



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

**Fourth Quarter 2023 Earnings Webcast**

**February 14, 2024**

## C O R P O R A T E P A R T I C I P A N T S

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

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

**Alberto Sada**, *Chief Financial Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Alejandro Lavin**, *Santander*

**Peter Bowley**, *Bank of America*

**Alfonso Salazar**, *Scotiabank*

**Alejandro Azar**, *GBM*

## P R E S E N T A T I O N

### Operator

Good morning, everyone, and welcome to Nemak's Fourth Quarter 2023 Earnings Webcast.

Amanda 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 2023 as well as our outlook on 2024. Alberto Sada, our CFO, will then discuss our financial results in more detail. Afterwards, we will open up 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 as a result 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 fourth quarter 2023 earnings webcast.

I would like to begin with an overview of 2023 results and strategy execution before moving on to our 2024 guidance. During 2023, the automotive industry experienced an overall recovery in light vehicle sales and production, which in turn accounted for a positive top line trend for Nemak. In parallel, we continued making solid strides in the launch of new products and in customer negotiations, which help offset inflationary pressures and other macroeconomic challenges.

Volume increased 7% compared to the previous year, while revenues mirrored the same annual growth, rising to \$5 billion. We also delivered 7% EBITDA growth year-over-year notwithstanding persisting inflation and the financial impact of the peso's appreciation against the U.S. dollar. Commercial negotiations reached solid progress, contributing to these results. In turn, EBITDA per equivalent unit finished in line with the previous year's results.

A new milestone was achieved this year as revenues in the E-mobility, structure & chassis application segment rose to \$575 million, resulting in 22% growth versus 2022. On the commercial front, the year concluded with approximately \$440 million in awarded contracts across our different product lines with the E-mobility, structure & chassis applications segment accounting for 40% of that amount. Our strategy continues to embrace cutting edge design products that serve the changing needs of the automotive industry while maximizing the use of our current assets.

Affirming the focus of our strategy, we were recently awarded a contract with a premium OEM for a sub-frame, which will be manufactured in one of our current facilities using existing capacity. The contract to provide battery housings for a heavy commercial fully electric vehicle is another highlight on the sales front. Awarded in 2023, this is the second contract that Nemak has won in the heavy commercial vehicle segment, further diversifying our product offering to the vehicle market. The order book for the E-mobility, structure & chassis application segment closed the year at \$1.75 billion. A prudent and selective approach to characterize business decisions made in 2023, successfully balancing financial health and long-term growth.

As we continue the journey towards electrification, we remain confident of the foundations we have laid. The decisive and early strides we made have placed us in the forefront in providing innovative products for electrified vehicles. Advanced design capabilities, pioneering offerings, and experience in the field are a solid basis on which we continue expanding the E-mobility, structure & chassis applications segment. At the same time, we're aware of, and recognize the changing trends in electric vehicle adoption, and we are well prepared to face an electrification slowdown scenario.

Our core business and a strong know-how have traditionally relied on complex parts for the internal combustion engine. A slower transition to electric powered vehicles would provide an opportunity to continue capitalizing on the ICE powertrain segment, which has the cash flow generating capacity to continue deleveraging and funding investments in the new segment. As the future of electrification will continue at a dynamic pace, Nemak is well-positioned to weather different electrification scenarios leveraging our flexibility and innovation.

Moving to execution, during 2023, we directed significant effort to setting up three new facilities dedicated to manufacturing battery housings for electric vehicles. Launch activities have been aligned with our customers' schedules, and we expect to start operations in 2024. Considering market conditions, we expect one of the plants to have a gradual ramp-up with softer volumes than anticipated. While this marks a change to the original plans, we trust, and we'll continue to work closely with our customers seeking compensation for the underutilized capacity.

Our sustainability commitments continue to be a top priority. I am proud to share that for the fifth consecutive year, we are part of the Dow Jones MILA Pacific Sustainability Index, and we are the only automotive Company included. Additionally, our CDP score of B on climate change was reaffirmed. These achievements substantiate our unwavering commitment to make sustainable mobility possible. Our talent remains at the center of our transformation journey. As a result of the efforts to create a best-in-class employee experience in 2023, Nemak received the top employer certification in Poland, adding to certified facilities in Brazil, Germany, Mexico, and the United States.

