

# LINAMAR CORPORATION

## Management's Discussion and Analysis

For the Quarter Ended June 30, 2018

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Linamar Corporation ("Linamar" or the "Company") should be read in conjunction with its consolidated interim financial statements for the quarter ended June 30, 2018. This MD&A has been prepared as at August 7, 2018. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS"). References to the term generally accepted accounting principles ("GAAP") refer to information contained herein being prepared under IFRS as adopted. All amounts in this MD&A are in millions of Canadian dollars, unless otherwise noted.

Additional information regarding Linamar, including copies of its continuous disclosure materials such as its annual information form, is available on its website at [www.linamar.com](http://www.linamar.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

### OVERALL CORPORATE PERFORMANCE

#### Overview of the Business

Linamar Corporation (TSX:LNR) is a diversified global manufacturing company of highly engineered products powering vehicles, motion, work and lives. The Company is made up of 2 operating segments – the Transportation segment and the Industrial segment, which are further divided into 5 operating groups – Machining & Assembly, Light Metal Casting, Forging, Skyjack and Agriculture, all world leaders in the design, development and production of highly engineered products. The Company's Machining & Assembly, Light Metal Casting and Forging operating groups focus on precision metallic components, modules and systems for powertrain, driveline and body systems designed for global electrified and traditionally powered vehicle and industrial markets. The Company's Skyjack and MacDon companies are noted for their innovative, high quality mobile industrial and harvesting equipment, notably class-leading aerial work platforms, telehandlers, draper headers and self-propelled windrowers. Linamar has more than 28,700 employees in 60 manufacturing locations, 8 R&D centers and 25 sales offices in 17 countries in North and South America, Europe and Asia which generated sales of \$6.5 billion in 2017. For more information about Linamar Corporation and its industry leading products and services, visit [www.linamar.com](http://www.linamar.com) or follow us on Twitter at @LinamarCorp.

#### Overall Corporate Results

The following table sets out certain highlights of the Company's performance in the second quarter of 2018 ("Q2 2018") and 2017 ("Q2 2017"):

(in millions of dollars, except content per vehicle figures)	Three Months Ended June 30				Six Months Ended June 30			
	2018 \$	2017 \$	+/- \$	+/- %	2018 \$	2017 \$	+/- \$	+/- %
Sales	2,157.4	1,766.2	391.2	22.1%	4,051.4	3,422.2	629.2	18.4%
Gross Margin	385.6	312.8	72.8	23.3%	701.6	596.8	104.8	17.6%
Operating Earnings (Loss) <sup>1</sup>	272.3	215.6	56.7	26.3%	487.3	407.8	79.5	19.5%
Attributable to Shareholders of the Company:								
Net Earnings (Loss)	197.1	161.9	35.2	21.7%	353.8	307.0	46.8	15.2%
Net Earnings (Loss) per Share – Diluted	2.98	2.45	0.53	21.6%	5.35	4.65	0.70	15.1%
Earnings before interest, taxes and amortization ("EBITDA") <sup>1</sup>	368.2	297.0	71.2	24.0%	674.3	576.7	97.6	16.9%
Operating Earnings (Loss) – Adjusted <sup>1</sup>	276.6	215.6	61.0	28.3%	491.6	407.8	83.8	20.5%
Net Earnings (Loss) – Adjusted <sup>1</sup>	200.3	161.9	38.4	23.7%	357.0	307.0	50.0	16.3%
Net Earnings (Loss) per Share – Diluted – Adjusted <sup>1</sup>	3.03	2.45	0.58	23.7%	5.40	4.65	0.75	16.1%
EBITDA – Adjusted <sup>1</sup>	372.5	297.0	75.5	25.4%	678.6	576.7	101.9	17.7%
Content per Vehicle – North America	165.44	160.71	4.73	2.9%	167.03	158.25	8.78	5.5%
Content per Vehicle – Europe	80.02	69.48	10.54	15.2%	79.06	67.75	11.31	16.7%
Content per Vehicle – Asia Pacific	9.11	10.72	(1.61)	(15.0%)	9.30	9.88	(0.58)	(5.9%)

The changes in these financial highlights are discussed in detail in the following sections of this analysis.

<sup>1</sup> For more information refer to the "Non-GAAP and Additional GAAP Measures" section of this MD&A.

## **BUSINESS SEGMENT REVIEW**

The Company reports its results of operations in two business segments: Transportation and Industrial. The segments are differentiated by the products that each produces and reflects how the chief operating decision makers of the Company manage the business. The following should be read in conjunction with the Company's consolidated interim financial statements for the quarter ended June 30, 2018.

(in millions of dollars)	Three Months Ended June 30 2018			Three Months Ended June 30 2017		
	Transportation \$	Industrial \$	Linamar \$	Transportation \$	Industrial \$	Linamar \$
Sales	1,506.8	650.6	2,157.4	1,405.1	361.1	1,766.2
Operating Earnings (Loss)	138.8	133.5	272.3	161.5	54.1	215.6
EBITDA	220.5	147.7	368.2	237.6	59.4	297.0
Operating Earnings (Loss) – Adjusted	141.9	134.7	276.6	161.5	54.1	215.6
EBITDA – Adjusted	223.6	148.9	372.5	237.6	59.4	297.0

(in millions of dollars)	Six Months Ended June 30 2018			Six Months Ended June 30 2017		
	Transportation \$	Industrial \$	Linamar \$	Transportation \$	Industrial \$	Linamar \$
Sales	3,003.3	1,048.1	4,051.4	2,774.2	648.0	3,422.2
Operating Earnings (Loss)	279.1	208.2	487.3	307.9	99.9	407.8
EBITDA	441.0	233.3	674.3	466.4	110.3	576.7
Operating Earnings (Loss) – Adjusted	282.2	209.4	491.6	307.9	99.9	407.8
EBITDA – Adjusted	444.1	234.5	678.6	466.4	110.3	576.7

