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GM - Q4 2016 General Motors Co Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the General Motors Company fourth-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded Tuesday, February 7, 2017.

I would now like to turn the conference over to Randy Arickx, Vice President of Corporate Communications and Investor Relations. Please go ahead, sir.

Randy Arickx - *General Motors Company - VP of Corporate Communications & IR*

Thanks, operator. Good morning, and thank you for joining us as we review GM's financial results for the fourth-quarter and year-ended December 31, 2016. Our press release was issued this morning, and the conference call materials are available on the GM investor relations website. We are also broadcasting this call via webcast. Included in the chart set material published this morning, we've included the key takeaways from each chart in the notes pages, in order to provide color on the results.

This morning, Mary Barra, General Motors Chairman and Chief Executive Officer, will provide brief opening remarks, followed by Chuck Stevens, GM's Executive VP and CFO. And then we will open the line for questions from the analyst community.

Before we begin, I would like to direct your attention to the legend regarding forward-looking statements on the first page of the chart set. The content of our call will be governed by this language. In the room today, we also have Tom Timko, Vice President, Controller and Chief Accounting Officer; and Dhlvya Suryadevara, Vice President, Treasurer and Chief Investment Officer, to assist in answering your questions. Now I'll turn the call over to Mary Barra.

Mary Barra - *General Motors Company - Chairman & CEO*

Thanks, Randy, and good morning, everyone. Thank you for joining us today. GM delivered a second straight year of record earnings in 2016, setting records for net revenue, EBIT-adjusted, EBIT-adjusted margins, EPS diluted-adjusted and automotive-adjusted free cash flow.

Highlights and results for the full year include: net revenue of $166 billion, up 9% year over year. EBIT-adjusted of $12.5 billion, up nearly 16% from a year ago. EBIT-adjusted margins of 7.5%, up more than 40 basis points. Net income of $9.4 billion. EPS diluted-adjusted of $6.12, up 22%. EBIT-adjusted of $12 billion in North America, up from $11 billion. And EBIT-adjusted margins of more than 10% for the second straight year.

Automotive-adjusted free cash flow was $6.9 billion, up $4.7 billion. Gross-adjusted of nearly 29% was up 1.7 percentage points, demonstrating the positive impact of our disciplined capital allocation framework. And we returned $4.8 billion to shareholders in 2016 through a combination of share buybacks and dividends.

By nearly every measure, 2016 was a great year. And this morning, we are announcing record global sales for the fourth consecutive year at nearly 10 million vehicles. This underscores the progress we are making in strengthening our brands and putting the customers at the center of everything we do.

Our results last year were largely driven by growing retail share in North America, another year of record sales in China, and strong margins in both regions. So let me go a little deeper into each of the regions. First, in GM North America. GM's US brands sold more than 3 million vehicles and gained 0.5 a percentage point of retail share in 2016, the largest of any full-line auto maker. And this is thanks to the disciplined go-to-market strategy we've been utilizing.

Chevrolet was the fastest growing US brand, led by strong gains in mid-size pickups, strong crossovers, and large SUVs, gaining 0.5 a percentage point of US retail market share. In the US, full-year GM average transaction prices were about $35,400 about $4,300 above the industry average, and up $750 over the 2015 average. Full-year incentive spending as a percent of ATP was 12%, well-below domestic and many other global competitors.

And on the quality front, our progress continues. Consumers Report recommended 12 GM models in its annual Reliability Survey, and Buick was the first domestic brand included in the survey's top-three brands. In the fourth quarter, we delivered the first Chevrolet Bolt EV to dealers and customers in California. With an EPA estimated 238 miles of range, it has won multiple awards, including the 2017 North American Car of the Year, Motor Trend Car of the Year, and Green Car Journal Car of the Year, and others.

More launches in hot crossover segments are coming in 2018. We have the Chevrolet Equinox and Traverse, the GMC Terrain, which will join newer entries like the GMC Acadia, the Buick Envision and Cadillac XT5, to form one of the industries freshest lineups in the very important SUV segment.

In China, China drove record sales and strong margins in a very volatile environment. GM and its joint ventures delivered nearly 3.9 million vehicles, up 7% over a record 2015. Cadillac, Buick and Baojun deliveries reached all-time highs. GM launched 13 new models in 2016, and we plan to introduce 18 new or refreshed models across five brands this year.

Cadillac retail sales were up nearly 46% for the year. The brand sold more than 100,000 vehicles, driving global sales up 11% to a 30-year high. And Baojun sales rose 49%, with strong products, like the 730 MPV, and the 560 SUV, and the new Baojun 310 hatchback.

As we look at Europe, without the negative impact of Brexit, we would have achieved breakeven in 2016. However, we aren't satisfied with these results, and the team is focused on mitigating the effect through further cost efficiencies, and by leveraging the momentum of a fresh Opel/Vauxhall portfolio. Opel/Vauxhall full-year sales rose 4% on the strength of the Astra, which was the European Car of the Year, along with the Saphira and the Mokka X. Sales improved in 18 of 22 markets, including Germany. For 2017, we are planning seven launches, including the [Impira E].

In South America, we see an opportunity for significant year-over-year improvement because of our continued work to restructure the business. Chevrolet continues its market leadership in our key market of Brazil, where we successfully launched 12 products in 2016. And for the second consecutive year, Onyx was the top-selling vehicle. In Q4, GM led the entire region with 16.8% market share, and calendar-year share was 15.9%, up 0.5 a percentage point year over year.

So let me make a few comments also about the future of personal mobility. We made remarkable progress last year in technology and innovation, especially in the game-changing technologies that are helping us redefine personal mobility. We launched Maven, our personal mobility brand, and scaled it up very quickly. It is operating in 16 cities, and it's Express Drive program for Lyft drivers has about 5,000 vehicles, with plans to add several hundred Bolt EVs in California.