With that, I conclude my initial remarks. Thank you for your attention, and I will now hand over the call to Alberto, Nemak's CFO.

**Alberto Sada**

Thank you, Armando, and good morning, everyone.

I will begin with an overview of Nemak's business performance for the full year and fourth quarter of 2023, followed by a discussion of relevant industry trends and financial results. As mentioned throughout 2023, we observed a positive trend in our top line across all regions. However, we experienced a moderate slowdown in the fourth quarter due mainly to adjustments in light vehicle production schedules. Notwithstanding, our overall performance for the year reflect our resilience and the effectiveness of our strategies in navigating a dynamic market environment.

Our continued ramp-up in the production of e-mobility, structure, and chassis components, while successful, led to incremental launching expenses throughout the year, yet these expenses are foundational to our long-term growth and leadership in the lightweighting market. During 2023, commercial negotiations not only confirmed favorable relationships with our customers, but also enabled us to partially mitigate inflationary pressures. However, we faced challenges on the profitability side due to the appreciation of the Mexican peso against the U.S. dollar and launching expenses I just mentioned.

During the fourth quarter, the seasonally adjusted annual rate for light vehicle sales in the U.S. was 15.6 million units, 10% higher than last year. For the full year 2023, this metric increased 12% to 15.6 million units. Strong demand for light vehicles in the region continued driving the growth trend despite high average transaction prices. In turn, fourth quarter production in North America decreased 2% year-over-year to 3.7 million units, while OEMs seek to optimize inventories, which have reached approximately 20 days above the levels recorded during 2022.

For the full year, light vehicle production in North America finished at 15.6 million units, up 10% compared to 2022, thanks to the dissipation of factors that weighted on production in recent years such as global chip shortages and supply chain issues, which translated into rising inventory levels. In Europe, light vehicle seasonally adjusted annualized sales increased 11% in the fourth quarter to 16.2 million units as pent-up demand and incentives sustained vehicle sales despite challenging economic conditions. On a full year basis, light vehicle sales were at 16.9 million units, up 18% year-over-year, supported by high pent-up demand and large backlogs. This growth is more significant considering the high transaction prices that continue to pressure affordability.

During the fourth quarter, light vehicle production in the region increased 5% year-over-year to 4.2 million units as supply constraints have substantially lessened. For the full year 2023, light vehicle production totaled 16.7 million units, 12% higher than last year, driven as well by the normalization of critical supply chain. In China, the seasonally adjusted annual rate of light vehicle sales rose 24% year-over-year in the fourth quarter to 30.5 million units on the back of improved economic conditions and government initiatives aimed at stimulating the automotive industry.

For full year, light vehicle sales in China were at 28.7 million units, up 11% compared to the previous year, attributed to the mentioned drivers during the fourth quarter. In terms of light vehicle production, China posted 21% and 10% year-over-year growth for the fourth quarter and full year 2023, respectively, amounting to 8.6 million and 28.6 million units. These increases were driven by strong export dynamics.

In Brazil, the seasonally adjusted annual rate of light vehicle sales for the fourth quarter and full year 2023 reached 2.4 million and 2.2 million units, respectively, 16% and 15% higher year-over-year. South America's light vehicle production experienced a decrease of 4% year-over-year in the fourth quarter of 2023 amounting to 0.7 million units due to inventory optimization strategies. However, on a full year basis, light vehicle production in the region increased 3.1% year-over-year to 2.9 million units, due mainly to stabilization in supply chain.

Turning to our financials, as highlighted before, we exceeded the volume, revenue and EBITDA targets set in our 2023 guidance. Volume increased 1% and 6% compared to the fourth quarter and full year 2022, reaching 9.7 million and 42.0 million equivalent units, respectively. This was driven by industry recovery, which was supported by improved light vehicle sales and inventory buildup and the continued ramp-up of our e-mobility, structure, and chassis segment during 2023.

