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Aptiv PLC (APTV) CEO Kevin Clark on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.27 beats by $0.01 | Revenue of $3.56B (2.12% Y/Y) misses by $-52.78M

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Aptiv PLC (NYSE:APTV) Q3 2019 Earnings Conference Call October 30, 2019 8:00 AM ET

Company Participants

Elena Rosman - Vice President of Investor Relations

Kevin Clark - President & Chief Executive Officer

Joe Massaro - Chief Financial Officer & Senior Vice President

Conference Call Participants

Emmanuel Rosner - Deutsche Bank

Joseph Spak - RBC Capital Markets

Rod Lache - Wolfe Research

Chris McNally - Evercore

Brian Johnson - Barclays

Dan Levy - Credit Suisse

Steven Fox - Cross Research

John Murphy - Bank of America

Ryan Brinkman - JPMorgan

Armintas Sinkevicius - Morgan Stanley

Operator

Good day. My name is Chris, and I will be your conference operator today. At this time, I would like to welcome everyone to the Aptiv Third Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] We would like to request that you limit yourself to asking one question and one follow-up question during the Q&A session. Thank you.

Elena Rosman, Vice President of Investor Relations you may begin your conference.

Elena Rosman

Thank you, Chris. Good morning and thank you to everyone for joining Aptiv's third quarter 2019 earnings conference call. To follow along with today's presentation, our slides can be found at ir.aptiv.com. Consistent with prior calls today's review of our actual and forecasted financials exclude restructuring and other special items and will address the continuing operations of Aptiv.

The reconciliations between GAAP and non-GAAP measures for both our Q3 financials as well as our outlook for the fourth quarter and full year 2019 are included in the back of the presentation and in the earnings press release.

Please see slide 2 for disclosure on forward-looking statements, which reflects Aptiv's current view of future financial performance which maybe materially different from our actual performance for reasons that we cite in our form 10-K and other SEC filings.

Joining us today will be Kevin Clark, Aptiv's President and CEO; and Joe Massaro CFO and Senior Vice President. Kevin will provide a strategic update on the business and then Joe will cover the financial results and our outlook for the rest of 2019.

With that, I'd like to turn the call over to Kevin Clark.

Kevin Clark

Thanks, Elena. Good morning everyone. I'm going to begin today's earnings call by providing an overview of our third quarter highlights and our updated outlook for the remainder of the year. Joe will then take you through our third quarter financial results as well as our fourth quarter financial outlook in much more detail. Third quarter revenue sustained strong above-market growth despite declining vehicle production.

Revenues increased 6% representing eight points of growth over underlying vehicle production. Operating income and earnings per share totaled $410 million and $1.27 respectively driven by flow through on volume growth in continued traction on our overhead cost reduction and material and manufacturing performance initiatives partially offset by the headwind from the GM labor strike, which totaled $70 million of revenue, $30 million of operating income, and $0.10 of EPS during the quarter.

Moving to the right side. In September, we announced our autonomous driving joint venture with Hyundai which we're confident will advance commercialization of Level 4 and Level 5 self-driving technologies and further strengthen our industry-leading capability from the development of advanced driver assistance systems, vehicle connectivity solutions and Smart Vehicle Architecture.

We believe it's critical that we continue to invest in our safe green and connected technologies to further expand our competitive moat and better position Aptiv for long-term sustainable growth through organic investments in our engineering capabilities, minority investments in technology companies and the acquisition of companies such as gabocom a bolt-on to HellermannTyton that broadens our existing cable management capabilities.

In summary, it was another strong quarter in a challenging environment further validating that our business strategy, our operating model, and our technology portfolio can deliver sustainable strong performance in any environment.

Moving to slide 4, let me provide some color on the inputs to the update of our full year outlook. Starting on the left side of the slide our third quarter financial performance benefited from solid revenue growth, and operating income and EPS were above the top end of our guidance range when you exclude the impact of the GM strike.

In addition to delivering strong financial results during the quarter we also continue to execute our strategy with the announcements of our autonomous driving joint venture with Hyundai, and the acquisition of gabocom both of which I'll cover in more detail shortly.

Moving to the right side although our operating performance during the quarter was stronger than forecasted the GM strike had a significant impact on our financial results in the third quarter and will continue to be a headwind in the fourth quarter as GM works back up to full production schedules during the month of November.

Joe will take you through the details in a moment but for the full year we expect a headwind of $250 million in revenue $135 million in operating income and $0.45 of EPS related to the strike. While our operating teams in North America are aggressively working to mitigate these headwinds we've included the estimated impact in our fourth quarter outlook.

In addition, foreign exchange continues to be a headwind in 2019 as the euro and RMB exchange rates are weaker. And global vehicle production for the year is now expected to decline 5% versus our previous forecast of down 4% largely driven by the GM strike in North America.

Our updated outlook reflects stronger year-to-date operating performance offsetting the increased headwinds from foreign exchange and lower volumes but the effects of the GM strike is an incremental headwind to our prior full year outlook.

Turning to slide 5. Third quarter new business bookings totaled $4.2 billion, highlighting our portfolio alignment to the safe, green and connected megatrends. We now believe that we're on track to achieve over $20 billion of full year bookings, reflecting a few large program awards shifting to early 2020. Our updated outlook for 2019 actually represents an increase versus the prior year, when you factor in the current outlook for lower global vehicle production.

Our ASUEX segment booked just under $1 billion of new customer awards in the quarter. Our expertise in central compute platforms and sensing and perception systems is helping us deliver smarter, safer and more integrated solutions, both outside the vehicle with advanced active safety systems as well as in the cabin to enhance user experiences.

Through the third quarter, active safety, new business bookings totaled $2.5 billion and are expected to reach approximately $4 billion for the full year. And year-to-date user experience customer awards totaled just under $1 billion. Our SPS segment had new business bookings totaling $3.3 billion during the quarter, including over $500 million high-voltage awards, bringing our high-voltage electrification bookings to $1.2 billion year-to-date, on track to meet or exceed last year's record of $2 billion. Our recent customer awards reinforced our revenue outlook for 2022 and underscore our relevant portfolio aligned to key secular growth trends.

