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Venturing into the Deeper End of Deep Value

AUTO STOCKS REMAIN HEAVILY DISCOUNTED ...

We don't believe it is any secret that auto parts stocks have been out of favour among investors for a number of years, as everyone waited for the inevitable pull back in global auto sales. Over this timeframe (which largely commenced in late 2015), sentiment in the space has waned between fairly negative and something potentially approaching neutral. While the primary driver of this sentiment has been investor concerns surrounding a potential decline in global production, there also remains questions / uncertainty surrounding the overall impact of emerging technology trends (i.e. autonomous driving and electrification of the powertrain), as well as overhangs related to global trade rhetoric, tweets, and headlines. As we describe in more detail in this report, while investors have largely chosen to avoid auto parts stocks, we believe this potentially opens the window to an opportunity.

MARTINREA - TURNAROUND REMAINS ON TRACK, NO ONE IS PAYING ATTENTION

Regarding Martinrea (Outperform, C$16.00), we see a situation where: (1) management communicated a operational improvement plan to investors; (2) largely delivered on this plan (i.e. EBIT margins expanded to 7.8% in 2018 from 4.1% in 2014) although we acknowledge some delay for 9% margin was indicated with the Q319 financial report; and (3) has continued to see its absolute and relative valuation discount widen (i.e. 2020e EV/EBITDA is 3.4x vs. peers 4.3x and 10y historical fwd multiple of 4.4x). The only factor we can see to explain this valuation anomaly is free cash generation, which we fully anticipate to continue improving during Q4/19 and 2020. Additionally, and we believe this is the most striking valuation disconnect, Martinrea is currently trading at a Price/Tangible Book Value of 0.8x, a level last seen during the 2008-2009 financial crisis.

MAGNA - A DEEP VALUE STOCK WITH SIGNIFCANT FREE CASH

In terms of Magna International (Market Perform, US$60.00 target), we have an overall constructive view of the company which is driven by multiple factors, including: (1) a management team that is actively evolving the product portfolio (through investments and divestments) as they position to reflect the "car of the future"; (2) A conservative balance sheet (current net/debt EBITDA = 1.3x); (3) Significant free cash flow (US$1.9-2.0 billion) forecast in 2019 implying an 11-12% free cash yield; and (4) Continued aggressive activity on the share repurchase program. Where we have pause with our rating is the current valuation. On many metrics (EV/EBITDA, P/E, P/Book), Magna is trading at its historical averages, and we remain hesitant to apply target multiples meaningfully beyond this range. That said, with the company anticipated to release 2020 guidance in early/mid-January, we will look to review our thesis at that time.

ASSESSING SENTIMENT VIA VALUATION

As a starting point, our view is that the most important talking point for the Canadian auto parts stocks is investor sentiment, which over the past 4 years has waned between fairly negative and something approaching neutral. While the primary driver of this sentiment has been concerns surrounding plateauing global production levels (in particular in the U.S.), there also remains significant questions surrounding the overall impact of emerging technology trends, namely autonomous driving and electrification of the powertrain, as well as overhangs related to global trade in autos and auto parts.

From that perspective, as a starting point in the analysis, we believe it is as a useful exercise to look at current valuations and compare them versus both historical sector multiples and overall market multiples. From this standpoint, we can start to assess to what degree the concerns discussed above are actually being reflected.

In Exhibit 1 we illustrate our peer valuation table for the North American auto parts stocks and select European peers. In looking at the stocks in the table and assessing the variation in multiples (i.e. those assigned a higher multiple versus lower multiple), we have found, historically, that this is generally explained by the technology quotient that investors assign to a particular name. In particular, if investors are willing to give an auto parts company credit for exposure to any of the following key trends: autonomous driving, electrification, and/or hybrid technology, this will generally afford a more attractive / expanded valuation (which can be quite meaningful).

Exhibit 1: North American and Select European Auto Parts Peers

Ticker	Company Name	Price	Dividend	Shares Out	Market Cap	Net Debt	EV	P/E FY2019	P/E FY2020	P/E FY2021	EV/EBITDA FY2019	EV/EBITDA FY2020	EV/EBITDA FY2021	*LTM FCF Yield*	Price/ Book	*Sales CAGR 19-21e*	*EBITDA CAGR 19-21e*	*EPS CAGR 19-21e*	*EBITDA Margin 2019e*	*EBITDA Margin 19-21e*	Net Debt / 2019e EBITDA
U.S. Peers																					
CPS	Cooper-Standard Holdings Inc.	32.76	0.0%	16.8	552	461	1,035	5.1x	9.5x	7.9x	5.1x	4.1x	3.6x	-15.9%	0.6x	0.9%	18.9%	-19.9%	6.7%	2.6%	2.3x
SHLO	Shiloh Industries, Inc.	3.63	0.0%	23.8	86	235	322	*14.5x*	7.3x	nm	4.6x	4.0x	nm	-38.7%	0.5x	-5.2%	13.9%	100.0%	6.5%	1.3%	3.4x
TEN	Tenneco Inc.	13.09	3.8%	80.9	1,059	5,180	6,573	*4.0x*	*3.2x*	*3.1x*	4.6x	4.3x	4.2x	-30.9%	0.6x	2.0%	4.0%	12.8%	8.3%	0.3%	3.6x
AXL	American Axle & Manufacturing I	10.09	0.0%	112.5	1,135	3,356	4,494	6.8x	4.7x	5.0x	4.6x	4.4x	4.9x	14.9%	0.8x	-6.0%	-2.9%	16.6%	14.6%	1.0%	3.5x
DAN	Dana Incorporated	16.91	2.4%	143.9	2,434	2,063	4,758	5.5x	5.5x	5.0x	4.6x	4.6x	4.4x	9.5%	1.4x	0.9%	2.6%	5.5%	11.9%	0.4%	2.0x
DLPH	Delphi Technologies PLC	11.74	1.4%	86.9	1,020	1,404	2,557	5.1x	4.9x	4.2x	4.8x	4.6x	4.2x	-12.4%	2.8x	0.3%	7.2%	11.0%	12.2%	1.7%	2.7x
BWA	BorgWarner Inc.	44.34	1.5%	206.5	9,156	1,159	10,436	11.3x	10.8x	9.9x	6.5x	6.2x	6.0x	9.8%	2.1x	4.7%	4.3%	6.8%	16.1%	-0.1%	0.7x
LEA	Lear Corporation	122.15	2.4%	60.6	7,408	1,016	8,742	9.1x	8.0x	7.3x	4.9x	4.6x	4.4x	13.0%	1.8x	3.8%	6.2%	11.6%	9.2%	0.4%	0.6x
ADNT	Adient plc	20.36	0.0%	93.6	1,906	2,814	5,112	16.1x	13.7x	8.9x	6.7x	6.0x	5.3x	-8.4%	1.0x	-1.9%	12.5%	34.2%	4.6%	1.5%	3.7x
VC	Visteon Corporation	93.05	0.0%	28.0	2,605	-48	2,667	*31.6x*	19.3x	13.6x	11.2x	8.8x	7.4x	2.9%	5.5x	10.8%	23.1%	52.4%	8.1%	1.9%	-0.2x
APTV	Aptiv PLC	92.25	1.0%	255.7	23,584	4,019	27,819	19.8x	16.5x	14.9x	12.4x	10.8x	9.9x	3.7%	6.6x	6.7%	11.7%	15.2%	15.7%	1.5%	1.8x
ALV	Autoliv, Inc.	82.80	3.0%	87.2	7,220	1,771	9,003	14.7x	12.1x	10.5x	8.1x	7.1x	6.6x	1.7%	3.6x	4.9%	11.1%	18.6%	13.0%	1.6%	1.6x
Average								**10.4x**	**10.2x**	**8.8x**	**6.5x**	**5.8x**	**5.7x**		**2.3x**						
European Peers																					
DB:CON	Continental Aktiengesellschaft	€ 122.92	3.9%	200.0	24,585	3,814	28,866	11.5x	10.3x	9.1x	5.3x	4.7x	4.4x	4.9%	1.6x	3.1%	9.6%	12.1%	12.3%	1.6%	0.7x
BME:GEST	Gestamp Automoción, S.A.	€ 4.05	0.0%	574.7	2,330	2,604	5,401	10.4x	8.4x	7.6x	5.1x	4.7x	4.4x	-4.9%	1.3x	5.9%	7.7%	16.9%	11.6%	0.4%	2.5x
XTRA:SHA	Schaeffler AG	€ 10.15	5.4%	666.0	6,757	2,723	9,576	10.4x	8.8x	7.9x	4.9x	4.5x	4.2x	6.2%	2.5x	2.4%	7.5%	15.0%	13.7%	1.4%	1.4x
ENXTPA:EO	Faurecia S.E.	€ 47.30	2.6%	136.3	6,447	1,701	8,456	10.2x	8.9x	8.0x	3.8x	3.6x	3.5x	5.7%	1.7x	4.8%	4.5%	12.4%	12.5%	-0.1%	0.8x
ENXTPA:FR	Valeo SA	€ 35.13	3.6%	238.8	8,390	2,770	11,949	19.3x	13.5x	10.7x	4.9x	4.6x	4.2x	4.3%	1.9x	4.7%	8.5%	34.5%	12.5%	0.9%	1.1x
Average								**12.3x**	**10.0x**	**8.7x**	**4.8x**	**4.4x**	**4.1x**		**1.8x**						
Canadian Peers																					
NYSE:MGA	Magna International Inc.	55.49	2.6%	305.3	16,941	3,264	20,503	9.2x	8.4x	7.5x	5.3x	5.1x	5.0x	11.0%	1.6x	2.4%	3.2%	10.7%	9.8%	0.2%	0.8x
TSX:LNR	Linamar Corporation	45.42	1.8%	65.2	2,963	1,943	4,906	6.1x	6.3x	nm	4.5x	4.6x	nm	11.7%	0.7x	0.3%	-3.4%	-3.6%	14.6%	-0.5%	1.8x
TSX:MRE	Martinrea International Inc.	11.46	1.6%	81.7	936	772	1,708	5.0x	4.6x	4.3x	3.6x	3.4x	3.3x	2.7%	0.8x	0.3%	4.9%	7.9%	12.2%	1.1%	1.6x
Average								**6.8x**	**6.4x**	**5.9x**	**4.5x**	**4.4x**	**4.1x**		**1.0x**						
Average All								**10.7x**	**9.5x**	**8.4x**	**5.8x**	**5.2x**	**5.0x**		**2.0x**						

Notes:
(1) Numbers in italics are excluded from the averages
(2) For companies where 2021 estimate unavailable CAGR is calculated on a 1-year basis
(3) All estimates from Capital IQ except Magna and Martinrea which are per Raymond James Ltd.
(4) For Martinrea, we are adjusting net debt and EBITDA to exclude the impact of IFRS 16 (i.e. lease accounting)

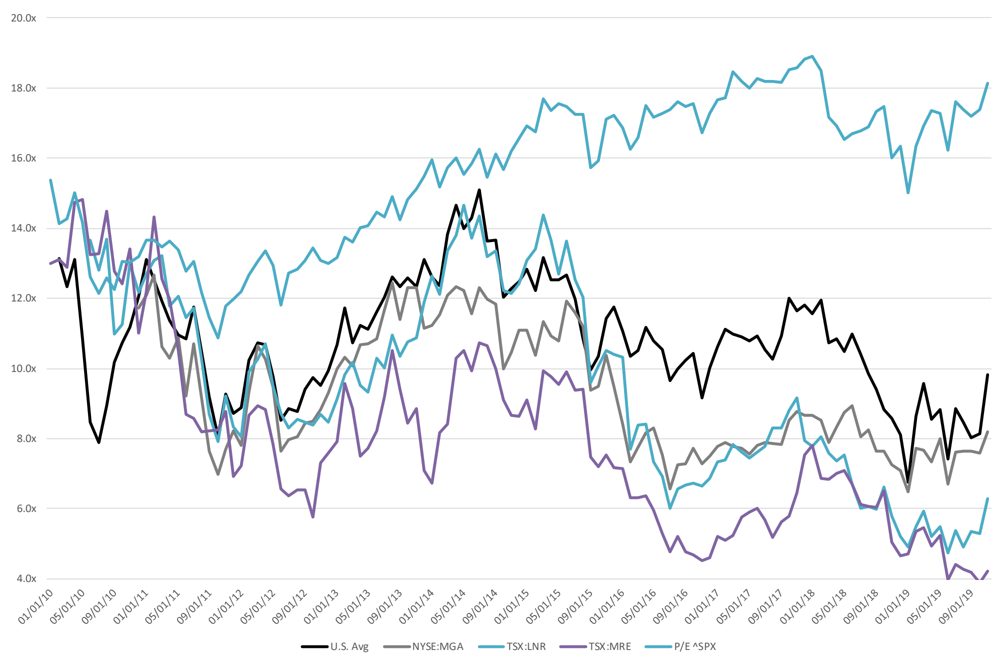
Source: Capital IQ, Company reports, Raymond James Ltd.

In the context of the Canadian stocks discussed in this *Comment*, namely Magna International and Martinrea, the technology quotient assigned is generally low. In that regard, while we acknowledge it is difficult to discuss the business of Martinrea in the context of emerging automotive technology, we do believe that there are technology components to take into consideration when valuing Magna, and these are often overlooked by the market (we discuss this later in our *Comment*).

Sector Multiple Contraction Particularly Pronounced in the Face of Overall Market Valuations

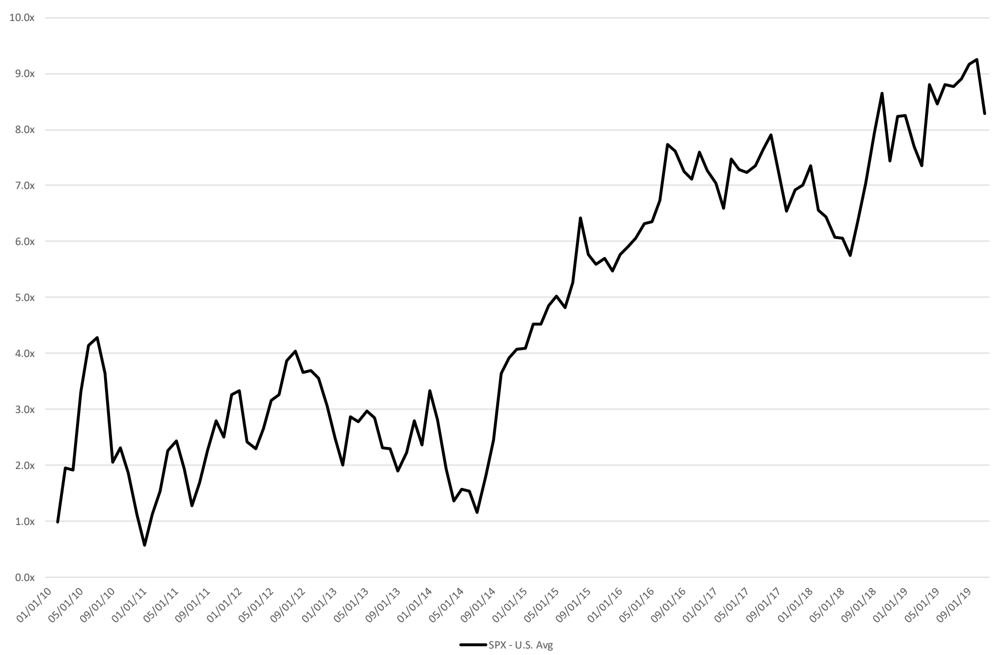
In Exhibit 2 we examine the historical forward P/E multiples of the Canadian and U.S. auto parts peers from Exhibit 1 relative to the overall valuation of the S&P 500. As can be seen visually in this graph, valuations for the group tracked the overall market (i.e. maintained their spread) up until early/mid-2015 at which point a decoupling occurred and the discount widened quite substantially. This idea is illustrated quite clearly in Exhibit 3 where we simply show the spread between the S&P 500 forward P/E and the U.S. auto parts peers.

Exhibit 2: Auto Parts Historical Forward P/E Relative to S&P500 Forward P/E



Source: Capital IQ, Company reports, Raymond James Ltd.

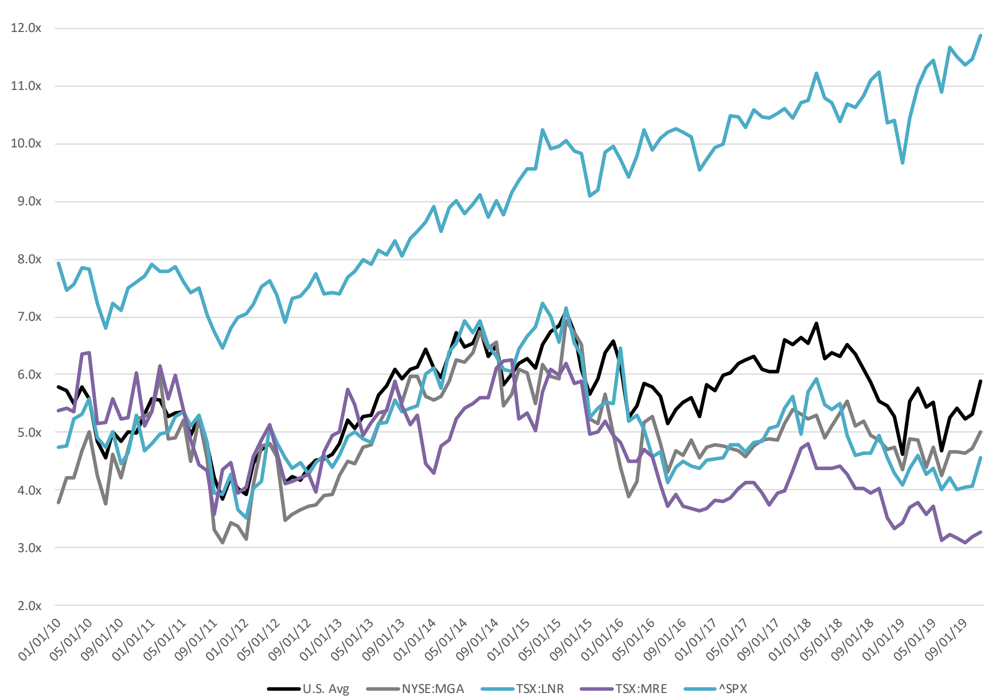
Exhibit 3: Spread Between S&P 500 Forward P/E and U.S. Auto Parts Peers Forward P/E



Source: Capital IQ, Company reports, Raymond James Ltd.

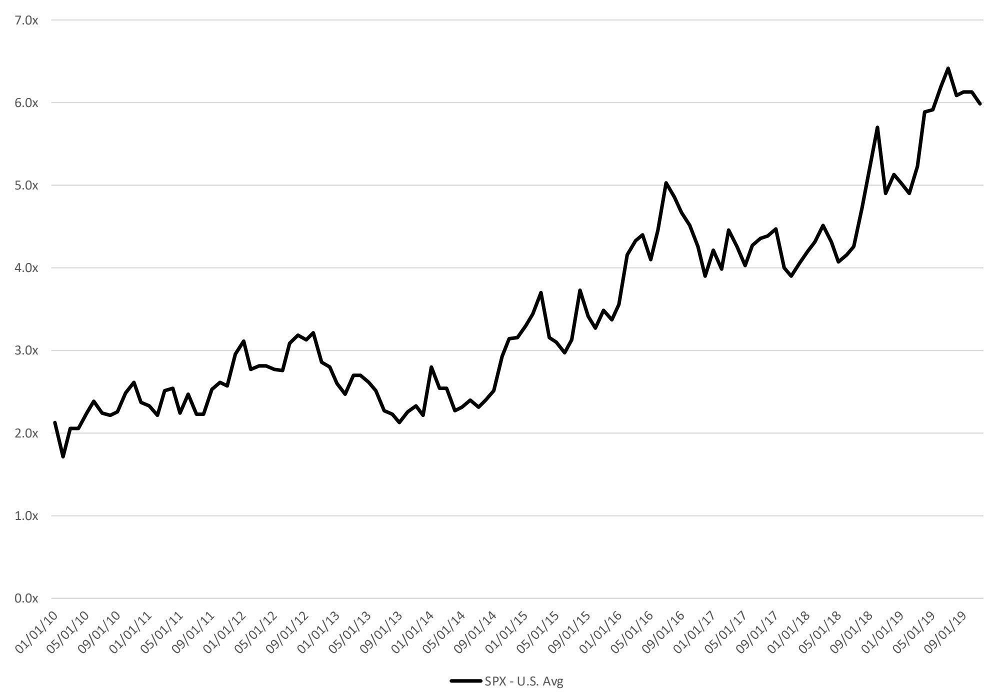
If we look at historical forward EV/EBITDA we see a similar trend in the market, although the widening valuation discrepancy begins more towards mid-2015. We illustrate the EV/EBITDA spreads in Exhibit 4 and Exhibit 5.

Exhibit 4: Auto Parts Historical Forward EV/EBITDA Relative to S&P500 Forward EV/EBITDA



Source: Capital IQ, Company reports, Raymond James Ltd.

Exhibit 5: Spread Between S&P 500 Fwd EV/EBITDA and U.S. Auto Parts Peers Fwd EV/EBITDA



Source: Capital IQ, Company reports, Raymond James Ltd.

Assessing the Reasons for Spreads and Investor Neglect

There are several explainable factors which can help understand the valuation discount assigned to auto parts stocks. And as illustrated in the graphs above, these concerns really began to emerge in the latter half of 2015 and have lingered since. We discuss each in some detail below.

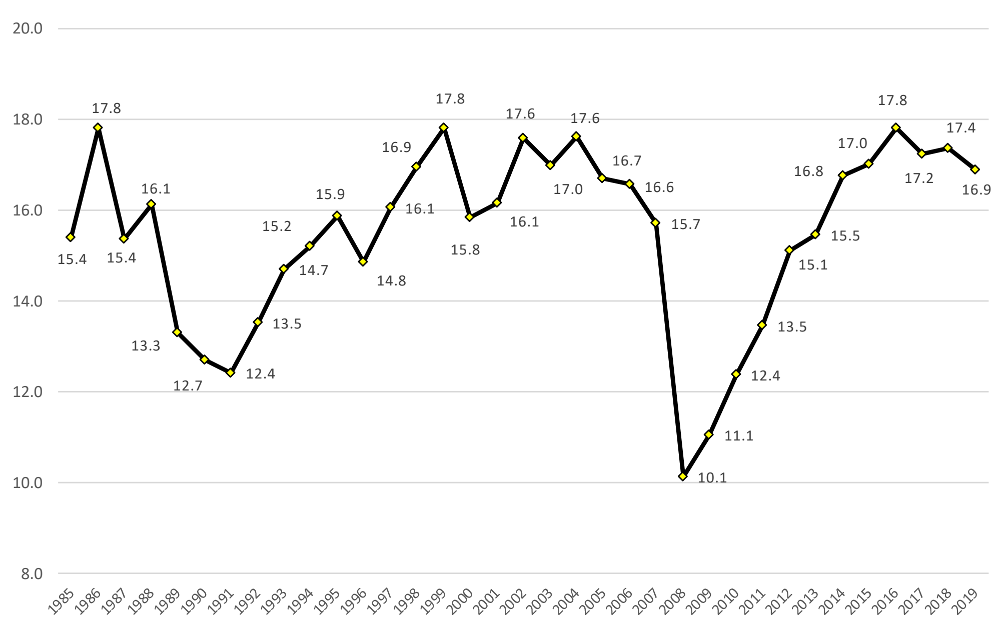
Concerns Surrounding Plateauing U.S. SAAR and plateauing global auto product.

We would say that this remains the most top of mind concern among investors. As we approached the end of 2015, it became clear that after several years of expanding U.S. auto sales (typically referred to as SAAR or Seasonally Adjusted Selling Rate) coming out of the financial crisis, the market was in the process of plateauing with more moderate future gains expected (Exhibit 6).

With this situation in mind, investors began focusing on what would happen if we were to see a rapid deceleration or decline in auto sales / production. In hindsight, although indeed SAAR did peak in 2016 (Along with North American production), the declines have been moderate overall, and perhaps more importantly, there has been a very important shift in the consumer mix towards truck/SUV/CUV versus passenger car (Exhibit 7), which generate more meaningful content per vehicle and margins for both auto OEMs and parts producers.

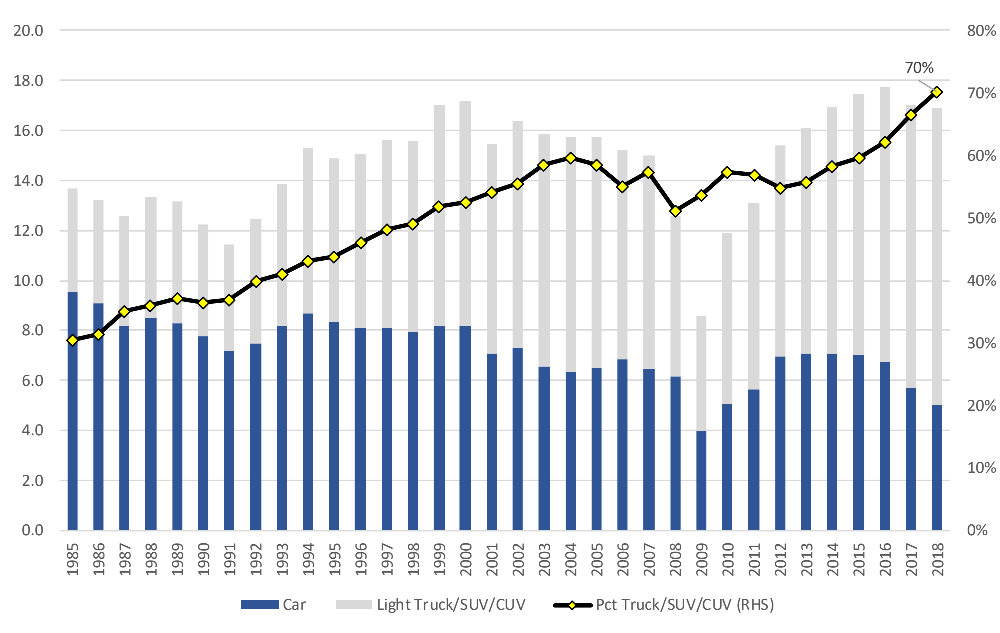
As we work with the outlook for both Magna and Martinrea, we are working predominantly with more recent management guidance which reflects market outlooks (generally flattish in nature), OEM production schedules, and net product cadence (i.e. work ramping and coming off internally). In general, we view our forecasts as quite conservative in nature from both a revenue and margin perspective.

Exhibit 6: U.S. SAAR History 1985-2019 YTD (August)



Source: Wards Intelligence, Raymond James Ltd.

Exhibit 7: North American Production 1985-2018 with Percentage Light Truck



Source: Wards Intelligence, Raymond James Ltd.

Concerns Surrounding Trade

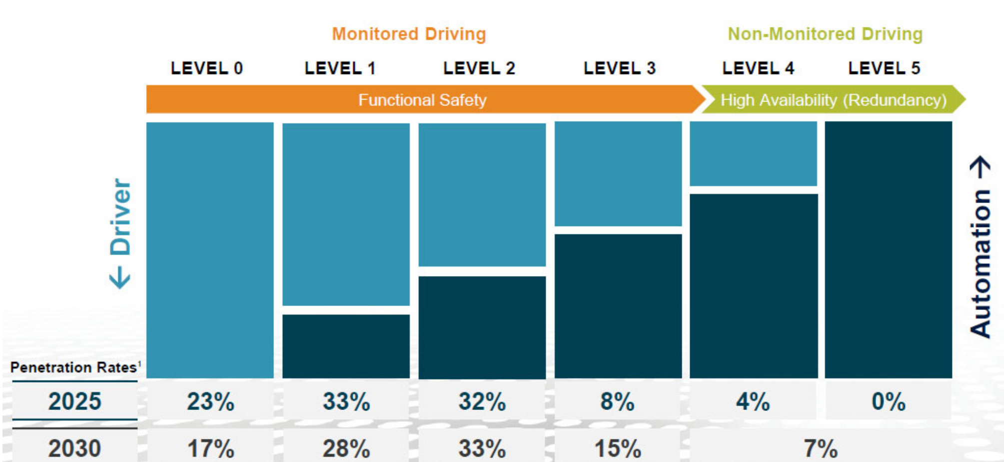
In particular for the Canadian auto parts stocks this discussion centered on rhetoric surrounding the USMCA/NAFTA trade deal and how (severely) this would impact cross-border trade in autos and auto parts. All that said, while it did create a tremendous amount of uncertainty at times, the three countries involved were able to establish an agreement in principle (September 2019) with respect to the new USMCA, which (perhaps quite importantly) has yet to be ratified or approved by U.S. Congress. Unfortunately for the Canadian auto parts stocks, a possible resolution in the USMCA was far from enough to alleviate trade-based concerns, as any headlines which suggest a deterioration in trade between the U.S. and China (directionality unclear at this point) or the U.S. and Europe (best described as “lingering” in a recent LMC Automotive presentation), tend to have a fairly negative / outsized impact on the automotive space and stocks. From our perspective, while the headlines themselves tend to create volatility in the stocks, outside of any firm or concrete action taken with respect to trade, it is extremely difficult to assess and determine what the actual outcome may or may not be.

Concerns Surrounding Technology

Around the same time that concern surrounding the plateauing U.S. SAAR were playing out (i.e. mid / late 2015), there were also increasing concerns surrounding what impact technology was going to have on the automotive space. These concerns focused on two topics in particular: 1. Autonomous driving; and 2. Electrification of the powertrain.

Regarding autonomous driving, we saw the discussion surrounding the rollout and implementation of autonomous driving accelerate significantly and then scale back to what appears to be a more pragmatic timeframe for rollout (i.e. over the next decade) (Exhibit 8). As such, while early concerns focused heavily on the potential impact of autonomous driving in combination with the demand for ride-sharing services, we would say that the dialogue surrounding the overall impact remains much more tempered at this point.

Exhibit 8: Magna International Forecast for Penetration Rates of Various Levels of ADAS



Source: Magna International Inc.

In terms of electrification of the powertrain, we have spent a more considerable amount of time looking to understand the various implications as we think about the future of the internal combustion engine (ICE) and various parts / moving pieces surrounding the propulsion architecture. As we have come to see outside of North America, in particular in Europe and China, the amount of fully electric (BEV) product is set to increase significantly, and as battery technology and infrastructure continues to improve, we can only expect consumer demand will continue to increase. In Exhibit 9 we illustrate how both fully-electric and hybrid penetration rates have tracked through major markets. In terms of the U.S., based on a recent presentation from Wards Intelligence/LMS, by 2030 electric vehicles are forecast to represent ~8% of overall sales, with hybrid (which includes several different categories of hybrid) representing close to 16% of sales.

Exhibit 9: U.S. Light Vehicle Electric and Hybrid Powertrain Penetration Rates

	2014	2015	2016	2017	2018	YTD 2019
U.S. Light Vehicle Engine Installations						6 months
Electric Vehicles (excludes PHEV)	0.3%	0.4%	0.4%	0.6%	0.9%	2.1%
Hybrid Vehicles (includes PHEV)	3.0%	2.3%	1.9%	3.4%	3.9%	4.6%
Total Hybrid and Electric	**3.3%**	**2.7%**	**2.4%**	**4.0%**	**4.9%**	**6.7%**
European Registration Data (reflected for EU + EFTA)						9 months
Electrically Chargeable Vehicles (includes PHEV)	0.7%	1.3%	1.4%	1.8%	2.5%	3.2%
Hybrid Vehicles	1.5%	1.7%	2.0%	2.9%	3.9%	5.5%
Other Alternatively Powered	1.8%	1.5%	1.2%	1.3%	1.5%	1.6%
Alternatively Powered Cars	**4.0%**	**4.5%**	**4.5%**	**6.1%**	**7.8%**	**10.3%**
China (Passenger + Commercial vehicles)						9 months
BEV (Battery Electric Vehicle)	0.2%	1.0%	1.5%	2.3%	3.5%	3.8%
PHEV (Plug-in Hybrid Electric)	0.1%	0.3%	0.3%	0.4%	1.0%	1.0%
BEV+PHEV	**0.3%**	**1.3%**	**1.8%**	**2.7%**	**4.5%**	**4.7%**

Source: Wards Intelligence, European Automobile Manufacturers Association, China Association of Automobile Manufacturers, Raymond James Ltd.

In terms of Martinrea, when we think about the discussion surrounding these two topics, implications of autonomous driving and electrification of the powertrain, the transition / evolution does appear to be manageable in nature. As it pertains to Magna, our focus is the Power and Vision segment, in particular the core Powertrain business. Our expectation is that this segment will continue to see some degree of pressure as vehicle architectures continue to evolve away from the use of the internal combustion engine towards fully electric. And while we understand that hybrid offers a bridging solution of sorts between ICE and electric, we do have some concerns surrounding the cost of such architecture (i.e. employing two propulsion systems), particularly as we continue to see improvements in battery electric technology (i.e. improvements that improve both cost (per Wards battery pack wholesale cost has declined ~80% since 2010) and range). We do believe that we capture these concerns within our forecast for Magna's Power and Vision segment, but acknowledge that it is an area we continue to focus on and ask questions.

Stocks Continue to Price in Uncertainty, Overall we see Opportunity

As we work beyond all of the issues and headwinds that the market and investors see for the space and Canadian auto parts stocks, our view is that a reasonable amount of uncertainty is already priced into the stocks. Barring a clear view that we are going to see a deep cyclical downturn (or recession), particularly in the U.S. where both companies earn the majority of their operating profit (Magna ~66% of operating profit in 2017 was North America, Martinrea ~83% of operating profit was North America), we see a relatively favourable risk reward in the names. That said, at this point in time, we see Magna's valuation as closer to fair value, with Martinrea continuing to trade at a very sizeable discount to both historical and peer valuations. As such, our initial rating for Martinrea is Outperform, with Magna at Market Perform.

MAGNA INTERNATIONAL INC. (MG-TSX | MGA-NYSE AMERICAN)

Consumer & Retail
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Market Perform 3
Target Price $60.00

Suitability	Medium Risk/ Income

MARKET DATA

Current Price (Sep-20-19)	$55.49
Market Cap (mln)	$17,319
Current Net Debt (mln)	$2,701
Enterprise Value (mln)	$20,020
Shares Outstanding (mln)	312.1
30-Day Avg. Daily Value (mln)	C$63.5
Dividend	$1.46
Dividend Yield	2.6%
52-Week Range	C$57.34 - C$76.11

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
EPS ($, Dec FY)				
2018A	1.84	1.67	1.56	1.63
2019E	1.63 A	1.59 A	1.41 A	1.40
2020E	1.72	1.71	1.53	1.68

	2018A	2019E	2020E
EPS ($, Dec FY)	6.71	6.04	6.64
P/E	8.3x	9.2x	8.4x
Revenue (mln) ($, Dec FY)	40,827	39,504	40,522
EBITDA (mln) ($, Dec FY)	4,385	3,873	4,023
EV/EBITDA	4.6x	5.2x	5.0x

Source: Thomson One, Raymond James Ltd. Quarterly figures may not add to full year due to rounding.

Getting Paid to Wait

RECOMMENDATION

We are initiating coverage of Magna International with a neutral rating and US$60.00/C$80.00 price target. In general, we have a constructive view on the stock and the business. This view is driven by a number of factors, including: (1) Management actively evolving the product portfolio; (2) Ongoing investments being made in both ADAS and electrification; (3) Significant free-cash generation; (4) A conservative balance sheet; and (5) Aggressive activity on the share repurchase program. Where we have pause with our rating is valuation. On many metrics (EV/EBITDA, P/E, P/Book), Magna is trading at its historical averages, and we remain hesitant to apply target multiples beyond this range. That said, with the company anticipated to release 2020 guidance in early/mid-January, we will look to reassess our segment multiples at that time.

ANALYSIS

Magna remains a deep-value stock which generates a substantial amount of free cash flow. Management has guided towards $1.9-$2.0 billion of free cash in 2019, with ~$6.5 billion forecast over 2019-2021. With the balance sheet leveraged at 1.3x (3Q19) (target range is 1-1.5x), we fully anticipate Magna will continue to raise the dividend while remaining aggressive on the buyback program. Of note, since the beginning of 2017, Magna has returned just over $5 billion in capital to shareholders in the form of dividends and share repurchases.

Additionally, we believe it is important to discuss the efforts Magna is making to invest in emerging technologies while divesting segments viewed as non-core. In that regard, while continuing to offer a more conservative view regarding future penetration rates for autonomous/electrification, MGA is continually increasing spending (i.e. +$50 mln in 2019, +$100 mln in 2018) and making investments (i.e. $220 mln Lyft investment [ADAS], Innoviz [LiDAR]) to keep pace. Additionally, within Steyr, Magna is assembling the all-electric Jaguar I-PACE (2018), plug-in hybrid BMW 5-series (2017), and in 2018 announced two JVs with BJEV to produce up to 180,000 BEVs for the Chinese market. On the other side of the product portfolio evolution, Magna recently announced the $1.2 billion divestiture of its GFP&C business to Hanon Systems.

In terms of our financial forecast, we do not anticipate aggressive top-line growth and margin expansion over the F2019E-F2021E timeframe (i.e. topline increases by +2-2.5% per annum with margins modestly improving to 6.7% from 6.4%). However, when this is coupled with share repurchases (5M per quarter), we forecast '19E-21E EPS growth of ~10-11%. As an investor, this EPS growth is coupled with a dividend yield of just under 3% and 2020e P/E of 8.3x offers a compelling risk/reward profile.

VALUATION

Regarding valuation, we focus primarily on sum-of-the-parts (SOP) and back check using Price/Earnings, discounted-cash-flow and Price/Book. In terms of our SOP approach, we use relatively conservative segment **target** multiples (Body and Exteriors 4.5x, Power and Vision 5.5x, Seating Systems 5.0x, Complete Vehicle Assembly 4.0x) which are more than justified by the trading multiples of each segments relevant peer group. All-in, our consolidated forward target multiple for Magna is 4.8x versus the 5-year forward average of 5x.

GETTING PAID TO WAIT

Magna remains a deep-value stock which generates a substantial amount of free cash flow. Management has guided towards $1.9-$2.1 billion of free cash in 2019 (current 11% free cash yield), while forecasting ~$6.5 billion in free cash over the 2019-2021 timeframe (i.e. 3 years). With the balance sheet conservatively leveraged at 1.3x (Q319) and within management's target range of 1-1.5x, we fully anticipate the company will continue to raise the dividend (+11% in early 2019 and +20% in early 2018) and remain aggressive with the buyback program. In particular, in terms of returning cash to shareholders, **from the beginning of 2017 to 3Q19, Magna has returned $5.3 billion in capital in the form of dividends ($1.2 billion) and share repurchases ($4.1 billion).**

From that perspective, while we can understand investor hesitation surrounding the global automotive cycle and the prospects for further reductions in production volumes, Magna's most recent 2019 guidance (given with 3Q results) has demonstrated an ability to adjust the operating profile and find cash based offsets. In particular, while Magna has reduced its 2019 consolidated EBIT margin guidance by ~105bps through the course of 2019, which translates to a gross EBIT reduction of ~$500-600 mln, this has not translated into any reduction in free cash flow, which has remained stable in the $1.9-2.1 billion range.

Additionally, we believe it is extremely important to discuss the efforts Magna is making to invest in emerging technologies while divesting segments viewed as non-core in nature. In that regard, while continuing to offer a more conservative/grounded view regarding future penetration rates for autonomous/electrification, MGA is committed to increasing its technology spend (i.e. +$50 mln in 2019, +$100 mln in 2018) and make relevant investments (i.e. $220 mln Lyft investment [ADAS], Innoviz [LiDAR]) to keep pace). Additionally, within Steyr, Magna is assembling the all-electric Jaguar I-PACE (2018), plug-in hybrid BMW 5- series (2017), and in 2018 announced two JVs with BJEV to produce up to 180,000 BEVs for the Chinese market (production to commence in late 2020). On the other side of the product portfolio evolution, Magna has demonstrated a willingness to divest businesses viewed as non-core in nature, with the most notable being the $1.2 billion deal to sell its Global Fluid Pressure and Controls business to Hanon Systems (deal closed in 1Q19).

In terms of our financial forecast, we do not anticipate aggressive top-line growth and margin expansion over the F2019E-F2021E timeframe (i.e. topline increases +2-2.5% per annum with margins modestly improving to 6.7% from 6.4%). However, when this is coupled with an assumed share repurchase run rate of 5 mln per quarter (which is below the 7.3 mln average quarterly run rate since the beginning of 2017), we forecast an F2019E-F2021E EPS growth rate of ~10-11%. For an investor, this EPS growth is coupled with a free-cash yield of 11%, dividend yield of 2.6%, and 2020E P/E of 8.4x (versus 5-year forward average of 8.5x), offering a compelling risk/reward profile. If we couple this with some optionality regarding the prospects for a (eventual) turn in global automotive demand, a more bullish top-line could provide an opportunity for upside to our margin outlook.