And we are learning a great deal about developing transportation as a service in urban markets, due to our work with Maven. By mobilizing in-house talent and acquiring Cruise Automation, we are now making progress on autonomous as well. We're testing more than 40 autonomous Bolt EVs on public roads in Metro Detroit, San Francisco and Scottsdale. And last December, we announced that we plan to be the first high-volume OEM to build fully autonomous test vehicles at a mass-production assembly plant.

And in terms of connectivity, OnStar celebrated its 20th Anniversary, reaching 1.5 billion customer interactions, and putting nearly 12 million OnStar-connected vehicles on the road globally. And entered an industry-first partnership with IBM Watson to launch OnStar Go.

So if I look at where we are as we start 2017, I'm very proud of the progress we've made, and I'm confident that we can do even more, and build on our momentum. As we shared last month in the Deutsche Bank Conference, in 2017, we expect earnings per share diluted-adjusted of $6 to $6.50 per share. We also expect to improve revenues and maintain or improve EBIT-adjusted and EBIT-adjusted margins. In addition, we expect to generate about $6 billion in automotive-adjusted free cash flow.

Based on our outlook, our Board approved an additional $5 billion in common stock repurchases. This increase in our stock buyback program is further proof that we are committed to driving shareholder value, and we remain committed to generating strong business results that will eventually be appreciated by the market.

Our projections for improved performance in 2017 are based on a number of factors. First, we have continued strong sales and income in North America and China. Economic indicators show significantly improved optimism in the US economy, and we believe auto sales will continue to be at or near record levels.

We also have an intense focus on material logistics manufacturing and general administration costs. Frankly, we're looking at costs in all areas of the business. Last month we raised our 2018 cost-efficiency target from $5.5 billion to $6.5 billion. We also have growth of adjacent businesses like GM Financial, Customer Care & Aftersales, OnStar, and Maven.

And finally, our strong vehicle launch cadence. We expect our percentage of global volume from new or refreshed models to grow to 38% in the 2017 through 2020 timeframe, with more than half in the popular crossover truck and SUV segments. We appreciate that there will be headwinds, but I am confident that we have the right strategy and the right team to manage them with integrity, and to drive achievement of our commitments. As I said when we gave our full-year outlook, we are here to win. And now let me turn it over to Chuck.

Chuck Stevens - *General Motors Company - EVP & CFO*

Thanks, Mary. I'd like to provide some perspective on the quarter and our results for the full year, as well as provide additional insights into our 2017 outlook. Solid and as expected, Q4 results capped another record year of earnings, as we exceeded the commitments we outlined for 2016. EBIT-adjusted was a record $12.5 billion, up $1.7 billion year over year. EBIT-adjusted margin was a record 7.5%, up 40 basis points year over year. That revenue was a record $166.4 billion, up $14 billion year over year.

Our strong results for the year were driven by record results in North America and GM Financial, sustained strong performance in China, and continued improvements in South America and Europe. And it was these strong results in 2016 and our outlook for 2017 that gave us confidence to announce the additional $5 billion in common stock repurchases. We are committed to returning all available free cash flow to shareholders, with the focus on share buybacks. This is best reflected in our recent decision to maintain the current dividend per share and reallocate the relief cash from a smaller share count, to make additional share repurchases.

Turning to the fourth quarter, we generated $43.9 billion in net revenue, $2.4 billion in EBIT-adjusted, and delivered $1.28 in earnings per share diluted-adjusted. This is very much in line with our prior guidance. In North America, revenue was a record $119 billion for the year, up $12.4 billion year over year. EBIT-adjusted grew to a record $12 billion for the year, up $1 billion year over year.

Our EBIT-adjusted margin was 10.1%, achieving our target of sustaining strong margins of 10%-plus for the year. And in fact, North America has now achieved 10%-plus EBIT-adjusted margins for two straight years, and we expect to once again generate a 10%-plus margin in North America in 2017.

In Q4, North America generated $2.6 billion of EBIT-adjusted off a record $31.3 billion of revenue, down $200 million year over year. Volume and price were net positives, which were offset with costs, mix and FX. We continue to view the US industry as healthy and supportive of our strong earnings outlook. The US light vehicle industry finished the year with a 17.5 million units sold, and we continue to expect the industry to remain strong into 2017 and over the foreseeable future.

We remain absolutely committed to our disciplined, retail-focused, go-to-market strategy, matching supply with demand, and being thoughtful about our sales to daily rental companies. This strategy is paying off through higher retail share, higher transaction prices and better residuals. Retail share for the full year was 16.8%, up 50 basis points versus 2015. We will continue to focus on retail share, with additional planned reduction of daily rentals of approximately 30,000 to 50,000 units in 2017.

Moving to incentives and transaction prices, for 2016, we significantly outperformed our closest competitors on incentives as a percent of ATPs. GM incentives were up 80 basis points year over year, while the industry was up 100 basis points year over year. Furthermore, GM's average transaction prices increased at a faster rate than the industry in 2016.

Year-end day supply is well-positioned at 71 days, in line with our target of 70 days. Looking ahead to Q1, we expect aggregate dealer inventory levels to remain higher than a year ago, as the industry remains strong and we've built dealer stock ahead of our upcoming crossover launches. Having said that, we will continue to manage inventories with discipline and take the necessary actions, as demonstrated by our recent shift reductions to match car production with demand.

Okay, moving on to the rest of the world, China continues to deliver solid results, with equity income of $2 billion for the full year, about equal to a year ago. While we see slower growth in China for 2017, we are confident our new launches will improve our mix and enable us to continue to deliver strong equity income.