### **Transportation Highlights**

(in millions of dollars)	Three Months Ended June 30				Six Months Ended June 30			
	2018 \$	2017 \$	+/- \$	+/- %	2018 \$	2017 \$	+/- \$	+/- %
Sales	1,506.8	1,405.1	101.7	7.2%	3,003.3	2,774.2	229.1	8.3%
Operating Earnings (Loss)	138.8	161.5	(22.7)	(14.1%)	279.1	307.9	(28.8)	(9.4%)
EBITDA	220.5	237.6	(17.1)	(7.2%)	441.0	466.4	(25.4)	(5.4%)
Operating Earnings (Loss) – Adjusted	141.9	161.5	(19.6)	(12.1%)	282.2	307.9	(25.7)	(8.3%)
EBITDA – Adjusted	223.6	237.6	(14.0)	(5.9%)	444.1	466.4	(22.3)	(4.8%)

Sales for the Transportation segment ("Transportation") increased by \$101.7 million, or 7.2% in Q2 2018 compared with Q2 2017. The sales in Q2 2018 were impacted by:

- additional sales from launching programs in North America and Europe;
- increased volumes from our light vehicle automotive customers in Europe; and
- additional sales from our medium and heavy duty truck and off-highway vehicle customers; offset by the following issues that had an impact on mature program volumes:
  - lower production volumes on programs in North America with key customers; and
  - lower volumes on programs due to a customer's disruption of production caused by a fire at one of their suppliers.

Year to date ("YTD") sales for Transportation increased by \$229.1 million, or 8.3% compared to YTD Q2 2017. The factors that impacted Q2 2018 similarly impacted the YTD results with the addition of higher YTD sales resulting from favourable changes in foreign exchange rates since Q2 2017.

Q2 2018 operating earnings for Transportation were lower by \$22.7 million, or 14.1% over Q2 2017. The Transportation segment's earnings were impacted by the following:

- increased volumes from our light vehicle automotive customers in Europe;
- production volumes increasing on launching programs in North America and Europe;
- volume increase from our medium and heavy duty truck and off-highway vehicle customers;
- a favourable foreign exchange impact from the revaluation of the operating balances on the balance sheet from Q1 2018; offset by
- sales declines on mature higher margin programs, as detailed above, insufficiently offset by lower margins on programs in the early stages of launch;
- increased management, R&D, and sales costs supporting growth;

- one-time restructuring costs incurred in Q2 2018; and
- an unfavorable impact on operating earnings from the changes in foreign exchange rates from Q2 2017.

The YTD operating earnings decreased by \$28.8 million, or 9.4% compared with YTD Q2 2017. The factors that impacted Q2 2018 similarly impacted the YTD results.

## Industrial Highlights

(in millions of dollars)	Three Months Ended June 30				Six Months Ended June 30			
	2018 \$	2017 \$	+/- \$	+/- %	2018 \$	2017 \$	+/- \$	+/- %
Sales	650.6	361.1	289.5	80.2%	1,048.1	648.0	400.1	61.7%
Operating Earnings (Loss)	133.5	54.1	79.4	146.8%	208.2	99.9	108.3	108.4%
EBITDA	147.7	59.4	88.3	148.7%	233.3	110.3	123.0	111.5%
Operating Earnings (Loss) – Adjusted	134.7	54.1	80.6	149.0%	209.4	99.9	109.5	109.6%
EBITDA – Adjusted	148.9	59.4	89.5	150.7%	234.5	110.3	124.2	112.6%

The Industrial segment (“Industrial”) product sales increased 80.2%, or \$289.5 million, to \$650.6 million in Q2 2018 from Q2 2017. The sales increase was due to:

- increased sales related to the acquisition of Moray Marketing Ltd., parent company of MacDon and its Group of Companies (“MacDon”);
- strong market share gains and increased volumes for telehandlers in North America;
- strong market share gains and increased volumes for booms in North America and Europe; and
- strong market share gains for scissors in Europe and increased volumes in North America; partially offset by
- an unfavourable impact on sales from the changes in foreign exchange rates from Q2 2017.

YTD sales for Industrial increased by \$400.1 million, or 61.7% compared with YTD Q2 2017. The factors that impacted Q2 2018 similarly impacted the YTD results.

Industrial segment operating earnings in Q2 2018 increased \$79.4 million, or 146.8% from Q2 2017. The Industrial operating earnings results were predominantly driven by:

- increased earnings related to the acquisition of MacDon;
- net increase in access equipment volumes; and
- a favourable foreign exchange impact from the revaluation of the operating balances on the balance sheet from Q1 2018; partially offset by
- an unfavourable impact on operating earnings from the changes in foreign exchange rates from Q2 2017; and
- increased management, R&D, and sales costs supporting growth.

The YTD operating earnings for Industrial increased by \$108.3 million, or 108.4% compared with YTD Q2 2017. The factors that impacted Q2 2018 similarly impacted the YTD results.

## AUTOMOTIVE SALES AND CONTENT PER VEHICLE<sup>1</sup>

Automotive sales by region in the following discussion are determined by the final vehicle production location and, as such, there are differences between these figures and those reported under the geographic segment disclosure, which are based primarily on the Company's location of manufacturing and include both automotive and non-automotive sales. These differences are the result of products being sold directly to one continent, and the final vehicle being assembled on another continent. It is necessary to show the sales based on the vehicle build location to provide accurate comparisons to the production vehicle units for each continent.

In addition to automotive Original Equipment Manufacturers ("OEMs"), the Company sells powertrain parts to a mix of automotive and non-automotive manufacturers that service various industries such as power generation, construction equipment, marine and automotive. The final application of some parts sold to these manufacturers is not always clear; however the Company estimates the automotive portion of the sales for inclusion in its content per vehicle ("CPV") calculations. The allocation of sales to regions is based on vehicle production volume estimates from industry sources, published closest to the quarter end date. As these estimates are updated, the Company's sales classifications can be impacted.