Revenue in the fourth quarter of 2023 totaled \$1.1 billion, 2% growth compared to the same period of 2022 despite lower aluminum prices. For the full year, revenue was \$5.0 billion, up 7% year-over-year, in line with volume growth and improved product mix. EBITDA for the fourth quarter and the full year 2023 saw a 6% and 7% rise year-over-year, amounting to \$128 million and \$578 million, respectively. This growth was driven, on the one hand, by a higher top line, improved product mix associated with our e-mobility, structure, and chassis segment as well as commercial negotiation. But on the other, it was partly offset by launching expenses, labor cost inflation and the appreciation of the Mexican peso, the later indicator amounting to approximately \$40 million effect.

Despite the challenges I just mentioned, EBITDA per equivalent unit for the fourth quarter and full year were \$13.1 and \$13.7, respectively, up 5% and flat on an annual basis. In the fourth quarter, our operating income was affected by impairment of idle long-lived assets of approximately \$50 million. This amount includes assets related to our facility in Russia as well as idle assets in other locations, together with slightly higher depreciation associated with additions to property, plant, and equipment. Therefore, we reported an operating loss of \$13 million compared to a \$3 million loss in the same period of 2022.

For the full year 2023, Nemak's operating income was \$177 million versus \$186 million in the previous year. Absent of these non-cash adjustments, our operating profit would have been approximately \$225 million. Nemak recorded a net loss of \$26 million in the fourth quarter and net income of \$4 million in full year 2023, mainly derived from higher interest rates and negative foreign exchange effects, which were partially offset by the reconciliation of deferred taxes in the fourth quarter. In 2022, these numbers were \$4 million net loss and \$51 million net income for the full year.

Regarding our financial position, our net debt at the end of the fourth quarter stood at \$1.56 billion, up 26% against the same period of last year. This variation is explained largely by investment needs, mainly to increase production capacity in our e-mobility, structure, and chassis components portfolio. Consequently,

net debt-to-EBITDA ratio was 2.7 times versus 2.3 times in the prior year, while the interest coverage ratio was 4.8 times versus 7.9 times at the end of the same period of last year.

Working capital decreased by approximately \$190 million versus the previous quarter, following seasonal dynamics. Capital expenditures closed the fourth quarter and full year 2023 at \$155 million and \$537 million, respectively, compared to \$176 million and \$468 million in the same periods of 2022. As in the previous quarters, we continue to invest in our e-mobility, structure, and chassis segment and retrofitting existing capacity for new product launches. We remain committed to reducing our net debt-to-EBITDA ratio to our target of 2.0 times. While this year require a typical investment levels, we anticipate lower capital expenditures in the coming periods and improvements in net working capital.

Transitioning to our regional results during the quarter, in North America, revenues decreased by 8% year-over-year to \$572 million due to lower volume derived from lower production by OEMs. EBITDA was \$56 million, down 20% compared to the same quarter of 2022 as lower volume, the appreciation of the Mexican peso and launching expenses weighted on regional performance.

In Europe, revenue grew by 16% year-over-year to \$424 million, largely driven by higher volume and the effect of the appreciation of the euro against the U.S. dollar. In turn, EBITDA in this region increased 31% to \$57 million as recoveries from commercial negotiations and improved product mix more than offset the impact of inflation.

Revenue in the rest of the world was \$144 million, up 11% compared to the fourth quarter of 2022. This growth was primarily attributed to volume and product mix. EBITDA in this region benefited from an improved product mix and sustained operating efficiencies, resulting in a positive contribution of \$7 million year-over-year to \$15 million.

To conclude my remarks, I want to emphasize Nemak's strategic focus and commitment to a balanced approach in both the e-mobility, structure, and chassis segment and the internal combustion and powertrain segment. Our performance in 2023 despite facing a myriad of challenges, it stands as evidence to our resilience and adaptability in an ever-evolving automotive landscape while maintaining a strong position in our traditional business. Our business strategy is not just about responding with agility to market demand, but also about shaping a sustainable and profitable future for the Company.