Turning to our Advanced Safety and User Experience segment on slide 6. Third quarter revenues increased 9%, 11 points over market. The continued strong demand for active safety solutions drove product line revenue growth of 29%, lapping prior year record growth of 68% during the quarter. And as expected, the roll-off of revenues tied to our discontinued Displays business is a headwind in our user experience product line revenues.

Our customers are increasingly looking for our support in developing solutions that include more compute power and high-speed connectivity, positioning us to leverage our systems design and validation knowledge, further expanding our competitive moat.

Recent industry recognition of our unique capabilities includes our selection as a 2020 PACE Award finalist for Android infotainment compute platform. This revolutionary system will launch first on the Polestar and then on Volvo's popular XC40 model, powering the first Android infotainment system with native Google automotive services and realtime OTA, enabling a best-in-class in-cabin experience and underscoring Aptiv's leading agile solutions development capabilities and role as a partner of choice, serving as the best bridge between the automotive and tech industries.

Turning to slide seven and vehicle safety. According to data recently released by the National Highway Traffic Safety Administration, fatality rates per 100 million miles driven in the United States are declining as active safety penetration increases from initial Level zero applications to Level one applications and beyond. Our investments in scalable approaches to advance safety solutions are not only seeding our next wave of growth, but they're also helping to drive the democratization of advanced safety systems globally. Aptiv's flexible satellite architecture approach has been a game-changer in the industry and has been selected by multiple OEMs to help them democratize active safety solutions across their multiple vehicle platforms.

Turning to slide 8. Our recently announced 50-50 joint venture with Hyundai, not only brings us closer to enabling tomorrow's self-driving vehicles, it also helps accelerate the development of today's advanced active safety solutions for our existing OEM customers. Hyundai's ability to advance the development of production-ready autonomous driving systems, both cost-effectively and at scale, along with its shared vision and timeline for application in the robo-taxi market, validate them as the right OEM partner for the commercial deployment of Level four systems beginning in 2022 and beyond.

Aptiv is contributing its autonomous driving technology, intellectual property and roughly 700 employees focused on the development of scalable Level four systems to the robo-taxi market. Hyundai is contributing $1.6 billion in cash at close, $400 million in vehicle engineering and R&D services and access to intellectual property. Hyundai will be a close technical partner, strengthening Aptiv's existing foundation in automated driving solutions, while as I mentioned, also enhancing Aptiv's competitive position in ADAS, Vehicle Connectivity and Smart Vehicle Architecture.

Aptiv will continue to provide commercial solutions, including compute platforms, perception systems and power and data distribution solutions to the joint venture just as it does to other OEM customers, while maintaining access to the joint venture's automated driving technology. We expect the transaction to close in the second quarter of 2020 and be accretive to both ASUX and Aptiv margins and cash flow. In summary, Aptiv's working to realize our mission of making the world most safe, green and connected, while also delivering outsize shareholder returns.

Turning to slide nine. Our Signal & Power Solutions segment is focused on enabling the high-speed data and power distribution technologies that are required to support the advanced safe, green and connected applications that our customers are demanding and are driving sustained growth in this segment.

Revenues increased 4% during the quarter, 6 points over market, including the impact of the GM strike. Excluding the impact, revenues would've increased 8 points over market due to strong launch volumes, particularly in Europe and in China. High-voltage electrification revenues increased 30% in the quarter while non-auto revenues were up 34%.

During the quarter, we were awarded several new business bookings, including the low-voltage distribution system on the new Rivian truck and SUV electric vehicle platforms and the high-voltage charging inlet for Porsche and Audi. These customer awards underscore our strengths in optimizing power and data distribution for complex vehicle architectures, as well as our ability to flawlessly serve customers through a focused strategy on quality and consistent launch execution.

Turning to capital deployment on slide 10. As I previously highlighted, our acquisition of gabocom, which specializes in highly engineered high-quality cable management and protection solutions, expands our Engineered Components portfolio.

Gabocom's product portfolio is highly complementary to HellermannTyton's and builds upon our existing telecom product offering, strengthening our capabilities in the most attractive areas of the telecom market and further diversifying our industrial end market revenues.

With our track record of successfully integrating accretive bolt-on acquisitions, we're confident gabocom will enhance our cable management portfolio and accelerate revenue and earnings growth in our Engineered Components product line.

So with that, I'll hand the call over to Joe to take us through the third quarter results and outlook for 2019.

Joe Massaro

Thanks, Kevin and good morning, everyone. Starting with our third quarter revenue growth on slide 11. Revenues of $3.6 billion were up 6% adjusted in the quarter, totaling 8% growth over market, as vehicle production declined 2% in the quarter, as expected. Excluding acquisitions, organic growth was 4% or 6% growth over market. And as a reminder, the Winchester Interconnect acquisition closed in October, 2018.

Strong launch volume and content gains globally were partially offset by; price of 1.7% in the quarter, the unfavorable impact of FX and commodities and lower North American volume related to the GM strike, which Kevin mentioned earlier.

From a regional perspective North American revenues were flat on an adjusted basis, however up 5% in the quarter when excluding the GM strike. Europe revenues were up 14% adjusted, with 15 points of growth over market, driven by the uptick of several active safety and electrification programs.

And lastly, our China adjusted growth was 6%, slightly ahead of expectations for our customers and significantly outpacing China vehicle production, down 7% in the quarter, resulting in 13 points of growth over market, driven by launch volume across the portfolio.

Turning to slide 12. As Kevin indicated, third quarter operating income and EPS were above the high end of the guidance we provided back in July when excluding the impact of the GM strike. EBITDA and operating income of $587 million and $410 million respectively reflected volume growth in both segments and better-than-expected operating performance, offset by FX, commodity and tariff headwinds, which on a combined basis was slightly better than expected and the impact of the GM strike, which totaled $30 million in the quarter.

Adjusted operating income margin was 11.5% in the quarter. However, when you adjust for the headwinds I just mentioned, margins would have expanded 10 basis points to 12.2%. Earnings per share of $1.27 was up 2% reported or 14% excluding those items.

Moving to the segments on the next slide. For the quarter Advanced Safety & User Experience revenues grew 9%, or 11 points over market, driven by launches and robust growth in active safety, more than offsetting the impact of the GM strike, the planned roll-off of our audio display product line and the launch cadence and user experience.