After years of depressed conditions in South America, we are starting to see light at the end of the tunnel. We have worked hard at restructuring our business and lowering our breakeven point. Our efforts continue to pay off. The team narrowed losses by nearly $250 million this year compared to 2015, in a more challenging environment. We anticipate continued improvement in South America throughout 2017.

Shifting to Europe, as Mary stated earlier, we are not satisfied with these results. Despite a $300 million impact from Brexit, we reduced losses by more than $550 million year over year, and would have achieved our breakeven objective absent Brexit. However, Brexit is a reality, and we need to take renewed action to get back on the path to a sustainable business -- and we will. Heading into 2017, we would expect relatively flat performance versus 2016, as we work to mitigate the Brexit impact.

A few comments on GM Financial in our Corp segment. GM Financial posted record revenue of $9.6 billion and record earnings before tax-adjusted of $900 million, up $100 million year over year. Earnings assets grew 36% to about $77 billion, supporting expected future earnings growth. We anticipate continued earnings before tax growth in 2017 as we execute the full captive strategy in the United States.

In the Corp segment, costs were about $400 million for Q4, which resulted in costs of about $900 million for the year. The increased costs in the quarter were primarily related to our investments in autonomous and mobility. These costs will continue to be captured in the Corp sector. We expect a similar level of total quarterly corporate sector costs throughout 2017 as we saw in Q4.

Turning to cash flow and capital allocation, adjusted-automotive free cash flow grew to $6.9 billion for the year, up $4.7 billion year over year. These results include increased capital spending of $1.7 billion, as we made investments in our portfolio in line with our previously communicated plan. Q4 adjusted-automotive free cash flow grew by $2 billion year over year, primarily driven by timing in working capital, including rental car activity and sales allowance accruals. We anticipate this effect to partially reverse in 2017. However, we still expect to generate approximately $6 billion in automotive free cash flow this year, consistent with the guidance we provided at the Deutsche Bank conference.

Our strong cash flow generation and earnings growth continues to support a significant return of capital to shareholders, in line with our capital allocation framework. We returned $4.8 billion to shareholders throughout the year, including $2.3 billion in common stock dividends and $2.5 billion in share repurchases, completing our initial $5 billion authorization one quarter early. In Q4, the Company also completed the first $1 billion of the next $4 billion authorization. We expect to complete the remaining $3 billion in 2017.

Last month, we announced a third share repurchase authorization of $5 billion, to be completed as expeditiously as possible. The under-funded status of the US pension plans improved by $3.2 billion in the year to $7.2 billion, due primarily to improved return on assets, and contributions of $2.1 billion.

Now I want to share more details on our 2017 outlook. As we outlined last month, we expect to deliver full-year 2017 EPS diluted-adjusted of $6 to $6.50. Looking at the earnings cadence for 2017, for the full Company, we expect the quarterly earnings to be more evenly distributed throughout the year than in the recent past, with a slightly stronger Q1 and slightly weaker Q3, due to K2 Production downtime.

In North America, we expect to generate another year of 10%-plus margins, primarily due to strong material cost performance and pricing driven by our new crossovers, partially offset by carryover pricing and increased content in our new launches. We see a significant opportunity for growth in adjacencies in 2017, specifically GM Financial, where we expect to once again improve earnings as we continue to grow our US captive capability.

As we look around the world, we see an opportunity for improvement year over year in South America as the macro conditions improve, especially in our key market of Brazil. And we see continued strong profit performance in China. We expect these key drivers will lead to another strong year, maintain or improve EBIT-adjusted and EBIT-adjusted margin, and generate higher revenues, compared to 2016. The Company also expects to generate about $15 billion in automotive operating cash flow and $6 billion in automotive-adjusted free cash flow.

Lastly, I want to say a few words regarding recent news. We are supportive of efforts by President Trump and Congress to implement tax reform that improves the competitiveness of American companies. GM continues to share job creation ideas and industry information with lawmakers, to help them create proposals that will be positive for the US economy and keep vehicles affordable.

Within the topic of tax reform, border adjustment tax is an area that has drawn the most attention and speculation. As you can appreciate, at this stage, there is significant uncertainty as to what proposals will actually be enacted, and we expect to have more dialogue with you over time as details emerge.

At this point, we can offer high-level insight into our assessment of the industry and GM's current sourcing picture. Our analysis shows the US auto industry, on average, derives in the mid-50% range of its content from non-US sources. Ours is lower. If current proposals are enacted, we expect to be less affected than some others.

We are also taking a holistic view in considering other favorable elements of tax reform. For example, we would receive a benefit from our meaningful annual US exports. Importantly, we expect our cash taxes to remain low over the next few years. We believe foreign exchange, GDP growth, and how costs and benefits are allocated through the supply chain, are among the major variables that will ultimately dictate the economic outcome for GM and the industry. We'll continue to work with our government on tax reform measures that support US manufacturing and the US economy.

So to sum it up, quarter in line with expectations, a record full year in 2016, and we will continue to meet our commitments in 2017, as we have done over the past three years.

That concludes our opening comments. We'll now move to the question-and-answer portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of John Murphy with Bank of America.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys.

Mary Barra - *General Motors Company - Chairman & CEO*

Good morning.

John Murphy - *BofA Merrill Lynch - Analyst*

Just a first question on the 2017 guidance, particularly in North America. And when we think about this, the changeover costs for the crossovers is going to be met with some upside revenue, because the product will actually launch. But when you look at the truck changeover, on the actions you're taking in the second half of the year, getting real benefit on the revenue side is not going to occur until 2018. I'm just curious if you can delineate what level of pressure you're expecting from those truck changeover costs in the second half of the year? And really, when you expect the benefit from the revenue to occur as we get into 2018?

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes, John, good try, to get me to answer when we are launching the next generation truck. That is [not going to] happen.

