top line. So as Mike mentioned, the EUR 199 million loss for the year, effectively reflects the destocking actions and the residual value impact that we had in North America and talked about in Q2.

So moving on to Page 15, we have our 2020 market outlook and guidance. Our industry outlook for 2020 shows the U.S. market down 3%, EU 28, down 3%; Brazil, up 5% and China flat. These forecasts assume there is no prolonged impact from the coronavirus issue and either demand or on the global supply chain's ability to avoid any disruptions in supply. We are clearly monitoring the evolution of this situation closely.

In terms of our financial guidance, we confirm the guidance we indicated in November on our last call, we had shown at that time what we saw as the headwinds and tailwinds for 2020. Since then, we have 2 further headwinds, which we want to acknowledge. One, as mentioned, is the potential coronavirus impact, which as of today is not quantifiable. The other is an unusual spike in commodity prices, specifically for palladium of about 40% and rhodium of nearly 100%, which occurred since December.

This unforeseen impact takes our overall raw material inflation year-over-year forecast for 2020, as compared to 2019, to around EUR 700 million at current market prices, all of which is basically due to the PGM metals, with some offsets in steel and aluminum.

We expect to be able to offset this with incremental actions on direct material purchases and other industrial costs, together with improved volume and mix from North America and Maserati. This compares to the EUR 700 million I mentioned of inflation compared to around EUR 500 million of raw material inflation in 2019.

As regards to cash flow, we forecast positives compared to 2019 for EBITDA and the non-repeat of diesel settlement payments and the UAW bonus, which will offset an increase of around EUR 1 billion in CapEx, and around EUR 0.4 billion in taxes. So therefore, we're able to confirm EUR 2 billion of industrial free cash flow for the year.

Not included in industrial free cash flow, we do plan to make a discretionary pension contribution in the U.S. during 2020 in the order of around USD 1 billion.

Finally, regarding Q1 performance, as mentioned, the key driver of our improved performance forecast in 2020 relates to the non-repeat of North America deal destocking in 2019. This action did not impact Q1 '19 and was concentrated in Q2 and Q3. Therefore, we see Q1 performance broadly in line with Q1 2019 at an adjusted EBIT level, with improvements in the following quarters. Q1 industrial free cash flow is expected to be worth in 2019 due to higher levels of CapEx, recovered later in the year with the non-repeat of the diesel settlement payments and the UAW bonus.

With that, I'll hand it back to Mike. Thank you.

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

Thanks, Richard. If we go to the next page, I just wanted to make a few points on a subject that, obviously, has received a lot of attention over the last several months, and that will continue to receive that level of attention going forward. And that is CO2 compliance in Europe. Now we've been updating the markets on our plans in this area for some time. We know the regulatory hurdles get much tougher this year, and as a result, this has caused the heightened concern by some in the financial community about the ability of certain OEMs to meet their new CO2 targets. And one of the biggest uncertainties is regarding market demand for EVs and the potential for margin erosion in the event that demand has not naturally materialized.

Obviously, only time will tell how the market actually evolves in 2020 with EVs. However, and I'll try to show you with this walk that we believe that our multipronged approach will not only allow us to achieve the CO2 targets this year without paying fines, but it will also allow us to adapt to evolving market demands. So as you can see, while the pooling arrangement, we entered into a test the last year as part of the path to achieve compliance. It is only a complementary piece of our broader plan, which includes the launch of 4 high-voltage EVs this year, including the new Fiat

500 as well as plug-in hybrid versions of Jeep Compass, Renegade and Wrangler. And in addition, we'll continue to roll out improvements in so-called conventional technologies. For example, we'll further expand the application of our new GSE engine family into the Compass and Tipo as well as launch mild-hybrid versions of the Panda, 500 and Epsilon. And when taken all together, along with the 5% compliance exemption allowed this year, we fully expect to achieve an average CO2 result for our fleet that is below the expected to compliance target.