Operating income performance before the impact of higher mobility investments included unfavorable price declines and higher engineering investments to support launch activity. Our mobility spend for the quarter totaled $47 million and we are tracking to a range of $180 million to $190 million for the year.

Turning to Signal & Power Solutions on slide 14. Revenues were up 4% adjusted, representing 6% growth over market. Excluding acquisitions organic growth was 2% or 4 points over market, resulting from strong growth in electrical distribution systems, particularly in Europe and China, driven by new platform launches and increased electrification.

And double-digit growth in our CV and industrial product lines, partially offset by the unfavorable impact of the GM strike. EBITDA margin was 18.7%, up 20 basis points year-over-year and operating income margin was 13.5%, down 10 basis points reflecting benefits of volume growth and traction on our material manufacturing productivity and cost-reduction initiatives partially offset by higher depreciation and amortization.

Turning to slide 15, highlighting our fourth quarter and revised full year guidance, the volume disruption at GM has caused us to revise our vehicle production outlook lower for the remainder of the year.

A detailed update on our production outlook by quarter is included in the appendix of today's presentation. At a global level, we now expect vehicle production to be down 7% in the fourth quarter, and 5% for the full year, versus our prior outlook of down 5% and 4% respectively.

As a result, we have reflected our outlook both with and without the impact from the GM strike. Starting with the fourth quarter on the left, including the strike impact, revenues are expected to be flat on an adjusted basis at the midpoint, which reflects $180 million headwind from the strike in the fourth quarter.

Fourth quarter operating income is expected to be in the range of $365 million to $385 million, and includes $105 million headwind related to the GM strike, including certain inefficiencies related to ramping up production to full run rate levels in early November. EPS is now expected to be in the range of $0.97 to $1.03.

Moving to the full year, revenues are now expected to be in the range of $14.255 billion to $14.355 billion, up 3% at the midpoint. EBITDA and operating income are expected to be $2.252 billion and $1.53 billion at the midpoint respectively. And earnings per share are expected to be $4.65 at the midpoint, reflecting a $0.45 headwind from the GM strike.

Operating cash flow is now expected to be $1.54 billion, reflecting lower EBITDA related to the strike. As a reminder, excluding the GM strike impact, the midpoint of our outlook remains unchanged from our prior guidance.

Turning to the next slide, we thought it would be helpful to walk the operating income year-over-year for the fourth quarter, and full year 2019. In both cases you see the contribution from a volume growth.

In addition to performance benefits derived from our annual manufacturing and material productivity initiatives that ramp over the course of the year, and further traction on our cost savings, and reduction actions.

FX, commodities and tariffs have been a headwind throughout the year. And while price has been stable, there has been less of a headwind than expected, tracking below 2% for the full year.

Again, excluding the strike, operating income for the year of $1.67 billion at the midpoint, remains unchanged versus prior guidance. While our teams are aggressively working to mitigate the impact of the GM headwinds included in our fourth quarter outlook, we have reflected the probable downside in our revised fourth quarter and full year guidance.

Turning to the next slide, as we assess 2020, our long-term financial strategy remains unchanged. As we continue to position the company for better through cycle performance. 2019 year-to-date has demonstrated our ability to deliver on the strategy, despite the challenging macro environment.

Our ability to sustain strong revenue growth, even in a down production environment, demonstrates the work we've done to improve our through cycle resiliency, underscoring the value of our portfolio of relevant technologies, which more than offset the combination of lower vehicle production, unfavorable FX and commodities.

Additionally, our maniacal focus on ensuring our cost structure remains efficient, positions us to grow earnings, while investing in future growth, where we have the opportunity to significantly accelerate the commercialization of new platform solutions, including next-generation software, compute and vehicle architecture systems.

Despite near-term concerns about the challenging macro environment, we are confident in our ability to continue to outgrow the market. And while it is still early in the planning process, we think it's prudent to continue to plan for global light vehicle production, to be a headwind in 2020.

Based on current estimates, we expect to see unfavorable year-over-year impact from foreign exchange, and we remain laser-focused on mitigating risk from global trade disputes and regulatory constraints.

That said, there are a number of tailwinds as we head into 2020, including our portfolio alignment with key secular trends, enabling us to sustain above-market growth.

We see further benefits of our productivity initiatives reflected in our financial performance, as commodity and tariff headwind stabilize. And we will continue to effectively deploy capital, in alignment with our strategy, with contributions coming from our recent portfolio enhancing transactions to benefit 2020.

We will provide further insights on the year ahead over the coming months. And give official 2020 guidance in late January, when we report fourth quarter results.

With that, I'd like to hand the call back to Kevin for his closing remarks.

Kevin Clark

Thanks, Joe. Let me wrap up on slide 18, before opening it up for Q&A. Our third quarter performance is further evidence of Aptiv's ability to drive sustained growth and strong operating performance, despite a challenging macro environment.

We're confident in our outlook for 2019, which includes roughly 3% revenue growth, representing eight points of growth, over market. Our outlook for the fourth quarter reflects our balanced approach to forecasting industry volumes, in a more uncertain environment, while investing in future growth initiatives, and reaping the benefits of our lean cost structure and our flexible business model.

We believe our unique formula further differentiates Aptiv as a company capable of capitalizing on key Global Auto 2.0 megatrends, securing significant customer awards in the fastest growing spaces in the automotive market, while continuing to develop a more competitive business model, both of which translate into a much more predictable and sustainable business, better positioned to perform in any macro environment. And combined with the management team that thinks and acts like owners, fillers outsized value to our shareholders.

So with that, let's open up the line for Q&A.

Elena Rosman

Thank you. Chris, we’ll take our first question please.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Emmanuel Rosner from Deutsche Bank. Your line is open.

Emmanuel Rosner

Good morning everybody.

Kevin Clark

Good morning

Joe Massaro

Hi, Emmanuel.

Emmanuel Rosner

Was looking for additional color on the strike impact both in the quarter and assuming for the full year. Obviously it's a very large flow through of margin impact on the revenue. Can you just may be talk to us a little bit about what drives that, what inefficiencies are? And how do you think about it as we have now moved past the strike and if there's any, sort of, like cost or opportunities associated with that on the margin side?