	Three Months Ended				Six Months Ended			
	2018	2017	+/-	June 30 %	2018	2017	+/-	June 30 %
<i>North America</i>								
Vehicle Production Units <sup>2</sup>	4.53	4.58	(0.05)	(1.1%)	9.04	9.21	(0.17)	(1.8%)
Automotive Sales <sup>1</sup>	\$ 748.7	\$ 735.3	\$ 13.4	1.8%	\$ 1,510.3	\$ 1,457.6	\$ 52.7	3.6%
<b>Content Per Vehicle <sup>1</sup></b>	<b>\$ 165.44</b>	<b>\$ 160.71</b>	<b>\$ 4.73</b>	<b>2.9%</b>	<b>\$ 167.03</b>	<b>\$ 158.25</b>	<b>\$ 8.78</b>	<b>5.5%</b>
<i>Europe</i>								
Vehicle Production Units	6.01	5.72	0.29	5.1%	11.88	11.57	0.31	2.7%
Automotive Sales	\$ 480.8	\$ 397.2	\$ 83.6	21.0%	\$ 939.3	\$ 784.0	\$ 155.3	19.8%
<b>Content Per Vehicle</b>	<b>\$ 80.02</b>	<b>\$ 69.48</b>	<b>\$ 10.54</b>	<b>15.2%</b>	<b>\$ 79.06</b>	<b>\$ 67.75</b>	<b>\$ 11.31</b>	<b>16.7%</b>
<i>Asia Pacific</i>								
Vehicle Production Units	12.14	11.48	0.66	5.7%	24.61	24.05	0.56	2.3%
Automotive Sales	\$ 110.7	\$ 123.1	\$ (12.4)	(10.1%)	\$ 228.9	\$ 237.6	\$ (8.7)	(3.7%)
<b>Content Per Vehicle</b>	<b>\$ 9.11</b>	<b>\$ 10.72</b>	<b>\$ (1.61)</b>	<b>(15.0%)</b>	<b>\$ 9.30</b>	<b>\$ 9.88</b>	<b>\$ (0.58)</b>	<b>(5.9%)</b>

North American automotive sales for Q2 2018 increased 1.8% from Q2 2017 in a market that saw a decrease of 1.1% in production volumes for the same period. As a result, content per vehicle in Q2 2018 increased 2.9% from \$160.71 to \$165.44. The increase in North American content per vehicle was a result of increases on launching programs and increases in volumes over market production from certain light vehicle customers partially offset by the issue impacting mature volumes noted above in the Transportation Highlights.

European automotive sales for Q2 2018 increased 21.0% from Q2 2017 in a market that saw an increase of 5.1% in production volumes for the same period. As a result, content per vehicle in Q2 2018 increased 15.2% from \$69.48 to a new record of \$80.02. The increase in European content per vehicle was a result of increases in volumes over market production from certain light vehicle customers and increases on launching programs.

Asia Pacific automotive sales for Q2 2018 decreased 10.1% from Q2 2017 in a market that saw an increase of 5.7% in production volumes for the same period. As a result, content per vehicle in Q2 2018 decreased 15.0% from \$10.72 to \$9.11. The decrease in Asian CPV was a result of lower mature volumes for certain customer platforms that the company has significant business with.

<sup>1</sup> Automotive Sales are measured as the amount of the Company's automotive sales dollars per vehicle, not including tooling sales. CPV does not have a standardized meaning and therefore is unlikely to be comparable to similar measures presented by other issuers. CPV is an indicator of the Company's market share for the automotive markets that it operates in.

<sup>2</sup> Vehicle production units are derived from industry sources and are shown in millions of units. North American vehicle production units used by the Company for the determination of the Company's CPV include medium and heavy truck volumes. European and Asia Pacific vehicle production units exclude medium and heavy trucks. All vehicle production volume information is as regularly reported by industry sources. Industry sources release vehicle production volume estimates based on the latest information from the Automotive Manufacturers and update these estimates as more accurate information is obtained. The Company will, on a quarterly basis, update CPV for the current fiscal year in its MD&A as these volume estimates are revised by the industry sources. The CPV figures in this MD&A reflect the volume estimates that were published closest to the quarter end date by the industry sources. These updates to vehicle production units have no effect on the Company's financial statements for those periods.

## RESULTS OF OPERATIONS

### Gross Margin

(in millions of dollars)	Three Months Ended		Six Months Ended	
	2018	June 30 2017	2018	June 30 2017
Sales	\$ 2,157.4	\$ 1,766.2	\$ 4,051.4	\$ 3,422.2
Cost of Sales before Amortization	1,680.8	1,373.1	3,170.0	2,663.7
Amortization	91.0	80.3	179.8	161.7
Cost of Sales	1,771.8	1,453.4	3,349.8	2,825.4
Gross Margin	\$ 385.6	\$ 312.8	\$ 701.6	\$ 596.8
Gross Margin Percentage	17.9%	17.7%	17.3%	17.4%

Gross margin percentage increased to 17.9% in Q2 2018 from 17.7% in Q2 2017. Cost of sales before amortization as a percentage of sales increased in Q2 2018 to 77.9% compared to 77.7% for the same quarter of last year. The improved gross margin between Q2 2018 and Q2 2017 is a result of the items discussed earlier in this analysis such as:

- Increased margins related to the acquisition of MacDon;
- increased earnings as a result of increased volumes in both segments; partially offset by
- sales declines on mature higher margin programs, as detailed above, insufficiently offset by lower margins on programs in the early stages of launch; and
- an unfavourable foreign exchange impact from the changes in foreign exchange rates.

