



PRESS RELEASE

FOR IMMEDIATE RELEASE

March 5, 2020

MARTINREA INTERNATIONAL INC. REPORTS STRONG ANNUAL EARNINGS AND DECLARES INCREASED 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 year and fourth quarter ended December 31, 2019 and that it has declared a quarterly cash dividend of \$0.05 per share.

HIGHLIGHTS

Fourth Quarter 2019

- Total sales of \$917.6 million; production sales of \$787.0 million
- Fourth quarter diluted net earnings per share of \$0.63
- Fourth quarter adjusted diluted net earnings per share⁽¹⁾ of \$0.42
- Unfavourable impact of UAW-GM work stoppage in the quarter
- Quarterly free cash flow⁽¹⁾ of \$51.4 million
- Balance sheet continues to be strong; net debt⁽¹⁾:adjusted EBITDA⁽¹⁾ ratio (excluding impact of IFRS 16) down to 1.41x
- New business awards of approximately \$140 million in annualized sales at mature volumes
- Quarterly cash dividend raised to \$0.05; dividend declared
- \$19.6 million in shares repurchased in the quarter under normal course issuer bid

Full Year 2019

- Tenth consecutive year with year-over-year increased adjusted net earnings per share⁽¹⁾; best annual adjusted net earnings per share⁽¹⁾ performance in history
- Total sales of \$3,863.7 million; production sales of \$3,458.9 million – both up year-over-year
- Record annual diluted net earnings per share of \$2.19
- Record annual diluted adjusted net earnings per share⁽¹⁾ of \$2.27
- Record Adjusted EBITDA⁽¹⁾
- Annual free cash flow⁽¹⁾ of \$126.9 million
- Unfavourable impact of UAW-GM work stoppage in September and October
- Operating margin expected to increase over the next two years
- New business awards over the past four quarters of approximately \$300 million in annualized sales at mature volumes
- Multiple customer quality awards received
- Improved safety performance
- \$57.8 million in shares repurchased under normal course issuer bid in 2019; approximately 4.8 million shares repurchased

¹ 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", "Free Cash Flow" and "Net Debt". A reconciliation of certain non-IFRS financial measures to measures determined in accordance with IFRS are contained in the Company's Management Discussion and Analysis for the fiscal year ended December 31, 2019.

OVERVIEW

Pat D'Eramo, President and Chief Executive Officer, stated: "2019 was another great year for Martinrea and our people; we finished the year with increased sales, record adjusted net earnings per share, and a strong balance sheet. Our fourth quarter was solid despite the negative impacts of the GM strike which impacted sales and operating margins, but for that fact, and a higher than normal level of tooling sales, operating margins would have exceeded 8% for the year. Our people continue to perform well and drive our success. In addition to good financial performance, we continue to improve in our safety and quality metrics; the improvement over the past five years in all these areas has been really terrific, as we strive to be an industry leader. 2019 was also a very busy year for launches, and our performance in this area has been strong. A good launch is critical to the success of any program, and customers rely on us to get our launches right. I am pleased to announce some significant new business wins in the past few months, which is a sign of customer confidence. New business wins total \$140 million in annualized sales at mature volumes, including lightweight structures work on the new Daimler EVA II electric vehicle platform that is expected to generate approximately \$100 million in annualized sales at mature volumes commencing in 2022, which we also announced earlier this week; transmission housings for the ZF Group, which we will machine for one of its current transmissions, and both cast and machine the next generation model, representing approximately \$30 million in annualized sales at mature volumes commencing in 2022; and control arms for Toyota on its Tacoma pickup truck platform, our first product win from Toyota in the chassis space, commencing in 2023. Winning work is a testament to the fact we are doing good things the right way at Martinrea. Lastly, we had great customer support for our purchase of the structural components for passenger cars division of Metalsa, which we completed earlier this week. This will add approximately \$400 million in annualized sales to our top line, and we will work hard to integrate the new facilities into our operations as soon as possible. I want to thank our people for their efforts, we have been very busy."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the fourth quarter, excluding tooling sales of \$131 million, were \$787 million, within the range of our previously announced sales guidance. In the quarter, our adjusted net earnings per share, on a diluted basis, was \$0.42 per share, also within the range of our quarterly guidance. As previously noted, the quarter was impacted by the UAW strike at General Motors, our largest customer, from which we have not yet seen as much increased post-strike volume as had originally been anticipated. Our balance sheet remains strong, as we look to maintain a leverage ratio of about or under 1.5:1 net debt:adjusted EBITDA, even while paying increased dividends, repurchasing shares under our normal course issuer bid, making a strategic investment in NanoXplore, and investing in our operations to fund our growth. Supporting this was a very strong year of free cash flow. We generated \$127 million of free cash flow in 2019, including \$51 million in the fourth quarter. Further, 2020 is off to a solid start despite some headwinds with the coronavirus situation and volumes in general, and we expect first quarter sales, excluding tooling sales, to be in the range of \$860 million to \$910 million, and adjusted net earnings per share in the range of \$0.60 to \$0.65 per share, inclusive of some revenues from the former Metalsa assets just purchased. With the addition of the new Metalsa business, we are projecting sales to approximate \$4.4 billion in 2021, subject to overall market volumes, and while operating margins are anticipated to increase in 2020 from 2019, we are targeting an adjusted operating income margin at somewhere north of 8% in 2021, based on our anticipated new mix of business inclusive of Metalsa."