Joe Massaro

Yeah. Emmanuel it's Joe. I would say the strike impact most akin to, and we had some of this last year right, sort of, the abrupt plant closures at OEs. So during the strike, we obviously held our workforce, we had over 21,000 impacted employees, seven dedicated facilities to GM were impacted. There was another 22 facilities that were partially supporting GM.

So you wind out with a fair amount of cost, obviously, the revenue comes out fairly quickly, staggered down in September as we're able to continue to support the Canadian and Mexican plants. But by the time you got to October, you really had all of that sitting idle.

We worked hard to maintain the workforce, so pay the workforce during the strike. That is really an effort to make sure we get back up and running very quickly just given the number of employees that we had. And basically what we've you assumed – obviously, we were down for the full month of October for the most part.

From a production perspective, we started shipping this week out of a couple of locations I would say shipments over the last couple of days have been between 10% and 15% of normal volume. We expect that to ramp to 25% to 40% of normal volumes over the next week. And then our current assumption is we're effectively back up and running normalized production and deliveries to GM after November 8th. And that's -- so those are the assumptions that are in the forecast.

Emmanuel Rosner

Okay, understood. That's very helpful. Second question is on the pricing side. So you highlighted in the full year walk that may be pricing is playing out a little bit better than expected. But you also flagged on slide 13, a 2.7% price decline specifically in the Advanced Safety and User Experience segment, which I guess I don't have a point of comparison from before, but it's not always there on the slide. Can you may be just talk a little bit more about what's going on, on the pricing side?

Joe Massaro

Yeah. I would say there's two -- I'd go back to what we've always said, which is prices -- pricing is lumpy. So long-term we're very comfortable with that 2% number. And I think as I've said even on these calls there'll be quarters where it's a little less, it doesn't necessarily mean anything. There's quarters where it's a little more doesn't necessarily mean anything. We're really focused around 2%, but it is a lumpy number quarter in and quarter out.

Listen, I do think the second point I'd make this year in particular, I think price is favorable overall as volumes have come down. And we do have certain clauses within our contracts that require volume being met at certain levels to continue to provide price downs and we have seen some benefit from that. But again longer term from a financial framework perspective, I've continued to think of that 2% as the right number.

Kevin Clark

And Emmanuel, it's Kevin. ASUEX traditionally has higher price downs relative to our other segment, our SPS segment. So it's not unusual to have to Joe's point price downs in that range, the range that Joe discussed.

Emmanuel Rosner

Okay. Thank you very much.

Operator

Your next question comes from Joseph Spak of RBC Capital markets. Your line is open.

Joseph Spak

Thanks for taking the question. Joe, I think you mentioned the tariff impact was a little bit better than you expected. Is that related to the GM strike and just some lower volumes, so maybe you bought some less components? Or is there something else going on with that?

Joe Massaro

Yeah. I would say last Q3, the strike happened a little bit late. That's stuff's, obviously, on the water for bid, so less strike-related. Overall, there's two things, I think overall volume, a little lower on some of those parts so that helps. But our remediation process is we are hitting those milestones from remediation perspective. The Korean operation's up and running. It's been approved by two of the three customers that utilize it. We've started shipping out of that.

So I'd say we're on track from a full year basis from where we thought we'd be. You might see a little bit or we do have a little bit of an uptick in tariffs in Q4 related to pulling some of the GM stuff and -- but that's a quarter thing. It's not going to impact our full year view. And remediation's on track.

Joseph Spak

Okay. And just to understand the strike impact third quarter to fourth quarter where the strong -- or high decrementals in both quarters higher in the fourth quarter. And I think you mentioned some of those restart cost. But then in the answer to Emmanuel's question I thought you said -- you sort of kept everyone going. So I just want to better understand why the decrementals are strong?

Joe Massaro

Yes. Didn't keep everybody going -- kept -- they weren't in the plan. So obviously kept paying them on temporary layoff -- or temporary layoffs. But there are some ramp cost too just getting them back to work, there's got to be some over time, there's got to be some inefficiencies people have been out for about 40-plus days. So there is an assumption as we ramp in the first half of November. We don't run as well as we were running in August and early September, right? It does take a little bit to turn the system back on. But again, I think manageable within the -- certainly manageable within the quarter and very specific to the GM strike. As you can see in the third quarter. And our sort of overall performance initiatives around manufacturing material are coming in where we expected them.

Kevin Clark

Joe -- if I can just add, Joe just taking a step back, just to put it in perspective. Within our SPS business, we have seven dedicated plants to serving General Motors in North America, right? That went through a period to Joe's point that weren't operating. And then there's an additional 21 or 22 that served General Motors in North America. So you can imagine as production declines significantly especially in the dedicated plants and to a lesser extent in the partial or shared plants. It's almost -- and it's keenly going through a relaunch of a program again. So you're not going to operate and launch at the same sort of efficiency as you do when a plant normally runs. So it's a significant part of the overall supply chain that needs to be kickstarted again and relaunched. And that has an impact on productivity and efficiency.

Joseph Spak

Okay. And Kevin just maybe a quick clarification on the Hyundai JV. Like in the press release, you talked about how you can still work with OEMs for ADAS and autonomous vehicles. Is that...

Kevin Clark

Yes.

Joseph Spak

Is that with the license backed from the JV? Or does this have to be sort of neo-independent work that Aptiv develops?

Kevin Clark

So two aspects to that. One -- it's a nonexclusive joint venture one. Two that we have the flexibility from a commercial standpoint to buy technology from the joint venture, but we also have the ability if it were to make sense to develop technology on our own to sell customers. So whatever would be the most optimal financial solution.

Joseph Spak

Perfect. Thanks.

Kevin Clark

Thanks, Joe.

Operator

Your next question comes from Rod Lache of Wolfe Research. Your line is open.

Rod Lache

Good morning everybody.

Kevin Clark

Hey, Rod.

Joe Massaro

Hey, Rod.

Rod Lache

Had a couple of questions. One is in your bridge for Q4 there's an acceleration in performance. Is that engineering recoveries? And is there anything we can extrapolate from that into 2020?