Q2 2018 amortization increased to \$91.0 million from \$80.3 million in Q2 2017 due to the additional expenses from the acquisition of MacDon and increased expenses related to launching programs. Amortization as a percentage of sales decreased to 4.2% of sales as compared to 4.5% in Q2 2017.

YTD Q2 2018 gross margin decreased to 17.3% from 17.4% in the same period of 2017. The decrease in the YTD gross margin was a result of the same factors that impacted Q2 2017.

### Selling, General and Administration

(in millions of dollars)	Three Months Ended		Six Months Ended	
	2018	June 30 2017	2018	June 30 2017
Selling, general and administrative	\$ 122.7	\$ 90.0	\$ 229.2	\$ 181.1
SG&A Percentage	5.7%	5.1%	5.7%	5.3%

Selling, general and administrative ("SG&A") costs increased in Q2 2018 to \$122.7 million from \$90.0 million and increased as a percentage of sales to 5.7% from 5.1% when compared to Q2 2017 due to additional expenses from the acquisition of MacDon, additional management, R&D, and sales costs supporting growth, and one-time restructuring costs incurred in Q2 2018.

On a YTD basis, SG&A costs reflected a similar pattern of higher dollar costs due to investments made to support launches, future growth and new facilities, increasing as a percentage of sales to 5.7% from 5.3% when compared to YTD Q2 2017.

### Finance Expense and Income Taxes

(in millions of dollars)	Three Months Ended		Six Months Ended	
	2018	June 30 2017	2018	June 30 2017
Operating Earnings (Loss)	\$ 272.3	\$ 215.6	\$ 487.3	\$ 407.8
Share of Net Earnings (Loss) of Investments Accounted for Using the Equity Method	(2.8)	(1.4)	(5.6)	(2.6)
Finance Income and (Expenses)	(12.6)	(2.9)	(21.9)	(5.8)
Provision for (Recovery of) Income Taxes	59.8	49.4	106.0	92.4
Net Earnings (Loss)	197.1	161.9	353.8	307.0

#### Finance Expenses

Finance expenses increased \$9.7 million in Q2 2018 from \$2.9 million in Q2 2017 to \$12.6 million due to:

- an increase in Canadian debt levels due to the acquisition of MacDon in Q1 2018;
- a higher borrowing spread due to the change in the covenant ratio after the MacDon acquisition;
- higher interest rates due to the Bank of Canada rate hikes in Q3 2017 and Q1 2018; partially offset by
- higher interest earned on the investment of excess cash and long-term receivable balances; and

- repayment of private placement debt which has been replaced with floating debt with lower interest rates.

YTD Q2 2018 finance expenses increased \$16.1 million compared to YTD Q2 2017 to \$21.9 million and was a result of the same factors as described above for Q2 2018.

The consolidated effective interest rate for Q2 2018 increased to 2.8% compared to 2.2% in Q2 2017. The increase in the effective interest rate was driven by the change in the borrowing spread due to the MacDon acquisition, coupled with recent Bank of Canada interest rate hikes.

The increase in effective interest rate of 2.7% YTD Q2 2018 versus 2.1% YTD Q2 2017 is due to the same factors listed above.

### **Income Taxes**

The effective tax rate for Q2 2018 was 23.3%, a slight decrease from the 23.4% rate in the same quarter of 2017. The effective tax rate in Q2 2018 was:

- reduced due to decreasing tax rates in foreign jurisdictions; offset by
- an increase due to the higher effective tax rate on income from our acquisition of MacDon.

The Q2 2018 YTD effective tax rate is 23.1%, the same as for Q2 2017 YTD. The Q2 2018 YTD effective tax rate was impacted by the same factors as described for Q2 2018.

### **TOTAL EQUITY**

Book value per share<sup>1</sup> increased to \$53.71 per share at June 30, 2018 as compared to \$47.63 per share at December 31, 2017.

During the quarter no options expired unexercised, no options were forfeited and no options were exercised.

### **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares, of which 65,354,495 common shares were outstanding as of August 7, 2018. The Company's common shares constitute its only class of voting securities. As of August 7, 2018, there were 1,591,876 options to acquire common shares outstanding and 4,250,000 options still available to be granted under the Company's share option plan.

### **SELECTED FINANCIAL INFORMATION**

#### **Quarterly Results**

The following table sets forth unaudited information for each of the eight quarters ended September 30, 2016 through June 30, 2018. This information has been derived from the Company's unaudited consolidated interim financial statements which, in the opinion of management, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of the financial position and results of operations for those periods.

	June 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016
(in millions of dollars, except per share figures)	\$	\$	\$	\$	\$	\$	\$	\$
Sales	2,157.4	1,893.9	1,574.5	1,549.7	1,766.2	1,656.0	1,374.8	1,455.5
Net Earnings (Loss) Attributable to Shareholders of the Company	197.1	156.6	135.1	107.3	161.9	145.1	116.1	122.2
Net Earnings (Loss) per Share Attributable to Shareholders of the Company:								
Basic	3.02	2.40	2.07	1.64	2.48	2.22	1.78	1.88
Diluted	2.98	2.37	2.04	1.62	2.45	2.20	1.76	1.86

The quarterly results of the Company are impacted by the seasonality of certain operational units. Historically, earnings in the second quarter, for the Industrial segment, are positively impacted by the high selling season for both the access equipment and agricultural businesses. For the Transportation segment, vehicle production is typically at its lowest level during the third and fourth quarters due to lower OEM production schedules resulting from shutdowns related to summer and winter maintenance, and model changeovers. The Company takes advantage of summer and winter shutdowns for maintenance activities that would otherwise disrupt normal production schedules.

<sup>1</sup> For more information refer to the "Non-GAAP and Additional GAAP Measures" section of this MD&A.