Now I realize we're only one month into the new year, and a lot can change and probably will change, but based on the data we have for January, we have started the year with a sales mix in line with our full year compliance plan. Obviously, we will see how the year progresses and clearly update you in quarterly calls. But I think we're off to a reasonable start.

And with that, Joe, I'm going to turn it over to you for Q&A.

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

Thank you, Mike. Stephanie, I think you can open up the queue now for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will take our first question from Giulio Pescatore from HSBC.

Giulio Arualdo Pescatore - HSBC, Research Division - Analyst

First one on this compliance slide. So the LED lighting and the high-efficiency alternators figure in the first bucket, they are part of the innovation credits. Can you maybe quantify how much of these innovation credits you think you'll be able to use in 2020?

And just to stay on this slide, the Tesla pooling looks smaller than we initially thought based on the breakdown that you had given us a couple of quarters ago. Can you maybe explain what is changing? And is the Tesla pooling is then meant to increase again in 2021?

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

Yes, this is Mike. Thanks for the question. On the first one, while I take a long time to answer your second question, I'll see if my colleagues can get you the answer to the first question because I don't carry that information around in my head. But what I would tell you is that when we talk about the Tesla, I wanted specifically to show Europe because, obviously, it's a big focus. But we have relationships with Tesla in a similar fashion, as you know, not just in Europe, but also in the U.S. And the pooling agreement that we've talked about is multi-year. It takes us through 2020 and 2021 in Europe. And obviously, in '21, we lose the 5% compliance exemption that we enjoy in 2020 and takes us through from memory to 2023 in the U.S. So this is the part that we have allocated and understand is our requirement based upon all of the product action that I mentioned that we'll need in 2020.

Operator

We will take our next question from the line of Adam Jonas from Morgan Stanley.



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

First, the words Maserati Day, are particularly cheerful, I'm looking outside New York here, it's super foggy. That sounds like a lot of fun. I hope we get a look. Mike and Richard, a couple of questions. First, on hybrids. I got to say, hybrids suck, right? I mean, come on, guys. They're complicated. Consumers don't seem to want them. Toyota can barely give their patents away. Governments like the U.K. are starting to exclude them from credits. I think the U.K. is outlawing them by 2035. Other cities are likely to fall. They don't make money.

Mike, FCA is, in my opinion, one of the keenest, if not the keenest, the most experienced management teams in the industry. Explain to me why are you throwing hard-earned money after these powertrains that really have no future? I understand the short-term logic, but I just -- it's got to be only a couple of years, like you're getting away from that, right? It just seems like -- it seems like a big waste.

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

Well, it's nice to talk to you, Adam and, yes, you will get a personal invite. You will get a personal invite.

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

I hope I still do.

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

No, for sure, you will. You've always [been that way] and I have no -- and with regards to your question, remember, when we start planning 4 years, 5 years out in terms of what we think is going to happen in the marketplace, particularly when you go through such an industry transformation that's being forecasted between now and 2030 and beyond, I think what's the most important thing you do is try and protect your capital bets, but give yourself the flexibility to adjust.

I'm looking out the window of this -- of the office that we're doing this call. And I can see down on the street. And there are literally hundreds of vehicles parked front to tail on the street with not one charging post in sight, not one. And I can...

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

Bird Street?

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

Tell you thousands and thousands of cities and towns around Europe and see exactly the same thing. So what we're talking about is a transitional phase. There is no doubt that there is a few and a growing percentage of the vehicle buying public that have the luxury of garages and other places that they can charge. But the vast majority of people are still waiting for that infrastructure we put in place. So developing a platform that enables us to, as cost effectively and capital efficiently as possible to be able to flex our mix to meet compliance going forward. Even if it is a 3-, 4-, 5-year window, I think, is absolutely vital as we make this transition. You and I are completely aligned as we get beyond 2025, full battery electric, partly driven by -- I mean, London's banning everything from 2035 will become the norm. But we have to get there. And I think our approach that I said is multifaceted, is the right way.

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

Mike, that helps. And just a follow-up, maybe for Richard and Mike. In addition to your management roles, you're both on the Board of Directors. So -- and I do appreciate the comments you made at the end on CO2, Mike, and I'm going to kind of build on that. Can you explain to the investors

on this call, how much climate change and CO2 reduction has taken the focus of your Board discussions? Am I wrong in thinking that in auto companies, CO2 strategy is of an existential nature, i.e., that your progress on reducing CO2 will directly impact your cost of capital, your share price performance, ultimately, your company's survival? I mean, Sergio once told, an analyst, I think, very famously a few years ago, take a pill, lie down. Do I need to take a pill here? Like, am I exaggerating this?

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

Well, it depends what pill you took before the call. On a serious note, let me -- what -- so just stepping back from this constant question about compliance. One of the things that we've worked very, very hard on with our board and with our team, is this whole question about FCA, sustainability and our sustainability targets. We're just finishing the roundup of our sustainability targets for our company. Our company will not be driven by compliance targets. It will be driven by what we believe are the right and appropriate corporate sustainability, corporate governance targets. And I think that's a very important statement to make. It is inevitable that we're going to constantly refer to this as a compliance play. But ultimately, the language is going to change pretty dramatically and pretty quickly, too, that this is in line with the corporate compliance, corporate sustainability targets, we would have anyway going out through 2030 through 2050. So of course, it's very, very important. We see the effect in the marketplace. We hear people's comments in terms of it. We are going to be part of the solution, but we'll do it in our normal way. And that's the most cost-effective way we possibly can.

Operator

We will take our next question from Jose Asumendi from JPMorgan.

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

Jose, JPMorgan. Mike, a couple of questions, please, on China and Brazil. On China, what are like the key levers, please, to improve our profitability? And can you talk a bit about the product cycle in the region? Also in Brazil, maybe can you comment a bit about the size of the plant you have now in Pernambuco? How are you planning to expand the plant? Any additional products you can bring there on the Jeep side to improve the already very strong momentum in the region?

Richard, for you, please. CapEx, 2020, what are your thoughts on CapEx, please? And maybe by region, can you give some color where the incremental CapEx is going by region, please?

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

Yes. Jose, this is Mike. I'll answer the first question. I think sometimes it's easy. It's -- because the APAC, obviously, ended up at the year in a very slight loss. It's still a loss. So we're not satisfied with it. But to pull back the amount of loss from prior year to where they are, I think I don't want to get washed away in terms of the call, in terms of the effort of the people that put in there because, fundamentally, it was a dramatic change, both in our cost factor, SG&A as well as the cost factor of the vehicles. And that well, because that discipline, I think, is now there, will put us in good stead. What we have got to do, as I mentioned before, is rebuilt our volumes. Some of that's going to come because we've done a lot of work on the brand and marketing side. But it will also come from the work we've done with our joint venture partner in terms of looking at our portfolio, being more flexible with that portfolio and finding ways to be able to build it more effectively.

So that's not going to be done in January, February, March, April this year, but that work is very much underway. And I think the team have got a good base to build from it. In terms of Brazil, absolutely, we have opportunity, and we are bringing more Jeep product to Brazil. We haven't made the announcement yet. But our team in LATAM, who have been very active in terms of their request for product, which has been supported by the Jeep brand. And in the near future, you will see further Jeep product coming down to the plant there because, clearly, the brand is loved in the country and in the region. And we obviously want to build on that. And I'll give Richard the last question.

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

Jose, the CapEx is up about EUR 1 billion year-over-year. And it's -- basically relates to North America. As we close out the spending on some key projects, such as the new Grand Cherokee and the large SUVs. Also spending is up slightly in EMEA as we spend on completing the EVs, the PHUVs. And lastly, we're starting some more spending on Maserati. As Mike mentioned, we got some clarity around the future product plan, and that is driving some increase in spending there. So those are the main 3 areas where the CapEx is up year-over-year.

Operator

We will now take our next question from the line of Stephen Reitman from Societe Generale.

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

A question about North America, obviously, is such a key part of your overall business. Fourth quarter margin of 10% is very impressive, particularly when compare it to your Detroit peers of General Motors adjusted 9.5%, taking out the strike and 1.2% of income reported and 4% to 2.8%. To what extent did the strike impact you in terms of any cross-sell in terms of ability to gain sales? Or was it still very much easing loyalty of Ram customers sticking with Ram?

And secondly, looking at 2020, where -- how do you see the competitive environment starting off in the U.S.? Obviously, we've had January figures, which obviously gets pretty much estimated. But it looks really, pretty flattish in the market, if you could comment on that?

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

Yes, this is Mike. And if I don't fully answer, obviously, come back to me. When I look at the performance of our Ram brand, it would be very difficult for me to say that the strike had any impact on it at all. If you look at residual level of inventory that was in the market all the way through that period to the end of the year, it still seems that there was a healthy level of inventory in our competitors as well. I think when you've got trucks that are winning back to back awards that we have with our trucks, multiple awards that they remain incredibly competitive. So I'd like to believe it's through the skill of our dealers and the quality of our product set that got us into that #2 position, and I firmly do believe that because if I also look at what happened in terms of our average transaction price and our incentives on the Ram side, both of them moved in the right direction and created the margin that you talked about.

When I think about 2020, I always imagine that there's going to be increased competition. The truck business never stops. It is one launch after another launch, where it's a full launch, it is an increasing capability. That has been the way that it has been for years, ever since up and involved in it, which is now well into 10 years, and it will not stop as we get into next year. One of the things that we've done with the brand though is build what I think is an enviable conquest defection ratio and build our loyalty ratios as well, and that's been done on product and hard work, and will stand us in good stead for that competitive nature in 2020.

We've seen a lot more competition on the SUV side, frankly, I mentioned in part of my opening that we dropped volume in, particularly in the B segment and the D segment, and we did that, and no one likes losing volume. But clearly, what we've been looking at is a better balance really between volume and margin. And there's some of that business now being done at what I would consider to be very low margin. And I think the sales team did the right thing. But obviously, the headline was, Jeep business is down, something's wrong until you see the margin that the North American team were able to produce.

So we'll see how it develops in 2020, but I think competition is part of the environment we live in.



Operator

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

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

And maybe just a follow-up on the North American truck market. Just curious if you could give us a split on fleet versus retail for Ram? And also, how much benefit you think you got from the change in the tax act here just on the accelerated depreciation or essentially first year expensing of vehicles in the GVW, GBP 6,000 or higher on the fleet side?

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

John, this is Mike. I can give you -- and we'll follow-up with you. I can give you our overall split, which was 21% fleet, and the balance in retail business. I don't have that number to my fingertips. So Joe, could you follow-up with John? And also, John, as you know, when you look at the truck business and the Ram business, in particular, the third category is small business, which, when you look into those numbers may help answer the question in terms of what benefit we got with some taxes. And in fact, Joe is just showing me, how efficient he is by dropping his computer on my lap, which says, in fact, truck followed our national pattern at 22% fleet, so very much in line with -- very much in line with our group fleet numbers, John.

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

Yes. And Mike, just -- I mean on the dealers, I mean, I'm sure if you're hearing from the dealers. Because it sounds like it was a big benefit. It's not something that goes away, right? So it just anniversaries itself. So it's not like it's going to drop off a cliff. I'm just curious if you've heard from the dealers that, that was a big driver of some of the surge on the Ram side?

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

To be honest, I don't think -- I haven't heard that from the dealers. I believe that it is something I would have to prod and probe for to get that specific answer. I think when you look at -- that wouldn't specifically surge Ram, it would be an industry effect. I think the surge we saw on Ram was purely to do with the quality of our products and our marketing approach.

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

Great. And then just a second question on the pooling with Tesla specifically. And I know it gets into the PSA discussion, which you're not talking about too much, but I'm just curious, as you think forward when you get executed, will you be able to get rid of this Tesla pooling in Europe and not by credits in the U.S.? I mean, how fast do you think that will get washed away and intrinsically between the 2 companies, you can handle the stuff on your own?

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

Well, absent -- and the planning that we had was put in place before the merger. So what I'm going to tell you is the plan and what the product teams are working towards. [Out of] credits in Europe in 2021, rely on all of the investment that we've made in terms of our electrification, which is now coming through strong and loud. You'll see in Geneva, the Fiat 500 BEV, and you've already seen the Compass, and the Patriot, and the Wrangler plug-in hybrids. But that is being followed heavily in 2021, so from my perspective, I would say, into 2021 in Europe. In the U.S., I think, 2023 -- mid- to end 2023 would be the time frame that I would give you for the U.S. period, again, in line with the product cadence that we have set and are running against in terms of electrification, hybridization.

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

Great. And then Richard, just a quick housekeeping. What was the size of the UAW bonus in the fourth quarter?

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

EUR 400 million.

Operator

We will now take our next question from the line of Martino Ambroggi from Equita.

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

The first question is on the 2020 guidance. If I remember correctly, you previously assumed the flat market in North America, Europe and Brazil. And now you are confirming all the guidance with North America and EMEA down 3%. I would say, only partially offset by Brazil up 5%. So apart from, I don't know if raw materials that you mentioned, your assumption has changed compared to last October when you provided the guidance? Or what is offsetting the likely lower volumes due to the more difficult market environment?

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

Obviously, the raw materials that Richard mentioned were new news since we gave our guidance. But we've lived in that environment. I think that's why I was referencing the fact that we had similar headwinds as we came into 2019. And I guess, if you look in 2018, there will be similar headwinds. We've got a team of people that are used to being challenged and targeted to find offsets of headwinds, and that's what they've been challenged and targeted to find. I'm not prepared because we get a minor movement on some industry to change our guidance at this stage. It's the life that we live in.

Now obviously, something changes, that says we're unable to do it, we have the fortunate ability to talk to each other quarterly, we'll let you know. But it's -- in my mind, I think they have got a very solid idea of what they need to deliver. I think they got very solid plans. Is everything offset at this moment in time? Not all of the new news in terms of raw materials, but we're still firm on our guidance for this year.

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

Okay. And the other one is on net working capital because last year had a very huge contribution. Presumably, it's mainly driven by destocking so just to have an idea what is the underlying assumptions you have for net working capital for this year? And just a confirmation if the destocking is, can we say, is finalized almost everywhere? And if I may, also the ForEx assumption for your guidance?

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

ForEx assumptions are current rates, basically, the -- the working capital going into next year, between working capital and provisions, as you said, we had some big moves. But overall, it was basically slightly negative for EUR 200 million for the year last year because of the destocking offsetting the working capital. I think going into 2020, we expect working capital and provisions to be positive between EUR 0.5 billion to EUR 1 billion, in large part because of the non-repeat of the diesel settlement payments and the UAW bonus that we paid in Q4.



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

And I'll pick up the destocking question here. It's largely complete. I do -- I still want to see our North American team just moderate some of their inventory in their region. And I want to make sure that EMEA, as we go through this year and we learn month by month, have a very, very tight handle. So impossible to say, yes, it's absolutely 100% complete, but the magnitude of last year, I don't envisage it all will be repeated this year.

Operator

We will take our next question from the line of Philippe Houchois from Jefferies.

Philippe Jean Houchois - Jefferies LLC, Research Division - MD & Senior Automotive Analyst

I've got a couple of questions. The first one, I also look forward to the Maserati Day and relaunch. My question is on the powertrain efficiency. We've seen some new EVs coming out some very repeatable competitors, and they have been slightly disappointing in terms of range or energy efficiency or over the year updates. And I'm just trying to understand have you been working on the relaunch of Maserati on own or have you relied heavily on outside help and partnerships? And if that's the case, could you comment a bit on this -- about this?

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

If you don't mind me asking, what's a disappointing range for you?

Philippe Jean Houchois - Jefferies LLC, Research Division - MD & Senior Automotive Analyst

No, it more of a -- it seems like if I compare with Tesla can do today and what we've seen from Audi to Porsche, it seems like 20% to 25% efficiency shortfall compared to what Tesla has been able to achieve. And I appreciate from Maserati, you people have built to drive faster for a sustained period of time and so that will cut into range. But I'm just trying to get a sense for how you feel about your competitiveness against what is still a benchmark, Tesla and what we've seen coming out of some of your German competitors?

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

Well, what we do is -- not just for our battery electric vehicles, but for all of our vehicles is we clearly, particularly with the brand like Maserati, where powertrain is an absolute and the embedded DNA for that brand is to make sure that we have stretching targets in terms of performance of the vehicle. And obviously, when you got a battery electric, that's going to be a combination of range as well as the dynamic performance of the vehicle. We have significant internal experience in terms of electrification. You may have heard me focus on the fact that we are #1 mild-hybrid seller in the United States. We have the #4 plug-in hybrid in the United States. We launched the Fiat 500 BEV in the United States, so I think from memory, 3 years ago, it was the third highest seller. So we have a lot of internal resources. But we do work in partnership. We have to work in partnership with your battery producers because it is a much, much more complicated controls and integration system. But you -- any OEM has to have a large degree of that core skill sitting within their organization, and I'm pleased that within our engineers, we do as well.

Philippe Jean Houchois - Jefferies LLC, Research Division - MD & Senior Automotive Analyst

Right. And on a different note, another question. The UAW agreement that you signed was translating to a significant closing of the gap that you enjoyed in terms of labor cost power competitive Ford and GM, any views on how you're going to compensate for that? I know you still have some mix opportunities that get into full-size SUVs, et cetera, but it is still a significant wage inflation that you have to accommodate for the next 3 years compared to Ford and GM, and any thoughts on how you compensate for that?

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

We've compensated, I think, for wage inflation in different forms across different regions. Basically, every single year, sometimes they're more significant than others. What we always try and do is to task our teams to look at whether there are cost offsets to that or whether there is pricing and margin or mix offsets. And I think if you look at our year-over-year results through a combination of things. And we did have wage inflation as well, and we did have overall labor inflation as we strengthen some of our internal teams. I think we were able to offset it. And I just view it as part of the job of the leadership team. We'll continue to do it.

Philippe Jean Houchois - Jefferies LLC, Research Division - MD & Senior Automotive Analyst

Right. And if I can squeeze in the last one. I know you're not going to answer me, but -- so you showed us on the slide, and all this -- around that you will be complying in 2020 around 95 grams. I'm just trying to understand, in the case of FCA compared to CO2 targets were set a number of years ago, the average mass of the vehicles you've been selling in Europe has increased significantly. Has your target been adjusted for that? Or you're still kind of living off the legacy years ago selling, on average, much like the cars than what you're selling today?

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

Well, one of the interesting things in terms of the target, it's actually adjusted based upon the final makeup of your fleet. So the mix management of your fleet in Europe becomes incredibly important because it will affect where you sit on the curve. We believe that the numbers that we have written down because we now have a significant amount of resource directed at this, as you can imagine, is where we're going to end up. And as I said from the mix that we saw in January, we are in track -- on track with the forecast that we had coming into the year. So every month, we're going to be tracking it and making sure that we stay on track. And if we don't, for whatever reason, we'll, for sure, make sure that we talk about it in the quarters to come. But right now, that's a reflection of the position that we think we're in.

Philippe Jean Houchois - Jefferies LLC, Research Division - MD & Senior Automotive Analyst

And the target, so you readjusted based on how your average mass develops, that makes sense.

Operator

We will take our next question from the line of George Galliers from Goldman Sachs.

Our final question comes from the line of Stuart Pearson from Exane BNP Paribas.

Stuart Patrick Pearson - Exane BNP Paribas, Research Division - Chief Financial Analyst & Analyst of Automotive

So just 2 or 3 questions left. Just on Europe and electrification. You mentioned that Q3 that you encouraged very early signs, we encouraged on pricing on BEVs, and that was -- similar comments have been echoed by some of your peers. Is that still the case? I know it's still early days, but I was wondering what your what you're seeing on the pricing side in the market now for those electrified cars in the market overall?

And equally, are there any bad actors you're seeing, perhaps the cars that were pre-registered in Q4, high CO2 cars, obviously, being dumped into the market now? So are we seeing any sort of unintended consequences as we come into this new emissions era? And then how should we think about the range of outcomes for EMEA profitability as a result of that in 2020, given you were roughly breakeven last year? And then quickly in NAFTA, maybe you could just reassure us quickly just on the health of the U.S. market, should have been a few years recently, given, I guess, the downtime you've had in some of your plants, albeit some aging product, some auto loan delinquencies, pitching some pretty high rates, so can you just reassure us on the outlook? Or are you hearing anything of more pressure there from your lending partner over in the U.S.?

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

Sure. I'm going to try and cover up all of those things. In terms of pricing, I looked -- our teams, not me personally, looked at how we saw as best we could, net transaction prices evolve in January, given it was really the first month of mix. It seems to me from the data that I've seen, that prices are still reasonably positive.

What's not clear, obviously, is as more and more penetration is required, whether there is a broad enough customer base for that. But I have to say, it is much better than I thought it was going to be on a personal level. There's now every single time you change an emission standard, whether you go Euro 60% 10% -- Euro 60% final, whether you move into a different way of measuring your fleet, you always get a turn on pre-registered. 0-K vehicles in Europe always spikes as every manufacturer manages their inventory. We see it every single time. There is a hangover. We've seen it in January. January was largely down in many, many markets in Europe. I suspect it was because of the 0-K vehicles registered in December, they'll wash themselves out of the system pretty quickly, I think. So the length of the impact will be relatively small. In terms of the U.S., as we've just said, we're confirming our guidance. I think that's the best reassurance that I can give you. For that market. And I'm not hearing anything from our lenders that would, at this stage, make me feel nervous or either reflected in guidance.

So with that, I think we finished off all of our questions. If I may, just a few closing comments. Again, thank you very much for joining us. As I said, and I think I tried to make this clear in my opening comments, I think 2019 was a historic year for the company. And we did achieve strong operating results in the face of several challenges. And at the same time, what I think, taking decisive measurements -- the measures and actions to set the company up for what I think is a very bright and sustainable future. And I think the work that was done in EMEA on our cost base and efficiencies and in our headcount and in APAC, and you've seen the levers and how they've improved those where Maserati has been set up, I think, bodes well for the future. And then -- we and the team is fully focused to try and deliver more and more opportunities to give our shareholders value. And that's, as I said, what we're focused for.

In 2020, we're obviously going to continue to move diligently forward in terms of completing our merger with PSA and as we've said, we will keep you posted in terms of our progress during our calls. So again, thank you for your time, and I want to end again by talking to our people, my people. Thank you for 2019. As I mentioned at the beginning, I think we have a phenomenal team, you guys and those come in every day and deliver the results for us, and I'm proud to be part of the team with you. So with that, thank you very much, and goodbye.

Operator

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

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