Joe Massaro

Yes. Well engineering recoveries are generally heavier in the fourth quarter. That's consistent this year. I think from a -- again I'd go back from a framework perspective. We continue to on a net basis look to that sort of 7% or 8% best in engineering across the business. I'm obviously not going to give specifics on 2020. I think Kevin's talked before I mentioned today, we're obviously continuing to invest in that active safety business just given the opportunities at hand in the bookings. But I -- again without getting into specifics of 2020, I wouldn't expect that to change over the long term.

Kevin Clark

Yes. Rod, again, if you go back to history, manufacturing material and engineering performance has consistently for us been strongest in the fourth quarter. And I think it's the nature of the initiatives that we've put in place in our plan. I think it's the nature of the incremental initiatives that we've put in place throughout the year.

Rod Lache

Okay, great. And on Europe, it looks like you're doing 15% or you did 15% growth over market. So obviously that business could withstand a lot, but I was hoping you could maybe just take a step back and speak broadly to what you're seeing in that market as we approach some of the regulatory changes that kick in, in January. Are there any preliminary signs on how production is being altered to capture that? And are you seeing a significant acceleration a signal on power there associated with electrification?

Kevin Clark

Yes. We're seeing strong growth in our Signal and Power Solutions segment, principally as it relates to or as a result of new program launches Rod. As you know, we've had a number of wins on a -- from a high-voltage standpoint. High voltage is growing very strong, but it's off on a relative basis for us. I'd call it a smaller number, so not a huge revenue impact. As we head into 2020 from 2019 like all of you, I think we have some concern about the robustness of the European market and the likelihood of continued, if not increased weakening in that market from a vehicle production standpoint. So I'd say it's a little bit too early to call, but as we sit and we plan for 2020, we're certainly forecasting production in Europe or would expect production in Europe to be down on a year-over-year basis.

Rod Lache

Okay, that makes sense. And just one data point if you could share it. Within the user experience business, could you remind us how big that headwind is from the roll-off of Displays? When does that sort of cycle through? And is that -- you've previously talked about a six to eight point growth over market through 2022, so that's accelerating. Is that one of the bigger factors that would lead to that acceleration?

Elena Rosman

So Rod the Displays business for us is about $200 million. It'll be down about $100 million in total for 2019. So it leaves another roughly $100 million of Displays revenue left that will continue to cycle through over the next one to two years.

Rod Lache

Okay. Great. Thank you.

Kevin Clark

Thanks, Rod.

Operator

Your next question comes from Chris McNally of Evercore. Your line is open.

Chris McNally

Hi, good morning, guys. I wanted to maybe go through this idea of a 2020 walk. And I appreciate, it's early in the year and you guys are taking a first stab but as we start to sort of put numbers to those deposits and the negatives, do you think it's fair to say that we should use the base ex-GM strike? Or is that maybe a little bit too aggressive, because it's unclear to some of Joe's points about how we'll get that lost EBIT back? So I guess that's my first question. Can we use sort of the $166 million plus in terms of EBIT as the base for a 2020 walk?

Joe Massaro

Yes. Chris, I think – listen, I think the ex-strike number is certainly we're comfortable with. It was our guidance from July. So from a 2019 perspective, ex-strike that's where the business lands. I think from our perspective what we're looking at is really what happens with vehicle production next year.

And as you know, we manage the business to a framework over the long term, certainly try to get that framework in each year but some of that's going to be dependent on vehicle production. And again, as Kevin mentioned, it's a little bit early to start calling numbers, but as we sit and look at things now, vehicle production down 5% this year, I'm not sure it's down 5% next year, but it's probably somewhere between 3% to 5% down next year as we start to add things up.

And then we'll go through our exercise of which we always do, where can we get additional performance out of the business? Where can we take out costs? And again as we've consistently said, where do we want to keep investing in the business, particularly from an engineering perspective? I don't know Kevin if you want to...

Kevin Clark

Yes. No and I think it's important to add as it relates to the fourth quarter, at least the first half of next year, the concept that you're going to have a big rebound or catch-up in vehicle production from General Motors based on the schedules we see and what they already had built in from a launch timing standpoint, it would -- it's tough to assume you get any at least near-term benefit not in the fourth quarter or in the full year. So...

Chris McNally

And then if I could just follow up on the production for next year because look we clearly share your concerns around Europe. So obviously Europe being down, again it's early but 1%, 2%, 3% that makes sense. But to get to a global number of down 3% I mean I guess we would also need core China down again and then U.S. down core ex sort of GM. So maybe can you just help us?

Because I think Europe everyone sort of understands. China no one has really big expectations but we would maybe sort of start to pencil in a flat or an up number. Can you just flesh out some of those thoughts where you're seeing a potential global weakness even going into next year?

Kevin Clark

Yes. Chris we're still working through plan. And we're not going to go through market-by-market at this point in time but we look at it from the opposite perspective. Play out a scenario where you actually see growth in vehicle production and in which markets.

And as we sit here today, we see more headwinds to vehicle production than we see tailwinds. And maybe a part of that is we want to make sure that we have operating plans to execute any -- execute against any downward pressure on volumes. That's probably a certain overlay but we also just want to be very realistic and rational about where we sit economically and where we are in the cycle. So to Joe's point, maybe it's not down 5% but we can come up with a number of reasons where and how it gets to down 3%.

Chris McNally

Okay, great. I appreciate that. If I could just do the one last follow-on. In that sort of environment of weak production, is there anything that we should think about calling out in terms of when we talked about the audio display rolling off, is there anything else in terms of that's not sort of in line with the content per vehicle trend that you've been seeing in ADAS and particularly electrification next year? Or is at least the content per vehicle sort of should continue in this trend that we've seen over the last several quarters?

Joe Massaro

Yes. No we would expect the outgrowth and the content per vehicle to be consistent. We haven't seen anything. We all have -- we'll get into maybe some launch lapping some launches on a given quarter those types of things, but waiting for the next launch to ramp up. We've had some big launches this year as you can see particularly in the -- as you go through North America and Europe. And China in the back half of the year are launching strong. So you may have some of that but from a broader strategic take rate overall content per vehicle trends not seeing any changes.

