



**Nemak S.A.B de C.V.**

**Third Quarter 2023 Earnings Webcast**

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## CORPORATE PARTICIPANTS

**Denise Reyes**, *Investor Relations Officer*

**Armando Tamez**, *Chief Executive Officer*

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## CONFERENCE CALL PARTICIPANTS

**Alfonso Salazar**, *Scotiabank*

**Alejandro Azar**, *GBM*

**Andres Cardona**, *Citigroup*

## PRESENTATION

### Operator

Good morning everyone and welcome to Nemak's Third Quarter 2023 Earnings Webcast. Armando Tamez, Nemak's CEO; Alberto Sada, CFO; and Denise Reyes, Investor Relations Officer, are here this morning to discuss the Company's business performance and answer any questions that you may have.

As a reminder, today's event is being recorded and will be available on the Company's Investor Relations website.

I will now turn the call over to Denise Reyes.

### Denise Reyes

Thank you, Operator. Good morning and welcome everyone. We very much appreciate your participation. Armando Tamez, our CEO, will lead off today's call by providing an overview of business and financial highlights from the quarter. Alberto Sada, our CFO, will then discuss our financial results in more details. Afterwards, we will open for a Q&A session which participants may access via dial-in or webcast.

Before we get started, let me remind you that information discussed on today's call may include forward-looking statements regarding the Company's future financial performance and prospects, which are subject to risks and uncertainties. Actual results may differ materially and the Company cautions you not to place undue reliance on these forward-looking statements. Nemak undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise.

I will now turn the call over to Armando Tamez.

**Armando Tamez**

Thank you, Denise. Hello everyone and welcome to Nemak's Third Quarter 2023 Earnings Webcast.

During the quarter, we continue to see a strong top line, driven by our customers' increased production as well as new product launches. In parallel, we made progress on the inflation recovery front, successfully addressing these impacts to our cost. We expect the remaining negotiations to be concluded by the fourth quarter, resulting in retroactive recovery for the full year.

Altogether, volume drove a 4% top line improvement on a year-over-year basis, and EBITDA was 4% higher as well. The combination of volume, product mix and inflation recovery enabled us to offset a large portion of the impact of the Mexican peso appreciation and launching expenses. The UAW has also driven business decisions this quarter, as the strikes against the Detroit 3 OEMs in the U.S. continue. While we saw no interruptions to our production requirements during the third quarter, the fourth quarter could potentially present reductions in volume as an effect of the continued escalation.

Across the American business units, we implemented travel restrictions and reconsideration of all expenses and are prepared to deploy short-week production schedules (inaudible) of vacation days and major preventative maintenance.

Actions such as these and others taken during extraordinary circumstances, like the COVID-19 pandemic, have proven effective and continue to be a part of our contingency playbook.

Moving on to commercial activity, this quarter we won contracts that amounted to approximately \$230 million, which includes \$200 million in the ICE powertrain business. The vast majority of contracts in this segment are replacement agreements for components that Nemak is already manufacturing and will continue to produce for the next vehicle generations, all together, generating a reliable stream of cash flow to continue expanding our presence in the electric vehicle market.

In addition, through powertrain awards, we made further strides in the E-mobility, Structural and Chassis application segment, securing additional replacement contracts for \$30 million. We will rely on existing facilities to meet this production while continue to capitalize on our expertise in the segment.

Meanwhile, the order book in the E-mobility, Structural and Chassis application segment continues to account for \$1.72 billion, upheld with replacement contracts which signals the long-term market share that is materializing for this business.

I am also pleased to announce that the majority of awarded contracts for electric vehicles in the European market will be satisfied using green alloys. Hence, we are moving forward in lockstep with the automotive industry in our shared goal of reaching carbon neutrality.

Turning to strategic execution, I would like to share the substantial progress we have made in our transition towards electrification. As of today, 15 of our 38 existing facilities are producing components for E-mobility, Structure and Chassis applications. We have invested in greenfield facilities and we have successfully adapted existing assets to accommodate components intended for the hybrid and full electric market.

Overall, I am pleased to recognize the successful duality of these facilities, transitioning and building expertise in this new business avenue, while maximizing our traditional capabilities. We continue making inroads in the battery housing market that we are currently producing more than 15 different models, serving multiple customers and regions. I am confident that the technical knowledge and expertise that has been built around these components is crucial to the scale this business will require. Our battery housing meet

the highest quality standards and we have been able to engage actively with our customers from the earliest stages partnering in the critical process of design and engineering.