## **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flows**

(in millions of dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash generated from (used in):				
Operating Activities	171.0	211.9	206.8	270.4
Financing Activities	(67.5)	(31.5)	1,180.5	25.6
Investing Activities	(124.9)	(104.4)	(1,419.6)	(200.0)
Effect of translation adjustment on cash	(16.8)	(3.6)	10.3	9.6
Net Increase (Decrease) in Cash Position	(38.2)	72.4	(22.0)	105.6
Cash and Cash Equivalents – Beginning of Period	455.3	438.2	439.1	405.0
Cash and Cash Equivalents – End of Period	417.1	510.6	417.1	510.6
Comprised of:				
Cash in bank	298.0	314.7	298.0	314.7
Short-term deposits	144.9	200.8	144.9	200.8
Unpresented Cheques	(25.8)	(4.9)	(25.8)	(4.9)
	417.1	510.6	417.1	510.6

The Company's cash and cash equivalents (net of unpresented cheques) at June 30, 2018 were \$417.1 million, a decrease of \$93.5 million compared to June 30, 2017.

Cash generated from operating activities was \$171.0 million, a decrease of \$40.9 million from Q2 2017 due to more cash being used to fund the net change in operating assets, partially offset by increased earnings. YTD cash generated from operating activities was \$206.8 million, \$63.6 million less than was provided in YTD Q2 2017, primarily due to more cash being used to fund the net change in operating assets, partially offset by an increase in net earnings over YTD Q2 2017.

During the quarter, financing activities used \$67.5 million of cash compared to \$31.5 million in Q2 2017. YTD financing activities provided \$1,180.5 million compared to \$25.6 million YTD Q2 2017, which was primarily used in Q1 2018 to fund the purchase of MacDon.

Investing activities used \$124.9 million in Q2 2018 compared to \$104.4 million used in Q2 2017 mainly for the purchase of property, plant and equipment. Investing activities used \$1,419.6 million in YTD Q2 2018 mainly for the acquisition of MacDon and the purchase of property, plant and equipment.

### **Operating Activities**

(in millions of dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net earnings (loss) for the Period Attributable to Shareholders of the Company	197.1	161.9	353.8	307.0
Adjustments to earnings	107.7	86.1	212.0	174.3
	304.8	248.0	565.8	481.3
Changes in operating assets and liabilities	(133.8)	(36.1)	(359.0)	(210.9)
Cash generated from (used in) operating activities	171.0	211.9	206.8	270.4

Cash generated by operations before the effect of changes in operating assets and liabilities increased \$56.8 million in Q2 2018 to \$304.8 million, compared to \$248.0 million in Q2 2017. YTD cash generated from operations before the effect of changes in non-cash working capital increased \$84.5 million to \$565.8 million from \$481.3 million in YTD Q2 2017.

Changes in operating assets and liabilities for Q2 2018 increased \$133.8 million and YTD increased \$359.0 million primarily due to increases in accounts receivable resulting from the seasonally high period for sales and sizeable sales growth occurring in both Q2 2018 and YTD Q2 2018.

## Financing Activities

(in millions of dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Proceeds from (repayments of) short-term borrowings	(0.5)	(4.0)	3.9	(2.7)
Proceeds from (repayments of) long-term debt	(13.8)	(15.3)	1,237.2	48.3
Proceeds from exercise of stock options	-	0.2	-	0.4
Dividends	(15.7)	(15.7)	(15.7)	(15.7)
Interest received (paid)	(37.5)	3.3	(44.9)	(4.7)
Cash generated from (used in) financing activities	(67.5)	(31.5)	1,180.5	25.6

Financing activities for Q2 2018 used \$67.5 million of cash compared to \$31.5 million used in Q2 2017. Financing activities for YTD Q2 2018 provided \$1,180.5 million of cash compared to \$25.6 million provided in YTD Q2 2017 due to the proceeds from long-term debt used to fund the purchase of MacDon in Q1 2018.

## Investing Activities

(in millions of dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Payments for purchase of property, plant and equipment	(119.7)	(100.8)	(237.3)	(194.3)
Proceeds on disposal of property, plant and equipment	3.0	4.6	5.1	6.8
Payments for purchase of intangible assets	(8.2)	(4.4)	(12.0)	(7.6)
Business acquisitions, net of cash acquired	-	-	(1,175.4)	(1.1)
Other	-	(3.8)	-	(3.8)
Cash generated from (used in) investing activities	(124.9)	(104.4)	(1,419.6)	(200.0)

Cash used for investing activities for Q2 2018 was \$124.9 million compared to Q2 2017 at \$104.4 million primarily due the purchase of property, plant and equipment. YTD Q2 2018 cash spent on investing activities increased to \$1,419.6 million compared to YTD Q2 2017 at \$200.0 million which was primarily related to the acquisition of MacDon in Q1 2018.

## Capital Resources

The Company's financial condition remains solid given its strong balance sheet, which can be attributed to the Company's low cost structure, reasonable level of debt, prospects for growth and significant new program launches. Management expects that all future capital expenditures will be financed by cash flow from operations or utilization of existing financing facilities.

At June 30, 2018, cash including short-term deposits (net of unrepresented cheques) was \$417.1 million and the Company's credit facilities had available credit of \$595.3 million.

## Commitments and Contingencies

Please see the Company's December 31, 2017 annual MD&A for a table summarizing the contractual obligations by category. Also certain guarantees and legal claims are described in the notes to the Company's consolidated financial statements for the year ended December 31, 2017.

## Foreign Currency Activities

The Company pursues a strategy of optimizing its foreign currency cash flows in each region in which it operates. In key foreign exchange markets, the Company's foreign currency outflows for the purchases of materials and capital equipment are offset through the sale of products denominated in the same foreign currencies, creating a natural hedge. In markets where a natural currency hedge cannot be achieved and a material foreign exchange exposure arises, the Company actively manages the risk through the execution of foreign exchange forward contracts and other derivatives.