John Murphy - *BofA Merrill Lynch - Analyst*

Well, it's coming.

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes, no doubt. What I would say, when I look at North America in total, again, starting with the overall guidance, we expect another strong year of 10%-plus percent margins in North America. The big drivers, again, with the puts and takes, volume and mix, roughly, are going to be flat.

Volume will be down year over year, partially due to our taking action on passenger cars, and partially due to the ramp-up of the new crossovers and some of the changeover of the trucks. But mix will be favorable, fundamentally offsetting that. Price will be favorable, and cost will be favorable. Those two will largely or more than offset FX. Those are the biggest drivers in 2017 for North America.

John Murphy - *BofA Merrill Lynch - Analyst*

So it sounds like the truck changeover costs are relatively low then in the second half, but are still a little bit of a headwind. Is that a fair characterization?

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes, I would say that, as we're going through this launch cadence, whether it's trucks or crossovers, or the vehicles that we launched this year, or some of the impact in fourth quarter in North America related to Duramax, you always have some those. I wouldn't say that they are materially different in -- the cost themselves -- in 2017 versus 2016. The bigger impact is on the volume side.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, that's helpful. And then secondly, I'm just wondering if you could talk about your lease penetration in the fourth quarter and the full year in 2016? What generally your marketing plans are, split between lease penetration and marketing or incentive dollars in 2017? And what you're seeing in the industry? Because it seems like there's some divergent views among the automakers, and I'm just curious what you're seeing?

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes, lease penetration in 2016, in the fourth quarter, was roughly 25%, 26%. That feels like the right number for us relative to overall penetration, when you look at the makeup of our products, whether luxury mix, truck mix. And generally, that would be running at an appropriate level, from an industry perspective.

With low interest rates, it feels to me, from an industry perspective, that leasing is filling some of the gap on subvented financing. And that's been running very low. So the biggest drivers are cash deals, and then leasing, and then standard payment terms. Very low subvented financing at this point.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. And then just lastly, and I know this is kind of a tough question to answer at this point, because we aren't even sure what policy issues are going to be. Policy has to actually settle in North America. But Mary, in your discussion with Trump and new Administration, are you hearing anything about a recognition that there could be a response overseas, particularly in China? Which is a very important market for you near term and long term, that might not be so great for your business. Is that being taken into the calculus as these decisions are being made, or is this more just US-focused in the discussion so far?

Mary Barra - *General Motors Company - Chairman & CEO*

Well, you know, I think if you look at it, there's a wide range of topics -- whether it's tax, trade, regulations -- and there's a lot of, I'll say, information being shared, just to level the foundation. For instance, I've shared a lot of information about the dynamics in the auto industry, and how all those things would be impacted. So I would say, right now, it's very constructive dialogue, and the Administration really listening to the input that we have, and to kind of put things in context. So that's where we are at right now, John.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, thank you very much.

Operator

Our next question will come from the line of Adam Jonas with Morgan Stanley.

Adam Jonas - *Morgan Stanley - Analyst*

Thanks. Mary, just got two questions for you. First, on safety. Toyota has targeted 100% of their vehicles sold in the US to have active safety in AEB of some form, as standard, by the end of this year. That's their goal, and it sounds like they are on track to do that. When could we expect GM to make AEB standard on all of its vehicles, to ensure the safest possible baseline technology available to all consumers, regardless of their ability to speck up to the higher trim levels?

Mary Barra - *General Motors Company - Chairman & CEO*

So Adam, we're looking across the whole portfolio. We made the commitment with many other OEMs, from a [new set] perspective, for the emergency automatic braking. We are looking across -- and so we have the commitment made. We are looking across each of those product lines to look and see what we think is best from a customer perspective, of what they are going to value. Clearly it will be available, but giving the customer some choice there. So I don't have the specific rollout in front of me, but I know the team has worked across the entire portfolio, across all brands, to implement those plans.

Adam Jonas - *Morgan Stanley - Analyst*

Okay, second question is more structural. Since your IPO, the S&P is up 95%, GM stocks up around 6%. I'm not trying to pick on you, because Ford stock is down over 20% from your IPO date in 2010. So there's clearly an OEM business model problem being discounted by the market, and it does appear to go way beyond just GM. But look, your stock is really cheap, and you admitted earlier in your comments, you think under-appreciated by the market.

Question is, is there something radical or structural -- like a change of business unit structure, legal organization structure, like what Alphabet has done on the Google -- something more radical that needs to be done to address the strategic concerns and risks discounted by investors, or to otherwise unlock hidden value? I realize that's a very ethereal question, and I ask it this way deliberately and respectfully, just to see how you respond, Mary. Thank you.

Mary Barra - *General Motors Company - Chairman & CEO*

Sure, Adam, so when we look at it, I divide it into two pieces. One, we come to work every day looking to -- how do we drive shareholder value and long term value for all of our shareholders? We believe -- and we've got a track record of demonstrating performance and meeting our commitments for three years now -- we're going to continue to did that with our outlook for 2017.

We've identified how we can continue to make this business better. I think we have more opportunity. But then also, the way that we are investing in the future, which I think is huge opportunity, with transportation-as-a-service. Building on the platform for transportation-as-a-service is connectivity.

We have a lead with OnStar. And as we continue to roll that out very quickly around the globe, and continue to not only provide that connectivity in each of our vehicles, but to build on what we can do with that connectivity, I believe we're just scratching the surface of what we can do with the data we have in the vehicle, and continuing to add vehicle for customers. So I think that's a huge opportunity.

Clearly on electrification, we've got the lead with the Bolt EV, having that vehicle in the marketplace, getting great reviews. It's not just a great electric vehicle, it's a great vehicle, and that's the feedback we're getting from customers. That gives us the foundation to really push forward in electrification, and be very successful from an electrification perspective, leveraging our global scale. So that is something that I think is huge opportunity.

Autonomous and transportation-as-a-service and sharing -- clearly the work that we're doing from an autonomous perspective, and really looking from the traditional business to miles traveled and how we can participate strongly in that -- that's why we've made the investments and have made great progress. Last year, really accelerated our progress on autonomous. And we released a video a week or two ago showing the progress, and that progress is happening on a weekly basis, not monthly or quarterly.

So I look at how we're working to make sure we're as efficient as possible in the basic business of cars, trucks and crossovers around the globe. But then looking at all of the opportunity that technology has to transform this industry. And I think we're well-positioned. And that's what we are working hard on every day. Because I think that will change the dialogue and change the calculus of how this Company is valued.

Adam Jonas - *Morgan Stanley - Analyst*

Thanks.

Operator

Our next question will come from the line of Colin Langan with UBS.

Colin Langan - *UBS - Analyst*

Great, thanks for taking my questions. Just following up on your comments on the potential for a border tax adjustment, could you frame the kind of cost increase you might expect if a border tax were implemented? And would you need to do any structural changes? I know some of your pickup capacity is down in Mexico. Would you have to relocate it? How are you thinking about the planning, if something actually does go through?

Chuck Stevens - *General Motors Company - EVP & CFO*

Well, one, I think it's too early to speculate on the potential implications of the border-adjusted tax. That's one part of tax reform. There's a number of moving pieces. And what we want to do is engage constructively around how we can best work with the Administration to make sure that this is good for the economy, good for the manufacturing footprint.

As you can imagine, very complicated dynamic, with supply footprint, manufacturing footprint, long lead investment. So a number of moving pieces here that we want to participate in and engage in, around transition timing and other aspects of this. So again, too early to speculate on what the potential implications are.

Colin Langan - *UBS - Analyst*

But do you think you're better at the position than the industry -- is what you said in your comments? Is that fair?

Chuck Stevens - *General Motors Company - EVP & CFO*

When I look at the percent of import content, yes, we are better-positioned than the industry, on average.

Colin Langan - *UBS - Analyst*

Got it. And in your comments -- I don't know if I got this right -- you said in the auto other line, the Q4 run rate of $400 million would continue. I think that implies around a $500 million year-over-year increase in other auto. One, is that correct? And then when we are thinking about adjusted EBIT being higher, what are the main pieces that would offset that increase?

Chuck Stevens - *General Motors Company - EVP & CFO*

Well, I think you're thinking about it correctly. As we talked about, the expenditures that we'll be making on autonomous vehicles will be in the corporate sector, as we look to start to provide more visibility around that, especially as we start to monetize that opportunity on a go-forward basis. And the puts and takes on that, as you look at the overall results, I would expect aggregate profitability to be better in North America. I would expect profitability to be better in South America in GM Financial, as well, and relatively flat in Europe, relatively flat in China. Those are the big drivers.

Colin Langan - *UBS - Analyst*

And just lastly, in your outlook, what is the raw material impact? How much of a headwind should we expect (multiple speakers)

Chuck Stevens - *General Motors Company - EVP & CFO*

It is a headwind in 2017, I would say, in the low hundreds of millions of dollars, at a corporate level, at this point in time. Not a significant magnitude, but certainly factored into our outlook.

Colin Langan - *UBS - Analyst*

All right, thank you very much.

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes.

Operator

Our next question will come from the line of Itay Michaeli with Citi.

Itay Michaeli - *Citigroup - Analyst*

Good morning, everybody.

Mary Barra - *General Motors Company - Chairman & CEO*

Good morning.

Itay Michaeli - *Citigroup - Analyst*

Just to follow up on the last question. Chuck, I think you mentioned, in 2017 North America cost should be favorable. If we tie that back into slide 16, is that sort of a fixed cost being favorable, or is that the net of fixed as well as material carryover being favorable?

Chuck Stevens - *General Motors Company - EVP & CFO*

The net of the two.

Itay Michaeli - *Citigroup - Analyst*

The net of the two, great. And then as we think about the autonomous costs in 2017 and the fourth quarter, are there any metrics you can share in terms of, by the end of the year, where you think you're going to be in terms of the size of your fleet? In terms of testing, and other metrics that we should be following, as we track your progress?

Mary Barra - *General Motors Company - Chairman & CEO*

Yes, not at this time. I think as the year unfolds, you'll hear more about that from us, of what our plans are, and some of those milestones that we'll be sharing.

Itay Michaeli - *Citigroup - Analyst*

Great. And lastly, maybe for you Mary, on the same topic, as you meet with the Administration -- I know there's a lot of discussion on tax and policy. What are your early thoughts on how the Administration is looking at autonomous and future driverless cars and ride sharing? Any initial thoughts on how they're approaching that element of it?

Mary Barra - *General Motors Company - Chairman & CEO*

Well, I think we've had a very constructive and positive conversation about the regulatory environment. And clearly putting safety at the forefront and doing the right thing for the environment, but looking at the opportunities of how do we streamline and how do we enable technology. So I think it has been a very positive dialogue that has covered, in a general sense, autonomous.

Itay Michaeli - *Citigroup - Analyst*

Great, very helpful. Thank you very much.

Operator

Our next question will come from the line of Rod Lache with Deutsche Bank.

Rod Lache - *Deutsche Bank - Analyst*

Good morning, everybody.

Chuck Stevens - *General Motors Company - EVP & CFO*

Hi, Rod.

Rod Lache - *Deutsche Bank - Analyst*

Had a couple questions. First maybe for Mary. In your discussions in Washington about border adjustments, I'm wondering if there's been any discussion about a phase-in of any changes at this point, given the reality of the lead time required for any changes to the industrial footprint? And in addition to the border adjustments, do you see any potential changes to tariffs, and your ability to bring in trucks without significant tariffs?