The expected run rate for the E-mobility, Structure and Chassis application segments this year continues to be more than \$600 million in revenue, a growth of over 28% on a year-over-year basis. We have reached this milestone just seven years after entering this segment, an achievement that took Nemak 20 years to reach in the ICE Powertrain business. I remain confident that we're taking the right steps in this transformation journey, while leveraging our position in the traditional business.

The main highlights for the period include nominations in both categories of the PACE Awards. We're a finalist with a subframe prototype, an innovation that reduces weight by 45% replacing a 3 -steel - component assembly with a single cast aluminum part.

We're also a finalist with an aluminum structural component that is in active production with a redesign that resulted in a 30% weight reduction while using 100% renewable electricity and 80% recycled materials. The same structural component was also named runner up for the Altair Enlighten Awards in the lightweighting category.

I would like to point out that this component was engineered using a blackbox design concept, a process in which Nemak takes a 100% leading role in the design of the component. Recognition granted by these two respective associations confirms our position as a global pioneer in lightweighting solutions.

Our commitment to quality, technology, and highest standard was recognized this quarter as well as with the highest quality rating from GM in South America, after zero quality rejects for 12 consecutive months.

Addressing our ESG agenda, I am proud to announce that we have been rated by the EcoVadis Sustainability assessment for the fifth year in a row. This year, for the first time, Nemak was awarded with the Platinum medal, a recognition that is reserved for the top 1% of assessed companies globally. The EcoVadis methodology is built on international standards to evaluate how well a company has integrated the principles of sustainability and corporate social responsibility into their policies, actions and results.

Also, for the first time, we have been distinguished as a top employer in Brazil, joining the U.S., Mexico and Germany in this prestigious achievement. This certification awards the practices and processes we have in place in Nemak that are dedicated to different dimensions, including people strategy, employee training and development, and alignment to our values.

We also continue moving forward on our diversity and inclusion journey. Nemak is involved in the Forward Faster initiative of the United Nations Global Compact, responding to a powerful call for businesses to accelerate action and make a bigger, faster impact on gender equality by 2030. Additionally, we have signed the Diversity Charter for Germany, a certificate that reinforces our commitment to create a positive and bias-free work environment, helping to fully unfold diverse potential that will advance our organization.

This concludes my remarks. Thank you for your attention. I will now hand off the call to Alberto, Nemak's CFO.

**Alberto Sada**

Thank you Armando, and good morning everyone.

To begin, I would like to provide an overview of industry dynamics, followed by a summary of our financial performance over the past three months.

During the third quarter, light-vehicle sales in our main regions continue to grow on the back of pent-up demand and continuous improvement in supply chain conditions amidst a backdrop of higher interest rates. Therefore, the United States and Europe saw an improvement of 17% and 18% year-over-year, respectively. In Brazil, light-vehicle sales increased by 13% compared to the same period last year due to sustained activity in the region. In turn, China recorded a slight decrease in sales, consistent with softening economic conditions in the region.

In terms of light-vehicle production, North America and Europe increased 8% and 14% year-over-year, respectively. Consistent with trends in global sales figures and relatively unaffected by the auto worker union strikes in North America. In Brazil, however, light-vehicle production decreased by 10%, mainly due to ongoing inventory optimization strategies. Finally, in China, light-vehicle production increased 13%.

Moving to our financial results, volume increased 6% compared to the same period in 2022, adding up to 10.6 million equivalent units. This was largely driven by higher customer production on the back of positive industry dynamics. During this quarter, we continue to capitalize on the secular growth of electric mobility through new product launches. This segment continues to strengthen its strategic position to cater to the incremental demand for lightweighting solutions in this market, gaining relevance in long-term value creation.

During the quarter, revenue was \$1.3 billion, posting a 4% year-over-year growth due to higher volumes and the appreciation of the euro, which was partially offset by a decrease in aluminum prices.

Turning to EBITDA, we saw a 4% increase against the third quarter of 2022, amounting to \$164 million. This was the result of a stronger top line, incremental growth in our E-mobility, Structure and Chassis segment, as well as inflation recovery and negotiations although these factors were partially offset by the effect of the appreciation of the Mexican peso and launching expenses primarily in North America. Consequently, EBITDA per equivalent unit for the quarter was \$15.5, slightly lower than the same period of 2022.