Rob Wildeboer, Executive Chairman, stated: "While 2019 was a great year for us, 2020 promises to be very strong for us also, even in the face of some industry weakness and the uncertainty for production volumes, supply chains and economic growth we are seeing in the challenges of the coronavirus and trade environment. On the trade front, the finalization of the USMCA and eventual implementation we believe is good for the North American auto industry and our supply base, and us in particular. We are very well positioned in North America. We are also seeing some stabilization internationally, which is beneficial for our industry. We believe that the challenges posed by the coronavirus situation has and will likely impact volumes, the extent to which has been modest so far but whose implications are not yet fully known. Our ability to supply has not been negatively impacted, but we will only produce when customers make vehicles, and the ultimate level of production in 2020 is uncertain. We have little exposure in China, and our plants are operating today, although at a reduced level. Overall we believe this situation will resolve itself, but volumes in 2020 may be flat at best in China, Europe and North America. Having said that, we are extremely well positioned to serve our customers and grow our business, through organic growth or acquisition, even in tougher times. We believe we have a history of showing that."

He added: "Given our strong financial performance and cash flow, and our confidence and indeed optimism in our long term outlook, we have increased our dividend to our investors by 10%. Although the quantum of the increase overall is not large, we believe the percentage increase is a good reward for our supportive shareholders. We also repurchased shares in our fourth quarter, and in 2019 repurchased about 4.8 million shares. This rewards our shareholders with a higher ownership position in the company, higher earnings per share and less dilution of earnings. We intend to be in the market again under our normal course issuer bid once the blackout period is lifted. Meanwhile, our first use of capital continues to be to invest in the business, then make strategic investments and the right kinds of acquisitions, and maintain a strong balance sheet, all of which we did in 2019 and will continue to do in 2020 and going forward. Ours is a great future, and we believe our lean, entrepreneurial and Golden Rule culture has been and will be a competitive advantage for this company. We have great people here, and we congratulate and thank them as the foundation of our performance to date and in future."

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 Martinrea, including the Company's Management Discussion and Analysis of Operating Results and Financial Position for the year ended December 31, 2019 ("MD&A"), the Company's consolidated financial statements for the year ended December 31, 2019 (the "consolidated financial statements") and the Company's Annual Information Form for the year ended December 31, 2019, can be found at 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 tables set out certain highlights of the Company's performance for the three months and fiscal years ended December 31, 2019 and 2018. Refer to the Company's consolidated financial statements for the year ended December 31, 2019 for a detailed account of the Company's performance for the periods presented in the table below.