Mary Barra - *General Motors Company - Chairman & CEO*

So in the conversation, I've done a lot, as have others, recognizing -- we had an automotive industry-focused meeting as well as the strategy and policy meeting. But to really make sure everyone is grounded and understands the complexity of our supply chain, as well as the capital-intensive, long-lead nature of our business. And I think that understanding has been well-received.

Clearly, as Chuck said, there's a lot of moving pieces right now. And that's why we are at the table, and also working at all levels of the Administration to make sure we're providing the input. Because let's recognize the number of jobs that we do provide here -- 100,000 jobs. If you look at the number of vehicles that we sell here versus the number that is produced here, it's almost 80%. Now there's puts and takes with exports, but a very high percentage of products are built in this country.

So we've been really providing all of those facts. And then clearly, talking about, if there are shifts, that they have to happen over time. So that's the input that we've given, and I would say its been very constructive.

Rod Lache - *Deutsche Bank - Analyst*

Okay, thanks. And just two questions on the outlook for 2017. First, at a high level, obviously you're expecting a little bit of improvement in North America, and flat China. You said that a few times, Chuck. And presumably, you're taking into account the headwinds, North America, the non-reccurence of the inventory build, some pricing maybe on legacy products, raw materials, DNA. And in China you talked about the 5% price deflation that you're expecting.

A big offset to that is the cost savings that you're expecting, the $1.5 billion. I was hoping you could maybe give us a little bit more color on the price and mix benefit that you're anticipating from the new products, the magnitude of the pipeline that you're anticipating, and how that plays a role in your bridge?

Chuck Stevens - *General Motors Company - EVP & CFO*

In which sector would you like me to start, North America or China?

Rod Lache - *Deutsche Bank - Analyst*

North America and China, I guess whichever you want to do first. Yes, so from a North American perspective, yes, we would expect aggregate profitability to improve year over year. As I indicated earlier, we expect volume to be a headwind, and mix to fundamentally offset that. So the favorable mix associated with some of our recently launched product pricing will be favorable, again related to our crossover launches, largely reduced sales allowances.

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And then overall fix will be slightly favorable when you look at material on carryover, versus fixed. Fixed costs are going to be relatively flat year over year. And that will offset some FX headwinds, primarily related to the Mexican peso. So those are the big drivers.

In China, it's the same kind of dynamic that we've been talking about. Mix will be favorable. Pricing, we're assuming another 5% headwind. Carryover in material and mix will largely offset the pricing and cost. And costs should be slightly up in China as we get the full-year ramp of some of the recently opened facilities. But the dynamics over the last couple of years aren't changing in China. Great, thank you. That's really helpful. And just lastly, in your outlook for GM Financial, how are you thinking about the impact of the higher borrowing costs and lower residuals in the forecast?

Chuck Stevens - *General Motors Company - EVP & CFO*

Factored in. I mean, we factored in the expectations from -- at least ALG and other's expectations for what's happened with used car pricing. So a continued normalization of used car pricing. Obviously we factor into our pricing and cost of funds, expectations, continuously rising interest. So that's factored in.

Going back to the conference, Rod, in January, we laid out all of the downsides and headwinds that we saw in 2017, and what we were doing to mitigate that in the context of our guidance. And the factors you mentioned were part of that -- pricing dynamic, continued investment, and new technologies, the pricing environment in the US and China, for example, raw material headwinds in 2017 versus 2016, FX from a global perspective. That dynamic is not getting any better. But when you look at the things that were under our control -- costs, our product launch cadence, which will improve mix and pricing -- we again are confident that we're going to see strong results again in 2017.

Rod Lache - *Deutsche Bank - Analyst*

Great, thank you.

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes.

Operator

Our next question will come from the line of David Tamberrino with Goldman Sachs.

David Tamberrino - *Goldman Sachs - Analyst*

Great, good morning. Thanks for taking our questions here. It's been asked a couple times, Rod just asked it too. On leasing and residual values, how did your leasing percentage progress throughout the year? I think you said 26% for the fourth quarter. It sounds like you don't expect to see a slowdown in that or a pullback in leasing as you're going into 2017. Part of that I imagine is because you're driving the higher prime business through GMF, and expect to continue to keep that high.

But really wanted to dig into, what is the residual value forecast that you have going forward in your model for 2017 earnings? We've seen Ford and now Toyota take down their residual value forecast. Maybe they were just a little bit more aggressive on what residual values would look like before it had to come down. But trying to understand what you're baking in from a price decrease year over year for those vehicles?

And then, understandingly, I know you're pulling back on daily rental, but that's only half the story. If you're continuing to drive lease penetration in the same rates that you are, at some point in time, is there not going to be an increased supply of your vehicles coming off lease that could be detrimental to residual values in the 2018-2019 timeframe?

Chuck Stevens - *General Motors Company - EVP & CFO*

Just to answer those in the order that they came in, David, as we move through the 2016 calendar year, our lease penetrations came down. You may recall, earlier in the year, first quarter, second quarter 2016, lease penetrations were up in the high-20%s, and we moved them down to where we ended. As I said, mid-20% is the appropriate level, and that's something that we would continue to manage.

Relative to our lease residual exposure, or our thinking of lease residual, I've covered this before, vis-a-vis, some of the competition. We've got a different mix. Because GM Financial has been leasing vehicles and been the captive lease provider only for the last couple of years, we have a significantly different mix -- lower penetration of passenger cars, higher penetration of trucks and SUVs.

And I'm not going to give you specifics on what we're assuming from used car. All I would say is, we're anticipating continued moderation and normalization of used car pricing, not inconsistent with third-party-type data that you could get out there, over the next two to three years. I would say, in total, in the range of about 7% over the next two to three years. But I'm not going to give a year-to-year specific.