Operating income for the quarter was \$76 million, 5% below the same quarter of 2022, as higher depreciation associated with an increase in fixed assets more than offset the increase in EBITDA. In turn, net income for the quarter was \$25 million compared to \$19 million in the same period of 2022, as the accounting effect of foreign exchange on the balance sheet benefited the net financing cost in the quarter.

Moving to our balance sheet, net debt at the end of the quarter stood at \$1.6 billion, 5% and 23% higher compared to the end of last quarter and to the same period of last year, respectively, reflecting seasonal changes in working capital, as well as strategic investments. Net-debt-to-EBITDA was 2.8 times versus 2.3 times. Interest coverage ratio was 5.5 times versus 8.7 times at the end of the same period of last year.

By the end of the quarter, our working capital increased by around \$90 million on a sequential basis, due to temporary effects associated with tooling and seasonality.

During the quarter, capital expenditure totaled \$129 million, consistent with our capital allocation strategy towards the E-mobility, Structure and Chassis segments. It is worth noting that our investment decisions are grounded in a strategic and disciplined approach, ensuring that they contribute positively to our financial position and align with our long-term strategic objectives.

Moving on to our regional results, during the quarter, North America revenue was \$718 million, up 2% year-over-year, driven by higher customer production, although it was partially offset by the decrease in aluminum prices. Meanwhile, EBITDA decreased 5% compared to the third quarter of the previous year to \$86 million, mainly due to launching expenses and the effect of the appreciation of the Mexican peso against the U.S. dollar.

As Armando mentioned, we remain observant of the developments on UAW discussions with the OEMs, and we're ready to implement further measures to counteract any potential negative effects of this situation.

In Europe, revenue was \$406 million, 11% higher year-over-year, attributed to higher volume and partly benefited by the appreciation of the euro. EBITDA in the region was \$57 million, 13% higher than the same period of last year, due to improved product mix, customer negotiations on inflation impacts, and currency translation effects.

Rest of the World revenue was \$149 million, \$4 million lower than last year, due to lower aluminum prices; however, EBITDA was \$21 million, 32% higher than in the same period of last year, on the back of an improved product mix and sustained operating efficiencies.

Wrapping up, Nemak continued to navigate the dynamic automotive industry landscape with financial discipline and prudent capital allocation. We remain confident in our capacity to continue driving long-term value creation, while pursuing a stronger and more resilient balance sheet.

This concludes my presentation. I will now turn the call back over to Denise to open up the Q&A session.

**Denise Reyes**

Thank you, Alberto. We are now ready to move on to the Q&A portion of the event. As a reminder, participants may ask questions directly via dialing or send questions in via web. Operator, please instruct participants calling in on how to place their questions.

**Operator**

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions)

Our first question comes from the line of Alfonso Salazar with Scotiabank. Please proceed with your question.

**Alfonso Salazar**

Thank you for the presentation. I have several questions and I will focus on three only. The first one has to do with working capital, the increase that we have seen and just your expectations for the fourth quarter and for 2024.

The second question is regarding your order book. It's now flat at \$1.7 billion and at the same time as we see is a slowing EV sales. We see GM, Ford, now Tesla basically saying that they need to be careful with production because of the levels of sales that they are forecasting. So, the question here is, how this affects your legacy business and growth for the new business lines that you have, especially EVs? How do you see this moving ahead?

The last question that I have is regarding the investigation in Europe against subsidies given for production of EVs in China. I understand that this is very different for French or Italian OEMs than German OEMs, so just trying to understand assuming that there are higher tariffs for Chinese cars going into Europe, what is the implications for Nemak if that was the case?

Those are the three questions that I have for you.

**Alberto Sada**

Thank you, Alfonso. Let me answer the first one, and then I'll pass the note to Armando for the second and third one.

Related to working capital, as I was indicating earlier, there's a seasonal effect and we also have a little bit of additional tooling. Tooling, normally, we purchase them for our customers and then we invoice them back to them. So those two elements will drive working capital down on the fourth quarter, consistent what we have seen in the past in previous years. So, we should see a reversal of most of the increase that I described during the call.

**Armando Tamez**

Thank you, Alfonso. Related to our order book, I think we are very pleased with the \$1.72 billion. We need to remember that not in every single quarter there are, let's say, new decisions from customers. In Europe, they were on holiday during the month of August, the complete month, and also in the States, I think our customer were preparing for a potential strike that, unfortunately, did happen.

What you were mentioning about, for instance, the recent announcement from GM delaying one of the plans that they have—to electrify the Silverado pickup truck that is delayed at least for one year. I think we're well prepared to maintain—remember that, what we call our legacy business, is very, very strong and I think we saw a significant improvement in volumes during the third quarter in spite of the strike. We didn't see any reduction in the powertrain.

I think it's very important to mention that we are seeing a significant increase in appetite for larger engines. We are selling today more V8 cylinder heads and engine blocks than at any given point and in spite of the fact that everybody's talking about CO2 reductions and going green and so on. But customers I think they prefer to go with the larger and more powerful engines. We're prepared to have both. We have the flexibility. We're investing, of course, on the electric side as well, and also we're prepared to continue. Actually, I can share that we have been in discussions with several customers and what they are telling us is that the original projections that they've made, especially in North America for penetration of electric vehicles, they see a potential reduction and they're asking us that they need us.

So I think it's excellent news for us as well. So we will be prepared on both segments for the internal combustion engine, as well as the electric side.

And related to your third question about we have been looking also at this investigation by the European Union. The main concern by the European Union related to these sales of electric vehicles at a more affordable price in Europe, they are concerned that potentially some of these vehicles are coming with state subsidies and this is something that they will need to investigate.

So far, I think the investigation is going on. We don't see, for us, at least not in the short term, any potential effect on our company.

**Alfonso Salazar**

Okay, excellent. Thank you for the call.

**Armando Tamez**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Alejandro Azar with GBM. Please proceed with your question.

**Alejandro Azar**

Hi Armando, Alberto and Denise. Good morning and thank you for taking my questions. Just a follow up on your EV order book and what's happening in the industry. What are you guys—with all this news of, you know, it seems that we're not moving so fast on the EV side. But what are you looking in terms of your quotation pipeline, has that decreased from the, if I'm not mistaken, \$1 billion that you were quoting? You've mentioned several times that you guys are focusing on the contracts that offer the highest returns, that you feel comfortable with the clients. What can you say on that front? What is going to be the strategy going forward as you are very close or well ahead of, let's say, your target of \$2 billion in 2025? That would be my first question.

The second one would be on launching expenses I was just wondering if you guys could educate us on. My question is if those launching expenses are related to the size of your contracts, and I mean if you are launching \$1 billion in contracts that would have a percentage of that in terms of impact of launching expenses versus a \$60 million contract? Thank you.

**Armando Tamez**

Thank you, Alex, for your questions. I will answer the first one.

Related to the quotation pipeline, we are seeing a very attractive, let's say, pipeline still on the electric side. We are seeing approximately \$1.5 billion in front of us. I think while we've had these calls before—we are going to be very selective in terms of our capital allocation. You have seen already that this year our CapEx is in the range of about \$480 million, which is a significant amount, and we're trying to be more disciplined in terms of where do we want to allocate the capital. Certainly, we will be choosing first what we consider the best potential customers, as well as the most attractive paths that would yield a higher profitability.

You will see that, again, we are not in a hurry to, again, get everything that comes to our plate. We're going to be selective and choosing what we think will have the highest value in terms of profitability, and also, assurance from the customer that the customer will be successful with the program and also the attitude of the customer, for instance, in terms of in the event that the volumes doesn't materialize, what is the likelihood that they will help us, let's say, with some repricing or some support in terms of amortizing the underutilized capacity.

Those would be the criteria that we will be using. We have a lot of experience and certainly we know our customers. We will allocate our capital where we can assure the best profitability and also the response from these customers.

That is basically our strategy, Alex, and you will see that in the next quarters we will be getting, let's say, new orders. We're confident on that, but also you will see as well moving forward that our CapEx for the next years will be lower than what we're investing this year.

**Alejandro Azar**

Armando, if I may, my understanding from your comment on the \$30 million replaced on those contracts is by maintaining the \$1.7 billion in order book you have replaced 100% of the contracts awarded. Is that correct?

**Armando Tamez**

Yes. Basically, for instance, if replacement or a new, let's say, model that the customer that we have already producing one important part that they are giving us the next generation. That's the commitment and actually we're very happy because we were able to reprice the product with better profitability than the current one.

**Alejandro Azar**

I don't know if you guys can answer this one, but in your projections, that \$1.7 billion, regardless of an OEM can reduce projections ahead, but on your side are you seeing that volume fully peaked at, I don't know, 26, 27?

**Armando Tamez**

Yes, that's exactly what we are looking—that the \$1.7 billion will materialize most likely at 2026, no later than 2027, yes.

**Alejandro Azar**

Okay. Thank you.

**Armando Tamez**

As I mentioned, Alex, this year, our revenue's coming from the Electric Mobility, Structure Components and Chassis, reaching above \$600 million, which is an increase of 28% of what we were selling last year and it's coming with better profitability as we have talked before.

**Alberto Sada**

Related to your second question on launching expenses. These are obviously with the amount of activity we have on the development of new business. Depending on the size of the contract, those additional expenses could be higher. In some cases, there's more programs which also have fairly large launching expenses, as they have to do with our work around the specific development of the program. Sometimes you need to run a certain amount of additional hours before the launch to make sure that you can launch with the quality that the customers' expecting and with the volume and capacity that you have been contracted for. In some cases, there could be some extraordinary expenses, like we experienced this quarter. It also has to do with the cost that (audio interference) Normally those would be in the neighborhood of what we reported last time of \$6 million, \$7 million, \$8 million per quarter, depending again on how much activity we have on that front, this could be a little bit higher or nonexistent.

**Alejandro Azar**

Okay. Thank you. I'm sorry to ask several questions guys. Just a quick one. On replacement contracts on the EV side, from your history and knowledge, the CapEx on, let's say, tooling on those replacements, is that higher, the same, or lower than what you were doing on the powertrain side?

**Armando Tamez**

It's lower, Alex. Approximately about 30% less. The other thing is that we are building our infrastructure in a modular way and using a lot of flexibility to accommodate potential, for instance, changes. We're confident that we will invest less for replacement business in the electric mobility rather than in the powertrain.

**Alejandro Azar**

Thank you. Thank you, both.

**Armando Tamez**

Thank you, Alex.

**Operator**

Thank you. Our next question comes from the line of Andres Cardona with Citigroup. Please proceed with your question.

**Andres Cardona**

Thank you. Good morning, all. I have two questions. The first one is now that inflation negotiations are mostly done, you said you expect to complete them by the fourth quarter, and last year you had the opportunity to include the electricity cost, could we expect now more stable margins going forward, and if perhaps you can give us a sense of how much of the cost is now covered by the cost-plus formula?

The second question is, very interesting slide of some of your plans and I guess it was Armando who already mentioned CapEx will decline for the coming years, I just wanted to understand if with the current backlog that you have of \$1.7 billion, could we expect a normalization of CapEx around some \$400 million for 2024 and '25? Is it reasonable to think about it this way? Because what we hear from investors is they perceive massive CapEx cycle because of the growing backlog on the electric vehicle business line?

The last one is, in past you mentioned the possibility to improve the disclosure for the electric vehicle segment. Is this initiative still on the agenda or we shouldn't expect it anymore? Thank you.

**Armando Tamez**

Thank you, Andres. Related to inflation, we are negotiating with all customers the pass-through formulas, for instance, in terms of energy, not only electricity but also natural gas. Already, we had been successful so far in making some adjustments with most of our customers related with, let's say, the energy cost, which saw huge spikes after the invasion of Ukraine. We are seeing how, again, we're educating our customers. This is the second year that we hope for that.

I am also pleased to tell you that we have been making good progress also with several customers, not only with the energy, but also, for instance, with labor, labor inflation. This is something that we will continue. Because we see and we suspect globally, not only in the U.S. or Mexico, but I think it's a global issue on the manufacturing sector that labor cost will increase. This is something that we are openly discussing with our customers and I think most of them are sympathetic and understanding that we need that type of support; otherwise we will not be able to continue supporting them.

In terms of the \$1.7 billion that we have, we are seeing, Andres, that our CapEx will be, going forward, lower than what we invested this year. Our target is to be below the \$400 million moving on, unless we get additional business. But for instance, to support the \$1.72 billion this year has been the peak of our CapEx and is going down and is going to be down over the next few years.

Related to the last topic, definitely, we are just preparing ourselves to disclose more information related to, for instance, the two businesses. I think we can tell you that our EV business is a little bit more profitable

than the legacy business and, at the right level of revenues, definitely, we will make full disclosure of the two different businesses.

**Andres Cardona**

Thank you. Thank you for the very excellent answers.

**Armando Tamez**

Thank you.

**Operator**

Thank you. There are no further questions over the phone at this time. I would like to turn the conference over to Ms. Reyes for any web questions.

**Denise Reyes**

Thank you, Operator. We will now move on to questions from the web.

The first question comes from Declan Hanlon from Santander. It reads, "Thanks for the call. I have three questions. First question, can you provide more details on potential contingency plans given the ongoing UAW potential strike interest in fourth quarter? Second question, can you discuss any plans for share repurchases given the stock performance year-to-date? Third question, can you update us on credit lines availability that I believe remains uncommitted? Thanks."

**Armando Tamez**

Yes, thank you Declan. Definitely, as I mentioned in my speech, we have a playbook for this type of situations and we have—this is not the first time, unfortunately, for the industry that we have faced with some potential volume decline, and we're prepared. For instance, the first issue that we put in place is travel restrictions. We are, again, being more sensitive to our cost and expenses reduction. We're also being prepared for potential short weeks in which we reduce the, for instance, the hours of labor and also adjust wage and salaries depending on the situation. We also take advantage to provide vacations to some of our people. Also, prepare our assets for maintenance programs and others.

What I can tell you so far in spite of the fact that we have faced or our customers face five weeks of a strike, we have not seen—to be totally open—any reduction in our volumes. But again, we are prepared as a company; we have this playbook on hand. We have shared this with the entire North American based team and everybody is looking again for any potential reduction to take the actions to reduce our cost structure.

In terms of the share repurchase, as everybody knows, we have been authorized by the General Assembly of our shareholders a potential repurchase of up to 500 million pesos. Certainly, with the existing or the current price that we have on the stock, we are prepared to start again repurchasing some of our stock.

**Alberto Sada**

Then the third part of the question related to the credit line, we have disclosed in the past that we have more than \$800 million available of credit lines. Half of them are committed lines with (audio interference). The other half is what's called the uncommitted type of credit lines which also are with relationship banks. So, we have plenty of credit lines available for continued funding of our CapEx needs.

**Denise Reyes**

Thank you, Alberto. We have one other question from Kamaal Busari from Barings. The question reads, why did you take out more debt?

**Alberto Sada**

Well as highlighted before, the reason for this additional debt that we have raised along the year, which has been consistent every quarter, has to do with the capital expenditure program that we have in place, which is focused on the business transformation that we have engaged for.

So we're investing the majority of our strategic investment CapEx in the new segment, in the new business, and that, together with the seasonality effect of working capital, drove the increase in debt for the third quarter. You should be seeing that incremental debt that we saw in the third quarter gradually reduce in the fourth quarter.

**Denise Reyes**

Thank you, Alberto. We are receiving another question from Kamaal Busari from Barings. "How are you expecting the UAW strike to affect your fourth quarter results?"

**Armando Tamez**

Yes, thank you Kamaal. As I have already indicated, we have not seen yet any impact of this in our volumes. But as I indicated, we are prepared to take additional cost reduction activities in the event that we see, let's say, a volume reduction.

**Denise Reyes**

Thank you, Armando. The next question comes from Juan Patiño from Sun Capital. The first part of the question reads, regarding your \$1.72 billion order book, is it only related to the EV segment? In terms of debt leverage, what is the target for the end of 2023?"

**Alberto Sada**

Yes. Confirming, yes, as we have been disclosing, the \$1.72 billion, that's our backlog of new business in the EV and SC segments, so that does not include any of also additional business we have in the traditional powertrain.

Related to the net leverage target at the end of 2023, we don't have a public target disclosed or any guidance around debt leverage, but we can tell you that the peaks that we saw in the second and third quarter are the highest. We should be seeing that leverage ratio coming down gradually to levels close to 2.5 to 2.6 times net-debt-to-EBITDA as of the end of the year.

**Denise Reyes**

Thank you, Alberto. Continuing with Juan Patiño from Sun Capital, the next part of his question reads what are the expectations on guidance regarding revenue, EBITDA and CapEx for this year? Regarding the Metalsa bonds, Metalsa has outperformed Nemak bonds. Is this related to the great exposure of Metalsa to the U.S.?

**Alberto Sada**

Yes. Related to the guidance, those numbers are the same. We're not changing any guidance figures for the year. I think, as you can see in our figures, we are in good track to meet our guidance or even exceed slightly those numbers. So we're quite confident that both on revenue and EBITDA, those will be positive, and on the CapEx side that will be consistent with our guidance, plus any new business that we have been winning recently.

The question related to the Metalsa bonds, while we don't have information about why those bonds are higher or lower than ours, I think the current bonds really move up and down depending on multiple factors.

**Denise Reyes**

Thank you, Alberto. Our next question is from Pasquale DiFilipo from Nuveen. How have payments (inaudible) from the Big 3 looked like during this period? Have you noticed any delays in payments from the North American customers? Do you expect pressures to working capital in the fourth quarter?"

**Alberto Sada**

No. I mean, related to working capital, the moves that we have seen are more related to seasonality. So that's depending on the amount of production that we have on any given quarter, as well as the tooling, which sometimes grow and sometimes it is smaller. We haven't seen any change in payment dynamics from our customers. Actually they are fairly well and very predictable and consistent.

The fourth quarter is normally a reduction in working capital per the normal seasonality (inaudible) during the year.

**Denise Reyes**

Thank you, Alberto. The next question comes from Abraham Fuentes from BlackRock, and it reads, the EV and SC segment represented close to \$600 million and the total sales were \$1.3 billion. Is it correct if I assume that the volumes in internal combustion engine has been decreasing? Can you give us more color in the performance of this division, please?"

**Armando Tamez**

Yes. Abraham, basically what we're saying is that we're expecting revenues in our guidance of about \$4.8 billion. Probably we won't exceed those close to \$5 billion. So what we are saying is that our run rate for the EV and Structural Component and Chassis will be in the range of about 600 million-plus, which will represent about between 12% to 13% of our total revenues.

**Denise Reyes**

Thank you Armando. The next question is from Fernando Herrera from Compass. "What are you expecting in terms of free cash flow generation for the fourth quarter and 2024?"

**Alberto Sada**

Yes. We're going to see in the fourth quarter an improvement in free cash flow basically coming from reversal from the working capital needs that we saw in the second and third quarter. So it should be positive, and again, that will drive our leverage ratio at least a couple of points—or a couple of fraction points lower than what we have right now, as indicated somewhere between the 2.5, 2.6 level of net-debt-to-EBITDA.

**Denise Reyes**

Thank you, Alberto. The next question is from Kamaal Busari from Barings. What long-term effects do you see from the UAW strikes? Will it have any effect on your own labor costs?

**Armando Tamez**

Yes. Thank you Kamaal. As we have indicated, we are negotiating with our customers that we speak, also labor cost increases. Most likely, we'll see cost increase on the manufacturing sector, not only affecting our customers, but also the entire sector. Certainly, we will go—and again, I think, we can explain what is the potential impact in the different regions in which we operate. I think our customers are aware that if they don't help us I think they will have a problem, not only with Nemak but with the entire supplier industry to get their parts and the components needed. I think everybody's expecting that yes, we will have an increase on labor cost in many, many different countries.

**Denise Reyes**

Thank you, Armando. The next question is from Mauro Castañeda from Pichardo Asset Management. Can you provide any color on the performance of EBITDA per equivalent units?

**Alberto Sada**

Sure Maura. As you can see, the EBITDA per unit of the third quarter came more or less similar to what we had last year and is much higher than what we have been having in the year. That has to do with a number of factors; most of them are seasonal related to production levels, as well as also the benefit that we have had associated with the negotiations on inflation that we have with certain customers.

For the full year, we expect that number to gradually be aligned to what we have guided, maybe slightly higher than that. Eventually, as we increase the mix on the new segment, which has better profitability, we should be seeing that figure higher going forward. I think it's a big achievement what we have been able to do given the fact that we have had strong pressure associated with the currency effect of the Mexican peso against the U.S. dollar, which, unfortunately, weighted negative on our results. But absent of that, I think we are progressing well and we expect continuous EBITDA per unit improvement going forward.

**Denise Reyes**

Thank you, Alberto.

There are no further questions at this time. With that, we conclude today's event. I would just like to take this opportunity to thank everyone for participating. Please feel free to contact us if you have any follow-up questions or comments, and have a good day.

**Operator**

Ladies and gentlemen, this does conclude today's earnings webcast. Thank you for your participation. You may now disconnect your lines at this time, and have a wonderful day.