The amount and timing of executed forward contracts is dependent upon a number of factors, including estimated production delivery schedules, forecasted customer payments, and the anticipated future direction of foreign currency rates. The Company is exposed to counterparty credit risk when executing foreign exchange derivatives with financial institutions, and in order to mitigate this risk the Company limits foreign exchange trading to counterparties within the credit facility. Despite actively managing the residual foreign exchange exposure, significant long-term movements in relative currency values may affect the Company's operational results. The Company does not currently hedge all the cash flow activities of its foreign subsidiaries and, accordingly results of operations may be further affected by a significant change in the relative values of the currencies in which the Company operates.

The Company is committed to long-dated forward contracts to buy U.S. dollars which hedge the changes in exchange rates on the U.S. \$130 million Private Placement Notes due 2021 ("2021 Notes"). These forward exchange contracts qualify as cash flow hedges for accounting purposes and any fair value unrealized gains and losses are included in other comprehensive earnings, with reclassifications to net earnings for the effective portion to match the net earnings impact of the principal portion.

The Company is committed to a series of forward contracts to lock in the exchange rate on the semi-annual coupon payments related to the 2021 Notes. These forward contracts qualify as cash flow hedges for accounting purposes and any fair value unrealized gains and losses are included in other comprehensive earnings, with reclassifications to net earnings for the effective portion to match the net earnings impact of the coupon portion.

A portion of the Company's Euro denominated debt was designated as a net investment hedge. Hedges of net investments are accounted for in a similar manner as cash flow hedges with amounts accumulated in other comprehensive earnings. The amounts accumulated in other comprehensive earnings are reclassified to net earnings in the period in which the foreign operation is partially disposed of, or sold.

For more information regarding the Company's long-term debt and forward contracts including related risks please see the notes to the Company's consolidated financial statements for the year ended December 31, 2017.

### **Off Balance Sheet Arrangements**

The Company leases various land and buildings under cancellable and non-cancellable operating lease arrangements. The lease terms are between 1 and 13 years, and the majority of lease arrangements are renewable at the end of the lease period at market rates. The Company also leases various machinery and transportation equipment under non-cancellable operating lease arrangements. The lease terms are between 1 and 7 years and require notice for termination of the agreements. The Company expects that existing leases will either be renewed or replaced, or alternatively, capital expenditures will be incurred to acquire equivalent capacity.

For a summary of these lease commitments please see the notes to the Company's consolidated financial statements for the year ended December 31, 2017. Such obligations have not changed significantly during 2018.

### **CURRENT AND PROPOSED TRANSACTIONS**

On February 1, 2018, the Company completed its acquisition of 100% of the outstanding equity interest of MacDon for a preliminary purchase price of \$1,298.9 million comprised of \$1,223.9 million in cash consideration and an assumed liability of \$75.0 million. The liability was immediately extinguished using a portion of the acquired cash of MacDon. The preliminary purchase price of \$1,298.9 million includes cash acquired for a net acquisition cash impact of \$1,175.4 million. Headquartered in Winnipeg, Manitoba, Canada, MacDon is a global innovative market leader in the design and manufacturing of specialized agriculture harvesting equipment such as drapers and self-propelled windrowers.

Due to the timing of the close and complexities associated with the transaction, the determination of the fair value of consideration, assets acquired and liabilities assumed is not yet complete and are subject to further adjustments. The Company has recorded a provisional amount of \$450.7 million to goodwill as the current unallocated portion of the purchase price. The Company will update this balance and disclose the full purchase price allocation when the determination of the fair value is complete.

### **RISK MANAGEMENT**

The Company is exposed to a number of risks in the normal course of business that have the potential to affect its operating results. These include, but are not limited to Competition, Outsourcing and Insourcing; Sources and Availability of Raw Materials; Labour Markets and Dependence on Key Personnel; Dependence on Certain Customers; Technological Change and Product Launches; Foreign Currency Risk; Long-term Contracts; Acquisition and Expansion Risk; Foreign Business Risk; Cyclical and Seasonality; Capital and Liquidity Risk; Legal Proceedings and Insurance Coverage; Credit Risk; Emission Standards; Tax Laws; Securities Laws Compliance and Corporate Governance Standards; and Environmental Matters. These risk factors remain substantially unchanged during the quarter ended June 30, 2018. These risk factors, as well as the other information contained in this MD&A, the Company's December 31, 2017 annual MD&A, and the Company's December 31, 2017 Annual Information Form or otherwise, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements related to the Company.

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2018, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as outlined below.

## Limitation of Scope of Design

The Company has limited the scope of design of our internal controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of the MacDon business, which the Company acquired 100% of the then outstanding shares on February 1, 2018. The chart below presents the summary financial information of MacDon:

(in millions of dollars)	Three Months Ended June 30, 2018 \$	Six Months Ended June 30, 2018 \$
Sales	201.7	283.3
Net Earnings (Loss)	46.1	60.9
Current Assets	420.6	420.6
Non-Current Assets	1,133.5	1,133.5
Current Liabilities	152.7	152.7
Non-Current Liabilities	116.9	116.9

The scope limitation is in accordance with section 3.3(1)(b) of National Instrument 52-109 to which this MD&A relates, which allows an issuer to limit its design of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgements about the future. Estimates and judgements are continually evaluated and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions. Please refer to the "Critical Accounting Estimates and Judgements" section of the Company's December 31, 2017 consolidated annual financial statements and June 30, 2018 consolidated interim financial statements for additional information.

## RECENT ACCOUNTING CHANGES AND EFFECTIVE DATES

Please see the notes to the Company's consolidated financial statements for the year ended December 31, 2017, and the consolidated interim financial statements for the quarter ended June 30, 2018 for information regarding the accounting changes effective January 1, 2018.