Chris McNally

Much appreciate it.

Joe Massaro

Thanks, Chris.

Operator

Your next question comes from Brian Johnson of Barclays. Your line is open.

Brian Johnson

Yes. Two more strategic questions around the recent quarters and what they mean going forward. The first is around the decrementals on downside in a volume. Certainly, we understood the impact of a GM strike, but if there's a future recession you're not going to have EPS adjusted for that. So what do the roughly 40% to 50% decrementals for the GM strike given all that stuff imply for decrementals in a U.S. downturn? And secondly what have you learned about kind of similar to summer 2015 managing those sudden volume decreases?

Kevin Clark

Yes. I think you got it separated and Joe can walk through and give you the specific numbers. But Brian, I think, it's important. Joe mentioned we worked very closely with General Motors to be in a position where when they did resolve the labor issue we could ramp up production as quickly as possible. So there is a fair amount of labor that we -- labor costs that we maintain that we kept in place so that we didn't have to be in a situation where we had to in addition to launching -- relaunching production have to train a bunch of new workers. So we kept them in place versus a normal scenario where we would see vehicle production declining for a more protracted period of time. We would have let them go.

Joe Massaro

Yes. I think, Brian again -- and we've been consistent. I think decrementals are in that 25% to 35% range a little bit of regional mix and that's what we've worked against. But if you take a plant -- if you take plants down for months that's going to be a higher decremental. If we get a forecast for 2020 vehicle production down a few points that's something we start to address from a cost structure perspective right? There's less shifts. There's less people in the plants. And so I would think of -- the decrementals, we think about working through when vehicle production comes down as we tend to figure out how to deal with that 25% to 35%.

To Kevin's point when you get hit with a very important customer is going through a difficult time and we agree to sort of work through it to make sure we're there to catch when they ramp back up and I do think -- as I mentioned I think we'll be ramped back up here to sort of full strength in call it 10 days or less than two weeks that costs some money but we do think it was the right thing to do.

Brian Johnson

Okay. Second strategic question is was it and maybe it's coincidence that gabocom was announced shortly after the Hyundai deal with the joint venture, but can you maybe talk about how the Hyundai deal affects your cash flow and hence capital allocation and availability for bolt-ons share buybacks et cetera going forward?

Kevin Clark

Yes. Well, the answer to your first question or comment was just pure coincidence. As you know, we've been very focused on growing our Engineered Components business. And the gabocom business was a great addition to the HellermannTyton product portfolio and business portfolio. It expands in a product line that they're already in the fast-growing telecom space. And it was an asset that our operating team and HellermannTyton knew very, very well, so high confidence in our ability to actually execute.

As it relates to the joint venture and how it affects our capital allocation strategy listen we have a strong balance sheet. We generate a lot of free cash flow. We focus on how we grow the business organically as well as acquisition-related. Clearly the structure of the joint venture frees up a couple hundred million dollars of additional cash flow on an annual basis and it gives us more flexibility, but Brian it won't drive any different behavior than the behavior that we have now which is a disciplined approach to either investing our business, pursue acquisitions or return the cash to shareholders. So I wouldn't...

Brian Johnson

But in terms of availability of cash it does -- does this mean that you don't -- the R&D investment losses if you will had an autonomy at all? Those are no longer coming from -- or we'll get through the accounting in the follow-up but conceptually are those being funded by the cash contribution Hyundai's made freeing up the cash?

Kevin Clark

Yes. So the joint venture itself right, Hyundai is contributing $1.6 billion of cash at close. The joint venture for a number of years will be funded by that contribution and therefore would reduce the amount of cash that we need to fund or spend on the development of the technology related to automated driving. Therefore the net result is we have more cash flow.

Brian Johnson

Okay. Thanks.

Operator

Your next question comes from Dan Levy of Credit Suisse. Your line is open.

Dan Levy

Hi, good morning guys.

Kevin Clark

Hey Dan.

Dan Levy

Hey. First, I hate to nitpick on growth numbers for your high-growth products that are actually still super robust, but we did see -- when you look at active safety and high-voltage electrification we saw that the growth pace -- and I apologize if this was addressed earlier, we did see the growth pace sort of down sequentially. So, up -- active safety up 29% versus the plus 50% clip you saw in the first half. You're cutting your growth expectations slightly going from plus 45% to plus 40%. Same with high-voltage electrification you were plus 30% in the third quarter versus the plus 65% pace we saw in first half. What happened there? Is that just program delays?

And then I assume relatedly we also saw your comments on China that although you raised your industry outlook for China for the back half of the year your growth is slightly worse. So, any color on China-related?

Joe Massaro

Dan I'll take China real quick and then we can go back to the first one. I think from that perspective, obviously, you saw great outgrowth in Q3 expect that to continue. There are a couple of customer-specific delay -- our customer-specific delays in Q4, a couple of our top customers that are -- they're continuing to launch. They're launching on time, but their launch volumes have come down a bit versus the original forecast.

So, again, they're launching on time which to us is more important. They have adjusted their forecasts, but more specific to those customers I think than sort of a broader market indication.

As it relates to the product line growth rates, they're obviously to your point, still very good I've got to believe industry-leading. You'll get some lumpiness, right? We talked about launch cadence. I mentioned that earlier. You'll have some launches lap. We'll get some lumpiness in the quarter, but obviously, no change to our longer term growth projections over the next couple of years post product launch.

Kevin Clark

Yes, if I could have one other comment and I don't mean to be -- but there is the law of large numbers, right? So, we have an active safety business that is $1.3 billion in revenues versus under $600 million in revenue just two years ago. So, continuing to grow at north of 60% becomes increasingly challenging just given the nature of the numbers.

I don't mean to be defensive, but I think it's fair to assume to Joe's point, there's going to be some volatility based on launch. But as we get into larger numbers, we're not going to maintain the same growth rates on those product lines.

Elena Rosman

And the active safety, I want to add Kevin, has a forecasting growth rate for 2022 of 25%.

Kevin Clark

Yes.

Dan Levy

So, that 2020 that growth rate through 2022 is still intact versus what you -- but I realized you're not in the business of changing your 2022 guidance every quarter, but that's still intact.