Regarding valuation, we focus primarily on sum-of-the-parts (SOP) and back check using Price/Earnings, discounted-cash-flow and Price/Book. In terms of our SOP approach, we use relatively conservative segment **target** multiples (Body and Exteriors 4.5x, Power and Vision 5.5x, Seating Systems 5.0x, Complete Vehicle Assembly 4.0x) which are more than justified by the **trading** multiples of each segment's relevant peer group. All-in, our consolidated forward target multiple for Magna is 4.8x (versus the 5-year forward average of 5x).

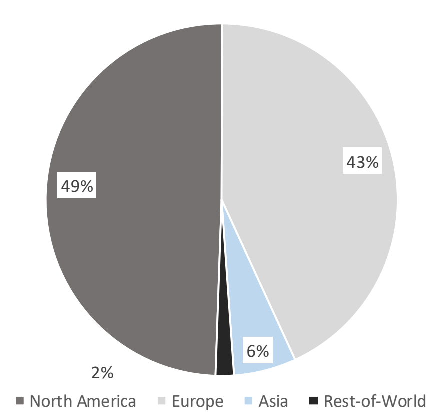
Overall, our valuation approach comes to US$60.00 per share (C$80.00), which implies an all-in return in the +11% range. **That said, while we do not see Magna's valuation as aggressive by any means, our initial rating on Magna is Market Perform.** In particular, we will look to reassess our forecast and valuation approach (i.e. target multiples) when the company provides 2020 guidance in early/mid-January.

Company Description

Magna is a large Tier 1 global manufacturer of automotive parts for OEMs (i.e. General Motors, Ford, Fiat-Chrysler, BMW, Daimler, and Volkswagen). At 3Q19, the company had over 166,000 employees, within 346 manufacturing facilities and 92 product development, engineering and sales centres located in 28 countries.

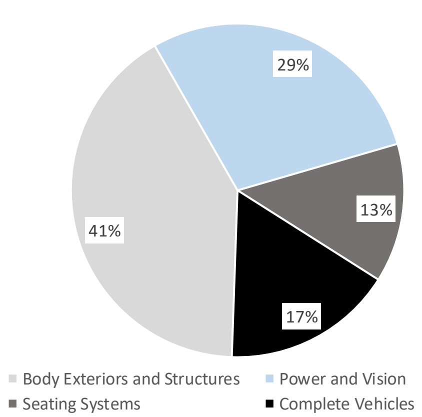
The company has four operating segments: 1. Body Exteriors and Structures; 2. Power and Vision; 3. Seating Systems; and 4. Complete Vehicle Assembly. In Exhibit 1 and 2 we break down the company sales on both a geographic and operating segment basis. In terms of geographic profitability, based on disclosures from 2017, ~66% of EBIT / operating profit was generated in North America, with 19% in Europe and the 15% balance from Asia / Rest-of-World.

Exhibit 1: Magna Sales Breakdown per Geography



Source: Magna International Inc., Raymond James Ltd.

Exhibit 2: Magna Sales Breakdown per Operating Segment



Source: Magna International Inc., Raymond James Ltd.

Customer Base Remains North America / Detroit 3 Centric

In Exhibit 3 we illustrate Magna's largest customers which still remain skewed towards the Detroit 3 (i.e. General Motors, Ford and Chrysler), which as a group represent ~43% of sales. In Exhibit 4 we illustrate the largest platforms for Magna across the entire company. Of note is the relatively meaningful skew towards truck/SUV/crossover platforms, which have more recently represented the more resilient / stronger growth categories in the North American market.

Exhibit 3: Magna Customer Concentration (Sales in USD Billions)

Customer	2017	*Pct of Total*	2018	*Pct of Total*
General Motors	6.5	*18%*	6.3	*15%*
Ford	5.8	*16%*	5.7	*14%*
Fiat / Chrysler	5.3	*15%*	5.7	*14%*
BMW	3.7	*10%*	4.8	*12%*
Daimler	4.5	*12%*	4.7	*11%*
Volkswagen	3.8	*11%*	4.1	*10%*
Other	7.0	*19%*	9.5	*23%*
Total Sales	**36.6**		**40.8**	

Source: Magna International Inc., Raymond James Ltd.

Exhibit 4: Magna Top Platforms and Content Across Operating Segments

			Body Exteriors and Structures			Power and Vision					
	OEM	Vehicle	Body & Chassis	Exteriors	Roof Systems	Power-train	Elect-ronics	Mirrors & Lighting	Mecha-tronics	Seating Systems	Complete Vehicle
1	GM	Full-Size SUVs & Pick-up Trucks	X	X		X	X	X	X		
2	BMW	BMW 5-Series	X	X		X	X	X	X		X
3	Tata	Jaguar E-Pace	X	X							X
4	Daimler	Mercedes-Benz G-Class	X	X	X	X		X	X		X
5	FCA	Chrysler Pacifica / Dodge Caravan	X	X		X	X	X	X	X	
6	GM	Chevrolet Equinox / GMC Terrain	X	X		X	X	X	X	X	
7	FCA	Jeep Grand Cherokee	X	X		X	X	X	X	X	
8	GM	Buick Enclave, Chev Traverse, GMC Acadi	X	X		X	X	X	X	X	
9	Ford	Ford Escape, Ford Kuga, Lincoln MKC	X	X		X	X	X	X	X	
10	FCA	RAM Pick-up	X	X		X	X	X	X	X	
11	Ford	Ford Transit / Transit Custom	X	X		X	X	X	X	X	
12	FCA	Jeep Cherokee	X	X		X	X	X	X	X	
13	FCA	Jeep Wrangler	X	X		X		X	X	X	
14	Ford	Ford F-Series Super Duty	X	X		X	X	X	X	X	
15	Tata	Jaguar I-Pace	X	X							X

Source: Magna International Inc., Raymond James Ltd.

FINANCIAL FORECAST AND GUIDANCE

In Exhibit 5 we illustrate Magna's most recent guidance and the progression seen over the course of 2019 (i.e. February through August). As illustrated, through that timeframe we have seen revenue guidance moderate ~5% lower with the consolidated margin moving ~105bps lower, with most of the contraction contained within the Power and Vision segment followed by Seating Systems. On the whole, this represents a gross dollar reduction of ~$500-600 mln in consolidated EBIT. **Interestingly, this gross dollar contraction in EBIT has not translated into any reduction in forecast free cash flow, which has remained stable in the $1.9-2.1 billion range** (Magna also continues to forecast ~$6.5 billion in free-cash flow over the 2019-2021 timeframe).

Exhibit 5: Magna 2019 Guidance and 2021 Outlook

	Magna 2019 financial guidance as updated				2021 guidance
	As of February	As of May	As of August	As of November	As of February
Vehicle Production					
North America	17.0M	16.7M	16.6M	16.3M	17.0M
Europe	22.3M	21.5M	21.4M	21.4M	22.9M
China - MGA Top 30	4.7M	2.8M	2.6M	2.6M	
Foredign Exchange Rates					
CADUSD	0.760	0.743	0.745	0.754	
EURUSD	1.130	1.124	1.125	1.12	
CNYUSD	0.145	0.148	0.146	0.145	
Sales ($ Billions)					
Body Exteriors and Structures	16.8 - 17.6	16.3 - 17.1	16.3 - 17.1	16.2 - 16.6	17.8 - 18.8
Power and Vision	11.2 - 11.8	11.0 - 11.6	11.0 - 11.6	11.1 - 11.4	11.8 - 12.6
Seating Systems	5.8 - 6.2	5.5 - 5.9	5.4 - 5.8	5.4 - 5.6	6.3 - 6.8
Complete Vehicles	6.9 - 7.3	6.9 - 7.3	6.8 - 7.2	6.6 - 6.8	7.0 - 7.7
Total Sales	**40.2 - 42.4**	**39.1 - 41.3**	**38.9 - 41.1**	**38.7 - 39.8**	**42.4 - 45.4**
EBIT Margin					
Body Exteriors and Structures	*8.2% - 8.6%*	*8.2% - 8.6%*	*8.2% - 8.6%*	*7.6% - 7.9%*	*8.6% - 9.1%*
Power and Vision	*8.5% - 9.0%*	*6.6% - 7.1%*	*6.6% - 7.1%*	*6.5% - 6.8%*	*10.5% - 11.1%*
Seating Systems	*6.8% - 7.3%*	*6.2% - 6.7%*	*5.7% - 6.2%*	*5.5% - 5.8%*	*6.6% - 7.2%*
Complete Vehicles	*1.5% - 2.0%*	*1.5% - 2.0%*	*1.7% - 2.2%*	*1.9% - 2.2%*	*1.7% - 2.3%*
Consolidated	***7.3% - 7.6%***	***6.7% - 7.0%***	***6.6% - 6.9%***	***6.3% - 6.5%***	***8.1% - 8.5%***
Equity Income ($ Millions)	**195 - 240**	**150 - 195**	**150 - 195**	**145 - 175**	**290 - 345**
Interest Expense ($Million)	~100	~100	~90	~85M	
Tax Rate	*~24.0%*	*~24.0%*	*~24.0%*	*~23.0%*	
Net Income ($ Billions)	**2.1 - 2.3**	**1.9 - 2.1**	**1.9 - 2.1**	**1.8 - 1.9**	
Capital Spending ($ Billions)	1.7	1.7	1.6	~1.6	
Free Cash Flow ($ Billions)	**1.9 - 2.1**	**1.8 - 2.0**	**1.9 - 2.1**	**1.9 - 2.1**	

Source: Magna International Inc., Raymond James Ltd.

As discussed above, the primary points of margin contraction have been contained within the Power and Vision, and Seating segments. In looking at the Power and Vision segment, the company has identified a number of pressure points, namely (1) Higher engineering costs in the ADAS business; (2) Higher D&A; (3) Lower equity income (i.e. Getrag); (4) Higher incremental spending on electrification, autonomy and R&D (i.e. +$100 mln incremental 2018, +$50 mln incremental 2019); (5) Lower overall global production volumes; and (6) Impact from the GM strike. Looking forward, in terms of our margin forecast for this business we have kept our gains quite moderate and continue to see some risk points that need assessment. That said, we note that Magna did take a sizeable impairment charge associated with Getrag during the 3Q results, and we will be interested in understanding how this impacts the company's margin outlook for the segment (we anticipate that this will come with the release of 2020 guidance in early/mid-January).

In terms of the seating segment, we have been surprised by the magnitude of margin compression. In particular, this compression has manifested with a top-line that has actually grown overall (i.e. 2017 margins were 8.3% on top-line of $5.2 billion). In assessing the underlying reasons for the margin contraction, Magna has referenced (1) Ongoing launch of new business in North America and Europe with BMW which skews much heavier to assembly work; (2) Plant inefficiencies in North America, also related to the BMW launch; (3) Higher commodity costs with no pass through mechanism in place; and (4) the GM strike. Moving beyond 2019, while some component of the margin pressure is structural in nature (i.e. higher assembly work mix), we do see some opportunity for improvement as it pertains to plant-level operational inefficiencies (typical with a program ramp) and possibly commodities.

In Exhibit 6 we illustrate the key assumptions underlying our Magna forecast.

Exhibit 6: Magna Financial Forecast

	f2017	f2018	f2019e	f2020e	f2021e
Sales					
Body Exteriors and Structures	16,613	17,527	16,378	16,939	17,278
Power and Vision	11,629	12,321	11,216	11,314	11,597
Seating Systems	5,224	5,548	5,586	5,698	5,812
Complete Vehicles	3,547	6,018	6,933	7,072	7,213
Corporate and Other	-425	-587	-608	-500	-500
Total sales	**36,588**	**40,827**	**39,504**	**40,522**	**41,399**
EBITDA	4,278	4,385	3,873	4,023	4,127
EBITDA margin	***11.7%***	***10.7%***	***9.8%***	***9.9%***	***10.0%***
EBIT					
Body Exteriors and Structures	1,346	1,413	1,314	1,392	1,437
Power and Vision	1,183	1,171	748	776	807
Seating Systems	434	426	321	334	352
Complete Vehicles	66	68	125	141	151
Corporate and Other	65	29	38	40	40
Total EBIT	**3,094**	**3,107**	**2,548**	**2,683**	**2,787**
EBIT Margin					
Body Exteriors and Structures	*8.1%*	*8.1%*	*8.0%*	*8.2%*	*8.3%*
Power and Vision	*10.2%*	*9.5%*	*6.7%*	*6.9%*	*7.0%*
Seating Systems	*8.3%*	*7.7%*	*5.8%*	*5.9%*	*6.1%*
Complete Vehicles	*1.9%*	*1.1%*	*1.8%*	*2.0%*	*2.1%*
Corporate and Other	*-15.3%*	*-4.9%*	*-6.3%*	*-8.0%*	*-8.0%*
Consolidated EBIT margin	***8.5%***	***7.6%***	***6.4%***	***6.6%***	***6.7%***
Adjusted Net income - continuing operations	**2,219**	**2,330**	**1,907**	**1,966**	**2,045**
Adjusted EPS - Continuing operations					
Basic	5.97	6.75	6.06	6.66	7.43
Diluted	5.93	6.71	6.04	6.64	7.41
Total shares outstanding					
Basic	371.8	345.4	314.9	295.1	275.1
Diluted	373.9	347.5	315.8	296.1	276.1

Source: Magna International Inc., Raymond James Ltd.

VALUATION

Our primary method of valuation is sum-of-the-parts and assessing each segment on an EV/EBITDA basis. This represents the most commonly used method of valuation when discussing peer and transaction metrics. We back our sum-of the parts methodology with both a conservative discounted-cash-flow and P/E methodology.

In Exhibit 7 we once again illustrate our peer valuation table with Exhibit 8 illustrating our sum-of-the-parts valuation for Magna. We use the peer valuations from Exhibit 7 as the basis for our individual segment valuations for Magna. We apply our target multiples to the midpoint of our 2020 and 2021 estimates. In particular:

For the Body Exteriors and Structures segment we are using a 4.5x target valuation multiple. When we look at the range of multiples applied to those peers considered exposed to product that is more commoditized in nature (i.e. Cooper-Standard, Shiloh, Tenneco, American Axle, Dana) we see a range of 2019 trading multiples from 4.6x-5.1x (average 4.7x) with the 2020 average at 4.3x. (In terms of sensitivity, each 0.5x turn = ~$4.00 in valuation).

For the Power and Vision segment we are using a 5.5x valuation multiple. Of note, we view the Power and Vision segment as representing the most potential upside from a rerating perspective IF the company can begin to demonstrate value associated with ongoing technology investments. In particular, we would flag that we have seen much more aggressive multiples applied to those companies viewed as “growthier” in nature (i.e. BorgWarner, Visteon, Aptiv, Autoliv), with investors willing to pay north of 6x for businesses that offer an above average growth profile. As such, if Magna can demonstrate margin expansion and organic growth for this business, this could serve as a meaningful point of upside for the stock (each 0.5x turn = ~$2.50 in valuation).

For the Seating Systems segment, we are working with a 5x valuation target multiple. The two most logical peers are Adient and Lear, which trade at 6.7x and 4.9x 2019E EBITDA, respectively. (In terms of sensitivity, each 0.5x turn = $0.80 in valuation).

For Magna Steyr / Complete-Vehicle Assembly, we have opted to use a 4x EBITDA valuation multiple given the perceived capital intensity of the business and relatively low margin profile (i.e. low single-digit EBIT). Given current growth and Magna’s emerging position as a global contract manufacturer for light vehicles (i.e. China EV joint-venture scheduled to begin producing in late 2020), we would be hard pressed to see the segment valued with a sub 4x EBITDA multiple. (In terms of sensitivity, each 0.5x turn = $0.40 in valuation).

Putting it all together, our sum-of-the-parts valuation implies a consolidated EV/EBITDA multiple of 4.8x EBITDA. This multiple is relatively in-line with the 5-year and 10-year forward average multiple which sit at 5.1x and 4.9x respectively (Exhibit 9).

Exhibit 7: North American and European Auto Parts Peers

Ticker	Company Name	Price	Dividend	Shares Out	Market Cap	Net Debt	EV	P/E FY2019	P/E FY2020	P/E FY2021	EV/EBITDA FY2019	EV/EBITDA FY2020	EV/EBITDA FY2021	LTM FCF Yield	Price/ Book	Sales CAGR 19-21e	EBITDA CAGR 19-21e	EPS CAGR 19-21e	EBITDA Margin 2019e	EBITDA Margin 19-21e	Net Debt / 2019e EBITDA
U.S. Peers																					
CPS	Cooper-Standard Holdings Inc.	32.76	0.0%	16.8	552	461	1,035	5.1x	9.5x	7.9x	5.1x	4.1x	3.6x	-15.9%	0.6x	0.9%	18.9%	-19.9%	6.7%	2.6%	2.3x
SHLO	Shiloh Industries, Inc.	3.63	0.0%	23.8	86	235	322	*14.5x*	7.3x	nm	4.6x	4.0x	nm	-38.7%	0.5x	-5.2%	13.9%	100.0%	6.5%	1.3%	3.4x
TEN	Tenneco Inc.	13.09	3.8%	80.9	1,059	5,180	6,573	*4.0x*	*3.2x*	*3.1x*	4.6x	4.3x	4.2x	-30.9%	0.6x	2.0%	4.0%	12.8%	8.3%	0.3%	3.6x
AXL	American Axle & Manufacturing I	10.09	0.0%	112.5	1,135	3,356	4,494	6.8x	4.7x	5.0x	4.6x	4.4x	4.9x	14.9%	0.8x	-6.0%	-2.9%	16.6%	14.6%	1.0%	3.5x
DAN	Dana Incorporated	16.91	2.4%	143.9	2,434	2,063	4,758	5.5x	5.5x	5.0x	4.6x	4.6x	4.4x	9.5%	1.4x	0.9%	2.6%	5.5%	11.9%	0.4%	2.0x
DLPH	Delphi Technologies PLC	11.74	1.4%	86.9	1,020	1,404	2,557	5.1x	4.9x	4.2x	4.8x	4.6x	4.2x	-12.4%	2.8x	0.3%	7.2%	11.0%	12.2%	1.7%	2.7x
BWA	BorgWarner Inc.	44.34	1.5%	206.5	9,156	1,159	10,436	11.3x	10.8x	9.9x	6.5x	6.2x	6.0x	9.8%	2.1x	4.7%	4.3%	6.8%	16.1%	-0.1%	0.7x
LEA	Lear Corporation	122.15	2.4%	60.6	7,408	1,016	8,742	9.1x	8.0x	7.3x	4.9x	4.6x	4.4x	13.0%	1.8x	3.8%	6.2%	11.6%	9.2%	0.4%	0.6x
ADNT	Adient plc	20.36	0.0%	93.6	1,906	2,814	5,112	16.1x	13.7x	8.9x	6.7x	6.0x	5.3x	-8.4%	1.0x	-1.9%	12.5%	34.2%	4.6%	1.5%	3.7x
VC	Visteon Corporation	93.05	0.0%	28.0	2,605	-48	2,667	*31.6x*	19.3x	13.6x	11.2x	8.8x	7.4x	2.9%	5.5x	10.8%	23.1%	52.4%	8.1%	1.9%	-0.2x
APTV	Aptiv PLC	92.25	1.0%	255.7	23,584	4,019	27,819	19.8x	16.5x	14.9x	12.4x	10.8x	9.9x	3.7%	6.6x	6.7%	11.7%	15.2%	15.7%	1.5%	1.8x
ALV	Autoliv, Inc.	82.80	3.0%	87.2	7,220	1,771	9,003	14.7x	12.1x	10.5x	8.1x	7.1x	6.6x	1.7%	3.6x	4.9%	11.1%	18.6%	13.0%	1.6%	1.6x
Average								**10.4x**	**10.2x**	**8.8x**	**6.5x**	**5.8x**	**5.7x**		**2.3x**						
European Peers																					
DB:CON	Continental Aktiengesellschaft	€ 122.92	3.9%	200.0	24,585	3,814	28,866	11.5x	10.3x	9.1x	5.3x	4.7x	4.4x	4.9%	1.6x	3.1%	9.6%	12.1%	12.3%	1.6%	0.7x
BME:GEST	Gestamp Automoción, S.A.	€ 4.05	0.0%	574.7	2,330	2,604	5,401	10.4x	8.4x	7.6x	5.1x	4.7x	4.4x	-4.9%	1.3x	5.9%	7.7%	16.9%	11.6%	0.4%	2.5x
XTRA:SHA	Schaeffler AG	€ 10.15	5.4%	666.0	6,757	2,723	9,576	10.4x	8.8x	7.9x	4.9x	4.5x	4.2x	6.2%	2.5x	2.4%	7.5%	15.0%	13.7%	1.4%	1.4x
ENXTPA:EO	Faurecia S.E.	€ 47.30	2.6%	136.3	6,447	1,701	8,456	10.2x	8.9x	8.0x	3.8x	3.6x	3.5x	5.7%	1.7x	4.8%	4.5%	12.4%	12.5%	-0.1%	0.8x
ENXTPA:FR	Valeo SA	€ 35.13	3.6%	238.8	8,390	2,770	11,949	19.3x	13.5x	10.7x	4.9x	4.6x	4.2x	4.3%	1.9x	4.7%	8.5%	34.5%	12.5%	0.9%	1.1x
Average								**12.3x**	**10.0x**	**8.7x**	**4.8x**	**4.4x**	**4.1x**		**1.8x**						
Canadian Peers																					
NYSE:MGA	Magna International Inc.	55.49	2.6%	305.3	16,941	3,264	20,503	9.2x	8.4x	7.5x	5.3x	5.1x	5.0x	11.0%	1.6x	2.4%	3.2%	10.7%	9.8%	0.2%	0.8x
TSX:LNR	Linamar Corporation	45.42	1.8%	65.2	2,963	1,943	4,906	6.1x	6.3x	nm	4.5x	4.6x	nm	11.7%	0.7x	0.3%	-3.4%	-3.6%	14.6%	-0.5%	1.8x
TSX:MRE	Martinrea International Inc.	11.46	1.6%	81.7	936	772	1,708	5.0x	4.6x	4.3x	3.6x	3.4x	3.3x	2.7%	0.8x	0.3%	4.9%	7.9%	12.2%	1.1%	1.6x
Average								**6.8x**	**6.4x**	**5.9x**	**4.5x**	**4.4x**	**4.1x**		**1.0x**						
Average All								**10.7x**	**9.5x**	**8.4x**	**5.8x**	**5.2x**	**5.0x**		**2.0x**						

Notes:
(1) Numbers in italics are excluded from the averages
(2) For companies where 2021 estimate unavailable CAGR is calculated on a 1-year basis
(3) All estimates from Capital IQ except Magna and Martinrea which are per Raymond James Ltd.
(4) For Martinrea, we are adjusting net debt and EBITDA to exclude the impact of IFRS 16 (i.e. lease accounting)

Source: Capital IQ, Company reports, Raymond James Ltd.