## NON-GAAP AND ADDITIONAL GAAP MEASURES

### Non-GAAP Measures

The Company uses certain non-GAAP financial measures including operating earnings (loss) – adjusted, net earnings (loss) – adjusted, net earnings (loss) per share – diluted – adjusted and book value per share. The Company believes these non-GAAP financial measures provide useful information to both management and investors in assessing the financial performance and financial condition of the Company.

Certain expenses and income that must be recognized under GAAP are not necessarily reflective of the Company's underlying operational performance. For this reason, management uses certain non-GAAP financial measures to exclude the impact of these unusual items when analyzing consolidated and segment underlying operational performance, on a consistent basis. The exclusion of certain items does not imply that they are non-recurring.

These Non-GAAP financial measures do not have a standardized meaning prescribed by GAAP and therefore they are unlikely to be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with GAAP.

### Unusual Items

During Q2 2018, an unusual item related to restructuring has adjusted both the Transportation and Industrial segment's earnings as reflected in the tables below:

(in millions of dollars)	Three Months Ended June 30				Six Months Ended June 30			
	2018 \$	2017 \$	+/- \$	+/- %	2018 \$	2017 \$	+/- \$	+/- %
Operating Earnings (Loss)	272.3	215.6	56.7	26.3%	487.3	407.8	79.5	19.5%
Unusual Item	4.3	-	4.3	100.0%	4.3	-	4.3	100.0%
Operating Earnings (Loss) – Adjusted	276.6	215.6	61.0	28.3%	491.6	407.8	83.8	20.5%
Net Earnings (Loss)	197.1	161.9	35.2	21.7%	353.8	307.0	46.8	15.2%
Unusual Item	4.3	-	4.3	100.0%	4.3	-	4.3	100.0%
Tax impact	(1.1)	-	(1.1)	100.0%	(1.1)	-	(1.1)	100.0%
Net Earnings (Loss) – Adjusted	200.3	161.9	38.4	23.7%	357.0	307.0	50.0	16.3%
Net Earnings (Loss) per share – Diluted	2.98	2.45	0.53	21.6%	5.35	4.65	0.70	15.1%
Unusual Item	0.07	-	0.07	100.0%	0.07	-	0.07	100.0%
Tax impact	(0.02)	-	(0.02)	100.0%	(0.02)	-	(0.02)	100.0%
Net Earnings (Loss) per share – Diluted – Adjusted	3.03	2.45	0.58	23.7%	5.40	4.65	0.75	16.1%
EBITDA	368.2	297.0	71.2	24.0%	674.3	576.7	97.6	16.9%
Unusual Item	4.3	-	4.3	100.0%	4.3	-	4.3	100.0%
EBITDA – Adjusted	372.5	297.0	75.5	25.4%	678.6	576.7	101.9	17.7%

(in millions of dollars)	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Transportation \$	Industrial \$	Linamar \$	Transportation \$	Industrial \$	Linamar \$
Operating Earnings (Loss)	138.8	133.5	272.3	279.1	208.2	487.3
EBITDA	220.5	147.7	368.2	441.0	233.3	674.3
Unusual Item	3.1	1.2	4.3	3.1	1.2	4.3
Operating Earnings (Loss) – Adjusted	141.9	134.7	276.6	282.2	209.4	491.6
EBITDA – Adjusted	223.6	148.9	372.5	444.1	234.5	678.6

### Operating Earnings (Loss) – Adjusted

The Company believes operating earnings (loss) – adjusted is useful in assessing the Company's underlying operational performance and in making decisions regarding the ongoing operations of the business. Operating earnings (loss) – adjusted is calculated as operating earnings (loss) as presented in the Company's consolidated financial statements less any unusual items that are considered not to be indicative of underlying operational performance. See the "Unusual Items" section above for a description of the unusual items impacting the operational performance discussed in this MD&A and a reconciliation of GAAP operating earnings (loss) to operating earnings (loss) – adjusted.

### Net Earnings (Loss) – Adjusted

The Company believes net earnings (loss) – adjusted is useful in assessing the Company's underlying operational performance and in making decisions regarding the ongoing operations of the business. Net earnings (loss) – adjusted is calculated as net earnings (loss) as presented in the Company's consolidated financial statements less any unusual items that are considered not to be indicative of underlying operational performance. See the "Unusual Items" section above for a description of the unusual items impacting the operational performance discussed in this MD&A and a reconciliation of GAAP net earnings (loss) to net earnings (loss) – adjusted.

### Net Earnings (Loss) per Share – Diluted – Adjusted

The Company believes net earnings (loss) per share – diluted – adjusted is useful in assessing the Company's underlying operational performance and in making decisions regarding the ongoing operations of the business. Net earnings (loss) per share – diluted – adjusted is calculated as net earnings (loss) – adjusted (as defined above) divided by the fully diluted number of shares outstanding as at the period end date. See the "Unusual Items" section above for a description of the unusual items impacting the operational performance discussed in this MD&A and a reconciliation of GAAP net earnings (loss) per share – diluted to net earnings (loss) per share – diluted – adjusted.

### EBITDA – Adjusted

The Company believes EBITDA – adjusted is useful in assessing the Company's underlying operational performance and in making decisions regarding the ongoing operations of the business. EBITDA – adjusted is calculated as EBITDA, as defined in "Additional GAAP Measures" below, and as presented in the Company's consolidated financial statements less any unusual items that are considered not to be indicative of underlying operational performance. See the "Unusual Items" section above for a description of the

unusual items impacting the operational performance discussed in this MD&A and a reconciliation of GAAP EBITDA to EBITDA – adjusted.

### **Book Value per Share**

This measure, as used by the chief operating decision makers and management, indicates the value of the Company based on the carrying value of the Company's net assets. Book value per share is calculated by the Company as total equity divided by shares outstanding at the end of the period.