And one of the fundamentals relative to how we're running the business residual [modeling], we're working with GMF, our Express Drive, 100% of our vehicles being re-marketed by GMF, so that we can efficiently absorb and distribute in a way that is not detrimental to residuals, the vehicles that are coming off lease. And that's one of the reasons we've significantly reduced our daily rental sales as well. So taken in balance, I think we've got a reasonably balanced view of what's going to happen, from a residual perspective, over the next number of years.

David Tamberrino - *Goldman Sachs - Analyst*

Okay, that's very helpful. And then taking your comments on GM pricing obviously expected to be up in the back of product cadence. What are you anticipating for the overall market? And how could that potentially change your view?

I ask that because, during the Q3 2016 earnings call, I think, we were talking about lower sequential incentives from 3Q 2016 to 4Q 2016. However, from the data that we look at, it seemed as if GM incentives did go up sequentially in the fourth quarter, and is partially being market-driven. Given where you ended the January month with your day sales of inventory for passenger cars as well as for light trucks, are you anticipating seeing the market continue to drive incentives higher?

Obviously I think you guys pulled back a little bit in the quarter, and that's why your sales were a little bit lower than where some of us expected. But just trying to understand where you see the overall market going from a pricing perspective relative to your expectations, where you have a product cadence that should be driving positive price?

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes, I would say the following. Over the last number of years, the pricing environment has been moderating. If you look at overall incentive spend as a percentage of transaction price, it's been inching up on a consistent basis, which is certainly not unexpected where we are in the cycle.

We continue to be very disciplined. Our actual incentive spend, compared to the industry, has come down. Back three or four years ago, we were running at 110% of industry. In the 2016 calendar year, we were closer to 103% or 104%. And I think that just highlights the strength of our product lineup.

I would expect to see incentive spending inch up again in 2017. We said that we expected continued pricing challenges, or competitive pricing environment, in the United States and China. Within that though, when you look at our launch cadence, let's remember, in 2016 we have the oldest compact and mid-crossover lineup in the industry, and still perform very well. That's going to be completely refreshed, which should provide an opportunity.

Trucks continue to perform very well, demand is strong. We're running all of our plants on three shifts, full-on. So supply and demand in balance. Where we have challenges is, our cars, and we're aligning supply and demand on that by cutting production. So on balance, a more challenging pricing environment, but we think we're well-positioned within that, given our product launch cadence.

David Tamberrino - *Goldman Sachs - Analyst*

Okay, thank you. It's very helpful.

Operator

Our next question will come from the line of Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

Great, thanks for taking my questions. Just regarding the increase in corporate and eliminations expense in 4Q on autonomous investments, is that due to an actual acceleration in these autonomous investments? Or potentially to newly or increasingly accounting for them in the corporate and eliminations line? Or both?

And then how should we think about these investments tracking going forward? Roughly at the Q4 level, or maybe something less? And then I imagine there's still no change to the guidance you're cost-cutting program over the next several years is expected to more than compensate for increased investments in all-emerging technologies like electrification mobility and autonomy? Such that net cost savings will be a net driver of higher EBIT going forward? Is that right?

Chuck Stevens - *General Motors Company - EVP & CFO*

At the last point, that is correct. To your first question, that Q4, I would say was run rate, when we have ramped up the AV engineering and cruise automation at roughly plus or minus $150 million a quarter. We weren't spending very much at all until we got into the fourth quarter. And I would expect to see a run rate similar to that in 2017, roughly $150 million a quarter.

That will, we believe, be sufficient. Because we've already got the architecture, with the Bolt, to put us in a strong position from an AV standpoint. And when you look at the overall corporate sector, you've got that year-over-year roughly $450 million increase, plus there's some incremental legal expense in 2017 versus 2016 related to the ignition switch activities. And as I think about that, beyond 2017, who knows? But that should start to moderate beyond then.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, great, thanks. And then just my last question is on China. The earnings there tracked very strong, but the margin just a little softer. Is it still the case that the causal factor is broken out, and GMI -- the bridge on slide 20 -- that those exclude non-consolidated operations?

Would all of the change in equity coming through, or whatever, cause a factor in that other category? And then if so, can you speak directionally to the impact of volume mix, price/cost in Q4? And then how you would expect these drivers to net out going forward?

Chuck Stevens - *General Motors Company - EVP & CFO*

The EBIT bridge is on a consolidated basis, so it would exclude China. We report China equity income -- the drivers of China equity income in 2016 similar to 2015. Pretty similar. Volume is positive, mix is positive, pricing has been a 5% headwind, material cost performance has been a positive.

And then as we've ramped up plants, the fixed cost has inched up net-net. In that dynamic, we've been able to maintain the equity income. But you've seen the margin compression, which we've talked about before, on a go-forward basis, due primarily to pricing, that the margins were going to compress. And we saw that play out in 2016.

Ryan Brinkman - *JPMorgan - Analyst*

Okay. And how do you expect that to track in 2017, these different drivers?

Chuck Stevens - *General Motors Company - EVP & CFO*

I think the drivers of the industry over there are very consistent. Higher volume, better mix, pricing, is going to be a headwind kind of in the same zip code, in the 5% range. Material cost efficiency will be a tailwind. And then, between their cost-down, efficiency-up and full run rate on the plants, fixed cost will be up slightly on a year-over-year basis. But generally consistent with what's been driving the business the last couple of years.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, very helpful. Thank you.

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes.

Operator

Our next question will come from the line of Joseph Spak with RBC Capital Markets.

Joseph Spak - *RBC Capital Markets - Analyst*

Thanks for squeezing me in here. Chuck, first question is, in the fourth quarter in North America, the $1.2 billion in volume: how much of that was -- if you could dimensionalize it -- from the stocking up? Especially since, I believe, on a year-over-year basis for the comp purposes, in the fourth quarter of 2015, you were still destocking.

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes, for the fourth-quarter 2016 versus 2015, inventory build -- because you've got to look at the change, and the change was about 100,000 units. And when I look at the net impact of that, about $100 million. Volume was up, but mix was unfavorable, because a lot of the stock was building up stock of passenger vehicles, which we're now addressing. So that's the impact in the fourth quarter.

Joseph Spak - *RBC Capital Markets - Analyst*

Okay, right. And you said volume a headwind for 2017. Is it fair to assume you still have a little bit of stocking up, and then it starts to tail off, in terms of cadence?

Chuck Stevens - *General Motors Company - EVP & CFO*

Absolutely consistent with what we talked about back in December, we will be building inventory as we move through the first half of the year. We will be addressing the passenger car part of this with the shift reductions that we've announced. But we'll build inventory of our crossovers leading into the launch, as well as trucks. And then inventory will normalize in the second half, very similar to the dynamic we had when we transitioned from the GMT 900 to the K2. And then we would expect to end 2017 in the same zip code as 60- and roughly 70-day supply.

Joseph Spak - *RBC Capital Markets - Analyst*

Okay. And then on the autonomous and mobility costs, not to beat a dead horse, but you're bringing it out in corporate. If you were to somehow allocate it by region, is most of that in North America? And then related, where are your electrification costs -- or, how are those being allocated? Are those also in corporate, or are those to the regions?

Chuck Stevens - *General Motors Company - EVP & CFO*

Well, the electrification costs, depending on -- they end up in the vehicles themselves. And if it's engineering costs associated with electrification, it goes to the region, fundamentally based on engineering resources deployed. The reason that we're separating autonomous is because we would expect over time, as we continue to move that business -- along with Maven -- forward into a commercial piece of the business, that we want to make sure that there's visibility around that on the commercial side of autonomous vehicles. Because we would expect to commercialize that obviously.

Joseph Spak - *RBC Capital Markets - Analyst*

Okay, that's helpful. Are you willing to share how much in 2016 roughly you think you spent on electrification?

Chuck Stevens - *General Motors Company - EVP & CFO*

That would have been part of our overall engineering expense. So certainly a portion of the engineering expense, but I'm not going to break that out separately.

Joseph Spak - *RBC Capital Markets - Analyst*

Okay, thanks.

Operator

And our final question today will come from the line of Brian Johnson with Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Thank you. A couple quick questions. First, can you comment a bit -- we beat the border adjustment tax to death. But prior to NAFTA, there was a thing called a chicken tax. Which, my understanding -- maybe just could you comment on -- my understanding is, that is still in effect and preventing imports of things like the Colorado and whatnot, from Thailand.

Would that also apply, in the chance that NAFTA goes away, to Mexico? And if so, have there been discussions, given the importance of pickup truck lines to, dare we say, red states, about whether that makes sense to apply it to the pickup trucks coming up from Mexico?

Mary Barra - *General Motors Company - Chairman & CEO*

You know, as it relates to trade overall or NAFTA, it is just really too soon to tell. But I mean I think we've got a seat at the table and are providing input, because clearly we don't want to create a situation where we impact jobs in the United States. Which will quickly happen, when you look at how integrated the supply base is, and how things go back and forth. So it's really way too soon to speculate.

What we're looking for is fair, free trade, because we believe that, with every country -- because we believe then the strength of our product line will allow us to do well around the globe. So in all the conversations, we're making sure people understand possibly some not-understood aspects of the business, so a very informed decision can be made. As Chuck said, we do support overall tax reform, but the details are key. And that's why we're having such an active voice in making sure the business is understood, the jobs we provide, et cetera.

Brian Johnson - *Barclays Capital - Analyst*

Okay. And second, for Chuck, more on quarter-over-quarter, year-over-year level. When you look at the pricing majors minus material majors, it was a net $200 million positive. Your majors were mostly cars [Lux] in 2016, and 2017 they are going to be CUBs. Do you expect that roughly $200 million a quarter pace to continue? Could it expand? Or the other extreme is, their payback is maybe some of the cars which seem to be driving some of the inventory position, need to come out of the system.

Chuck Stevens - *General Motors Company - EVP & CFO*

I would expect that our pricing dynamic, if you're speaking specifically to North America, will be -- year over year, on new, will be a little bit more robust than the $200 million a quarter in 2016, based on the crossover launches.

Brian Johnson - *Barclays Capital - Analyst*

Okay, thanks.

Chuck Stevens - *General Motors Company - EVP & CFO*

Yes.

Operator

Thank you. I'll now turn the call over to Mary Barra.

Mary Barra - *General Motors Company - Chairman & CEO*

Thank you. So I just have a couple of quick closing comments here, and I want to share a couple of key takeaways. First, the Company is producing strong financial results. And I think we've given you a lot of reasons and specifics of why we plan to continue to do just that in 2017, and realize stronger financial results.

We believe, overall, GM is a better, more disciplined and more focused Company. And you'll see us continue to drive that focus across all 220,000 employees around the globe. Because we believe there are more efficiencies that we can deliver, higher quality, and continue with strong products, as well as our investment in the future of mobility. All of this to drive strong shareholder value. We are taking the steps to make sure, in the very important area of the future of mobility, that we have a leadership role, and we're building on a strong foundation in many of these areas.

And overall, if you step back and look at 2016 as a whole, we're demonstrating that we can do what we say what we're going to do, and continuing to build that track record of delivering on our commitments. So we look forward to a very strong 2017. And I want to thank all of you for participating on the call.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation, and ask that you please disconnect your lines.