Kevin Clark

Yes.

Joe Massaro

Yes.

Dan Levy

I'm sure you'll sign up for plus 30% growth every day of the week. Okay, great. Thank you. And then just second wanted to follow up on the Hyundai. And you basically got a cash infusion of $1.6 billion, but I think you were spending call it $200 million a year, but this $1.6 billion covers you for call it a few years which would imply a fairly significant acceleration in spend.

So, where -- did you just feel like you needed to commercialize faster? Was there something that wasn't happening quickly enough that you felt like you effectively needed to double or significantly increase the spend? Just some color on how to think of it.

Joe Massaro

Yes, I just – well, listen I -- and I apologize. I didn't mean to imply that we needed to double spend or we will ramp-up spend. We'll -- as we work with the joint venture partner and we finalize, we'll develop our final plan.

Listen, the reason the joint venture with Hyundai is we ended up with a perfect partner. And we had, as you can imagine, a number of discussions with a number of potential partners over the last few years. And our perspective with respect to what they bring from a vehicle standpoint, from a vehicle platform standpoint, a perfect alignment on strategy as it relates to timing of introduction of product initial approach to the robotaxi market in 2022 and then applications for a broader base of OEM the fact that it's not exclusive. We have the ability to work with other OEM partners if that's what we so elect to do either with technology out of the joint venture or separate development of technology, the fact that we'll continue to sell technology to the joint venture and have access to it.

From our perspective, it was just the perfect partner and the right joint venture structure. And the fact that we have a partner that's willing to contribute $1.6 billion in cash at close with no strings attached, right, no gates from a technology standpoint, no gates from a monetization standpoint, we just view them as a perfect partner in a perfect opportunity to actually enhance the strength of our automated driving capabilities, and quite frankly take that technology and probably accelerate the development of our ADAS vehicle connectivity and Smart Vehicle Architecture activities just given the structure of the joint venture.

Dan Levy

Well, I guess let me ask it a little differently. Were you -- and I know your AMoD revenue outlook. That's still intact, but did you internally have one goal on commercialization? And then when you came to sort of forming this JV you then modified that goal in terms of timing of commercialization?

Kevin Clark

No, absolutely not. No, absolutely not. No, we were – listen, we've been working on with a number of folks with respect to vehicle partnerships, right? I guess, this further enhances that vehicle partnership and makes it a joint venture partnership, but no nothing changed.

Dan Levy

Got it. Thank you very much. Appreciate it.

Operator

Your next question comes from Steven Fox of Cross Research. Your line is open.

Steven Fox

Thank you. Excuse me, thank you. Good morning.

Kevin Clark

Good morning.

Steven Fox

I understand we don't want to get too much into next year, but I was wondering if you could maybe just go back and add a little color on the comment you made about the portfolio aligning more to key secular trends. So in other words, what is changing in the ramp that maybe would be different from the mix this year? And maybe give us a sense for how it could impact growth of a market or margins or anything like that? Thanks.

Kevin Clark

Yeah. I'm not sure anything's changing in the ramp, right? I think our -- if I think I understand your question, we operate in areas where content per vehicle is growing much faster than vehicle production and that's probably speaking for both of our segments ASUEX as well as SPS.

And we'll continue to benefit from some of the larger macro trends towards electrification, towards active safety, towards vehicle connectivity and that will translate to technologies like our multi-domain controllers, our Smart Vehicle Architecture, our high-voltage connectors and cable solutions. So we feel as though we continue to be perfectly positioned, I think -- so when we're talking about...

Steven Fox

So I'm sorry to interrupt. I guess what I was -- sorry to interrupt, but I guess what I was getting at is like the specific technologies that are ramping next year that maybe aren't in the portfolio right now. Because you have a huge backlog of business on -- a lot of it's based on a lot of next-generation technology and techniques that are needed to produce it. So I'm trying to get a sense of what's…

Kevin Clark

Some is and some isn't, right? So, high-voltage as an example we have an existing product portfolio on the wire harness and connector side. And it's just a matter of customer adoption, right, and program launches.

As it relates to active safety, as I mentioned, we have about $1.3 billion of active safety revenue today. Most of that tends to be in and around central fusion radar solution things like that. I guess, there are areas that we're launching like our satellite radar or satellite architecture approach to active safety, which we'll be rolling out across a number of OEMs over the next couple of years.

And then there's a number of multi-domain controllers that we'll be launching over the next few years as well. But I would view that as extension of existing technology versus brand new technology that needs to be introduced.

Steven Fox

Great. That's the detail I was trying to get at. Appreciate that. And then just as a follow-up, it doesn't sound like this is an issue, but I'm just wondering if you could address any de-specking that you're seeing going on in China or if you're not seeing any at all relative to incentivizing car sales.

Joe Massaro

No, not -- we're not seeing anything from an overall industry standpoint. We had a customer -- a couple of customers shift out some launches, but that's not de-specking. So we've not seen anything to-date.

Steven Fox

Great. Thank you very much.

Operator

Your next question comes from John Murphy of Bank of America. Your line is open.

John Murphy

Good morning guys. And believe it or not I just had a follow-up on the Hyundai JV. And so it sounds like there's $200 million roughly of costs that comes out and gets put into the JV. There's no associated revenue. Is that correct? Right?

Joe Massaro

Yes.

John Murphy

Got it. Okay. And when you think about what you guys did with Delphi Tech in the spin and in this structure, you seem to be sort of masters of portfolio management. Is there anything else that you can think of in your business that is maybe in the works or that you would think of creating another structure for that may be advantageous to value to the total company?

Kevin Clark

No. John, it's Kevin. And just nothing at this point. Nothing at this point in time. However, as you know we're always focused on evaluating our portfolio and identifying ways where we can better serve our customers and optimize shareholder value, but nothing at this point in time.

John Murphy

Okay. And then just lastly on slide 6 you talked about the Android infotainment system, but you also mentioned OTA updates on some of the Volvo and Polestar vehicles. I'm just curious when you're talking about a new OTA there, is that on the infotainment system itself or is that on the complete vehicle? And as you think about sort of integrating that into other customers' portfolios, how plug-and-play is that? Or is that something that's very integrated, into electrical architecture and has another lead time?

Kevin Clark

Yeah. That is integrated into the infotainment system only. But we're actively working on a number of potential programs as OEMs as a part of our SVA initiative to make OTA available and integrated to the broader vehicle.

So you can do a better job of more opportunity for life cycle management across all of the controllers in the car.

John Murphy

Okay, great. And thank you very much.

Operator

Your next question comes from Ryan Brinkman of JPMorgan. Your line is open.

Ryan Brinkman

Hi. Thanks for taking my question, which is also on the recently announced joint venture with Hyundai. Of course as mentioned, the transaction brings period financial benefits to margin cash flow, et cetera.

I was wondering, though, if the transaction is, in any way a reflection of how quickly you see Level 4, Level 5, rolling out relative to your earlier expectation? Is there any potential for a delay of fully autonomous vehicles relative to at the time of your Investor Day?

And then, similarly what is your latest thinking in terms of penetration of lower levels of autonomy, two and three et cetera? Is that looking any faster? And then, finally along these lines, what impacts just any, do you think a sharper industry downturn could have on autonomous penetration rates?

Kevin Clark

So your first question no. Our view on the introduction of autonomy hasn't changed. So the introduction of industrialized platform in 2022 for Robotaxi use is directly in line with what our plan has always been so no change from that standpoint.

As it relates to acceleration in more advanced ADAS system absolutely, we see relative to what we saw a year ago, increasing demands for more advanced Level 2, Level 2+, Level 3-, Level 3, advanced active safety systems, across OEMs, literally in every region.

So that's an area of review of opportunity. And we feel as though we're perfectly positioned to benefit from. As it relates to vehicle -- slowdown in vehicle production or markets what's the impact, as it relates to active safety -- active safety cells right?

Re-buy rates on active safety, I believe are north of 95%. So that's an area, where we would not expect to see de-contenting or a slowdown in penetration, if you were to see a slowdown in vehicle production.

Now I guess there's at certain points if it's severely -- you could see some impact. But just given the discussions with our customers, I think that rate would have to be significant and in any normal sort of slowdown and be highly unlikely.

Joe Massaro

Yeah. I think Ryan compounding that for some other OEs would be sort of Toyota. And one other OE out there that sort of voluntarily made in that active safety throughout their portfolio. So at this point, we're actually seeing adoption in lower end models probably faster than we have would assumed.

But I think, you'd be OE, but even in a more sort of near downturn to de-content active safety given the re-buy rates and the fact that you have others out there with comparable models that have that technology.

Ryan Brinkman

Okay, that’s very helpful.

Joe Massaro

And on the high-voltage side, we've got Europe and China. They've got to hit government mandates so we wouldn't expect de-contenting there either.

Ryan Brinkman

That's great color. Thanks. On commodities, I see you're slightly raising the full year headwind for FX and commodities. I'm guessing on FX, that some of the metals really continue to fall off.

Copper I know hasn't fallen as much as steel or aluminum. And a lot of the savings we passed down to customers. So how does the trend in the direction of commodities -- what does it imply for next year? Could you be looking at actually a pretty decent tailwind?

Joe Massaro

Certainly, a reduced headwind at this point, I think, we're watching with happens with resin. Resin prices have stabilized. So, it wouldn't be -- on the commodity side wouldn't necessarily be anticipating big headwinds. I think, a little too early to call a tailwind.

Obviously, FX will have an effect. Even if the FX rates settled today. It didn't change for next year. We'd have some catch-up in the first couple of quarters. So, that's what we're implying from the sort of headwind on the FX side.

Ryan Brinkman

Okay, got it. Thank you.

Operator

Your final question comes from Armintas Sinkevicius of Morgan Stanley. Your line is open.

Armintas Sinkevicius

Great, thank you for taking my question.

Joe Massaro

Good morning.

Armintas Sinkevicius

Just looking at the revenue guidance here, ex the GM strike, it's a bit lower. If you could help bridge that or where that's coming from that would be helpful.

Joe Massaro

Yeah. It's -- hi Armintas it's Joe. You've got about half of its FX and commodity flowing through. The other half as we mentioned earlier, just a little bit of customer-specific items in China. But you're talking round numbers $40 million to $50 million in total. It's about half and half.

Armintas Sinkevicius

Okay. And then, we haven't had many questions here on the color on the Smart Vehicle Architecture. If you could provide us with an update, how your conversations are going that will be great as well.

Kevin Clark

Yeah. Conversations -- again continued dialogue with a dozen OEMs. We have the advanced development programs that we've talked about. I would say from an industry standpoint, the industry recognizes the fact that our vehicle architecture needs to change. So, some OEMs, principally the OEMs in Europe are working more aggressively on driving that change. But it's an area of opportunity for Aptiv and there's a high level of interest.

Armintas Sinkevicius

Okay. And my last one here, fourth quarter versus third quarter, in the guidance that you provided ex-GM, suggests you feel pretty good about the pickup here -- the sequential pickup. Can you remind me some of the puts and takes here to bridges from third quarter to fourth quarter on margin?

Joe Massaro

Yeah. You've got -- yeah, listen you've got a couple of things right? You have again ex-strike. If you remember, last year we had about a $35 million performance hit in fourth quarter from some temporary plant closures of a couple of OEs that hit us, almost similar situation of the strike, short-term plant closures where we had to hold the workforce in place. That's about $35 million.

And then what you're seeing is the ramps in performance that we expected in the back half of the year. Q3 obviously, we saw that come through. I know we talked last quarter about there being a little bit of a step-up from H1 to H2, but we feel confident in getting that performance and we are seeing that come through.

And again, it's a little bit of -- we referenced it. Really sort of our material and manufacturing savings plans tend to run sort of build throughout the year their annual plans. And it's just a little bit of a function of setting a sort of a calendar business plan. But we continue to see those develop through -- the cost-saving actions we took in the first half of the year are effectively in place at this point from a headcount reduction as such.

Armintas Sinkevicius

Okay, great. Thank you for taking the question.

Joe Massaro

Thank you.

Kevin Clark

Thank you.

Operator

That was our final question. I will now turn the call to our presenters.

Kevin Clark

Thank you everybody. We appreciate your time. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.