(in millions of dollars except share and per share figures)	June 30 2018	December 31 2017
Total equity	\$ 3,510.2	\$ 3,112.8
Shares outstanding at the end of the period	65,354,495	65,354,495
Book value per share	\$ 53.71	\$ 47.63

### **Additional GAAP Measures**

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of an entity's financial position and performance. The Company presents the following additional GAAP measures in the Company's consolidated financial statements.

#### **Operating Earnings**

Operating earnings (loss) is calculated as net earnings (loss) before income taxes, finance expenses and share of net earnings (loss) of investments accounted for using the equity method, as presented on the Company's consolidated statements of earnings. This measure, along with other GAAP and non-GAAP measures are used by the chief operating decision makers and management to assess operating performance and the effective use and allocation of resources and to provide more meaningful comparisons of operating results.

#### **EBITDA**

EBITDA is calculated as net earnings (loss) before interest, income taxes, and amortization. Please see the notes to the consolidated interim financial statements for the quarter ended June 30, 2018 for the calculation. This measure, along with other GAAP and non-GAAP measures are used by the chief operating decision makers and management to assess operating performance and the effective use and allocation of resources and to provide more meaningful comparisons of operating results.

## **SUMMARY OF CONTENT PER VEHICLE BY QUARTER**

Estimates as of June 30, 2018	Three Months Ended		Year to Date	
	Mar 31 2018	Jun 30 2018	Mar 31 2018	Jun 30 2018
<i>North America</i>				
Vehicle Production Units	4.52	4.53	4.52	9.04
Automotive Sales	\$ 761.6	\$ 748.7	\$ 761.6	\$ 1,510.3
<b>Content Per Vehicle</b>	<b>\$ 168.61</b>	<b>\$ 165.44</b>	<b>\$ 168.61</b>	<b>\$ 167.03</b>

<i>Europe</i>				
Vehicle Production Units	5.87	6.01	5.87	11.88
Automotive Sales	\$ 458.5	\$ 480.8	\$ 458.5	\$ 939.3
<b>Content Per Vehicle</b>	<b>\$ 78.08</b>	<b>\$ 80.02</b>	<b>\$ 78.08</b>	<b>\$ 79.06</b>

<i>Asia Pacific</i>				
Vehicle Production Units	12.47	12.14	12.47	24.61
Automotive Sales	\$ 118.3	\$ 110.7	\$ 118.3	\$ 228.9
<b>Content Per Vehicle</b>	<b>\$ 9.49</b>	<b>\$ 9.11</b>	<b>\$ 9.49</b>	<b>\$ 9.30</b>

Estimates as of March 31, 2018	Three Months Ended		Year to Date	
	Mar 31 2018	Mar 31 2018	Mar 31 2018	Mar 31 2018
<i>North America</i>				
Vehicle Production Units	4.54		4.54	
Automotive Sales	\$ 772.0		\$ 772.0	
<b>Content Per Vehicle</b>	<b>\$ 170.02</b>		<b>\$ 170.02</b>	

<i>Europe</i>				
Vehicle Production Units	5.91		5.91	
Automotive Sales	\$ 453.2		\$ 453.2	
<b>Content Per Vehicle</b>	<b>\$ 76.66</b>		<b>\$ 76.66</b>	

<i>Asia Pacific</i>				
Vehicle Production Units	12.37		12.37	
Automotive Sales	\$ 121.2		\$ 121.2	
<b>Content Per Vehicle</b>	<b>\$ 9.80</b>		<b>\$ 9.80</b>	

Change in Estimates from Prior Quarter	Three Months Ended		Year to Date	
	Mar 31 2018	Mar 31 2018	Mar 31 2018	Mar 31 2018
<i>North America</i>				
Vehicle Production Units	+/-		+/-	
Vehicle Production Units	(0.02)		(0.02)	
Automotive Sales	\$ (10.4)		\$ (10.4)	
<b>Content Per Vehicle</b>	<b>\$ (1.41)</b>		<b>\$ (1.41)</b>	

<i>Europe</i>				
Vehicle Production Units	(0.04)		(0.04)	
Automotive Sales	\$ 5.3		\$ 5.3	
<b>Content Per Vehicle</b>	<b>\$ 1.42</b>		<b>\$ 1.42</b>	

<i>Asia Pacific</i>				
Vehicle Production Units	0.10		0.10	
Automotive Sales	\$ (2.9)		\$ (2.9)	
<b>Content Per Vehicle</b>	<b>\$ (0.31)</b>		<b>\$ (0.31)</b>	

## **FORWARD LOOKING INFORMATION**

Certain information provided by Linamar in this MD&A, the Annual Report and other documents published throughout the year which are not recitation of historical facts may constitute forward-looking statements. The words “may”, “would”, “could”, “will”, “likely”, “estimate”, “believe”, “expect”, “plan”, “forecast” and similar expressions are intended to identify forward-looking statements. Readers are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of, Linamar. Some of the factors and risks and uncertainties that cause results to differ from current expectations include, but are not limited to, changes in the competitive environment in which Linamar operates, OEM outsourcing and insourcing; sources and availability of raw materials; labour markets and dependence on key personnel; dependence on certain customers and product programs; technological change in the sectors in which the Company operates and by Linamar's competitors; delays in or operational issues with product launches; foreign currency risk; long-term contracts that are not guaranteed; acquisition and expansion risk; foreign business risk; cyclical and seasonality; capital and liquidity risk; legal proceedings and insurance coverage; credit risk; emission standards; tax laws; securities laws compliance and corporate governance standards; fluctuations in interest rates; environmental emissions and safety regulations; trade and labour disruptions; world political events; pricing concessions to customers; and governmental, environmental and regulatory policies.

The foregoing is not an exhaustive list of the factors that may affect Linamar's forwarding looking statements. These and other factors should be considered carefully and readers should not place undue reliance on Linamar's forward-looking statements. Linamar assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements.