



# PRESS RELEASE

**FOR IMMEDIATE RELEASE**

**May 2, 2019**

## **MARTINREA INTERNATIONAL INC. REPORTS FIRST QUARTER RESULTS AND DECLARES DIVIDEND**

Toronto, Ontario – Martinrea International Inc. (TSX : MRE), a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems, today announced the release of its financial results for the first quarter ended March 31, 2019 and that it has declared a quarterly cash dividend of \$0.045 per share.

### **HIGHLIGHTS**

- Total sales of \$1.023 billion; production sales of \$927 million
- Record quarterly diluted net earnings per share of \$0.66
- Record quarterly adjusted diluted net earnings per share<sup>(1)</sup> of \$0.67
- Quarterly adjusted operating income<sup>(1)</sup> margin of 8.2%
- Record first quarter adjusted EBITDA<sup>(1)</sup>
- New business awards of approximately \$55 million in annualized sales at peak volumes
- Quarterly cash dividend of \$0.045 per share declared
- \$26 million in share repurchases in the quarter; normal course issuer bid completed

### **OVERVIEW**

Pat D'Eramo, President and Chief Executive Officer, stated: "Our first quarter was a very strong one for Martinrea and our people, with quarterly sales over a billion dollars including tooling, and record earnings per share. In a year when the overall market is seeing some volume headwinds, and a number of suppliers have seen reduced margins and earnings, our margins and earnings have remained very solid. We are in the midst of a very heavy launch cycle, but launches are proceeding well. We continue to see heavy quoting activity, and in the past few weeks we have won approximately \$55 million in annualized sales at peak volumes, including \$40 million in a combination of lightweight structures and propulsion systems work on Ford's new small pick-up truck to be assembled in Hermosillo, Mexico, approximately \$10 million in additional product wins for the new Jeep Grand Cherokee, and some additional work from Toyota and Nissan. Our people are performing well, and we thank them for their efforts."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the first quarter, excluding tooling sales of \$96 million, were \$927 million, in the mid range of our previously announced sales guidance. In the quarter, our adjusted net earnings per share, on a basic and diluted basis, was \$0.67 per share, also in the mid range of our quarterly guidance and a record quarter. Adjusted operating income margin for the quarter was 8.2%, a good start to the year. Our balance sheet remains strong, as we look to maintain a leverage ratio of about 1.5:1 net debt:adjusted EBITDA excluding the impacts of IFRS 16, even while paying increased dividends, repurchasing a significant number of shares under our normal course issuer bid, making a strategic investment in NanoXplore, and investing in our operations to fund our

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<sup>1</sup> The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income" and "Adjusted EBITDA".

future. The year 2019 is off to a solid start and we expect second quarter sales, excluding tooling sales, to be in the range of \$870 million to \$910 million, and adjusted net earnings per share in the range of \$0.64 to \$0.68 per share.”

Rob Wildeboer, Executive Chairman, stated: “It is great to see 2019 off to a great start of what we believe will be another record year for Martinrea. We believe that our story in 2019 and 2020 will be a very good one, on both an absolute and relative basis. We are seeing some softness in automotive markets, and are doing well overall despite the headwinds. Our North American segment has done extremely well year to date despite some reduction in overall market volumes. The North American economy continues to perform positively, and the trade and tariff issues that we still face in our industry have had some negative effect, but limited in scope and severity. Our European segment saw steady sales and operating income year over year during the quarter, but there has been softness there in overall volumes and in the volumes of some key customers, whether caused by the Brexit uncertainty or the uncertain regulatory environment. We do see some continuing softness there. Our Rest of the World segment, while a very small part of our business, has had some major volume challenges, some regional and some with the volumes of our customers in the regions, being China and Brazil, resulting in reduced sales and losses for the segment. Our fluids plant in China and our aluminum Brazilian operations, in particular, have been negatively impacted by these volume headwinds. As such, we are currently contemplating downsizing these facilities to keep costs in line with sales and, ultimately, improving our competitiveness in these sometimes difficult markets. We are also seeing some supplier stress in the overall market, making some assets available. I am pleased to report that we recently acquired a small plant in Mississippi from Variform at a very attractive price, along with the related work for Nissan. We will buy assets when the values are compelling.”

## **RESULTS OF OPERATIONS**

All amounts in this press release are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares.

Additional information about the Company, including the Company’s Management Discussion and Analysis of Operating Results and Financial Position for the first quarter ended March 31, 2019 (“MD&A”), the Company’s interim condensed consolidated financial statements for the first quarter ended March 31, 2019 (the “interim consolidated financial statements”) and the Company’s Annual Information Form for the year ended December 31, 2018, can be found at [www.sedar.com](http://www.sedar.com).