We understand the importance of being versatile in both segments, ensuring that we continue to deliver value to our Shareholders, provide high-quality products to our customers and contribute positively to the global automotive ecosystem through innovative lightweighting.

This concludes my presentation. I will now turn the call back over to Armando.

**Armando Tamez**

Thank you, Alberto.

I will now provide an update on our outlook for 2024. The automotive industry experienced a recovery during 2023. For 2024, light vehicle production is expected to remain robust as more favorable economic conditions will support end consumer demand. In terms of electric vehicle adoption, the outlook is uncertain and dynamic, with affordability, charging infrastructure and incentives playing a key role in consumer decisions. Regarding our results, the 2024 outlook will be marked by a stable volume and results as well as continuous effort to address inflation challenges, particularly labor inflation.

Investments allocated to the new segment will normalize as the construction of three new facilities marked a peak of capital expenditures during 2023. Overall, the reduction in capital expenditure will favor cash flow



generation. Given these considerations and recognizing the key factors, which is volume, foreign exchange and inflation can fluctuate throughout the year, I would like to announce our guidance range for 2024. For volume, a range of 42 million to 43 million equivalent units. Revenue in the range of \$4.9 billion to \$5.1 billion. EBITDA in the range of \$570 million to \$600 million. CapEx ranging from \$380 million to \$395 million.

With that, we conclude our presentation, and we'll now like to turn the call over to Denise to open the Q&A session.

**Denise Reyes**

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

**Operator**

Thank you. (Operator Instructions) Our first question comes from the line of Alejandro Lavin with Santander. Please proceed with your question.

**Alejandro Lavin**

Hi, good morning, everyone. I have a couple of questions. First, thinking of 2024, what level of cash taxes and working capital investments do you expect for this year? If you expect to be free cash flow positive also for this year, what would be the main use of cash? Now the second question is longer term. We are seeing a slowdown in demand for EVs in the United States. How would that change the trajectory of your pipeline and your backlog and thinking in terms of timing, size, and mix? Thank you.

**Alberto Sada**

Thanks for your question, Alejandro. This is Alberto. Related to the cash taxes for 2024, we're not providing the exact guidance. What I can tell you is that 2023 was a little bit larger than what we usually have, because we have there, taxes associated with the previous year being paid in '24. Roundabout, we should be seeing cash taxes for 2024 more in the range of about \$85 million to \$90 million round figures.

Then for the full year, yes, we (audio interference) positive cash flow (phon) generation. Also, with the option (audio interference) of the item that should help generate additional cash (audio interference) as well. (Audio interference) We'll be sharing obviously more (phon) on the year the use of (audio interference).

**Armando Tamez**

Second question related to electrification scenarios. As probably you have seen (audio interference) actually (audio interference) market seen slowdown on electrification. I think customers (audio interference) the much higher rate, and consumers are actually buying vehicles. Based on that, we are, (audio interference) in North America (audio interference) scenario is very dynamic. We suspect to a level of (audio interference) 30% those of the vehicle, which is over (audio interference). Based on that, we are adjusting. We are adjusting our plans and the important element we see (audio interference) that due (phon) to the fact that we made certain investments that the volume (audio interference) electrified. Very well positioned. ICE components and (audio interference). We believe (audio interference).

**Alberto Sada**

Alejandro, you come across little bit (audio interference).

**Alejandro Lavin**

I see.

**Operator**

Our next question comes from the line of Peter Bowley with Bank of America. Please proceed with your question.

**Peter Bowley**

Hello, Armando, Alberto, Denise, thanks for the call and the opportunity for a couple of questions. On '24 guidance, midpoint EBITDA is up 1% year-on-year or flat in terms of equivalent units. Just wondering if you could share any color on is this a combination of higher-margin EV/SC sales offset by expectations for inflation on the cost side. Are there any other dynamics to be aware of? Does guidance consider the effect of any additional commercial negotiations in 2024 or any compensation from customers that you highlighted earlier regarding lower utilization of the new battery housing facilities? Lastly, what exchange rate for the peso are you considering? Thank you.

**Alberto Sada**

Yes. Sure, Peter. Hi, how are you? Yes, related to the expectation in terms of margins for 2024, yes, those are a result of a combination of several factors. On one side, we have continuous evolution of our mix towards better margin products. Second, we had extraordinary effects in the 2023 financials, which we don't expect to happen again, particularly on the launching expenses side, which amounted to levels close to \$35 million in—sorry, close to \$40 million in 2023. Those extraordinary effects should not be there, because we should be able to compensate for inflation adjustments and potentially some additional negotiations, commercial negotiations with customers.

**Peter Bowley**

Okay. Great. Thank you. Just with regard—a second follow-up on fourth quarter 2023 EBITDA, how much did commercial negotiations affect—or that were achieved in the quarter impact fourth quarter 2023 EBITDA?

**Alberto Sada**

Yes, Peter, these negotiations with the customers have been taking place all along the year. Particularly in 2023, we were successful earlier in the year with some of those discussions different to what we had in 2022, which most of it came at the end or in the last second half of the year. A portion of our results have to do with those negotiations. Unfortunately, we cannot disclose the exact amounts given the sensitivity of the discussions. But certainly, they all apply mostly to the effects that we saw on the fourth quarter and a little bit on the earlier results as some of those discussions were retroactive to the beginning of the year. But again, those—most of them were directed to compensate for inflation and a fewer claims.

**Peter Bowley**

Great, thank you.

**Alberto Sada**



Welcome Peter.

**Operator**

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

**Alfonso Salazar**

Yes. Thank you. I have a follow-up on the EV adoption. Unfortunately, Alberto, when you were giving your answer, it was cutting. The line wasn't clear. If you can repeat what you mentioned before? Also, if you can provide more color on your strategy for 2024 and 2025. If we think in the last six months, let's say, there was a big drastic change in the expectation for EV adoption, especially in North America, but also in Europe with a lot of moving parts but basically pointing to a slower adoption for EVs.

Many OEMs are now basically saying that it is very hard for them to be profitable. We also saw a race to the bottom started by lowering EV prices. Is that going to change your strategy? Is it changing your expectations for CapEx allocated to EVs? Just want to understand better what is the strategy and what has changed since the last time that we have this conversation because of the recent events that we have seen in the market.

The final question that I have is regarding China and the outlook for imports especially to Europe and this debate on whether there's going to be tariffs in Europe because of the subsidies to production, and how this is unfolding and what are your expectations in China as well?

**Armando Tamez**

Yes, thank you, Alfonso. Let me try to repeat, and sorry about the interference on the previous answer. What we are experiencing on the EV side in both regions, North America and Europe, is that the expectation from customers or OEMs related to EV sales are growing in comparison to previous years, but at a much lower pace than originally anticipated. That has to do a lot with the infrastructure on the charging stations, also prices of electric vehicles, range, and others.

You're right, most of the OEMs, with a few exceptions, are not making money on the electric side. What we are also seeing is that the early adopters already bought some of the electric vehicles. There are a lot of people that are, to some extent, waiting and being a little bit reluctant to buy new electric vehicles. There is also certain concerns about the resale value of the electric vehicles. They are losing, and this is documented, they are losing—or they are depreciated higher than the internal combustion vehicles. That's why, to some extent, our customers are, at this moment, changing their business plan and in many cases, even delaying or stopping some of the investments in EVs.

How does that have an effect on Nemak? As I indicated before, we are 85% concentrated in the internal combustion products. For us, even though we made certain investments in electric vehicles preparing the Company for this transformation, we have the flexibility to move to either side. We can continue sourcing our customers with internal combustion components. Certainly, for us, is somewhat a benefit because we will have to invest less moving forward over the next few years. For us, I think it's positive news, certainly, on the investments made for electric vehicles we will not have to go back to our customers.

As a matter of fact, we are already in conversations to get some compensation for the underutilized capacity that we will not be able to sell, at least in the short term. But all-in-all, we see this positive. We see also, Alfonso, that we will require moving forward less CapEx because we have significant open capacity on the components to manufacture ICE products such as heads, blocks, transmission housings and others. As I

indicated also in my script or conversation is that we are using also the same technology to produce other components such as soft frames using, for instance, capacity that, in the past, were used to produce components such as cylinder heads.

Related to China, and that's also a very important topic, there are certain concerns from OEMs all over the world, especially in the Western hemisphere. The Europeans are already investigating if they are getting any type of support from the Chinese government or subsidies or anything. This investigation is underway. There is also some concern about some tariffs in—especially in the U.S., as a matter of fact, today, if they wanted to export Chinese vehicles to the U.S., they will have to pay a very high tariff, which is about 27% tariffs and there is a lot of lobbying trying to prevent the Chinese players to, let's say, enter into certain markets, especially in North America. But I think it's early to tell who will be monitoring that.

Having said that, our plants in China are getting better results. Actually, we had a record year in 2023, was our best year ever. We are happy with our performance in that particular market.

### **Operator**

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

### **Alejandro Azar**

Good morning, Armando, Alberto, Denise. Thanks for your time. I have several quick questions. On your guidance on CapEx, could you break out how much is for the legacy business and how much is for the EV-SC (phon) unit? Another one would be your EV/SC business, how much is expected to grow this 2024? You already mentioned about seeking compensation on your investments. But on the ramp-up of your 1.7 billion, how do you feel about that? If I'm not mistaken, you were expecting to fully ramp up that unit by 2026, 2027. If this is going to delay that?

Another one would be on, if you still have on your mind separating the financials for both business units. Any color on that? I'm sorry for lots of questions. The last one would be the FX impact during 2023. If you could give us more color on the impairment made during 2020, during the fourth quarter, in terms of location, et cetera. Thank you.

### **Armando Tamez**

Yes. Thank you, Alex. I will try to answer the first two questions. Related to CapEx for 2024, the way that we are planning is on the strategic CapEx, which is for new business. Approximately 60% will be for the internal combustion business, and 40% will be for structural and EVs. Those are already, let's say, plans that we have.

Just like to make a comment. I think everybody in this industry is talking about fuel efficiency, and also reducing CO2 emissions and so on, but I am glad to tell you that during 2023, Nemak sold more V8 components, heads, and blocks than any other given point in our history. Consumers are very, let's say, keen to buy V8 engines or large engines because they prefer this type of products. We will invest certainly with very solid contracts with our customers in that regard.

On the EV side, on the pipeline, as we have indicated, we have reached already 1.75 billion. As a matter of fact, we are in close conversations with our customers to try to understand what are their business plans. What is the cycle that they will have? They are in this process internally trying to understand what the customers will be willing to buy. We don't have, honestly, a clear picture today of how this electrification will evolve. There are, as I indicated, a lot of concerns from different customers, not only in North America, but we are seeing similar approach also in Europe.

Once governments stop some of the incentives, immediately we have seen sales of electric vehicles going down quite significant. We will have to wait and see, Alex. Basically, as I indicated, we're flexible in terms of moving to more internal combustion engines or electrification. Both I think, we have the flexibility.

**Alberto Sada**

Alex, regarding to your other questions around our expectation for the EV and SC business for 2024, there, what we're seeing at this point is a slight growth. Definitely lower than what we had expected initially, but still a little bit of growth and favorable dynamics overall in terms of our margins on that side. We're not yet in a position to provide segmented financial information. That will come later. But at this point, what we can tell you is that the financial performance continues being robust, though the growth is slower than what we had expected, as Armando highlighted.

Then last but not least, on the FX impacts and this extraordinary effects on impairments, the FX impact, as you're aware, comes from our exposure to the Mexican peso in our Mexican operation to the Mexican peso-denominated cost. That had an impact overall for the full year of close to \$40 million, four-zero. Certainly, that's a big weight on our results, but we were able to offset some of that with performance.

The other one related to the impairment, normally, by the end of the year, whether with the audit, we do a review of all the status of all the assets. Based on that, we do careful evaluation if there are any assets that are idle. We do the write-off or impairment of those assets. In this case, we had two, let's say, effects. On one side is the impairment of our assets in Russia which accounted to about half of the \$50 million impairment that I described. The other half is essentially a number of smaller assets located in multiple regions, which they were idle and had to be written off. That will give you more or less a flavor of those adjustments.