	Year ended		Year ended		\$ Change	% Change
	December 31, 2019		December 31, 2018			
Sales	\$	3,863,659	\$	3,662,900	200,759	5.5%
Gross Margin		586,101		556,161	29,940	5.4%
Operating Income		265,837		276,472	(10,635)	(3.8%)
Net Income for the period		181,221		185,883	(4,662)	(2.5%)
Net Earnings per Share - Basic	\$	2.20	\$	2.15	0.05	2.3%
Net Earnings per Share - Diluted	\$	2.19	\$	2.14	0.05	2.3%
<u>Non-IFRS Measures*</u>						
Adjusted Operating Income	\$	288,305	\$	283,981	4,324	1.5%
<i>% of Sales</i>		7.5%		7.8%		
Adjusted EBITDA		504,555		461,223	43,332	9.4%
<i>% of Sales</i>		13.1%		12.6%		
Adjusted Net Income		187,687		193,166	(5,479)	(2.8%)
Adjusted Net Earnings per Share - Basic	\$	2.28	\$	2.23	0.05	2.2%
Adjusted Net Earnings per Share - Diluted	\$	2.27	\$	2.22	0.05	2.3%

	Three months ended December 31, 2019		Three months ended December 31, 2018		\$ Change % Change	
Sales	\$	917,581	\$	926,154	(8,573)	(0.9%)
Cost of sales (excluding depreciation)		(737,040)		(751,605)	14,565	(1.9%)
Depreciation of property, plant and equipment and right-of-use assets (production)		(50,620)		(39,982)	(10,638)	26.6%
Gross Margin		129,921		134,567	(4,646)	(3.5%)
Research and development costs		(9,876)		(7,189)	(2,687)	37.4%
Selling, general and administrative		(63,659)		(58,363)	(5,296)	9.1%
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,770)		(2,971)	(799)	26.9%
Amortization of customer contracts and relationships		(513)		(535)	22	(4.1%)
Loss on disposal of property, plant and equipment		(274)		(93)	(181)	194.6%
Impairment of assets		-		(5,436)	5,436	(100.0%)
Restructuring costs		-		(2,073)	2,073	(100.0%)
Operating Income	\$	51,829	\$	57,907	(6,078)	(10.5%)
Share of loss of an associate		(679)		-	(679)	(100.0%)
Finance expense		(8,912)		(7,013)	(1,899)	27.1%
Other finance income (expense)		583		(389)	972	(249.9%)
Income before income taxes	\$	42,821	\$	50,505	(7,684)	(15.2%)
Income tax expense		8,332		(12,689)	21,021	(165.7%)
Net Income for the period		51,153		37,816	13,337	35.3%
Net Earnings per Share - Basic and Diluted	\$	0.63	\$	0.44	0.19	43.2%
<u>Non-IFRS Measures*</u>						
Adjusted Operating Income	\$	51,829	\$	65,416	(13,587)	(20.8%)
% of sales		5.6%		7.1%		
Adjusted EBITDA		110,534		111,785	(1,251)	(1.1%)
% of sales		12.0%		12.1%		
Adjusted Net Income		33,834		43,840	(10,006)	(22.8%)
Adjusted Net Earnings per Share - Basic and Diluted	\$	0.42	\$	0.51	(0.09)	(17.6%)

***Non-IFRS Measures**

The Company prepares its consolidated 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", "Free Cash Flow" and "Net Debt".

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 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 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 three months and fiscal year ended

December 31, 2019 outlined above other than “Adjusted EBITDA”. The adoption of IFRS 16 contributed approximately 8% of the year-over-year change 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 accounting standards and policies” in the MD&A and note 2(t)(i) of the consolidated financial statements for the year ended December 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 December 31, 2019		Three months ended December 31, 2018	
Net Income	\$	51,153	\$	37,816
Unusual and Other Items (after-tax)*		(17,319)		6,024
Adjusted Net Income	\$	33,834	\$	43,840

	Year ended December 31, 2019		Year ended December 31, 2018	
Net Income	\$	181,221	\$	185,883
Unusual and Other Items (after-tax)*		6,466		7,283
Adjusted Net Income	\$	187,687	\$	193,166

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

	Three months ended December 31, 2019		Three months ended December 31, 2018	
Net Income	\$	51,153	\$	37,816
Income tax expense		(8,332)		12,689
Other finance income - excluding Unusual and Other Items*		(595)		(59)
Share of loss of an associate		679		-
Finance expense		8,912		7,013
Unusual and Other Items (before-tax)*		12		7,957
Adjusted Operating Income	\$	51,829	\$	65,416
Depreciation of property, plant and equipment and right-of-use assets		54,390		42,953
Amortization of intangible assets		4,041		3,323
Loss on disposal of property, plant and equipment		274		93
Adjusted EBITDA	\$	110,534	\$	111,785

	Year ended December 31, 2019		Year ended December 31, 2018	
Net Income	\$	181,221	\$	185,883
Income tax expense		43,824		60,943
Other finance expense - excluding Unusual and Other Items*		535		401
Share of loss of an associate		2,009		-
Finance expense		37,997		27,358
Unusual and Other Items (before-tax)*		22,719		9,396
Adjusted Operating Income	\$	288,305	\$	283,981
Depreciation of property, plant and equipment and right-of-use assets		201,321		163,298
Amortization of intangible assets		15,861		13,482
Loss (gain) on disposal of property, plant and equipment		(932)		462
Adjusted EBITDA	\$	504,555	\$	461,223

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

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below.

SALES

Three months ended December 31, 2019 to three months ended December 31, 2018 comparison

	Three months ended December 31, 2019	Three months ended December 31, 2018	\$ Change	% Change
North America	\$ 720,185	\$ 735,876	(15,691)	(2.1%)
Europe	158,389	167,533	(9,144)	(5.5%)
Rest of the World	41,144	27,571	13,573	49.2%
Eliminations	(2,137)	(4,826)	2,689	(55.7%)
Total Sales	\$ 917,581	\$ 926,154	(8,573)	(0.9%)

The Company's consolidated sales for the fourth quarter of 2019 decreased by \$8.6 million or 0.9% to \$917.6 million as compared to \$926.2 million for the fourth quarter of 2018. The total decrease in sales was driven by year-over-year decreases in the North America and Europe operating segments, partially offset by an increase in the Rest of the World.

Sales for the fourth quarter of 2019 in the Company's North America operating segment decreased by \$15.7 million or 2.1% to \$720.2 million from \$735.9 million for the fourth quarter of 2018. The decrease was due to the impact of the United Auto Workers (UAW) strike at General Motors in the United States, which began on September 16, 2019 and ended at the end of October, negatively impacting production sales for the fourth quarter by approximately \$65.0 million across several platforms; and lower year-over-year OEM production volumes on certain light-vehicle platforms, in particular the Ford Escape, Ford Fusion, and programs that ended production during or subsequent to the fourth quarter of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the fourth quarter of 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks, the new Chevrolet Blazer and the Mercedes A-class vehicle platform; an increase in tooling sales of \$40.1 million, which are typically dependent on the timing of tooling construction and acceptance by the customer; and the impact of foreign exchange on the translation of U.S. dollar-denominated production sales, which had a positive impact on overall sales for the fourth quarter of 2019 of approximately \$6.0 million as compared to the fourth quarter of 2018.

Sales for the fourth quarter of 2019 in the Company's Europe operating segment decreased by \$9.1 million or 5.5% to \$158.4 million from \$167.5 million for the fourth quarter of 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Daimler and Jaguar Land Rover, and including programs that ended production during or subsequent to the fourth quarter of 2018; and a \$4.1 million negative foreign exchange impact from the translation of Euro-denominated production sales as compared to the fourth quarter of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the fourth quarter of 2018, including new aluminum engine blocks for Ford, Jaguar Land Rover and Volvo, and an aluminum transmission for Volkswagen; and a \$1.7 million increase in tooling sales.

Sales for the fourth quarter of 2019 in the Company's Rest of the World operating segment increased by \$13.6 million or 49.2% to \$41.1 million from \$27.6 million in the fourth quarter of 2018. The increase was due to higher year-over-year production volumes on the Cadillac CT6 vehicle platform in China; the ramp up of new aluminum structural components work for Jaguar Land Rover in China; and a \$3.6 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production sales in the Company's operating facility in Brazil; and a \$0.7 million negative foreign exchange impact from the translation of foreign-denominated production sales as compared to the fourth quarter of 2018.

Overall tooling sales increased by \$45.4 million to \$130.6 million for the fourth quarter of 2019 from \$85.2 million for the fourth quarter of 2018.

Year ended December 31, 2019 to year ended December 31, 2018 comparison

	Year ended December 31, 2019		Year ended December 31, 2018		\$ Change	% Change
North America	\$	3,066,352	\$	2,827,527	238,825	8.4%
Europe		672,131		713,861	(41,730)	(5.8%)
Rest of the World		132,670		135,322	(2,652)	(2.0%)
Eliminations		(7,494)		(13,810)	6,316	(45.7%)
Total Sales	\$	3,863,659	\$	3,662,900	200,759	5.5%

The Company's consolidated sales for the year ended December 31, 2019 increased by \$200.8 million or 5.5% to \$3,863.7 million as compared to \$3,662.9 million for the year ended December 31, 2018. The total increase in sales was driven by an increase in the North America operating segment, partially offset by year-over-year decreases in sales in Europe and the Rest of the World.

Sales for the year ended December 31, 2019 in the Company's North America operating segment increased by \$238.8 million or 8.4% to \$3,066.4 million from \$2,827.5 million for the year ended December 31, 2018. The increase was due to the launch of new programs during or subsequent to the year ended December 31, 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks, the new Chevrolet Blazer, and the Mercedes A-class vehicle platform; an increase in tooling sales of \$139.8 million, which are typically dependent on the timing of tooling construction and acceptance by the customer; and the impact of foreign exchange on the translation of U.S. dollar-denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2019 of approximately \$68.6 million as compared to the corresponding period of 2018. These positive factors were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms, including the Ford Escape, Jeep Wrangler and certain Nissan platforms, and programs that ended production during or subsequent to the year ended December 31, 2018. The UAW strike at General Motors, as discussed above, negatively impacted production sales for the year ended December 31, 2019 by approximately \$85.0 million across several platforms.

Sales for the year ended December 31, 2019 in the Company's Europe operating segment decreased by \$41.7 million or 5.8% to \$672.1 million from \$713.9 million for the year ended December 31, 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Daimler and Jaguar Land Rover, and including programs that ended production during or subsequent to the year ended December 31, 2018; the impact of foreign exchange on the translation of Euro-denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2019 of \$15.4 million as compared to the corresponding period of 2018; and a \$4.5 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the year ended December 31, 2018, including new aluminum engine blocks for Ford, Jaguar Land Rover and Volvo, and an aluminum transmission for Volkswagen.

Sales for the year ended December 31, 2019 in the Company's Rest of the World operating segment decreased by \$2.7 million or 2.0% to \$132.7 million from \$135.3 million for the year ended December 31, 2018. The decrease was due to lower year-over-year production volumes on the Ford Mondeo vehicle platform in China; lower year-over-year production sales in the Company's operating facility in Brazil; and a \$3.6 million negative foreign exchange impact from the translation of foreign-denominated production sales as compared to the corresponding period of 2018. These negative factors were partially offset by higher year-over-year production volumes on the Cadillac CT6 vehicle platform in China; the ramp up of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in 2018, but at significantly lower than expected volumes; and a \$0.3 million increase in tooling sales.

Overall tooling sales increased by \$135.6 million to \$404.8 million for the year ended December 31, 2019 from \$269.2 million for the year ended December 31, 2018.

GROSS MARGIN

Three months ended December 31, 2019 to three months ended December 31, 2018 comparison

	Three months ended December 31, 2019	Three months ended December 31, 2018	\$ Change	% Change
Gross margin	\$ 129,921	\$ 134,567	(4,646)	(3.5%)
% of Sales	14.2%	14.5%		

The gross margin percentage for the fourth quarter of 2019 of 14.2% decreased as a percentage of sales by 0.3% as compared to the gross margin percentage for the fourth quarter of 2018 of 14.5%. The decrease in gross margin as a percentage of sales was generally due to an increase in tooling sales which typically earn low margins for the Company; the impact of the UAW strike at General Motors, which resulted in a significant amount of lost production sales during the month of October, on the Company's margin profile for the quarter; and operational inefficiencies and other costs at certain other facilities including upfront costs incurred in the preparation of upcoming new programs and related to new business in the process of being launched. These negative factors were partially offset by productivity and efficiency improvements at certain operating facilities, and an improvement in general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2018.

Year ended December 31, 2019 to year ended December 31, 2018 comparison

	Year ended December 31, 2019	Year ended December 31, 2018	\$ Change	% Change
Gross margin	\$ 586,101	\$ 556,161	29,940	5.4%
% of Sales	15.2%	15.2%		

The gross margin percentage for the year ended December 31, 2019 of 15.2% was consistent year over year. Gross margin percentage for the year ended December 31, 2019, as compared to the year ended December 31, 2018, was positively impacted by 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 year ended December 31, 2018. These positive factors were essentially offset by an increase in tooling sales which typically earn low margins for the Company; the impact of the UAW strike at General Motors, which resulted in approximately six weeks of lost production sales during the months of September and October, on the Company's margin profile; and 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.

ADJUSTMENTS TO NET INCOME

Adjusted Net Income excludes certain unusual and other items, as set out in the following tables 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 December 31, 2019 to three months ended December 31, 2018 comparison

	<u>Three months ended December 31, 2019</u>	<u>Three months ended December 31, 2018</u>	<u>(a)-(b) Change</u>
	(a)	(b)	
NET INCOME (A)	\$51,153	\$37,816	\$13,337
Add Back - Unusual and Other Items:			
Loss on derivative instruments (1)	12	448	(436)
Impairment of assets (3)	-	5,436	(5,436)
Restructuring costs (4)	-	2,073	(2,073)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	\$12	\$7,957	(\$7,945)
Tax impact of above items	(2)	(1,933)	1,931
Adjustment to deferred tax asset in the United States (5)	(17,329)	-	(17,329)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)	(\$17,319)	\$6,024	(\$23,343)
ADJUSTED NET INCOME (A + B)	\$33,834	\$43,840	(\$10,006)
Number of Shares Outstanding - Basic ('000)	81,267	85,829	
Adjusted Basic Net Earnings Per Share	\$0.42	\$0.51	
Number of Shares Outstanding - Diluted ('000)	81,431	86,032	
Adjusted Diluted Net Earnings Per Share	\$0.42	\$0.51	

TABLE B*Year ended December 31, 2019 to year ended December 31, 2018 comparison*

	Year ended December 31, 2019 (a)	Year ended December 31, 2018 (b)	(a)-(b) Change
NET INCOME (A)	\$181,221	\$185,883	(\$4,662)
Add Back - Unusual and Other Items:			
Loss on derivative instruments (1)	251	1,887	(1,636)
Net gain in the Company's operating facility in Brazil (2)	(4,199)	-	(4,199)
Impairment of assets (3)	18,502	5,436	13,066
Restructuring costs (4)	8,165	2,073	6,092
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	\$22,719	\$9,396	\$13,323
Tax impact of above items	1,076	(2,113)	3,189
Adjustment to deferred tax asset in the United States (5)	(17,329)	-	(17,329)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)	\$6,466	\$7,283	(\$817)
ADJUSTED NET INCOME (A + B)	\$187,687	\$193,166	(\$5,479)
Number of Shares Outstanding - Basic ('000)	82,487	86,549	
Adjusted Basic Net Earnings Per Share	\$2.28	\$2.23	
Number of Shares Outstanding - Diluted ('000)	82,639	86,988	
Adjusted Diluted Net Earnings Per Share	\$2.27	\$2.22	

(1) Unrealized loss on derivative instruments

As further described in note 8 of the consolidated financial statements for the year ended December 31, 2019 and later on in the MD&A under "Investments", Martinrea holds 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 it relates to the warrants as at December 31, 2019, a loss of \$0.01 million was recognized for the three months ended December 31, 2019 (2018 - loss of \$0.4 million), and a loss of \$0.3 million was recognized for the year ended December 31, 2019 (2018 - loss of \$1.9 million), recorded in other finance expense and added back to Adjusted Net Income.

(2) Net gain in the Company's operating facility in Brazil

Included in income for the year ended December 31, 2019 is a non-recurring benefit recognized in the Company's operating facility in Brazil, included in the Rest of the World operating segment. The benefit represents a \$6.5 million recovery of previously paid local social security taxes, partially offset by a \$2.3 million true-up of the facility's claims and litigation provision related to certain employee-related matters. The net benefit, recognized in the third quarter, was recorded in selling, general and administrative expenses.

(3) Impairment of assets

During the second quarter of 2019, the Company recorded impairment charges on property, plant and equipment, right-of-use assets, intangible assets and inventories totaling \$18.5 million related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light-vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration for where specific assets can be transferred to other facilities.

During the fourth quarter of 2018, in conjunction with General Motors' ("GM") announcement that it would be closing its vehicle assembly facility in Oshawa, Ontario, the Company recorded an impairment charge on property, plant and equipment totaling \$5.4 million related to a facility in Ajax, Ontario (included in the North America operating segment) that the Company was forced to close because the operation was entirely dependent on GM's facility in Oshawa. The impairment was recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

(4) Restructuring costs

Additions to the restructuring accrual in 2019 totaled \$8.2 million and represent employee-related severance resulting from the rightsizing of operating facilities in Brazil (\$6.2 million), Canada (\$1.7 million) and China (\$0.3 million) during the second quarter.

Additions to the restructuring accrual during 2018 totaled \$2.1 million and represent employee-related severance payouts and lease termination costs resulting from the closure of the operating facility in Ajax, Ontario, as described above.

(5) Adjustment to deferred tax asset in the United States

In light of recently updated Company-wide business plans approved by the Board of Directors, and in conjunction with the Company's recent financial performance, the Company recognized additional deferred tax assets related to operations in the U.S. as at December 31, 2019. The deferred tax assets recognized at year-end reflect the majority of the full value of the tax loss carryforwards available to the Company, with a corresponding one-time, non-cash decrease in income tax expense of \$17.3 million, as the Company believes it is more likely than not that these assets will be utilized before expiry.

NET INCOME

Three months ended December 31, 2019 to three months ended December 31, 2018 comparison

	Three months ended December 31, 2019	Three months ended December 31, 2018	\$ Change	% Change
Net Income	\$ 51,153	\$ 37,816	13,337	35.3%
Adjusted Net Income	\$ 33,834	\$ 43,840	(10,006)	(22.8%)
Net Earnings per Share				
Basic and Diluted	\$ 0.63	\$ 0.44		
Adjusted Net Earnings per Share				
Basic and Diluted	\$ 0.42	\$ 0.51		

Net income for the fourth quarter of 2019 increased by \$13.3 million to \$51.2 million from \$37.8 million for the fourth quarter of 2018 largely as a result of the adjustment to the Company's deferred tax asset in the U.S. recorded in the fourth quarter of 2019, as explained in Table A under "Adjustments to Net Income". Excluding all unusual and other items as explained in Table A under "Adjustments to Net Income", adjusted net income for the fourth quarter of 2019 decreased to \$33.8 million or \$0.42 per share, on a basic and diluted basis, from \$43.8 million or \$0.51 per share, on a basic and diluted basis, for the fourth quarter of 2018.

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

- lower gross profit on lower year-over-year production sales due in large part to the UAW strike at General Motors, as previously explained;
- a year-over-year increase in depreciation expense due in large part to the adoption of IFRS 16;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in finance expense primarily as a result of interest on lease liabilities as a result of the adoption of IFRS 16; and
- the Company's share of loss of an associate in the amount of \$0.7 million.

These negative factors were partially offset by the following:

- a lower effective tax rate on adjusted income due generally to the mix of earnings (21.0% for the fourth quarter of 2019 compared to 25.0% for the fourth quarter of 2018);
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses; and
- a net foreign exchange gain of \$0.4 million for the fourth quarter of 2019 compared to a net foreign exchange loss of \$0.1 million for the fourth quarter of 2018.

Year ended December 31, 2019 to year ended December 31, 2018 comparison

	Year ended December 31, 2019		Year ended December 31, 2018		\$ Change	% Change
Net Income	\$	181,221	\$	185,883	(4,662)	(2.5%)
Adjusted Net Income	\$	187,687	\$	193,166	(5,479)	(2.8%)
Net Earnings per Share						
Basic	\$	2.20	\$	2.15		
Diluted	\$	2.19	\$	2.14		
Adjusted Net Earnings per Share						
Basic	\$	2.28	\$	2.23		
Diluted	\$	2.27	\$	2.22		

Net Income for the year ended December 31, 2019 was generally consistent year-over-year decreasing slightly by \$4.7 million to \$181.2 million from \$185.9 million for the year ended December 31, 2018. Excluding the unusual and other items as explained in Table B under "Adjustments to Net Income", adjusted net income for the year ended December 31, 2019 was \$187.7 million or \$2.28 per share, on a basic basis, and \$2.27 on a diluted basis, compared to \$193.2 million or \$2.23 per share, on a basic basis, and \$2.22 per share on a diluted basis, for the year ended December 31, 2018.

Adjusted Net Income for the year ended December 31, 2019, as compared to the year ended December 31, 2018, was negatively impacted by the following:

- a year-over-year increase in depreciation expense due in large part to the adoption of IFRS 16;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in finance expense due largely to interest on lease liabilities as a result of the adoption of IFRS 16; and
- the Company's share of loss of an associate in the amount of \$2.0 million.

These negative factors were partially offset by the following:

- a higher gross profit on increased year-over year sales as previously explained;
- a \$0.9 million gain on the disposal of property, plant and equipment for the year ended December 31, 2019 compared to a loss of \$0.5 million for the comparative period of 2018;

- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (24.2% for the year ended December 31, 2019 compared to 24.6% for the year ended December 31, 2018).

DIVIDEND

A cash dividend of \$0.05 per share has been declared by the Board of Directors payable to shareholders of record on March 31, 2020, on or about April 15, 2020.

ABOUT MARTINREA

Martinrea 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 17,000 talented and motivated people in 57 locations in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain, China, South Africa and Japan.

Martinrea's vision is making lives better by being the best supplier we can be in the products we make and the services we provide. The Company's mission is to make people's lives better by: delivering outstanding quality products and services to our customers; providing meaningful opportunity, job satisfaction, and job security for our people; providing superior long-term investment returns to our stakeholders; and being positive contributors to our communities. For more information on Martinrea, please visit www.martinrea.com. Follow Martinrea on [Twitter](#) and [Facebook](#).

CONFERENCE CALL DETAILS

A conference call to discuss the financial results will be held on Thursday, March 5, 2020 at 5:30 p.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 – 9375976#). The rebroadcast will be available until April 4, 2020.

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 in, expansion of and/or guidance or outlook as to future revenue, sales, margin, gross margin, earnings, and earnings per share (including as adjusted), adjusted net earnings per share, operating income margins, operating margins, adjusted operating income margins, strength of the Company, the intention to maintain a strong balance sheet and pay down debt over time, program wins, expected volumes in 2020 and beyond, the ramping up and launching of new programs and the expected financial impact of launches and other new programs, the expectation of 2020 being a very good year, pursuit of its strategies (including investing in the business, strategic investments and acquisitions), the payment of dividends, statements regarding the USMCA and tariffs, the effects and impact of the coronavirus, the uncertainty of 2020 production volumes, the ability to grow business and serve customers, the benefit of expected revenues from and integration of the assets acquired from Metalsa, the intention to purchase under the Normal Course Issuer Bid 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:

- North American and global economic and political conditions and epidemics or pandemics;
- 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 and commodities;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- product development and technological change;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources/uncertainty of future financing/banking;
- risks associated with the integration of acquisitions;
- risks associated with private or public investment in technology companies;
- the risks associated with joint ventures;
- costs associated with rationalization of production facilities;
- launch and operational costs;
- labour relations matters;
- trade restrictions;
- changes in governmental regulations or laws including any changes to trade;
- litigation and regulatory compliance and investigations;
- quote and pricing assumptions;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation and climate change;
- the impact of climate, political, social and economic risks, natural disasters and pandemics in the countries in which we operate or sell to, or from which we source production;
- 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 markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension 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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