Results of operations may include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to IFRS measures, management uses non-IFRS measures in the Company’s disclosures that it believes provide the most appropriate basis on which to evaluate the Company’s results.

## **OVERALL RESULTS**

The following table sets out certain key financial metrics underlying the Company’s performance for the three months ended March 31, 2019 and 2018. Refer to the Company’s financial statements for the three months ended March 31, 2019 for a detailed account of the Company’s performance for the periods presented in the table below.

	Three months ended March 31, 2019		Three months ended March 31, 2018		\$ Change	% Change
Sales	\$	1,023,161	\$	963,900	59,261	6.1%
Gross Margin		157,501		144,429	13,072	9.1%
Operating Income		83,463		78,441	5,022	6.4%
Net Income for the period	\$	55,268		55,959	(691)	(1.2%)
Net Earnings per Share - Basic	\$	0.66	\$	0.65	0.01	1.5%
Net Earnings per Share - Diluted	\$	0.66	\$	0.64	0.02	3.1%
<b>Non-IFRS Measures*</b>						
Adjusted Operating Income	\$	83,463	\$	78,441	5,022	6.4%
<i>% of Sales</i>		8.2%		8.1%		
Adjusted EBITDA		133,911		119,962	13,949	11.6%
<i>% of Sales</i>		13.1%		12.4%		
Adjusted Net Income		55,776		56,630	(854)	(1.5%)
Adjusted Net Earnings per Share - Basic and Diluted	\$	0.67	\$	0.65	0.02	3.1%

### **\*Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income", "Adjusted EBITDA" and "Free Cash Flow".

### **Impact of the Adoption of IFRS 16, Leases**

Effective January 1, 2019, the Company adopted the new accounting standard, IFRS 16, Leases ("IFRS 16"). In adopting the new standard, the Company used the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings, if any, on the date of initial application without restating comparative prior periods. As such, 2018 prior year comparatives have not been restated.

The adoption of the new standard resulted in the recognition of lease liabilities of \$228.6 million and right-of-use assets of \$223.8 million, net of accrued liabilities related to the leases of \$4.8 million, recognized as at January 1, 2019 in the interim condensed consolidated balance sheet. From an earnings perspective, while timing differences may exist, the new standard results in a decrease in operating rent expense essentially replaced by increases in finance and depreciation expenses as recognized in the interim condensed consolidated statement of operations. As such, the adoption of IFRS 16 did not have a significant impact on the Company's operating results and the financial metrics for the quarter ended March 31, 2019 outlined above other than "Adjusted EBITDA". The adoption of IFRS 16 contributed approximately 7% of the year-over-year growth in Adjusted EBITDA due to the recognition of depreciation expense on right-of-use assets, in lieu of operating rent expense, as required by the new standard. The adoption of the new standard is further explained in "Recently adopted and applicable accounting standards and policies" in the MD&A and note 1(d)(i) of the financial statements for the three months ended March 31, 2019.

The following tables provide a reconciliation of IFRS "Net Income" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA".

	Three months ended March 31, 2019	Three months ended March 31, 2018
Net Income	\$ 55,268	\$ 55,959
Unusual and Other Items (after-tax)*	508	671
Adjusted Net Income	\$ 55,776	\$ 56,630

\*Unusual and other items are explained in the "Adjustments to Net Income" section of this Press Release

	Three months ended March 31, 2019	Three months ended March 31, 2018
Net Income	\$ 55,268	\$ 55,959
Income tax expense	18,385	17,953
Other finance income - excluding Unusual and Other Items*	(567)	(2,739)
Finance expense	9,796	6,501
Unusual and Other Items (before-tax)*	581	767
Adjusted Operating Income	\$ 83,463	\$ 78,441
Depreciation of property, plant and equipment and right-of-use assets	46,894	38,058
Amortization of intangible assets	3,665	3,477
Gain on disposal of property, plant and equipment	(111)	(14)
Adjusted EBITDA	\$ 133,911	\$ 119,962

\*Unusual and other items are explained in the "Adjustments to Net Income" section of this Press Release

## **SALES**

### **Three months ended March 31, 2019 to three months ended March 31, 2018 comparison**

	Three months ended March 31, 2019	Three months ended March 31, 2018	\$ Change	% Change
North America	\$ 811,137	\$ 741,155	69,982	9.4%
Europe	190,395	185,723	4,672	2.5%
Rest of the World	23,332	40,381	(17,049)	(42.2%)
Eliminations	(1,703)	(3,359)	1,656	49.3%
Total Sales	\$ 1,023,161	\$ 963,900	59,261	6.1%

The Company's consolidated sales for the first quarter of 2019 increased by \$59.3 million or 6.1% to \$1,023.2 million as compared to \$963.9 million for the first quarter of 2018. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a decrease in the Rest of the World.

Sales for the first quarter of 2019 in the Company's North America operating segment increased by \$70.0 million or 9.4% to \$811.1 million from \$741.2 million for the first quarter of 2018. The increase was due to the launch of new programs during or subsequent to the first quarter of 2018 including the next generation GM Silverado/Sierra, RAM pick-up trucks, and the new Chevrolet Blazer; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the first quarter of 2019 of approximately \$35.0 million as compared to the first quarter of 2018; and an increase in tooling sales of \$20.7 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape and Jeep Wrangler, and programs that ended production during or subsequent to the first quarter of 2018.

Sales for the first quarter of 2019 in the Company's Europe operating segment increased by \$4.7 million or 2.5% to \$190.4 million from \$185.7 million for the first quarter of 2018. The increase can be attributed to the launch of new programs during or subsequent to the first quarter of 2018, including a 2.0L aluminum engine block for Ford, and a \$9.4 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms, and a \$1.3 million negative foreign exchange impact from the translation of Euro denominated production sales as compared to the first quarter of 2018.

Sales for the first quarter of 2019 in the Company's Rest of the World operating segment decreased by \$17.0 million or 42.2% to \$23.3 million from \$40.4 million in the first quarter of 2018. The decrease was due to a lower year-over-year production volumes on the Ford Mondeo and Cadillac CT6 vehicle platforms in China; lower year-over-year production sales in the Company's facility in Brazil; a \$5.4 million decrease in tooling sales; and a \$1.0 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the first quarter of 2018. These negative factors were partially offset by the ramp up of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018 but at significantly lower-than-expected volumes.

Overall tooling sales increased by \$24.7 million or 34.7% to \$95.9 million for the first quarter of 2019 from \$71.2 million for the first quarter of 2018.

## **GROSS MARGIN**

### ***Three months ended March 31, 2019 to three months ended March 31, 2018 comparison***

	<b>Three months ended March 31, 2019</b>	<b>Three months ended March 31, 2018</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 157,501	\$ 144,429	13,072	9.1%
% of Sales	15.4%	15.0%		

The gross margin percentage for the first quarter of 2019 of 15.4% increased as a percentage of sales by 0.4% as compared to the gross margin percentage for the first quarter of 2018 of 15.0%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the first quarter of 2018.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched, and an increase in tooling sales which typically earn low margins for the Company.

## **ADJUSTMENTS TO NET INCOME**

Adjusted Net Income excludes certain unusual and other items, as set out in the following table and described in the notes thereto. Management uses Adjusted Net Income as a measurement of operating performance of the Company and believes that, in conjunction with IFRS measures, it provides useful information about the financial performance and condition of the Company.

**TABLE A****Three months ended March 31, 2019 to three months ended March 31, 2018 comparison**

	For the three months ended March 31, 2019	For the three months ended March 31, 2018	(a)-(b) Change
	(a)	(b)	
<b>NET INCOME (A)</b>	<b>\$55,268</b>	<b>\$55,959</b>	<b>(\$691)</b>
<b>Add Back - Unusual and Other Items:</b>			
Unrealized loss on warrants (1)	581	767	(186)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>\$581</b>	<b>\$767</b>	<b>(\$186)</b>
Tax impact of above items	(73)	(96)	23
<b>TOTAL UNUSUAL AND OTHER ITEMS-AFTER TAX (B)</b>	<b>\$508</b>	<b>\$671</b>	<b>(\$163)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$55,776</b>	<b>\$56,630</b>	<b>(\$854)</b>
Number of Shares Outstanding – Basic ('000)	83,364	86,746	
Adjusted Basic Net Earnings Per Share	\$0.67	\$0.65	
Number of Shares Outstanding – Diluted ('000)	83,586	87,352	
Adjusted Diluted Net Earnings Per Share	\$0.67	\$0.65	

**1. Unrealized loss on warrants**

As further described in note 7 of the financial statements and later on in the MD&A under "Investments", Martinrea holds 2,955,900 warrants in NanoXplore Inc., a publicly listed graphene company on the TSX Venture Exchange under the ticker symbol GRA. The warrants represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As at March 31, 2019, the warrants had a fair value of \$1.6 million. Based on the fair value of the warrants as at March 31, 2019, an unrealized loss of \$0.6 million was recognized for the three months ended March 31, 2019 (2018 - \$0.8 million), in other finance income (expense) in the interim condensed consolidated statement of operations. This unrealized loss has been added back for Adjusted Net Income purposes.

**NET INCOME****Three months ended March 31, 2019 to three months ended March 31, 2018 comparison**

	Three months ended March 31, 2019	Three months ended March 31, 2018	\$ Change	% Change
Net Income	\$ 55,268	\$ 55,959	(691)	(1.2%)
Adjusted Net Income	\$ 55,776	\$ 56,630	(854)	(1.5%)
Net Earnings per Share				
Basic	\$ 0.66	\$ 0.65		
Diluted	\$ 0.66	\$ 0.64		
Adjusted Net Earnings per Share				
Basic and Diluted	\$ 0.67	\$ 0.65		

Net income, before adjustments, for the first quarter of 2019 decreased by \$0.7 million to \$55.3 million from \$56.0 million for the first quarter of 2018. Excluding the unusual and other items recognized during the first quarters of 2019 and 2018 as explained in Table A under “Adjustments to Net Income”, net income for the first quarter of 2019 decreased by \$0.9 million to \$55.8 million or \$0.67 per share, on a basic and diluted basis, from \$56.6 million or \$0.65 per share, on a basic and diluted basis, for the first quarter of 2018. Despite the year-over-year decrease in Adjusted Net Income, Adjusted Net Earnings per share is up year-over-year due to the lower outstanding Martinrea share count as a result of the recent share repurchases the Company completed under a normal course issuer bid, as further explained in note 12 of the financial statements and later on in the MD&A under “Disclosure of Outstanding Share Data”.

Adjusted Net Income for the first quarter of 2019, as compared to the first quarter of 2018, was negatively impacted by the following:

- operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity;
- a year-over-year increase in SG&A expense;
- a year-over-year increase in depreciation expense, due to the adoption of IFRS 16;
- a year-over-year increase in finance expense on the Company’s revolving bank debt and equipment loans as a result of increased debt levels and borrowing rates, and interest on lease liabilities as a result of the adoption of IFRS 16;
- a net unrealized foreign exchange gain of \$0.5 million for the first quarter of 2019 compared to a net unrealized foreign exchange gain of \$2.7 million for the first quarter of 2018; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.9% for the first quarter of 2019 compared to 24.2% for the first quarter of 2018).

These factors were partially offset by the following:

- higher gross profit on increased year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the first quarter of 2018; and
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses.

## **DIVIDEND**

A cash dividend of \$0.045 per share has been declared by the Board of Directors payable to shareholders of record on June 30, 2019, on or about July 15, 2019.

## **ABOUT MARTINREA**

Martinrea International Inc. (TSX : MRE) is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems, and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs approximately 15,000 talented and motivated people in 47 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China. Martinrea’s vision is to make lives better by being the best supplier we can be in the products we make and the services we provide. For more information on Martinrea, please visit [www.martinrea.com](http://www.martinrea.com).

## **CONFERENCE CALL DETAILS**

A conference call to discuss the financial results will be held on Friday, May 3, 2019 at 8:00 a.m. (Toronto time) which can be accessed by dialing 416-340-2218 (international: 001-416-340-2218) or toll free 800-377-0758. Please call 10 minutes prior to the start of the conference call.

If you have any teleconferencing questions, please call Ganesh Iyer at 416-749-0314.

There will also be a rebroadcast of the call available by dialing 905-694-9451 (international: 001-905-694-9451) or toll free 800-408-3053 (conference id – 7108120#). The rebroadcast will be available until May 21, 2019.

## **FORWARD-LOOKING INFORMATION**

### **Special Note Regarding Forward-Looking Statements**

This press release contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the growth or expectations of, improvements or belief in, expansion of and/or guidance or outlook as to future revenue, sales, gross margin, earnings, and earnings per share (including as adjusted), operating income margins, a record 2019 and 2020 performance, strength of the Company, debt ratio, the intention to maintain a strong balance sheet, program wins, expected volumes, the ramping up and launching of new programs and the financial impact of launches, pursuit of its strategies, the payment of dividends, statements regarding softness in volumes, potential downsizing or restructuring in China and Brazil, the impact of trade issues and any uncertain regulatory environment, the acquisition of assets, as well as other forward-looking statements. The words “continue”, “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “views”, “intend”, “believe”, “plan”, “outlook” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, such as expected sales and industry production estimates, current foreign exchange rates (FX), timing of product launches and operational improvements during the period and current Board approved budgets. Certain forward-looking financial assumptions are presented as non-IFRS information, and we do not provide reconciliation to IFRS for such assumptions. Many factors could cause the Company’s actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company’s Annual Information Form and other public filings which can found at [www.sedar.com](http://www.sedar.com):

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry’s dependence on consumer spending and general economic conditions;
- the Company’s dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company’s reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- Competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company’s ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company’s ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposure;



- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as under-funding of pensions plans;
- the cost of post-employment benefits;
- impairment charges;
- cybersecurity threats;
- the potential volatility of the Company's share price; and
- dividends.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The common shares of Martinrea trade on The Toronto Stock Exchange under the symbol "MRE".

For further information, please contact:

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