**Alejandro Azar**

Thank you, both. If I may, Alberto, just on the impairments. If I'm not mistaken, you closed a plant in Canada. You already own that, let's say, land bank. Is all these impairments are just, let's say, land, but they are not the plant as a whole, right?

**Alberto Sada**

The only one that was a plant as a whole was Russia. The other ones were independent assets in a number of locations. Canada was already written off.

**Alejandro Azar**

One more, if I may. I'm so sorry. On the FX, we've been hearing that some Tier 1 suppliers, Tier 2 suppliers are trying to negotiate the impacts, let's say. Are you guys aware of this? Are you trying to talk to your customers about it? Or if suddenly, the Mexican peso depreciates, you would earn back those \$40 million?

**Armando Tamez**

That's a great question, Alex. Certainly, we are in conversation with all our customers, especially in North America because of that effect. Certainly, the previous year, the exchange rate was in the range of about MXN20. This year, we saw going down to MXN17. Certainly, we have a portion of our cost structure in peso denominated. Yes, we are in conversation with our customers for that type of potential impact as well as labor inflation. Everybody has seen that on the manufacturing sector, labor is increasing dramatically. In some instances, for instance, in the U.S., we saw our customers, main customers giving wage and salary

increases of 11% and that has a ripple effect on the manufacturing sector, not only in the U.S., but also in Mexico as well.

Yes, we are certainly talking to all of them, presenting facts about even our contracts, a copy of our labor contracts to them so that they are aware that we are facing a higher labor cost. Certainly, we will pursue some type of compensation to again offset these additional costs.

**Alejandro Azar**

Great, thank you. Thank you both for your answers.

**Armando Tamez**

Thank you, Alex.

**Operator**

Thank you. There are no further questions over the phone at this time. I'd like to turn the conference over to Ms. Reyes to address questions received over the webcast.

**Denise Reyes**

Thank you, Operator. We will now move on to questions from the web. The first question comes from Declan Handon (phon) from Santander, and it reads "Thank you for the call. Can you give us an update on working capital cash delta in fourth quarter as well as 2023 in total? Also comment on expectations for the coming year. Also, please update us on your credit lines, committed and uncommitted, in terms of the total amount as well as what was available at the year-end. Thanks."

**Alberto Sada**

Yes, I'll take that one. Related to our working capital. As you know, working capital has fluctuations during the year due to the seasonality effect of—as the industry volumes go up and down during the year. That's why you saw a very significant reduction in working capital in the fourth quarter. For the full year, we had an amount which totaled close to \$40 million of working capital investment. That was associated because last year, we had a positive working capital adjustment that put us on a very low number for comparison purposes. Essentially, it's rebalancing a little bit of that effect. But at the end, it's where we want it to be.

Going forward, we're expecting working capital to stay fairly stable for the end of the year. But through the year, you're going to be seeing increases and decreases as we move along the cycle. Then the other question is related to our credit lines. As we have shared in the past, we have a significant number of both committed and non-committed credit lines. The total number between the two is about \$800 million, out of which we had most of the committed lines available as of the end of the year as well as a portion of our non-committed lines.

**Denise Reyes**

Thank you, Alberto. The next question comes from Iñigo Cossio from Kpitalia, and it reads "What can we expect for the following years for your share buybacks and dividend strategy? Do you have a target schedule to start paying dividends again?"

**Armando Tamez**

Yes. Thank you, (inaudible), for the question. Certainly, our first priority is to deleverage the Company. With the cash flow that we will generate, we will reduce our debt. That's our first priority. Second, if we are able, definitely, we will continue with, let's say, presenting to the Shareholders the proposal to continue executing our share back project. Definitely is in our mind to provide dividend to the Shareholders for the first priority, as I have indicated, and we have full approval from our Board of Directors is to deleverage the Company. That's our first priority, our main focus. Once we are at a reasonable level, then we will consider the possibility of giving dividends to our Shareholders.

**Denise Reyes**

Thank you, Armando. Next question comes from Mauricio Andres Buitrago from MA Advisers (phon). "How much your new contracts for 2024 were? How can we expect the net debt to behave during 2024? Thank you.

**Alberto Sada**

On 2024, as we highlighted, we have a reduction in capital expenditures versus what we had in 2023, and we have normalization of taxes and working capital. We should expect given that, to have positive cash flow and therefore our net debt figure to be reduced versus what we ended up in 2023. Related to the new contracts' worth, we are not guiding how much we're going to be obtaining out of new contracts for 2024. Certainly, we have been working very closely with our customers with a very robust pipeline of potential new business. But we're being very selective on what business we want to engage. We will be reporting on the development of the new orders during the year as we progress.

**Denise Reyes**

Thank you, Alberto. Agustin Bonasora from PineBridge has a question. "Hi and thank you for the presentation. I have a question on your guidance for 2024. In the bull case, you expect an EBITDA of \$600 million and CapEx of \$395 million. If we include interest of close to \$80 million, we get a free cash flow of \$130 million or \$120 million on the bear case. My first question is, what should we expect in terms of working capital and taxes this year? The second question is regarding product mix. If this guidance already included a deceleration in EV growth?

**Alberto Sada**

Yes. I think I mentioned before, the cash taxes for the year are expected to be somewhere in the \$80 million to \$85 million for the full year and working capital should be stable during the year. It will be seasonally up during the first two quarters and then gradually coming down and then coming back down to the same levels as we ended in 2023, at the end of 2024. Yes, related to the product mix, assuming our guidance, particularly that's part of the reason why we have a range because there is volume fluctuations associated with potential changes in mix included in our guidance. Our latest view is incorporated there in our guidance range.

**Denise Reyes**

Thank you, Alberto. The next question is from Rodrigo Sanhueza from Invex (phon). The question reads "Could you repeat your expectations on free cash flow for 2024? Is expected to be positive? The line was cutting when the answer was provided. Thank you."

**Alberto Sada**

Yes, we expect positive cash flow.

**Denise Reyes**

Okay. Thank you, Alberto. Now we have a question from Federico Galassi from Roha Bank Group. "The focus of cash generation would be reduced debt and interest rate. Or do you believe there could be room to pay dividends or start buybacks in the market?"

**Alberto Sada**

As indicated before, we have a primary objective to reduce our leverage. Therefore, part of that cash flow generation will be used for debt repayment but certainly depending on how much that cash generation becomes, we can evaluate other uses of the cash.

**Denise Reyes**

Thank you, Alberto. We have a question from Marcelo Motta from JPMorgan. "Given the deceleration on EV/SC growth, do you believe that in 2025, your margin should remain closer to '23, '24 levels?"

**Armando Tamez**

Yes. Thank you, Marcelo. We truly believe that our margins will improve. We are internally looking for additional efficiencies as well as negotiating with the customers what we believe will be fair prices in the market. We still have not been able to get the pricing level that we need, and we will work very, very hard on the two ends, on the pricing side as well as on our efficiencies. We're expecting, Marcelo, that our margins will improve as we move forward.

**Denise Reyes**

Thank you, Armando. Our next question is from Antonio Ruiz-Gomes from Ninety One (phon). "What was the estimated volume impact from UAW strike in fourth quarter?"

**Alberto Sada**

Yes. Thank you, Antonio. We didn't have any real volume movement associated with the UAW strike directly. Remember that strike was directed to a few operations and fortunately, there was almost no impact to us related to the stoppages associated with the strike.

**Denise Reyes**

Thank you, Alberto. There is a question from Felipe Melendez (phon) from GBM. "Are commercial negotiation results included in 2024 guidance?"

**Alberto Sada**

Thank you, Felipe. Related to our guidance, the guidance includes all the best view that we have for the year, including a number of effects and some of those commercial negotiations as well. But certainly, we will be striving to fulfill as much as we can, the inflation compensations as well as any other commercial claim related to, yes, unused assets or capacity issues. We'll be reporting how we are advancing on our results. But for sure, there is a little bit of upside there.

**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 disconnect your lines at this time and have a wonderful day.