Exhibit 8: Magna Sum-of-the-Parts Valuation

	f2019e	f2020e	f2021e
EBITDA			
Body Exteriors and Structures	2,037	2,123	2,168
Power and Vision	1,198	1,231	1,262
Seating Systems	381	393	412
Complete Vehicles	193	210	220
Corporate	64	66	66
Consolidated	3,873	4,023	4,127
Multiple			
Body Exteriors and Structures	*4.50x*	*4.50x*	*4.50x*
Power and Vision	*5.50x*	*5.50x*	*5.50x*
Seating Systems	*5.00x*	*5.00x*	*5.00x*
Complete Vehicles	*4.00x*	*4.00x*	*4.00x*
Corporate	*4.00x*	*4.00x*	*4.00x*
Consolidated	*4.8x*	*4.8x*	*4.8x*
EV			
Body Exteriors and Structures	9,167	9,552	9,755
Power and Vision	6,591	6,771	6,941
Seating Systems	1,903	1,967	2,058
Complete Vehicles	771	838	879
Corporate	256	265	265
Consolidated	18,687	19,393	19,898
Total debt end of period	3,561	3,561	3,561
Long-term employess liabilities	584	584	584
Cash and equivalents	1,211	1,245	1,335
Net	2,934	2,900	2,810
Implied equity value	15,753	16,493	17,088
Implied Valuation	**52.50**	**58.80**	**65.60**
Midpoint basis for target price		**62.20**	
Share outstanding	300.3	280.3	260.3

Source: Raymond James Ltd.

Exhibit 9: Magna Historical Forward EV/EBITDA versus U.S. Peers

Source: Capital IQ, Magna International Inc., Raymond James Ltd.

In Exhibit 10 we illustrate our discounted cash flow approach to valuation. As discussed previously, Magna generates a significant amount of free-cash (i.e. company guidance calls for $6.5 billion over the 2019-2021 timeframe). In terms of our forecast for the DCF, we have a flat growth profile from 2021 through 2030. We couple this forecast with a discount rate of 12.0% and terminal growth rate of 2.0%, which effectively implies a terminal free cash yield of 10.0%. We acknowledge the challenge in using a DCF approach for auto parts stocks given the inherent cyclicality in the businesses, but we have looked to reflect this aspect through a combination of the flat growth profile over the forecast period and fairly reasonable discount rate of 12.0%. In particular, we would note that based on company guidance for free cash of $1.9-2.1 billion in 2019, the implied free cash yield is currently in the 11-12% range. As illustrated below, our DCF yields a valuation in the $57-58 range, which is relatively consistent with our sum-of-the-parts approach.

Exhibit 10: Magna Discounted Cash Flow

	f2020e	f2021e	f2022e	f2023e	f2024e	f2025e	f2026e	f2027e	f2028e	f2029e	f2030e
Cash from operations	3,498	3,577	3,577	3,577	3,577	3,577	3,577	3,577	3,577	3,577	3,577
Change in working capital	-125	-125	-150	-150	-150	-150	-150	-150	-150	-150	-150
Total CAPEX	-1,700	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600
Free cash flow	1,673	1,852	1,827	1,827	1,827	1,827	1,827	1,827	1,827	1,827	1,827
Free cash flow per share	5.97	6.61	6.52	6.52	6.52	6.52	6.52	6.52	6.52	6.52	6.52
PV free cash per share	5.33	5.27	4.64	4.14	3.70	3.30	2.95	2.63	2.35	2.10	1.87

Input variables	
Discount rate	*12.0%*
Terminal growth rate	*2.0%*
Terminal FCF multiple	*10.0x*
PV of all forecast FCF per share	38.29
PV Terminal year	19.11
Implied valuation	**57.40**
Share count (end of 2020e)	280.3

Source: Raymond James Ltd.

Additionally, from a P/E perspective, we would note that our target valuation implies a P/E of 8.6x the midpoint of our 2020/2021 EPS. Looking historically, Magna's average forward P/E since 2011 (~9 years) has been closer to 9.3x with the 5-year average closer to 8.5x (Exhibit 11).

Exhibit 11: Magna Historical Forward P/E versus U.S. Peers

Source: Capital IQ, Magna International Inc., Raymond James Ltd.

Finally, we illustrate historical Price / Book valuation below. For investors more focused on downside scenarios in periods of significant deterioration in auto sales (i.e. deep recession or financial crisis), this would represent the best measure of valuation. Currently, the stock is trading at a Price / Book ratio of ~1.6x versus a long-term (close to 20-year) average of 1.4x and a 10-year average of 1.6x. In terms of our sum-of-the-parts valuation the implied Price/Book multiple (using our book value at mid-2020) is 1.5x.

Exhibit 12: Magna Historical Price/Book Valuation

Source: Capital IQ, Magna International Inc., Raymond James Ltd.

In conclusion on our valuation approach for Magna, while we understand that investor / market sentiment is an important factor to take into consideration when buying the stock, we believe our approach is conservative. That said, with multiples across a number of metrics sitting at or close to historical averages, we would like to see some clarity on the 2020 financial guidance before applying something more aggressive. As such, we have a US$60 target price for Magna which we rate as Market Perform.

Management Profiles

Below we provide profiles for some of the key executives at Magna. We feel obliged to speak to Magna's corporate governance as it often comes up as questions given some of the legacy of the company (i.e. pre 2010 timeframe when there was a dual class share structure in place). As it stands currently, 9 of 11 board directors are independent and we would also note that the company has taken very significant steps to increase operational transparency and its disclosures to shareholders in recent years. Of note, as at March 2019, Magna's Directors and Executive Officers owned 3.2 mln shares (~1.0% of shares outstanding) with the Magna Employee Profit Sharing Plan owning 20.6 mln (~6.4% of shares outstanding).

William Young, Chairman of the Board

Mr. Young has been Chairman of the Board since 2012, and is described in the Circular as bringing to the board an inclusive, consensus building leadership style anchored by strong business acumen developed across a broad range of businesses and industries. He is co-founder of Monitor Clipper Partners, a private equity firm established in 1998. He is also a founding partner of Westbourne Management Group (1998) and served as a partner in the European practice of Bain & Company from 1981-1988.

Donald Walker, Chief Executive Officer, Director

Mr. Walker joined Magna in 1987 and has served in several executive roles within the organization. Mr. Walker served as President and CEO from 1994-2001 and as Magna's Co-CEO from 2005-2010. He also previously served as the President, CEO and Chairman of Magna subsidiary Intier Automotive Inc. from 2001-2005. Prior to joining Magna, Mr. Walker spent seven years at General Motors in various engineering and manufacturing positions. He is a professional engineer with a B.Sc in mechanical engineering from the University of Waterloo.

Vincent Galifi, EVP and Chief Financial Officer

Mr. Galifi joined Magna in 1989 as Manager of Taxation and was appointed to his current role in 1997. Other roles held at Magna during his tenure include Director of Taxation & Insurance, Controller and Director of Insurance, VP & Controller, VP Finance, and EVP Finance. Prior to joining Magna, Mr. Galifi worked as an associate at Coopers & Lybrand. Galifi graduated from the University of Toronto with a Bachelor of Commerce degree in 1982 and obtained a C.A. designation in 1984.

Swamy Kotagiri, EVP, Chief Technology Officer and President, Magna Power and Vision

Mr. Kotagiri joined Magna in 1999 and was appointed to his current role of Chief Technology Officer in 2014. Of note, Mr. Kotagiri is responsible for all aspects of the company's innovation and new product strategy, which includes ongoing investments being made in advanced driver assistance systems (ADAS), vehicle connectivity, and electrification of the powertrain. Prior to this appointment, he served in several senior / executive engineering and R&D roles throughout the organization including EVP Corporate Engineering and R&D, EVP Cosma International, and Director of R&D, Cosma International. Prior to Magna, Mr. Kotagiri worked as a Structural Analyst with General Motors and holds a Master's in mechanical engineering from Oklahoma State University.

FINANCIAL STATEMENTS

Exhibit 13: Income Statement

	f2017	1Qf18	2Qf18	3Qf18	4Qf18	f2018	1Qf19	2Qf19	3Qf19	4Qf19e	f2019e	1Qf20e	2Qf20e	3Qf20e	4Qf20e	f2020e	f2021e	f2022e
Sales																		
Body Exteriors and Structures	16,613	4,619	4,551	4,180	4,177	17,527	4,308	4,243	3,984	3,843	16,378	4,394	4,328	4,143	4,073	16,939	17,278	17,278
Power and Vision	11,629	3,190	3,197	2,947	2,987	12,321	3,083	2,808	2,696	2,629	11,216	2,775	2,948	2,831	2,760	11,314	11,597	11,597
Seating Systems	5,224	1,470	1,424	1,219	1,435	5,548	1,433	1,452	1,266	1,435	5,586	1,462	1,481	1,291	1,464	5,698	5,812	5,812
Complete Vehicles	3,547	1,660	1,280	1,391	1,687	6,018	1,928	1,802	1,516	1,687	6,933	1,967	1,838	1,546	1,721	7,072	7,213	7,213
Corporate and Other	-425	-147	-172	-119	-149	-587	-161	-179	-143	-125	-608	-125	-125	-125	-125	-500	-500	-500
Total sales	**36,588**	**10,792**	**10,280**	**9,618**	**10,137**	**40,827**	**10,591**	**10,126**	**9,319**	**9,468**	**39,504**	**10,472**	**10,470**	**9,687**	**9,893**	**40,522**	**41,399**	**41,399**
EBITDA	**4,278**	**1,190**	**1,123**	**1,024**	**1,048**	**4,385**	**1,041**	**1,011**	**893**	**928**	**3,873**	**1,052**	**1,033**	**946**	**992**	**4,023**	**4,127**	**4,127**
EBITDA Margin	*11.7%*	*11.0%*	*10.9%*	*10.6%*	*10.3%*	*10.7%*	*9.8%*	*10.0%*	*9.6%*	*9.8%*	*9.8%*	*10.0%*	*9.9%*	*9.8%*	*10.0%*	*9.9%*	*10.0%*	*10.0%*
Operating profit																		
Body Exteriors and Structures	1,346	343	388	326	356	1,413	363	341	306	304	1,314	370	348	331	343	1,392	1,437	1,437
Power and Vision	1,183	359	299	259	254	1,171	216	201	167	164	748	200	217	181	178	776	807	807
Seating Systems	434	130	117	69	110	426	94	83	56	88	321	97	86	58	92	334	352	352
Complete Vehicles	66	19	1	24	24	68	28	43	29	25	125	39	37	31	34	141	151	151
Corporate and Other	65	24	-2	21	-14	29	19	9	0	10	38	10	10	10	10	40	40	40
Total operating profit	**3,094**	**875**	**803**	**699**	**730**	**3,107**	**720**	**677**	**558**	**593**	**2,548**	**717**	**698**	**611**	**657**	**2,683**	**2,787**	**2,787**
Operating margin																		
Body Exteriors and Structures	*8.1%*	*7.4%*	*8.5%*	*7.8%*	*8.5%*	*8.1%*	*8.4%*	*8.0%*	*7.7%*	*7.9%*	*8.0%*	*8.4%*	*8.0%*	*8.0%*	*8.4%*	*8.2%*	*8.3%*	*8.3%*
Power and Vision	*10.2%*	*11.3%*	*9.4%*	*8.8%*	*8.5%*	*9.5%*	*7.0%*	*7.2%*	*6.2%*	*6.3%*	*6.7%*	*7.2%*	*7.4%*	*6.4%*	*6.5%*	*6.9%*	*7.0%*	*7.0%*
Seating Systems	*8.3%*	*8.8%*	*8.2%*	*5.7%*	*7.7%*	*7.7%*	*6.6%*	*5.7%*	*4.4%*	*6.2%*	*5.8%*	*6.7%*	*5.8%*	*4.5%*	*6.3%*	*5.9%*	*6.1%*	*6.1%*
Complete Vehicles	*1.9%*	*1.1%*	*0.1%*	*1.7%*	*1.4%*	*1.1%*	*1.5%*	*2.4%*	*1.9%*	*1.5%*	*1.8%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.0%*	*2.1%*	*2.1%*
Corporate and Other	*-15.3%*	*-16.3%*	*1.2%*	*-17.6%*	*9.4%*	*-4.9%*	*-11.8%*	*-5.0%*	*0.0%*	*0.0%*	*-6.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-8.0%*	*-8.0%*	*0.0%*
Consolidated operating margin	***8.5%***	***8.1%***	***7.8%***	***7.3%***	***7.2%***	***7.6%***	***6.8%***	***6.7%***	***6.0%***	***6.3%***	***6.4%***	***6.8%***	***6.7%***	***6.3%***	***6.6%***	***6.6%***	***6.7%***	***6.7%***
Interest expense	70	21	23	23	26	93	31	14	18	27	90	27	27	27	27	107	107	107
Other income / expense	39	3	-39	2	97	63	-679	68	859	0	248	0	0	0	0	0	0	0
Earnings before tax	2,985	851	819	674	607	2,951	1,368	595	-319	566	2,210	690	671	584	631	2,576	2,681	2,681
Income tax	741	182	183	114	140	619	267	145	45	139	596	166	161	140	151	618	643	643
Headline tax rate	*24.8%*	*21.4%*	*22.3%*	*16.9%*	*23.1%*	*21.0%*	*19.5%*	*24.4%*	*-14.1%*	*24.5%*	*27.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*
Net income	2,244	669	636	560	467	2,332	1,101	450	-364	427	1,614	525	510	444	479	1,958	2,037	2,037
Non-controlling interest	-48	-9	-10	-6	-11	-36	5	2	131	2	140	2	2	2	2	8	8	2
Net income (continuing operations)	**2,196**	**660**	**626**	**554**	**456**	**2,296**	**1,106**	**452**	**-233**	**429**	**1,754**	**527**	**512**	**446**	**481**	**1,966**	**2,045**	**2,039**
Adjustments related to one-time charges	39	3	-39	2	97	63	-679	68	732	0	121	0	0	0	0	0	0	0
U.S. tax reforms / other tax related	-23	0	0	-21	-6	-27	0	0	0	0	0	0	0	0	0	0	0	0
Tax implications of one-time charges	7	0	3	0	-5	-2	104	-11	-61	0	32	0	0	0	0	0	0	0
Adjusted Net income - continuing operations	**2,219**	**663**	**590**	**535**	**542**	**2,330**	**531**	**509**	**438**	**429**	**1,907**	**527**	**512**	**446**	**481**	**1,966**	**2,045**	**2,039**
Adjusted EPS - Continuing operations																		
Basic	5.97	1.85	1.68	1.57	1.63	6.75	1.63	1.60	1.41	1.41	6.06	1.73	1.72	1.53	1.68	6.66	7.43	7.83
Diluted	5.93	1.84	1.67	1.56	1.63	6.71	1.63	1.59	1.41	1.40	6.04	1.72	1.71	1.53	1.68	6.64	7.41	7.80
Weighted average shares outstanding																		
Basic	371.8	357.7	351.4	341.0	333.2	345.4	325.1	318.4	310.7	305.5	314.9	305.1	297.7	291.5	285.9	295.1	275.1	260.3
Diluted	373.9	359.9	354.1	343	333.2	347.5	326.3	319.5	310.7	306.5	315.8	306.1	298.7	292.5	286.9	296.1	276.1	261.3
Shares outstanding end of period	358.1	356.4	345.9	336.8	327.3	327.3	322.1	312.1	305.3	300.3	300.3	295.3	290.3	285.3	280.3	280.3	260.3	260.3

Source: Raymond James Ltd.

Exhibit 14: Cash Flow Statement

	f2017	1Qf18	2Qf18	3Qf18	4Qf18	f2018	1Qf19	2Qf19	3Qf19	4Qf19e	f2019e	1Qf20e	2Qf20e	3Qf20e	4Qf20e	f2020e	f2021e	f2022e
Net income	**2,244**	**669**	**636**	**560**	**467**	**2,332**	**1,101**	**450**	**-364**	**427**	**1,614**	**525**	**510**	**444**	**479**	**1,958**	**2,037**	**2,037**
Depreciation and amortization	1,184	315	320	325	318	1,278	321	334	335	335	1,325	335	335	335	335	1,340	1,340	1,340
Amortization of other assets	127	36	38	34	64	172	59	54	62	50	225	50	50	50	50	200	200	200
Other non-cash charges	79	10	-7	6	72	81	29	5	13	0	47	0	0	0	0	0	0	0
Deferred income taxes	-6	-12	43	8	-8	31	60	6	-49	0	17	0	0	0	0	0	0	0
Equity income delta	2	14	-35	-34	88	33	11	10	-3	0	18	0	0	0	0	0	0	0
Gain on sale of business	0	0	0	0	0	0	-516	-6	0	0	-522	0	0	0	0	0	0	0
Other non-cash	-71	0	-56	0	0	-56	-177	67	852	0	742	0	0	0	0	0	0	0
Items not impacting cash flow	1,315	363	303	339	534	1,539	-213	470	1,210	385	1,852	385	385	385	385	1,540	1,540	1,540
Operating cash flow pre working capital	**3,559**	**1,032**	**939**	**899**	**1,001**	**3,871**	**888**	**920**	**846**	**812**	**3,466**	**910**	**895**	**829**	**864**	**3,498**	**3,577**	**3,577**
Accounts receivable	-292	-1,328	171	171	635	-351	-946	329	109	300	-208	-900	50	200	500	-150	-150	-150
Inventories	-397	1	-152	-143	202	-92	-107	11	-9	50	-55	-100	-100	50	75	-75	-75	-100
Prepaid expenses	25	-15	2	25	-3	9	-32	28	9	0	5	0	0	0	0	0	0	0
Accounts payable	512	404	-222	139	-56	265	400	-296	-183	0	-79	200	0	-50	-50	100	100	100
Accrued salaries and wages	7	113	-138	59	-37	-3	87	-114	58	0	31	0	0	0	0	0	0	0
Other accrued liabilities	-15	307	-51	-3	-148	105	271	14	-75	0	210	0	0	0	0	0	0	0
Income taxes payable	-53	63	-82	-71	4	-86	33	28	-5	0	56	0	0	0	0	0	0	0
Delta working capital	-213	-455	-472	177	597	-153	-294	0	-96	350	-40	-800	-50	200	525	-125	-125	-150
Operating cash flow	**3,346**	**577**	**467**	**1,076**	**1,598**	**3,718**	**594**	**920**	**750**	**1,162**	**3,426**	**110**	**845**	**1,029**	**1,389**	**3,373**	**3,452**	**3,427**
Fixed asset additions	-1,875	-243	-379	-381	-647	-1,650	-251	-328	-349	-400	-1,328	-350	-350	-400	-400	-1,500	-1,400	-1,400
Investment in LYFT	0	0	-200	-20	0	-220	0	0	10	0	10	0	0	0	0	0	0	0
Other Investments and intangibles	-651	-114	-103	-114	-150	-481	-82	-107	-83	-50	-322	-50	-50	-50	-50	-200	-200	-200
Proceeds from disposition	332	29	48	76	70	223	86	26	57	0	169	0	0	0	0	0	0	0
Acquisitions	0	0	4	0	-152	-148	0	-152	0	0	-152	0	0	0	0	0	0	0
Proceeds from disposal	49	0	0	0	0	0	1,129	0	3	0	1,132	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investing cash flow	-2,145	-328	-630	-439	-879	-2,276	882	-561	-362	-450	-491	-400	-400	-450	-450	-1,700	-1,600	-1,600
Net issuance / repayment of debt	112	3	886	262	-284	867	-855	-187	251	0	-791	0	0	0	0	0	0	0
Stock options	44	5	41	1	3	50	8	6	19	0	33	0	0	0	0	0	0	0
Share repurchases	-1,271	-103	-729	-520	-479	-1,831	-284	-409	-342	-270	-1,305	-275	-285	-295	-305	-1,160	-1,270	0
Shares repurchased on vesting of equity awards	-11	0	-2	-4	-10	-16	-3	-2	0	0	-5	0	0	0	0	0	0	0
Contributions by non-controlling interests	10	0	4	0	0	4	2	0	2	0	4	0	0	0	0	0	0	0
Dividends paid to non-controlling interest	-38	0	-30	0	-39	-69	0	-13	0	0	-13	0	0	0	0	0	0	0
Dividends paid	-400	-118	-115	-109	-106	-448	-119	-110	-109	-112	-450	-124	-121	-118	-116	-480	-491	-465
Financing cash flow	-1,554	-213	55	-370	-915	-1,443	-1,251	-715	-179	-382	-2,527	-399	-406	-413	-421	-1,640	-1,761	-465
Effect of foreign exchange	24	10	-31	-10	-5	-36	14	-4	-9	0	1	0	0	0	0	0	0	0
Change in cash and equivalents	-329	46	-139	257	-201	-37	239	-360	200	330	409	-689	39	166	518	33	91	1,362
Cash and equivalents beginning of period	1,168	839	885	746	1,003	839	802	1,041	681	881	802	1,211	522	561	727	1,211	1,245	1,335
Cash and equivalents end of period	**839**	**885**	**746**	**1,003**	**802**	**802**	**1,041**	**681**	**881**	**1,211**	**1,211**	**522**	**561**	**727**	**1,245**	**1,245**	**1,335**	**2,697**
Free cash flow (ex divestments)	**820**	**220**	**-15**	**581**	**801**	**1,587**	**261**	**485**	**318**	**712**	**1,776**	**-290**	**445**	**579**	**939**	**1,673**	**1,852**	**1,827**

Source: Raymond James Ltd.

Exhibit 15: Balance Sheet

	f2017	1Qf18	2Qf18	3Qf18	4Qf18	f2018	1Qf19	2Qf19	3Qf19	4Qf19e	f2019e	1Qf20e	2Qf20e	3Qf20e	4Qf20e	f2020e	f2021e	f2022e
Cash and equivalents	726	769	626	884	802	802	1,041	681	881	1,211	1,211	522	561	727	1,245	1,245	1,335	2,697
Account receivable	6,695	8,073	7,656	7,160	6,548	6,548	7,446	7,204	7,068	6,768	6,768	7,668	7,618	7,418	6,918	6,918	7,068	7,218
Inventories	3,542	3,564	3,600	3,580	3,403	3,403	3,501	3,521	3,457	3,407	3,407	3,507	3,607	3,557	3,482	3,482	3,557	3,657
Prepaid expenses	237	250	201	192	75	75	106	126	77	77	77	77	77	77	77	77	77	77
Income tax receivable	0	0	0	45	57	57	53	34	22	22	22	22	22	22	22	22	22	22
Asset held for sale	0	0	0	983	949	949	0	0	0	0	0	0	0	0	0	0	0	0
Current assets	11,200	12,656	12,083	12,844	11,834	11,834	12,147	11,566	11,505	11,485	11,485	11,796	11,885	11,801	11,744	11,744	12,059	13,671
Investments	2,079	2,132	2,320	2,337	2,189	2,189	2,408	2,334	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430	1,430
Fix assets (net)	8,176	8,204	8,026	7,743	8,095	8,095	7,958	8,109	7,943	8,008	8,008	8,023	8,038	8,103	8,168	8,168	8,228	8,288
Operating lease right-of-sue assets	0	0	0	0	0	0	1,716	1,744	1,702	1,702	1,702	1,702	1,702	1,702	1,702	1,702	1,702	1,702
Intangible assets (net)	650	646	597	533	560	560	553	573	542	542	542	542	542	542	542	542	542	542
Goodwill	2,099	2,126	2,063	1,895	1,979	1,979	1,957	1,996	1,942	1,942	1,942	1,942	1,942	1,942	1,942	1,942	1,942	1,942
Deferred tax assets	238	260	255	274	300	300	264	284	269	269	269	269	269	269	269	269	269	269
Other assets	1,026	1,065	1,024	1,039	988	988	977	1,024	977	977	977	977	977	977	977	977	977	977
Total assets	**25,468**	**27,089**	**26,368**	**26,665**	**25,945**	**25,945**	**27,980**	**27,630**	**26,310**	**26,355**	**26,355**	**26,681**	**26,785**	**26,766**	**26,774**	**26,774**	**27,149**	**28,821**
Short-term borrowings	259	262	1,123	1,291	1,098	1,098	335	199	436	436	436	436	436	436	436	436	436	436
Accounts payable	6,283	6,751	6,300	6,181	6,094	6,094	6,484	6,272	5,966	5,966	5,966	6,166	6,166	6,116	6,066	6,066	6,166	6,266
Accrued salaries and wages	836	956	785	813	769	769	860	757	797	797	797	797	797	797	797	797	797	797
Other accrued liabilities	1,739	2,061	1,951	1,853	1,734	1,734	2,003	2,019	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994
Long-term debt due within one year	108	114	120	231	201	201	122	112	104	104	104	104	104	104	104	104	104	104
Current portion operating lease liabilities	0	0	0	0	0	0	176	214	218	218	218	218	218	218	218	218	218	218
Income tax payable	18	87	12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Liabilities held for sale	0	0	0	415	408	408	0	0	0	0	0	0	0	0	0	0	0	0
Current liabilities	**9,243**	**10,231**	**10,291**	**10,784**	**10,304**	**10,304**	**9,980**	**9,573**	**9,515**	**9,515**	**9,515**	**9,715**	**9,715**	**9,665**	**9,615**	**9,615**	**9,715**	**9,815**
Long-term debt	3,195	3,220	3,115	3,112	3,084	3,084	3,062	3,071	3,021	3,021	3,021	3,021	3,021	3,021	3,021	3,021	3,021	3,021
Operating lease liabilities	0	0	0	0	0	0	1,566	1,544	1,527	1,527	1,527	1,527	1,527	1,527	1,527	1,527	1,527	1,527
Long-term employee benefit liabilities	670	691	659	592	597	597	598	606	584	584	584	584	584	584	584	584	584	584
Other long-term liabilities	326	340	314	291	400	400	396	404	388	388	388	388	388	388	388	388	388	388
Deferred tax liabilities	322	314	341	381	401	401	431	480	402	402	402	402	402	402	402	402	402	402
Total liabilities	13,756	14,796	14,720	15,160	14,786	14,786	16,033	15,678	15,437	15,437	15,437	15,637	15,637	15,587	15,537	15,537	15,637	15,737
Shareholder equity																		
Capital stock	3,617	3,609	3,547	3,460	3,380	3,380	3,340	3,266	3,221	3,221	3,221	3,221	3,221	3,221	3,221	3,221	3,221	3,221
Contributed surplus	119	126	123	127	120	120	129	136	143	143	143	143	143	143	143	143	143	143
Retained earnings	8,074	8,531	8,418	8,424	8,376	8,376	9,101	9,106	8,483	8,528	8,528	8,654	8,758	8,789	8,847	8,847	9,122	10,694
Accumulated other comprehensive	-600	-501	-938	-993	-1,175	-1,175	-1,090	-997	-1,272	-1,272	-1,272	-1,272	-1,272	-1,272	-1,272	-1,272	-1,272	-1,272
Shareholder quity	11,210	11,765	11,150	11,018	10,701	10,701	11,480	11,511	10,575	10,620	10,620	10,746	10,850	10,881	10,939	10,939	11,214	12,786
Non-controlling interest	502	528	498	487	458	458	467	441	298	298	298	298	298	298	298	298	298	298
Total Liabilities and Equity	**25,468**	**27,089**	**26,368**	**26,665**	**25,945**	**25,945**	**27,980**	**27,630**	**26,310**	**26,355**	**26,355**	**26,681**	**26,785**	**26,766**	**26,774**	**26,774**	**27,149**	**28,821**

Source: Raymond James Ltd.

Investment Risks

Industry Cyclicality and Potential Impact on Earnings

The global automotive sector is very cyclical in nature and quite sensitive to economic cycles. In periods of declining sales volumes, particularly during the 2008-2009 financial crisis, the North American auto industry underwent a significant upheaval with substantial restructuring activity occurring at both the OEMs and several large auto parts suppliers. In terms of Magna, while the company did experience significant operating deleverage during this timeframe (with negative earnings), it was one of the few publicly traded North American auto parts companies that did not succumb to bankruptcy protection. We would attribute to the company's conservatism, prudent capital structure and focus on free cash generation.

Technology Change

The automotive industry is undergoing a significant level of technology change. This technology change may require substantial amounts of investment and capital spending by incumbents as they evolve their respective business profiles towards new product. Additionally, as it pertains to Magna's business in particular, we continue to focus on trends regarding the electrification of the powertrain, and any ongoing impact this may have on profitability with the Powertrain business (embedded in the Power and Vision segment).

Uncertainty Surrounding Trade Disputes and Tariffs

Investors in auto parts stocks are extremely sensitive to any headlines or suggestions regarding a deterioration in trade or trade agreements, and any discussions regarding the imposition of tariffs. In particular, as we progressed through the negotiation for the new United States-Mexico-Canada Agreement (USMCA), this served as a significant overhang to the valuations of the Canadian auto parts stocks given the uncertainty surrounding potential outcomes. Additionally, ongoing headlines as it relates to trade discussions between China and other regions (i.e. Europe) tends to have an outsized negative impact on the auto parts stocks.

Intense Competition, Buying Power of Customers, Warranty/Recall Risks

The global automotive industry is intensely competitive and Magna characterizes the intensity as an ever increasing dynamic. Additionally, the company also has a fairly concentrated customer base, with ~2/3 of sales coming from its top 5 customers. As such, the company needs to continually invest in the business, develop new products, and seek ways to lower program costs, all while attaining extremely high quality control standards. As inability to achieve any of these mentioned items could lead to a meaningful decline in any particular program margin, which could in turn have a sizeable / noticeable impact on the profitability of a particular business segment. Additionally, Magna is responsible for any warranty related costs that may result from products produced (particularly in the powertrain business), and may also be responsible for costs related to an OEM recall if the recall is related to products that the company supplied.

Significant Capital Intensity and Program Risk

For certain large program awards, Magna may be required to invest a significant amount of capital upfront to prepare for production. These investments will be made prior to any actual revenue occurring from the program and the amount / size of the investment is often based on assumptions underlying demand for the vehicle or program. As such, between the time a program is awarded, to the time investments are being made upfront, to the time a program actually begins, there may be substantial changes in certain variables underlying the investment assumptions, which can have a significant impact on the overall return on capital profile of a particular piece of business.

Recent reductions in the equity income line related to Getrag

We continue to pay close attention to Getrag and take rates on both manual and dual-clutch transmission product. In that regard, with even more recent pressure seen in terms of the Power and Vision equity income expectations (i.e. from $261M in 2018 to forecast of $135-165M in 2019e), we remain hesitant to reflect a meaningful improvement overall. In that regard, we continue to closely monitor commentary surrounding the take rates for both manual and dual-clutch transmissions, remaining cognizant that the Getrag joint-ventures represent the majority of the Investments line on the balance sheet.

MARTINREA INTERNATIONAL INC. (MRE-TSX)

Consumer & Retail
Michael Glen, CFA | 514.687.5970 | michael.glen@raymondjames.ca

Outperform 2
Target Price C$16.00

Suitability	High Risk/ Income

MARKET DATA

Current Price (Sep-20-19)	C$11.46
Market Cap (mln)	C$936
Current Net Debt (mln)	C$862
Enterprise Value (mln)	C$1,797
Shares Outstanding (mln)	81.7
30-Day Avg. Daily Value (mln)	C$2.0
Dividend	C$0.18
Dividend Yield	1.6%
52-Week Range	C$9.33 - C$15.51

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
EPS (C$, Dec FY)				
2018A	0.65	0.64	0.43	0.50
2019E	0.67 A	0.66 A	0.56 A	0.39
2020E	0.71	0.67	0.59	0.54

	2018A	2019E	2020E
EPS (C$, Dec FY)	2.22	2.29	2.50
P/E	5.2x	5.0x	4.6x
Revenue (mln) (C$, Dec FY)	3,663	3,848	3,817
EBITDA (mln) (C$, Dec FY)	461	502	532
EV/EBITDA	3.9x	3.6x	3.4x

Source: Thomson One, Raymond James Ltd. Quarterly figures may not add to full year due to rounding.

Underowned, Undervalued ... Underappreciated

RECOMMENDATION

We are initiating coverage of Martinrea with an Outperform rating and $16.00 price target. Our constructive view on the company is driven by a combination of factors, including: (1) Success realized with respect to an operational improvement plan with incremental margin gains forecast through 2021; (2) Continued revenue growth to ~$4 billion in 2021 driven by net new business wins; (3) An improving free-cash-flow profile which we view as an important catalyst for the stock through Q4/19 and 2020; and (4) An extremely compelling, deep value, and heavily discounted valuation with respect to both its pure-plat auto parts peers and historical averages.

ANALYSIS

We view Martinrea as an extremely undervalued stock which has only seen its valuation discount widen despite tangible operational improvements realized under the direction of CEO Pat D'eramo. In particular, Through the implementation of Mr. D'Eramo's operational improvemment plan, we have already seen margins expand to 7.8% at the end of 2018 from 4.1% at the end of 2014, with management targeting further expansion to 9%+ in 2021 (based on sales run rate of $4 billion). While we acknowledge that the 9% target was recently pushed out with the reporting of Q3 results, this was coupled with a report that also included a notable step change in the profitability in the European and China segments, and combined with a continued improving free-cash profile.

In terms of our financial forecast, we see relatively stable sales over the 2020e-2021e timeframe, with margin expansion to 8.7% in 2021e. While we acknowledge that our 2021e forecast is below management's target of 9%, this is more related to a stagnant amrket conditions. If current industry forecasts move more readily into a growth environment (particularly in North America), we would be more comfortable with something in the 9% range. This forecast yields an earnings CAGR of ~8% over the f2019e-f2021e timeframe. As an investor, this EPS growth is coupled with a dividend yield of 1.6% and 2020e P/E of 4.6x (versus 5-year forward average of 6.4x), offering an extremely compelling risk/reward profile. If we couple this with some optionality regarding the prospects for a (eventual) turn in global automotive demand, a more bullish top-line could provide an opportunity for some upside to our margin outlook.

VALUATION

We are using an extremely conservative target multiple of 3.75x, which remains well-below the company's 5-year and 10-year average forward multiples of 4.8x and 4.4x respectively. We believe there is significant opportunity for expansion but fully acknowledge that investors are extremely reluctant to reward the company for improving profitability and financial performance. Our view on this is that a continuation in the trend towards positive free cash generation should strongly underpin valuation and help narrow the overall trading discount to peers. For context, when we focus on the relevant peers (i.e. Cooper-Standard, Shiloh, Tenneco, American Axle, Dana) we see a range of 2019 trading multiples from 4.6x-5.1x (average 4.7x) with the 2020 average at 4.3x. We would also note the recent transaction where private-equity owned Autokiniton acquired Tower Automotive (TOWR-US) at a multiple of 4.5x 2019e.

UNDEROWNED, UNDERVALUED, UNDERAPPRECIATED

Martinrea is arguably, one of the most undervalued auto parts stocks in North America. The stock is **extremely** deep-value in nature, and more recently seen its valuation discount to peers continue to widen. This widening discount has been despite the operational improvements realized under the direction of CEO Pat D'Eramo (appointed in late 2014). In particular, the basis for Mr. D'Eramo's operational improvement plan centers on two aspects: (1) Improving the workflow, operational efficiency and working capital at the plant level; and (2) Ensure that all future program bidding meets minimum thresholds for return on invested capital and profitability. Through the implementation of this program, we have already seen margins expand to 7.8% at the end of 2018 from 4.1% at the end of 2014, with management targeting further expansion to 9% at the end of 2021 (based on sales run rate of $4 billion). While we acknowledge that the 9% target was recently pushed out with the reporting of 3Q results, this was coupled with a report that also included a notable step change in the profitability in the European and China segments, and combined with a continued improving free-cash profile.

In terms of our financial forecast, we see relatively stable sales over the 2020E-2021E timeframe, with 2020E margins at 8.3% with further expansion to 8.7% in 2021E. While we acknowledge that our 2021E forecast is below management's stated target of 9%, this is more related to a stagnant volume environment. If current forecasts change and we begin to move more readily into a growth environment for the industry (particularly in North America), we would be more comfortable with something in the 9% range. Absent any meaningful activity on the share repurchase program (which was reactivated during August), this yields an earnings CAGR of ~8% over the F2019E-F2021E timeframe. As an investor, this EPS growth is coupled with a current dividend yield of 1.6% and 2020E P/E of 4.6x (versus 5-year forward average of 6.4x), offering an extremely compelling risk/reward profile. If we couple this with some optionality regarding the prospects for a (eventual) turn in global automotive demand, a more bullish top-line could provide an opportunity for some upside to our margin outlook.

Regarding valuation, similar to our forecast, for Martinrea's entire business we are using an **extremely conservative EV/EBITDA target multiple of 3.75x.** We believe there is significant opportunity for expansion but acknowledge investors remain reluctant to reward the company for improving profitability, cash flow and financial performance. **On this point in particular, our view is that a continuation in positive free cash generation through 4Q19 and into 2020 should strongly underpin valuation and help narrow the overall trading discount of Martinrea to its peers.**

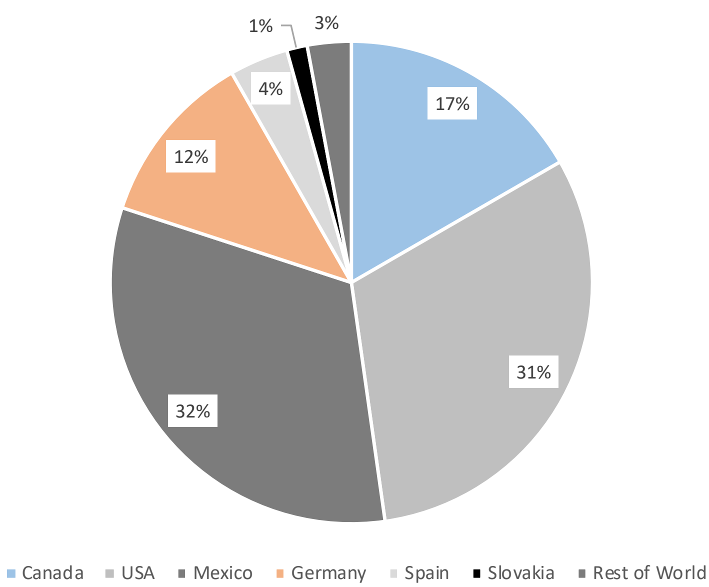
For context in terms of our target price, when looking at our valuation approach for Magna, the segment we would view as most comparable to Martinrea is the Body Exteriors and Structures, which we value at 4.5x. Additionally, when we look at peer valuation and focus on the range of multiples applied to those peers considered exposed to product that is more commoditized in nature (i.e. Cooper-Standard, Shiloh, Tenneco, American Axle, Dana) we see a range of 2019 trading multiples from 4.6x-5.1x (average 4.7x) with the 2020 average at 4.3x. We would also note the recent transaction where private-equity owned Autokiniton acquired Tower Automotive (TOWR-US) at a multiple of 4.5x 2019E.

Company Description

Martinrea is a diversified global automotive parts manufacturer involved in the design, development and manufacturing of metal parts, assemblies, modules, fluid management systems and aluminum products. At the end of 2018 the company had approximately 15,000 employees across 40 plants and facilities in Canada (12), the United States(11), Mexico(10), Brazil(1), Germany(2), Slovakia(1), Spain(1) and China(2).

In Exhibit 1 we illustrate the geographic breakdown of sales. North America is the key market for the company at the time, with Canada, United States, Mexico representing ~80% of sales and operating profit. In terms of the North American business in particular, we illustrate Martinrea's largest product platforms in Exhibit 2. Currently, approximately 75% of the North American product portfolio skews towards Truck, SUV and CUV, with management anticipating this will rise closer to 90% over the next few years.

Exhibit 1: Martinrea Geographic Sales Breakdown (LTM 3Q19)



Source: Martinrea International Inc., Raymond James Ltd.

Exhibit 2: MRE Top Platforms in North America (LTM 2Q19)

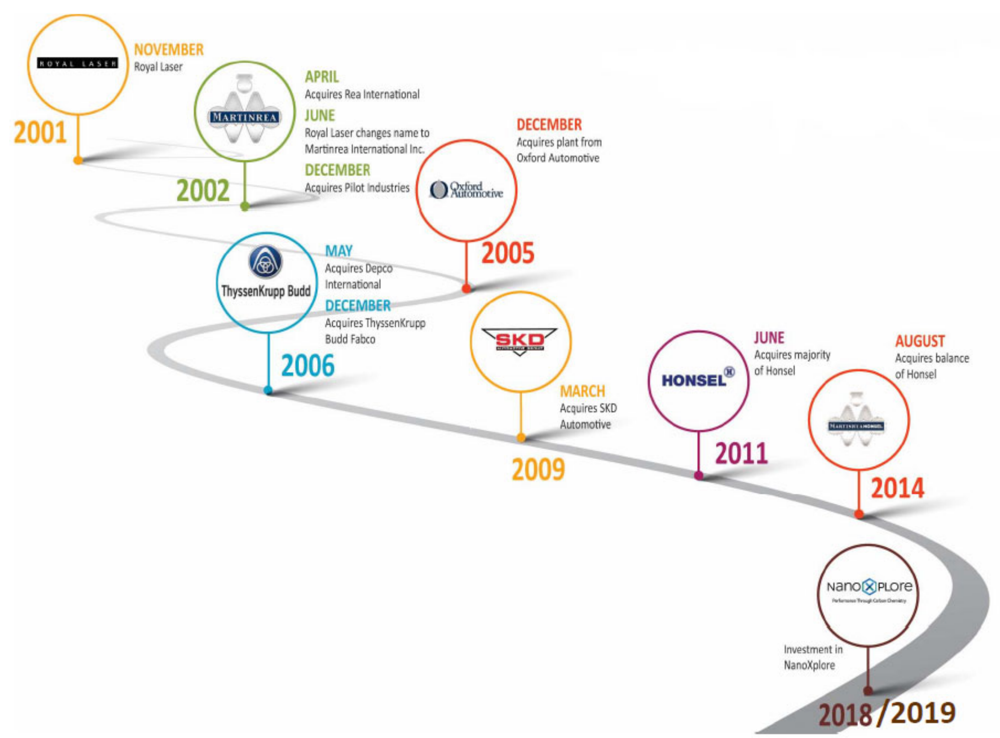
	OEM	Platform
1	Ford	Escape
2	GM	Equinox/Terrain
3	GM	Pickups/SUVs
4	Ford	Edge/Fusion
5	GM	Malibu
6	Chrysler	RAM Trucks
7	Ford	Ford Trucks
8	Chrysler	300/Challenger/Charger
9	Chrysler	Jeep Grand Cherokee
10	Ford	Transit

Source: Martinrea International Inc., Raymond James Ltd.

Operating Profit Margin Improvement Key

The primary investor focus for Martinrea has been the company's operational improvement and margin enhancement initiative (dubbed Martinrea 2.0). Of note, as Martinrea grew its business (i.e. from the early 2000s through 2014) via M&A, they were acquiring older / underperforming facilities and assets that were operating at sub-industry margins. This growth strategy persisted until late 2014 at which point the company hired Pat D'Eramo as President and CEO. What Mr. D'Eramo brought to Martinrea was an exceptionally strong operating background, which included several years at Toyota as VP of Manufacturing. Interestingly, and as evidenced by the results reported to date (i.e. operating margins expanding to 7.8% in 2018 from 4.1% in 2014), Mr. D'Eramo has been quite effective in terms of executing the operational improvement plan.

Exhibit 3: Martinrea Acquisition History and Timeline (from Investor Presentation)

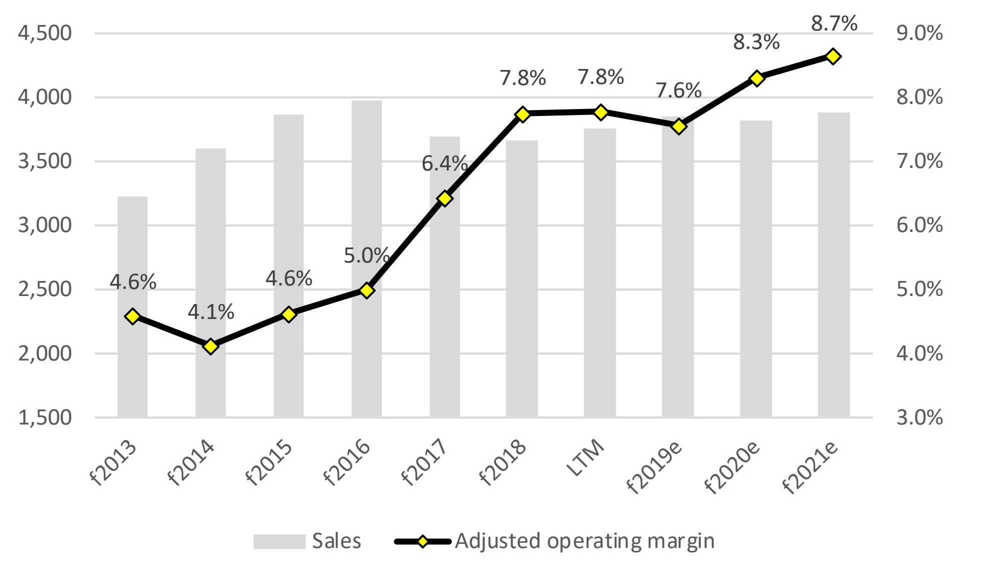


Source: Martinrea International Inc.

As we work through the basis for Mr. D'Eramo's improvement plan, this really centered on two aspects in particular: (1) Improving the workflow, operational efficiency and working capital at the plant level; and (2) Ensure that all future program bidding meets minimum thresholds for return on invested capital and profitability.

As this plan has evolved, investors have seen a very steady progression in the margin, with particularly pronounced expansion in 2017 and 2018 as in combination with the above initiatives, the company was also seeing a number of lower profitability legacy programs come to an end. As we take this into consideration in terms of our forecast, we believe there still exists ~1-1.5 years of tailwind associated with such programs rolling off, although we do not anticipate the impact to be as meaningful as that seen in 2017 and 2018.

Exhibit 4: Martinrea Operating Margin Progression Since Beginning of Turnaround Plan



Source: Martinrea International Inc., Raymond James Ltd.

Financial Forecast and Guidance

In terms of guidance, Martinrea has provided target for an operating margin of >8% in 2020 and 9% in 2021. While we acknowledge that this was recently pushed out by 1-year in conjunction with the 3Q19 report, we must also consider that the operating environment remains challenging (i.e. global auto volumes stagnant), with MRE indicating on the 3Q conference call that certain new programs (Jeep Grand Cherokee, Nissan Rogue and Pathfinder, and new Ford Hermosillo product) were seeing 6-9 month delays and pushing out ~$200 mln in sales. As such, the company moved its $4 bln sales target to 2021 (versus 2020) with the 9% operating margin target moving out by one year as well (i.e. to 2021). While we acknowledge that our 2021E forecast is below management's stated target of 9%, this is more related to a stagnant volume environment. If current forecasts change and we begin to move more readily into a growth environment for the industry (particularly in North America), we would be more comfortable with something in the 9% range.

Exhibit 5: Martinrea Financial Forecast

	f2017	f2018	f2019e	f2020e	f2021e
Sales					
North America	2,914	2,828	3,062	3,048	3,103
Europe	657	714	674	658	658
Rest of World	132	135	119	119	119
Eliminations	-12	-14	-7	-7	-6
Total Sales	**3,690**	**3,663**	**3,848**	**3,817**	**3,873**
EBITDA	**401.5**	**461.2**	**502.2**	**531.8**	**549.5**
EBITDA margin	*10.9%*	*12.6%*	*13.0%*	*13.9%*	*14.2%*
EBIT					
North America	203.7	236.6	231.2	252.7	269.1
Europe	38.4	46.8	49.5	48.7	50.0
Rest of World	-5.3	0.6	10.4	16.0	16.0
Total EBIT	**236.8**	**284.0**	**291.0**	**317.4**	**335.1**
EBIT Margin					
North America	*7.0%*	*8.4%*	*7.5%*	*8.3%*	*8.7%*
Europe	*5.8%*	*6.6%*	*7.3%*	*7.4%*	*7.6%*
Rest of World	*-4.0%*	*0.4%*	*8.7%*	*13.4%*	*13.4%*
Consolidated	***6.4%***	***7.8%***	***7.6%***	***8.3%***	***8.7%***
Adjusted net income	**165.2**	**193.2**	**189.3**	**207.1**	**220.3**
Basic EPS (adjusted)	1.91	2.23	2.29	2.51	2.67
Diluted EPS (adjusted)	1.90	2.22	2.29	2.50	2.66
Operating cash flow	329.7	333.5	367.4	393.5	406.7
Total change in working capital	-26.9	-36.8	-23.8	-15.0	-15.0
CAPEX	-273.8	-323.2	-300.9	-285.0	-285.0
Free cash flow	**29.0**	**-26.5**	**42.7**	**93.5**	**106.7**
Free cash flow per share	0.33	-0.30	0.52	1.13	1.29
Net debt (exlcuding leases / IFRS 16)	653.1	737.2	772.1	693.3	601.3
Net debt (inclusing leases / IFRS 16)	na	na	1,004.1	925.3	833.3
Net debt / EBITDA (excluding IFRS 16)	1.6x	1.6x	1.5x	1.4x	1.2x
Net debt / EBITDA (including IFRS 16)	na	na	2.0x	1.7x	1.5x

Source: Martinrea International Inc., Raymond James Ltd.

Valuation

Our primary method of valuation is an EV/EBITDA basis. This represents the most commonly used method of valuation when discussing peer and transaction metrics. Additionally, we back our valuation with discounted-cash-flow, P/E and Price/Book analysis.

In Exhibit 6 we illustrate our peer valuation table with Exhibit 7 illustrating our multiples based Martinrea valuation. We apply our target multiples to the midpoint of our 2020 and 2021 estimates.

For Martinrea's entire business we are using a target multiple of 3.75x, which we view as extremely low and very conservative. We believe there is significant opportunity for expansion but fully acknowledge investors remain reluctant to reward the company for improving profitability and financial performance. Our view on this is that a continuation in positive free cash generation through 4Q19 and 2020 should strongly underpin valuation and help narrow the overall trading discount of Martinrea to its peers.

For context in terms of our target price, when looking at our valuation approach for Magna, the segment we would view as most comparable to Martinrea is the Body Exteriors and Structures, which we value at 4.5x. Additionally, when we look at peer valuation and focus on the range of multiples applied to those peers considered exposed to product that is more commoditized in nature (i.e. Cooper-Standard, Shiloh, Tenneco, American Axle, Dana) we see a range of 2019 trading multiples from 4.6x-5.3x (average 4.8x) with the 2020 average at 4.3x. We would also note the recent transaction where private-equity owned Autokiniton acquired Tower Automotive (TOWR-US) at a multiple of 4.5x 2019E EBITDA (versus MRE current trading multiple of 3.6x 2019E EBITDA). Additionally, this multiple is at a discount to the 5-year and 10-year forward average multiple which sit at 4.8 and 4.3x respectively (Exhibit 8).

Exhibit 6: North American and European Auto Parts Peers

Ticker	Company Name	Price	Dividend	Shares Out	Market Cap	Net Debt	EV	P/E FY2019	P/E FY2020	P/E FY2021	EV/EBITDA FY2019	EV/EBITDA FY2020	EV/EBITDA FY2021	LTM FCF Yield	Price/ Book	Sales CAGR 19-21e	EBITDA CAGR 19-21e	EPS CAGR 19-21e	EBITDA Margin 2019e	EBITDA Margin 19-21e	Net Debt / 2019e EBITDA
U.S. Peers																					
CPS	Cooper-Standard Holdings Inc.	32.76	0.0%	16.8	552	461	1,035	5.1x	9.5x	7.9x	5.1x	4.1x	3.6x	-15.9%	0.6x	0.9%	18.9%	-19.9%	6.7%	2.6%	2.3x
SHLO	Shiloh Industries, Inc.	3.63	0.0%	23.8	86	235	322	*14.5x*	7.3x	nm	4.6x	4.0x	nm	-38.7%	0.5x	-5.2%	13.9%	100.0%	6.5%	1.3%	3.4x
TEN	Tenneco Inc.	13.09	3.8%	80.9	1,059	5,180	6,573	*4.0x*	*3.2x*	*3.1x*	4.6x	4.3x	4.2x	-30.9%	0.6x	2.0%	4.0%	12.8%	8.3%	0.3%	3.6x
AXL	American Axle & Manufacturing I	10.09	0.0%	112.5	1,135	3,356	4,494	6.8x	4.7x	5.0x	4.6x	4.4x	4.9x	14.9%	0.8x	-6.0%	-2.9%	16.6%	14.6%	1.0%	3.5x
DAN	Dana Incorporated	16.91	2.4%	143.9	2,434	2,063	4,758	5.5x	5.5x	5.0x	4.6x	4.6x	4.4x	9.5%	1.4x	0.9%	2.6%	5.5%	11.9%	0.4%	2.0x
DLPH	Delphi Technologies PLC	11.74	1.4%	86.9	1,020	1,404	2,557	5.1x	4.9x	4.2x	4.8x	4.6x	4.2x	-12.4%	2.8x	0.3%	7.2%	11.0%	12.2%	1.7%	2.7x
BWA	BorgWarner Inc.	44.34	1.5%	206.5	9,156	1,159	10,436	11.3x	10.8x	9.9x	6.5x	6.2x	6.0x	9.8%	2.1x	4.7%	4.3%	6.8%	16.1%	-0.1%	0.7x
LEA	Lear Corporation	122.15	2.4%	60.6	7,408	1,016	8,742	9.1x	8.0x	7.3x	4.9x	4.6x	4.4x	13.0%	1.8x	3.8%	6.2%	11.6%	9.2%	0.4%	0.6x
ADNT	Adient plc	20.36	0.0%	93.6	1,906	2,814	5,112	16.1x	13.7x	8.9x	6.7x	6.0x	5.3x	-8.4%	1.0x	-1.9%	12.5%	34.2%	4.6%	1.5%	3.7x
VC	Visteon Corporation	93.05	0.0%	28.0	2,605	-48	2,667	*31.6x*	19.3x	13.6x	11.2x	8.8x	7.4x	2.9%	5.5x	10.8%	23.1%	52.4%	8.1%	1.9%	-0.2x
APTV	Aptiv PLC	92.25	1.0%	255.7	23,584	4,019	27,819	19.8x	16.5x	14.9x	12.4x	10.8x	9.9x	3.7%	6.6x	6.7%	11.7%	15.2%	15.7%	1.5%	1.8x
ALV	Autoliv, Inc.	82.80	3.0%	87.2	7,220	1,771	9,003	14.7x	12.1x	10.5x	8.1x	7.1x	6.6x	1.7%	3.6x	4.9%	11.1%	18.6%	13.0%	1.6%	1.6x
Average								**10.4x**	**10.2x**	**8.8x**	**6.5x**	**5.8x**	**5.7x**		**2.3x**						
European Peers																					
DB:CON	Continental Aktiengesellschaft	€ 122.92	3.9%	200.0	24,585	3,814	28,866	11.5x	10.3x	9.1x	5.3x	4.7x	4.4x	4.9%	1.6x	3.1%	9.6%	12.1%	12.3%	1.6%	0.7x
BME:GEST	Gestamp Automoción, S.A.	€ 4.05	0.0%	574.7	2,330	2,604	5,401	10.4x	8.4x	7.6x	5.1x	4.7x	4.4x	-4.9%	1.3x	5.9%	7.7%	16.9%	11.6%	0.4%	2.5x
XTRA:SHA	Schaeffler AG	€ 10.15	5.4%	666.0	6,757	2,723	9,576	10.4x	8.8x	7.9x	4.9x	4.5x	4.2x	6.2%	2.5x	2.4%	7.5%	15.0%	13.7%	1.4%	1.4x
ENXTPA:EO	Faurecia S.E.	€ 47.30	2.6%	136.3	6,447	1,701	8,456	10.2x	8.9x	8.0x	3.8x	3.6x	3.5x	5.7%	1.7x	4.8%	4.5%	12.4%	12.5%	-0.1%	0.8x
ENXTPA:FR	Valeo SA	€ 35.13	3.6%	238.8	8,390	2,770	11,949	19.3x	13.5x	10.7x	4.9x	4.6x	4.2x	4.3%	1.9x	4.7%	8.5%	34.5%	12.5%	0.9%	1.1x
Average								**12.3x**	**10.0x**	**8.7x**	**4.8x**	**4.4x**	**4.1x**		**1.8x**						
Canadian Peers																					
NYSE:MGA	Magna International Inc.	55.49	2.6%	305.3	16,941	3,264	20,503	9.2x	8.4x	7.5x	5.3x	5.1x	5.0x	11.0%	1.6x	2.4%	3.2%	10.7%	9.8%	0.2%	0.8x
TSX:LNR	Linamar Corporation	45.42	1.8%	65.2	2,963	1,943	4,906	6.1x	6.3x	nm	4.5x	4.6x	nm	11.7%	0.7x	0.3%	-3.4%	-3.6%	14.6%	-0.5%	1.8x
TSX:MRE	Martinrea International Inc.	11.46	1.6%	81.7	936	772	1,708	5.0x	4.6x	4.3x	3.6x	3.4x	3.3x	2.7%	0.8x	0.3%	4.9%	7.9%	12.2%	1.1%	1.6x
Average								**6.8x**	**6.4x**	**5.9x**	**4.5x**	**4.4x**	**4.1x**		**1.0x**						
Average All								**10.7x**	**9.5x**	**8.4x**	**5.8x**	**5.2x**	**5.0x**		**2.0x**						

Notes:
(1) Numbers in italics are excluded from the averages
(2) For companies where 2021 estimate unavailable CAGR is calculated on a 1-year basis
(3) All estimates from Capital IQ except Magna and Martinrea which are per Raymond James Ltd.
(4) For Martinrea, we are adjusting net debt and EBITDA to exclude the impact of IFRS 16 (i.e. lease accounting)

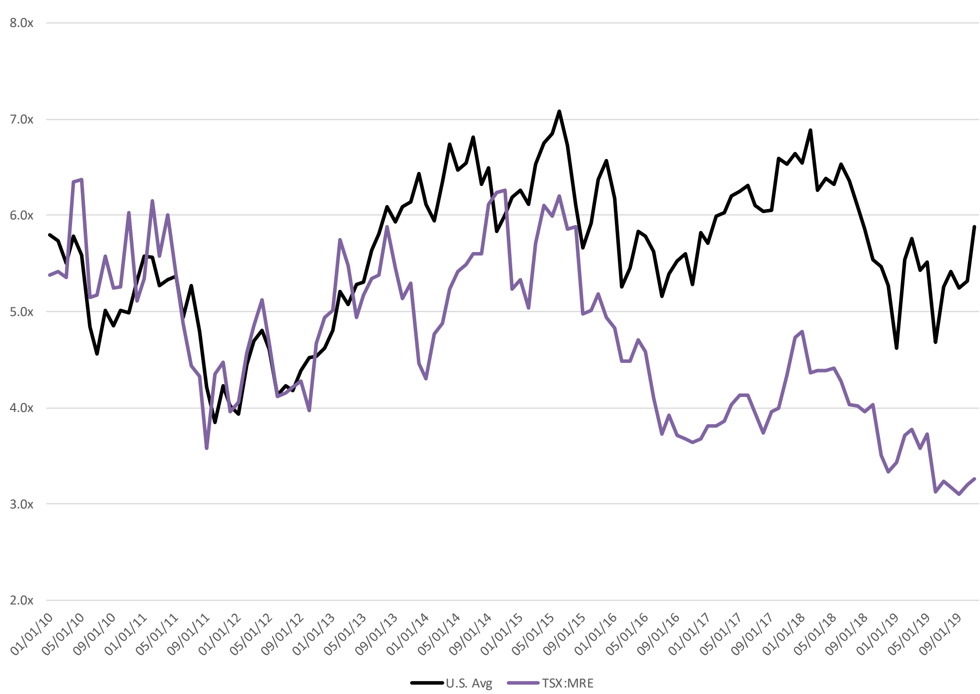
Source: Capital IQ, Company reports, Raymond James Ltd.

Exhibit 7: Martinrea EV/EBITDA Valuation

	f2019e	f2020e	f2021e
EBITDA as reported	502.2	531.8	549.5
Estimated D&A from IFRS 16 (lease accounting)	31.1	31.1	31.1
EBITDA excluding D&A related to IFRS 16	471.1	500.8	518.4
Multiple	3.75x	3.75x	3.75x
Enterprise Value	**1,766.7**	**1,877.8**	**1,944.0**
Total debt (excluding lease liabilities IFRS 16)	873.7	873.7	873.7
Cash	101.6	180.4	272.5
Net debt	772.1	693.3	601.3
Implied equity value	**994.6**	**1,184.5**	**1,342.7**
Implied Valuation	**12.18**	**14.50**	**16.44**
Midpoint basis for target price		**15.47**	
Shares outstanding	81.7	81.7	81.7

Source: Raymond James Ltd.

Exhibit 8: Martinrea Historical Forward EV/EBITDA versus U.S. Peers



Source: Capital IQ, Martinrea International Inc., Raymond James Ltd.

In Exhibit 9 we illustrate our discounted cash flow approach to valuation. **As discussed previously, a continuation in the free-cash profile of Martinrea represents a significant factor in terms of narrowing the valuation discount among peers.** In terms of our forecast for the DCF, we have a flat growth profile from 2021 through 2030 and use a terminal growth rate of 2.0%. We couple this forecast with a discount rate of 12.0% which effectively implies a terminal free cash yield of 10.0%. We acknowledge the challenge in using a DCF approach for auto parts stocks given the inherent cyclicality in the businesses, but we have looked to reflect this aspect through a combination of the flat growth profile over the forecast period and fairly reasonable discount rate of 12.0%. As illustrated below, our DCF yields a valuation in the $12 range, which we acknowledge is lower than the valuation determined from our multiples valuation described above.

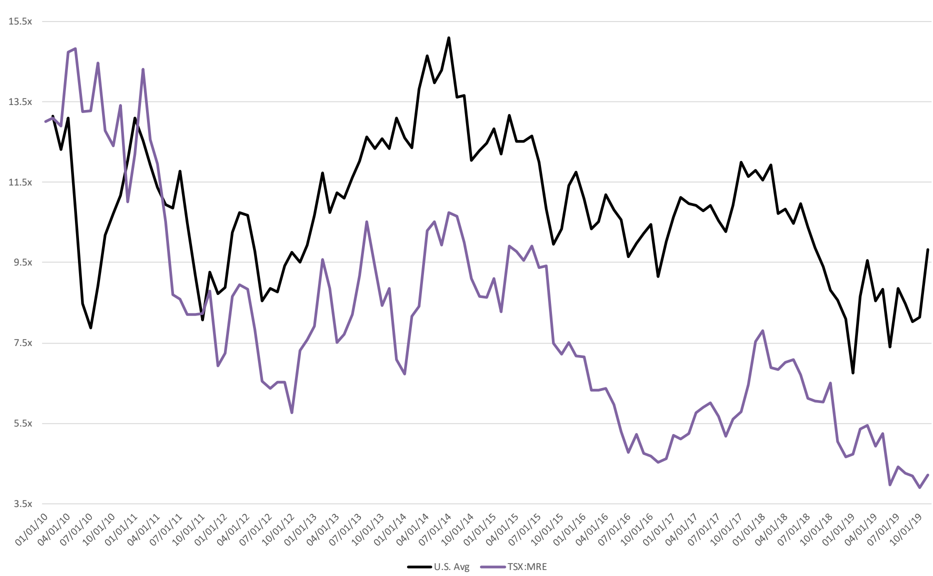
Exhibit 9: Martinrea Discounted Cash Flow

		f2020e	f2021e	f2022e	f2023e	f2024e	f2025e	f2026e	f2027e	f2028e	f2029e	f2030e
Cash from operations (including lease payments)		394	407	409	409	409	409	409	409	409	409	409
Change in working capital		-15	-15	-15	-10	-10	-10	-10	-10	-10	-10	-10
Total CAPEX		-285	-285	-285	-285	-285	-285	-285	-285	-285	-285	-285
Free cash flow		94	107	109	114	114	114	114	114	114	114	114
Free cash flow per share		1.15	1.31	1.34	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
PV free cash per share		1.02	1.04	0.95	0.89	0.79	0.71	0.63	0.56	0.50	0.45	0.40
Input variables												
Discount rate	*12.0%*											
Terminal growth rate	*2.0%*											
Terminal multiple	*10.0x*											
PV of all forecast FCF per share	7.95											
PV Terminal year	4.10											
Implied valuation	**12.05**											
Share count (end of 2020e)	81.7											

Source: Raymond James Ltd.

Additionally, from a P/E perspective, we would note that our target valuation implies a P/E of 6.0x the midpoint of our 2020/2021 EPS. This is versus the U.S. peer trading average north of 10x. Looking historically, Martinrea's average forward P/E since 2011 (~9-years) has been closer to 7.5x with the 5-year average closer to 6.4x (Exhibit 10).

Exhibit 10: Martinrea Historical Forward P/E versus U.S. Peers



Source: Capital IQ, Martinrea International Inc., Raymond James Ltd.

Finally, we illustrate we illustrate historical Price / Book valuation below. For investors more focused on downside scenarios in periods of significant deterioration in auto sales (i.e. deep recession or financial crisis), this would represent the best measure of valuation. Currently, the stock is trading at a Price / Book ratio of ~0.8x versus a long-term (close to 20-year) average of 1.2x and a 10-year average of 1.3x (of note there is very little Goodwill / Intangibles on Martinrea's balance sheet implying a Price / Tangible Book roughly equivalent to Price / Book). In terms of our sum-of-the-parts valuation, the implied Price/Book multiple (using our book value at mid-2020) is 0.85x. The Tower Automotive transaction Price/Book valuation was closer to 2.0x.

Exhibit 11: Martinrea Historical Price/Book Valuation

Source: Capital IQ, Martinrea International Inc., Raymond James Ltd.

In conclusion on our valuation approach for Martinrea, while we understand that investor / market sentiment is an important factor to take into consideration when buying the stock, we believe our approach is conservative and offers the opportunity for upside. As such, we have a C$16.00 target price for Martinrea which we rate as Outperform.

Management Profiles

Below we provide profiles for some of the key executives at Martinrea. Of note, as at May 3, 2019, directors and senior officers of Martinrea directly and indirectly, beneficially own just over 1 mln shares, representing ~1.3% of the issued and outstanding Common Shares.

Rob Wildeboer, co-Founder, Executive Chairman, Chairman of the Board

Mr. Wileboer is a founder of the company, and has been a director since 1996 and Chairman since 1997. He has also been a full-time employee of the company since 2002. Prior to joining Martinrea, Mr. Wildeboer was a partner of Wildeboer Dellelce LLP, a corporate, securities and tax law firm that he co-founded in 1993. Prior to that, Mr. Wildeboer had been a lawyer with Stikeman Elliott LLP, an associate professor of law at Osgoode Hall Law School, and a regulator with the Ontario Securities Commission.

Pat D'Eramo, President and Chief Executive Officer, Director

Mr. D'Eramo was appointed to the role of President and CEO in November, 2014. Prior to joining Martinrea, Mr. D'Eramo was employed as the President of Dana Corporation's Commercial Vehicle Technology group. Prior to Dana, he held several executive roles at Benteler Automotive, a global automotive stamping company. Additionally, from 2001 to 2009, Mr. D'Eramo worked for Toyota, serving as VP manufacturing after holding several general manager roles. Prior to that, Mr. D'Eramo spent 16 years with General Motors working in a variety of manufacturing positions, including plant manager of GM's metal fabricating division in Oshawa, Ontario. Mr. D'Eramo has a Bachelor of Science degree in mechanical engineering from Michigan State University and a Master's degree in Manufacturing Management from Kettering University.

Fred Di Tosto, Chief Financial Officer

Mr. Di Tosto joined the company in June 2010 as Vice President of Finance, and was appointed to his current role of CFO in March 2011 as the prior CFO transitioned into the CEO role. Prior to joining Martinrea, Mr. Di Tosto spent over 10 years servicing large multinational companies in accounting functions, which included working with KPMG. Mr. Di Tosto is a Chartered Accountant.

FINANCIAL STATEMENTS

Exhibit 12: Income Statement

	f2017	1Qf18	2Qf18	3Qf18	4Qf18	f2018	1Qf19	2Qf19	3Qf19	4Qf19e	f2019e	1Qf20e	2Qf20e	3Qf20e	4Qf20e	f2020e	f2021e	f2022e
Sales	**3,690.5**	**963.9**	**921.7**	**851.1**	**926.2**	**3,662.9**	**1,023.2**	**948.5**	**974.4**	**902.1**	**3,848.2**	**985.1**	**912.1**	**948.0**	**972.1**	**3,817.4**	**3,873.2**	**3,885.1**
y/y growth	*-7.0%*	*-3.7%*	*-5.2%*	*1.5%*	*5.4%*	*-0.7%*	*6.1%*	*2.9%*	*14.5%*	*-2.6%*	*5.1%*	*-3.7%*	*-3.8%*	*-2.7%*	*7.8%*	*-0.8%*	*1.5%*	*0.3%*
Adjusted EBITDA	**401.5**	**120.0**	**125.7**	**103.7**	**111.8**	**461.2**	**133.9**	**137.7**	**122.4**	**108.1**	**502.2**	**141.7**	**137.7**	**128.8**	**123.6**	**531.8**	**549.5**	**552.6**
Adjusted EBITDA margin	*10.9%*	*12.4%*	*13.6%*	*12.2%*	*12.1%*	*12.6%*	*13.1%*	*14.5%*	*12.6%*	*12.0%*	*13.0%*	*14.4%*	*15.1%*	*13.6%*	*12.7%*	*13.9%*	*14.2%*	*14.2%*
Adjusted Operating income																		
North America	203.7	61.5	67.2	52.2	55.8	236.6	71.1	71.7	48.4	39.9	231.2	69.3	69.7	58.1	55.6	252.7	269.1	272.2
Adjusted Operating margin	*7.0%*	*8.3%*	*9.6%*	*8.1%*	*7.6%*	*8.4%*	*8.8%*	*9.5%*	*6.2%*	*5.6%*	*7.5%*	*8.9%*	*9.6%*	*7.7%*	*7.1%*	*8.3%*	*8.7%*	*8.8%*
Europe	38.4	15.8	14.7	6.2	10.0	46.8	15.3	10.7	13.9	9.6	49.5	14.8	10.4	13.1	10.4	48.7	50.0	50.0
Adjusted Operating margin	*5.8%*	*8.5%*	*7.8%*	*3.6%*	*6.0%*	*6.6%*	*8.0%*	*6.5%*	*8.8%*	*6.0%*	*7.3%*	*8.1%*	*6.6%*	*8.3%*	*6.5%*	*7.4%*	*7.6%*	*7.6%*
Rest of World	-5.3	1.1	-0.2	0.0	-0.4	0.6	-2.9	1.6	6.7	5.0	10.4	4.0	4.0	4.0	4.0	16.0	16.0	16.0
Adjusted Operating margin	*-4.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*8.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*13.4%*	*13.4%*	*12.2%*
Adjusted operating income	**236.8**	**78.4**	**81.7**	**58.4**	**65.4**	**284.0**	**83.5**	**84.0**	**69.0**	**54.5**	**291.0**	**88.1**	**84.1**	**75.2**	**70.0**	**317.4**	**335.1**	**338.2**
Adjusted Operating margin	*6.4%*	*8.1%*	*8.9%*	*6.9%*	*7.1%*	*7.8%*	*8.2%*	*8.9%*	*7.1%*	*6.0%*	*7.6%*	*8.9%*	*9.2%*	*7.9%*	*7.2%*	*8.3%*	*8.7%*	*8.7%*
Gain / loss of disposal of PP&E	-0.4	0.0	0.2	0.2	0.1	0.5	-0.1	-0.1	-5.1	0.0	-5.4	0	0	0	0	0.0	0.0	0.0
Impairment of assets	7.5	0.0	0.0	0.0	5.4	5.4	0.0	18.5	0.0	0.0	18.5	0	0	0	0	0.0	0.0	0.0
Restructuring costs	0.0	0.0	0.0	0.0	2.1	2.1	0.0	8.2	0.0	0.0	8.2	0	0	0	0	0.0	0.0	0.0
Gain on sale of land and building	-19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0.0	0.0	0.0
Operating income	**246.6**	**78.4**	**81.7**	**58.4**	**57.9**	**276.5**	**83.5**	**57.3**	**73.2**	**54.5**	**268.5**	**88.1**	**84.1**	**75.2**	**70.0**	**317.4**	**335.1**	**338.2**
Share of loss of an associate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.8	0.0	1.3	0	0	0	0	0.0	0.0	0.0
Finance expense lease related	0.0	0.0	0.0	0.0	0.0	0.0	1.6	2.3	2.2	2.2	8.4	2.2	2.2	2.2	2.2	8.9	8.9	8.9
Finance expense debt related	22.5	6.5	6.9	6.9	7.0	27.4	8.2	7.6	7.1	8.1	31.0	8.1	8.1	8.1	8.1	32.3	32.3	32.3
Other finance expense	-5.1	-2.0	1.0	2.9	0.4	2.3	0.0	1.1	0.3	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income before taxes	**229.2**	**73.9**	**73.8**	**48.6**	**50.5**	**246.8**	**73.7**	**45.8**	**62.8**	**44.2**	**226.4**	**77.8**	**73.7**	**64.9**	**59.7**	**276.2**	**293.8**	**296.9**
Income tax expense	70.0	18.0	18.1	12.2	12.7	60.9	18.4	17.6	16.1	11.9	64.1	19.4	18.4	16.2	14.9	69.0	73.4	74.2
	30.5%	*24.3%*	*24.5%*	*25.2%*	*25.1%*	*24.7%*	*25.0%*	*38.6%*	*25.7%*	*27.0%*	*28.3%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Net income of the period	**159.3**	**56.0**	**55.7**	**36.4**	**37.8**	**185.9**	**55.3**	**28.1**	**46.7**	**32.3**	**162.3**	**58.3**	**55.3**	**48.7**	**44.8**	**207.1**	**220.3**	**222.7**
Adjusted Net income	**165.2**	**56.6**	**55.5**	**37.2**	**43.8**	**193.2**	**55.8**	**54.6**	**46.7**	**32.3**	**189.3**	**58.3**	**55.3**	**48.7**	**44.8**	**207.1**	**220.3**	**222.7**
Headline EPS																		
Basic (Headline)	1.84	0.65	0.64	0.42	0.44	2.15	0.66	0.34	0.57	0.40	1.97	0.71	0.67	0.59	0.54	2.51	2.67	2.70
Diluted (Headline)	1.84	0.64	0.64	0.42	0.43	2.14	0.66	0.34	0.56	0.39	1.96	0.71	0.67	0.59	0.54	2.50	2.66	2.69
Adjusted EPS																		
Basic (Adjusted)	**1.91**	**0.65**	**0.64**	**0.43**	**0.51**	**2.23**	**0.67**	**0.66**	**0.57**	**0.40**	**2.29**	**0.71**	**0.67**	**0.59**	**0.54**	**2.51**	**2.67**	**2.70**
Diluted (Adjusted)	**1.90**	**0.65**	**0.64**	**0.43**	**0.50**	**2.22**	**0.67**	**0.66**	**0.56**	**0.39**	**2.29**	**0.71**	**0.67**	**0.59**	**0.54**	**2.50**	**2.66**	**2.69**
Shares Outstanding																		
Basic	86.5	86.7	86.8	86.7	86.5	86.5	83.4	82.7	82.6	81.7	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6
Diluted	86.8	87.4	87.4	87.1	87.0	87.0	83.6	82.9	82.7	81.8	82.8	82.8	82.8	82.8	82.8	82.8	82.8	82.8
Period end as indicated	86.7	86.7	86.9	86.3	82.6	82.6	82.7	82.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7

Source: Raymond James Ltd.

Exhibit 13: Cash Flow Statement

	f2017	1Qf18	2Qf18	3Qf18	4Qf18	f2018	1Qf19	2Qf19	3Qf19	4Qf19e	f2019e	1Qf20e	2Qf20e	3Qf20e	4Qf20e	f2020e	f2021e	f2022e
Net income	**159.3**	**56.0**	**55.7**	**36.4**	**37.8**	**185.9**	**55.3**	**28.1**	**46.7**	**32.3**	**162.3**	**58.3**	**55.3**	**48.7**	**44.8**	**207.1**	**220.3**	**222.7**
D&A	149.7	38.1	40.5	41.8	43.0	163.3	46.9	49.8	50.2	49.6	196.5	49.6	49.6	49.6	49.6	198.4	198.4	198.4
Amortization of customer contracts	2.2	0.5	0.5	0.5	0.5	2.1	0.5	0.5	0.5	0.5	2.1	0.5	0.5	0.5	0.5	2.0	2.0	2.0
Amortization of development costs	13.2	2.9	2.8	2.8	2.8	11.3	3.1	3.6	3.6	3.5	13.8	3.5	3.5	3.5	3.5	14.0	14.0	14.0
Impairment of assets	7.5	0.0	0.0	0.0	5.4	5.4	0.0	18.5	0.0	0.0	18.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized loss (gain) on forex	0.1	-1.3	0.8	-0.2	0.6	-0.1	0.6	-0.8	0.6	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized loss (gain) on warrants	-3.7	0.8	-0.2	0.9	0.4	1.9	0.6	0.2	-0.6	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance expense	22.5	6.5	6.9	6.9	7.0	27.4	9.8	9.9	9.3	8.1	37.2	8.1	8.1	8.1	8.1	32.3	32.3	32.3
Income tax expense	70.0	18.0	18.1	12.2	12.7	60.9	18.4	17.6	16.1	11.9	64.1	19.4	18.4	16.2	14.9	69.0	73.4	74.2
Loss (gain) on PP&E disposal	-0.4	0.0	0.2	0.2	0.1	0.5	-0.1	-0.1	-0.9	0.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred and restricted share units	2.8	0.3	1.1	1.0	0.1	2.5	2.1	-0.2	1.8	0.0	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock option expense	0.1	0.2	0.1	0.1	0.4	0.7	0.3	0.3	0.3	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share of loss of an associate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.8	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on sale of building	-19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension and post-retirement expense	4.5	1.2	1.2	1.2	0.5	4.1	1.0	1.2	1.2	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution to pension and post-retirement	-2.5	-0.6	-2.0	-1.7	-0.6	-4.8	-1.3	-1.4	-1.6	0.0	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	**406.2**	**122.4**	**125.7**	**102.1**	**110.8**	**461.0**	**137.3**	**127.8**	**128.0**	**105.9**	**499.0**	**139.5**	**135.4**	**126.6**	**121.4**	**522.9**	**540.5**	**543.6**
Working capital																		
Trade and other receivables	-0.1	-72.7	61.1	-35.8	39.8	-7.6	-113.0	58.0	1.8	-5.0	-58.1	-75.0	25.0	15.0	10.0	-25.0	-25.0	-25.0
Inventories	-80.5	-36.4	-22.8	-26.6	-5.7	-91.6	16.1	-17.4	28.6	-5.0	22.3	-20.0	10.0	0.0	0.0	-10.0	-10.0	-10.0
Prepaid expenses	-1.3	-3.1	-0.6	-1.7	-1.6	-7.0	-3.0	0.1	-2.1	0.0	-5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade and other payables	55.0	100.2	-46.6	54.5	-38.7	69.4	61.8	-16.6	-38.1	10.0	17.1	50.0	-25.0	-5.0	0.0	20.0	20.0	20.0
Total change in working capital	**-26.9**	**-12.0**	**-8.9**	**-9.6**	**-6.2**	**-36.8**	**-38.1**	**24.2**	**-9.8**	**0.0**	**-23.8**	**-45.0**	**10.0**	**10.0**	**10.0**	**-15.0**	**-15.0**	**-15.0**
Interest paid	-20.3	-6.9	-7.3	-8.1	-8.5	-30.9	-10.6	-11.6	-9.2	-8.1	-39.5	-8.1	-8.1	-8.1	-8.1	-32.3	-32.3	-32.3
Income taxes paid	-56.2	-31.7	-30.9	-16.7	-17.5	-96.7	-28.5	-11.8	-11.9	-11.9	-64.1	-19.4	-18.4	-16.2	-14.9	-69.0	-73.4	-74.2
Cash flow from operations	**302.9**	**71.8**	**78.6**	**67.8**	**78.6**	**296.7**	**60.1**	**128.5**	**97.1**	**85.9**	**371.6**	**66.9**	**118.9**	**112.3**	**108.4**	**406.5**	**419.7**	**422.1**
Financing																		
Repurchase of common shares	0.0	0.0	0.0	-9.0	-16.6	-25.5	-26.3	0.0	-11.9	0.0	-38.2	0	0	0	0	0.0	0.0	0.0
Increase in long-term debt	40.0	19.7	36.9	33.1	24.8	114.5	81.4	3.3	7.8	0.0	92.5	0	0	0	0	0.0	0.0	0.0
Repayment of long-term debt	-88.6	-5.3	-41.7	-5.3	-5.4	-57.7	-4.1	-19.3	-3.8	0.0	-27.2	0	0	0	0	0.0	0.0	0.0
Principal payments of lease liabilities	0.0	0.0	0.0	0.0	0.0	0.0	-7.3	-6.8	-6.9	-7.0	-28.0	-7.0	-7.0	-7.0	-7.0	-28.0	-28.0	-28.0
Dividends paid	-10.4	-2.6	-2.6	-3.9	-3.9	-13.0	-3.8	-3.7	-3.7	-3.7	-14.9	-3.7	-3.7	-3.7	-3.7	-14.7	-14.7	-14.7
Exercise of employee stock options	2.1	0.0	1.1	0.8	0.1	1.9	0.9	0.0	0.5	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing	**-56.9**	**11.8**	**-6.4**	**15.7**	**-1.0**	**20.2**	**40.8**	**-26.6**	**-18.0**	**-10.7**	**-14.4**	**-10.7**	**-10.7**	**-10.7**	**-10.7**	**-42.7**	**-42.7**	**-42.7**
Investing																		
Purchase of PP&E	-259.6	-71.5	-79.8	-69.5	-88.2	-309.0	-77.4	-83.0	-57.4	-75.0	-292.9	-75.0	-70.0	-70.0	-70.0	-285.0	-285.0	-285.0
Capitalized development costs	-14.2	-3.0	-3.5	-3.6	-4.1	-14.2	-2.3	-3.1	-2.6	0.0	-8.1	0	0	0	0	0.0	0.0	0.0
M&A / Investments (Honsel and NanoXplore)	-2.5	-0.7	0.0	0.0	0.0	-0.7	-15.0	0.0	-14.5	0.0	-29.5	0	0	0	0	0.0	0.0	0.0
Proceeds of disposal of PP&E	3.6	0.8	0.2	0.2	0.4	1.6	0.5	0.2	4.8	0.0	5.5	0	0	0	0	0.0	0.0	0.0
Upfront recovery of development costs	1.2	0.0	2.3	0.2	0.1	2.6	0.0	0.0	0.8	0.0	0.8	0	0	0	0	0.0	0.0	0.0
Proceeds on disposal of building	40.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	**-230.6**	**-74.4**	**-80.9**	**-72.8**	**-91.7**	**-319.8**	**-94.3**	**-85.9**	**-69.0**	**-75.0**	**-324.2**	**-75.0**	**-70.0**	**-70.0**	**-70.0**	**-285.0**	**-285.0**	**-285.0**
Effect of of forex on cash	-3.3	1.0	2.5	-2.2	0.6	1.8	-0.4	-2.4	1.2	0.0	-1.6	0	0	0	0	0.0	0.0	0.0
Change in cash and equivalents	12.0	10.2	-6.1	8.4	-13.5	-1.0	6.3	13.7	11.3	0.2	31.4	-18.7	38.2	31.6	27.7	78.8	92.0	94.4
Cash and equivalents beginning	59.2	71.2	81.4	75.3	83.7	71.2	70.2	76.4	90.1	101.4	70.2	101.6	82.9	121.1	152.7	101.6	180.4	272.5
Cash and equivalents end	71.2	81.4	75.3	83.7	70.2	70.2	76.4	90.1	101.4	101.6	101.6	82.9	121.1	152.7	180.4	180.4	272.5	366.8
Free cash flow	**29.0**	**-2.7**	**-4.8**	**-5.3**	**-13.8**	**-26.5**	**-26.9**	**35.6**	**30.1**	**3.9**	**42.7**	**-15.1**	**41.9**	**35.3**	**31.4**	**93.5**	**106.7**	**109.1**

Source: Raymond James Ltd.

Exhibit 14: Balance Sheet

	f2017	1Qf18	2Qf18	3Qf18	4Qf18	f2018	1Qf19	2Qf19	3Qf19	4Qf19e	f2019e	1Qf20e	2Qf20e	3Qf20e	4Qf20e	f2020e	f2021e	f2022e
Cash and equivalents	71.2	81.4	75.3	83.7	70.2	70.2	76.4	90.1	101.4	101.6	101.6	82.9	121.1	152.7	180.4	180.4	272.5	366.8
Trade and other receivables	556.0	649.2	587.9	613.8	597.8	597.8	701.0	633.9	631.7	636.7	636.7	711.7	686.7	671.7	661.7	661.7	686.7	711.7
Inventories	377.0	425.0	448.4	467.0	492.8	492.8	468.5	476.0	447.5	452.5	452.5	472.5	462.5	462.5	462.5	462.5	472.5	482.5
Prepaid expenses	15.5	19.0	19.5	20.8	23.3	23.3	25.9	25.3	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Income tax recoverable	13.0	7.4	8.7	12.3	21.3	21.3	30.6	29.0	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6
Asset held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**1,032.7**	**1,182.0**	**1,139.8**	**1,197.5**	**1,205.3**	**1,205.3**	**1,302.4**	**1,254.4**	**1,234.7**	**1,244.9**	**1,244.9**	**1,321.1**	**1,324.4**	**1,341.0**	**1,358.7**	**1,358.7**	**1,485.7**	**1,615.1**
PP&E	1,282.6	1,333.5	1,365.7	1,361.9	1,481.5	1,481.5	1,483.6	1,476.7	1,506.4	1,535.3	1,535.3	1,564.2	1,588.1	1,612.0	1,635.9	1,635.9	1,736.5	1,837.1
Righ-of-use assets	0.0	0.0	0.0	0.0	0.0	0.0	216.3	205.0	197.5	218.5	218.5	211.5	204.5	197.5	218.5	218.5	218.5	218.5
Deferred income tax asstes	142.2	155.3	171.7	180.5	145.4	145.4	141.8	139.0	138.0	138.0	138.0	138.0	138.0	138.0	138.0	138.0	138.0	138.0
Intangible assets	68.4	70.1	68.3	67.2	70.9	70.9	68.4	63.7	61.7	61.2	61.2	60.7	60.2	59.7	59.2	59.2	57.2	55.2
Other assets	15.3	14.0	14.8	12.1	10.8	10.8	24.3	23.6	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8
Total non-current assets	**1,508.5**	**1,573.0**	**1,620.5**	**1,621.7**	**1,708.5**	**1,708.5**	**1,934.4**	**1,908.1**	**1,941.4**	**1,990.8**	**1,990.8**	**2,012.2**	**2,028.6**	**2,045.0**	**2,089.4**	**2,089.4**	**2,188.0**	**2,286.6**
Total assets	**2,541.2**	**2,755.0**	**2,760.3**	**2,819.3**	**2,913.8**	**2,913.8**	**3,236.8**	**3,162.5**	**3,176.1**	**3,235.7**	**3,235.7**	**3,333.4**	**3,353.0**	**3,386.0**	**3,448.1**	**3,448.1**	**3,673.8**	**3,901.7**
Trade and other payables	741.5	847.0	792.2	825.9	862.7	862.7	874.5	818.7	800.9	810.9	810.9	860.9	835.9	830.9	830.9	830.9	850.9	870.9
Provisions	5.0	5.5	4.9	4.6	5.4	5.4	5.2	10.1	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Income taxes payable	34.4	36.4	30.1	49.4	7.8	7.8	6.8	10.5	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Current portion long-term debt	24.8	20.6	18.0	16.2	16.8	16.8	16.4	14.5	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Current portion of lease liabilities	0.0	0.0	0.0	0.0	0.0	0.0	28.6	28.1	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3
Current liabilities	**805.8**	**909.4**	**845.1**	**896.1**	**892.7**	**892.7**	**931.5**	**881.9**	**867.7**	**877.7**	**877.7**	**927.7**	**902.7**	**897.7**	**897.7**	**897.7**	**917.7**	**937.7**
Long-term debt	629.2	656.9	662.1	684.4	723.9	723.9	793.1	771.3	778.3	778.3	778.3	778.3	778.3	778.3	778.3	778.3	778.3	778.3
Lease liabilities	0.0	0.0	0.0	0.0	0.0	0.0	193.2	189.6	182.6	203.6	203.6	196.6	189.6	182.6	203.6	203.6	203.6	203.6
Pension and other post-retirement	65.3	63.9	63.0	62.8	61.3	61.3	58.8	65.6	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Deferred income tax liabilities	82.4	72.2	85.6	73.7	84.4	84.4	83.6	78.3	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0
Other financial liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**1,582.7**	**1,702.5**	**1,655.8**	**1,717.0**	**1,762.3**	**1,762.3**	**2,060.2**	**1,986.7**	**1,974.7**	**2,005.7**	**2,005.7**	**2,048.7**	**2,016.7**	**2,004.7**	**2,025.7**	**2,025.7**	**2,045.7**	**2,065.7**
Equity																		
Capital stock	713.4	713.4	714.9	710.5	680.2	680.2	681.5	681.5	673.5	673.5	673.5	673.5	673.5	673.5	673.5	673.5	673.5	673.5
Contributed surplus	42.0	42.2	41.8	41.7	42.0	42.0	42.0	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3
Accumulated other comprehensive income	94.3	132.7	131.6	105.5	158.4	158.4	127.7	107.7	105.2	105.2	105.2	105.2	105.2	105.2	105.2	105.2	105.2	105.2
Retained earnings	108.8	164.3	216.2	244.5	271.0	271.0	325.5	344.4	380.4	409.0	409.0	463.7	515.3	560.3	601.4	601.4	807.1	1,015.0
Total equity	**958.5**	**1,052.5**	**1,104.5**	**1,102.2**	**1,151.5**	**1,151.5**	**1,176.5**	**1,175.8**	**1,201.4**	**1,230.0**	**1,230.0**	**1,284.7**	**1,336.3**	**1,381.3**	**1,422.4**	**1,422.4**	**1,628.1**	**1,836.1**
Total liabilities and equity	**2,541.2**	**2,755.0**	**2,760.3**	**2,819.3**	**2,913.8**	**2,913.8**	**3,236.8**	**3,162.5**	**3,176.1**	**3,235.7**	**3,235.7**	**3,333.4**	**3,353.0**	**3,386.0**	**3,448.1**	**3,448.1**	**3,673.8**	**3,901.7**

Source: Raymond James Ltd.

INVESTMENT RISKS

Industry Cyclicality and Potential Impact on Earnings

The global automotive sector is very cyclical in nature and quite sensitive to economic cycles. In periods of declining sales volumes, particularly during the 2008-2009 financial crisis, the North American auto industry underwent a significant upheaval with substantial restructuring activity occurring at both the OEMs and several large auto parts suppliers. In terms of Martinrea, while the company did experience significant operating deleverage and negative operating earnings during this timeframe, it was one of the few publicly traded North American auto parts companies that did not succumb to bankruptcy protection, which we would largely attribute to the company's conservative capital structure heading into the recession.

Technology Change

The automotive industry is undergoing a significant level of technology change with the most relevant for Martinrea being the electrification of the powertrain. This technology change may require substantial amounts of investment and capital spending by incumbents as they evolve their respective business profiles towards new product. As it pertains to Martinrea's business overall, we acknowledge that while there are parts which will be potentially negatively impacted by these trends (i.e. subsegments of the fluids business and powertrain business), there are offsets to take into consideration (i.e. growth in thermal management solutions and aluminum structural components), with a fairly large portion of the overall revenue mix considered to be agnostic overall to technology change (i.e. steel metal forming).

Uncertainty Surrounding Trade Disputes and Tariffs

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Intense Competition, Buying Power of Customers, Warranty/Recall Risks

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	RJA	**RJL**	**RJA**	**RJL**
Strong Buy and Outperform (Buy)	55%	59%	21%	23%
Market Perform (Hold)	41%	38%	12%	15%
Underperform (Sell)	4%	3%	3%	0%

** Columns may not add to 100% due to rounding.*

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Company Name	Disclosure
Martinrea International Inc. and Magna International Inc.	The analyst or associate at Raymond James Ltd. has viewed the material operations of Martinrea International Inc. and Magna International Inc..

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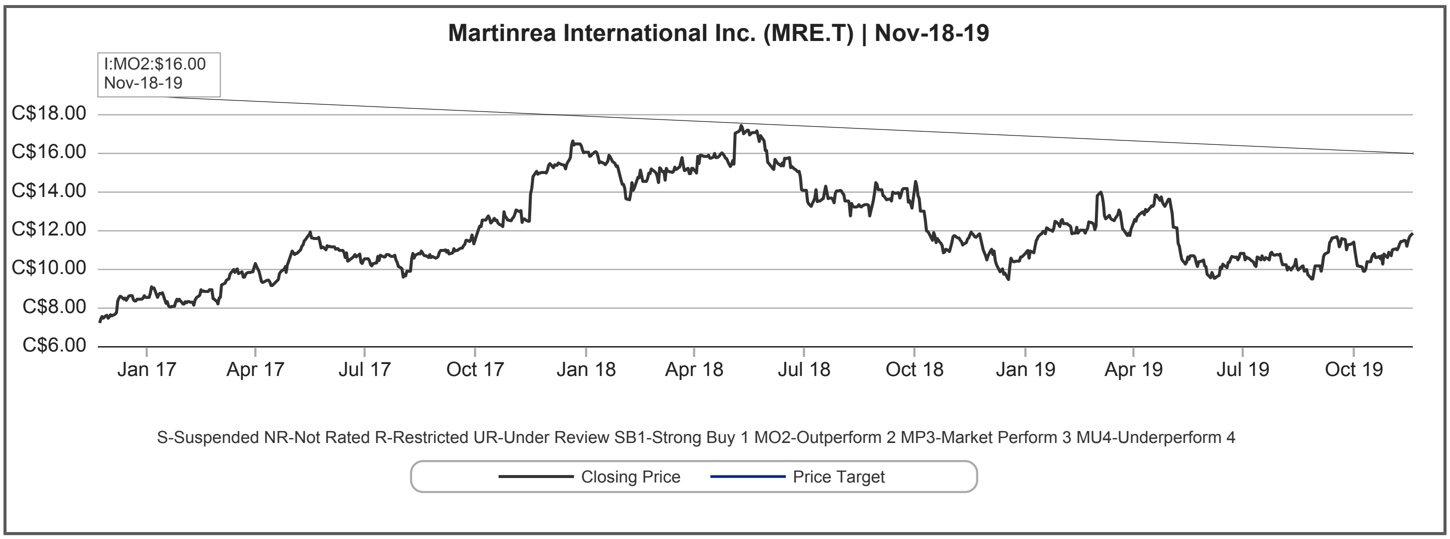
Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

Target Prices: The information below indicates our target price and rating changes for the subject companies over past three years.



Valuation Methodology

Magna International Inc.
We use a sum-of-the-parts valuation based on EV/EBITDA multiples for Magna.

Martinrea International Inc.
We use an EV/EBITDA multiple to value the company.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the businesses of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product/service pricing could change and adversely impact expected revenues and earnings; (2) issues relating to major competitors or market shares or new product expectations could change investor attitude toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation.

Company-Specific Risks

Magna International Inc.
Industry Cyclicality and Potential Impact on Earnings

The global automotive sector is very cyclical in nature and quite sensitive to economic cycles. In periods of declining sales volumes, particularly during the 2008-2009 financial crisis, the North American auto industry underwent a significant upheaval with substantial restructuring activity occurring at both the OEMs and several large auto parts suppliers. In terms of Magna, while the company did experience significant operating deleverage during this timeframe (with negative earnings), it was one of the few publicly traded North American auto parts companies that did not succumb to bankruptcy protection. We would attribute to the company's conservatism, prudent capital structure and focus on free cash generation.

Technology Change

The automotive industry is undergoing a significant level of technology change. This technology change may require substantial amounts of investment and capital spending by incumbents as they evolve their respective business profiles towards new product. Additionally, as it pertains to Magna's business in particular, we continue to focus on trends regarding the electrification of the powertrain, and any ongoing impact this may have on profitability with the Powertrain business (embedded in the Power and Vision segment).

Uncertainty Surrounding Trade Disputes and Tariffs

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Intense Competition, Buying Power of Customers, Warranty/Recall Risks

The global automotive industry is intensely competitive and Magna characterizes the intensity as an ever increasing dynamic. Additionally, the company also has a fairly concentrated customer base, with ~2/3 of sales coming from its top 5 customers. As such, the company needs to continually invest in the business, develop new products, and seek ways to lower program costs, all while attaining extremely high quality control standards. As inability to achieve any of these mentioned items could lead to a meaningful decline in any particular program margin, which could in turn have a sizeable / noticeable impact on the profitability of a particular business segment. Additionally, Magna is responsible for any warranty related costs that may result from products produced (particularly in the powertrain business), and may also be responsible for costs related to an OEM recall if the recall is related to products that the company supplied.

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Recent reductions in the equity income line related to Getrag

We continue to pay close attention to Getrag and take rates on both manual and dual-clutch transmission product. In that regard, with even more recent pressure seen in terms of the Power and Vision equity income expectations (i.e. from $261M in 2018 to forecast of $135-165M in 2019e), we remain hesitant to reflect a meaningful improvement overall. In that regard, we continue to closely monitor commentary surrounding the take rates for both manual and dual-clutch transmissions, remaining cognizant that the Getrag joint-ventures represent the majority of the Investments line on the balance sheet.

Martinrea International Inc.
Industry Cyclicality and Potential Impact on Earnings

The global automotive sector is very cyclical in nature and quite sensitive to economic cycles. In periods of declining sales volumes, particularly during the 2008-2009 financial crisis, the North American auto industry underwent a significant upheaval with substantial restructuring activity occurring at both the OEMs and several large auto parts suppliers. In terms of Martinrea, while the company did experience significant operating deleverage and negative operating earnings during this timeframe, it was one of the few publicly traded North American auto parts companies that did not succumb to bankruptcy protection, which we would largely attribute to the company's conservative capital structure heading into the recession.

Technology Change

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