



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

**Fourth Quarter 2021 Earnings Webcast**

**February 24, 2022**

## CORPORATE PARTICIPANTS

**Adrian Althoff**, *Investor Relations Officer*

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

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

## CONFERENCE CALL PARTICIPANTS

**Alejandro Azar**, *GBM*

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

**Marcelo Motta**, *JPMorgan*

## PRESENTATION

### Operator

Good morning, everyone, and welcome to Nemak's Fourth Quarter 2021 Earnings Webcast.

Armando Tamez, Nemak's CEO; Alberto Sada, CFO; and Adrian Althoff, 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 Adrian Althoff.

### Adrian Althoff

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 2021 as well as our outlook on 2022. Alberto Sada, our CFO, will then discuss our financial results in more detail. Afterwards, we will open up for a Q&A session.

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 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 over the call to Armando Tamez.

**Armando Tamez**

Thank you, Adrian.

Hello, everyone, and welcome to Nemak's Fourth Quarter 2021 Earnings Webcast.

I would like to begin with an overview of 2021 results and strategy execution before moving on to our 2022 guidance. During 2021, we harnessed our talent, footprint, productivity improvements, and technological capabilities to deliver improved results amidst extraordinary industry volatility while simultaneously capitalizing on secular growth opportunities linked to the changing mobility landscape.

Given the ongoing COVID-19 pandemic, we maintained targeted measures to safeguard employee health in the workplace and ensure stable supply to customers. At the same time, challenges emerged on new fronts. In particular, the global semiconductor shortage which affected light-vehicle production among our customers and therefore demand for the parts we produce. In response, we implemented a variety of operational efficiency and flexibility initiatives, which helped us to mitigate the effects of these headwinds on our business.

Notwithstanding continued softness in customer light-vehicle production in North America and Europe, our main regions, volume was 35.7 million equivalent units, up 2% from 2020, aided by the ramp-up of new product launches in our e-mobility and structural applications segment.

Revenue grew at an even faster pace, as a combination of volume and aluminum prices drove a 21% increase to \$3.8 billion. EBITDA finished at \$567 million, 31% higher than the previous year, supported mainly by a combination of an improved product mix, operational efficiencies, and volume. In turn, EBITDA per equivalent unit finished at \$15.90, a 29% year-over-year increase. It is worth highlighting that this represented a tie for our best-ever full year EBITDA per equivalent unit figure in our history.

Thanks in part to these efforts, we delivered a 10% beat on the fourth quarter EBITDA result implied in our revised 2021 guidance published last October. Moreover, our EBITDA per equivalent unit for the quarter was \$16.20, the best ever mark of any fourth quarter in our history.

During the year, we also made further strides towards the implementation of our strategy, including more than doubling revenue generation in our e-mobility and structural applications segment compared to the previous year, and surpassing our goal of securing business to produce these parts worth \$1 billion annually more than one year earlier than expected.

Moreover, per a separate announcement issued earlier today, we more recently reached yet another milestone towards the achievement of our long-term targets linked to vehicle electrification, winning contracts worth a combined total of \$350 million annually to produce battery housings for fully electric vehicles of global customers. We plan to produce these parts at three new facilities spanning Europe and North America, which will be fully dedicated to joining and assembly processes for e-mobility applications.

We expect that investment for these facilities will amount to a total of approximately \$200 million, with the flexibility to scale up production further in the future based on customer demand. With this new business,

our total order book for e-mobility and structural applications today stands at \$1.4 billion annually. Given our continued progress towards strengthening our long-term growth prospects linked to vehicle electrification, we are confident that we will surpass our \$2 billion order book goal for 2025 in this segment ahead of time.

As the figures I just mentioned illustrate, electrification is not only a potential opportunity for Nemak in the future; rather, today it is already a fast-growing driver of our current business. In fact, our involvement in electric vehicles is already ahead of that of the industry as a whole, in the sense that the share of e-mobility and structural applications of our consolidated revenue already exceeds the combined share of plug-in hybrids and pure electrics of global light-vehicle sales. We estimate that we are currently producing components for a total of around 520 vehicle nameplates, including around 100 fully electric or plug-in hybrid vehicle nameplates.

During 2021, key drivers of revenue generation in our e-mobility and structural applications segment included the production ramp-up of new business to produce battery housings, e-motor components, and structural applications for fully electric vehicles of customers in Europe and North America.

Regarding the fourth quarter, it's worth highlighting that we successfully initiated series production of parts for two new, all electric vehicles from Ford. E-motor components for the F-150 Lightning pickup truck and battery housings for the E-Transit commercial van, along with chassis subframes for the new generation Mercedes Benz AMG. We are supplying parts to these vehicles at existing facilities in North America and Europe.

As we mentioned in our recent Investor Day, we see significant opportunities across the full range of products we are supplying for e-mobility and structural applications, and we look forward to continuing to expand our efforts to support our customers' electrification plans in the coming years.

For the full 2021, we were awarded contracts across our product lines worth a total of approximately \$1.1 billion annually, one third of which represented incremental business. In addition to the contracts I already alluded to, in our new product lines, the main highlights included winning incremental business to supply cylinder heads and engine blocks for the North American market.

During the year, our commitment to innovation and cutting-edge technology also enabled us to win several awards from OEM customers, which included being recognized as a top-performing global supplier to Ford Motor Company and General Motors, and receiving an award for best-in-class quality performance in support of the Volkswagen Group. I would also like to underscore our progress in 2021 towards the implementation of sustainability agenda. Thanks in part to our continued efforts to assess and mitigate our environmental impacts across our operations as well as our supply chain, we received the CDP's top Supplier Engagement Rating of A, along with a B rating in their internationally recognized Climate Change questionnaire.

It's also worth highlighting that we were selected to join several stock indexes comprised of companies that meet relevant sustainability criteria, including, for the second consecutive year, the S&P/BMV Total Mexico ESG Index; and for the third consecutive year, both the Dow Jones Sustainability MILA Pacific Alliance Index and the London Stock Exchange's FTSE4Good Index Series.

With that, I conclude my initial remarks, and will now hand off the call to Alberto.

**Alberto Sada**

Thank you, Armando, and good morning, everyone.

I will share additional information on our financial performance during the fourth quarter and Full Year 2021, as well as go in-depth on industry trends and financial results.

Light-vehicle sales across North America and Europe, our main markets, were relatively stable for the Full Year '21 compared to the previous year; however, production in these regions remained constrained due mainly to widespread disruptions in the supply of semiconductors to OEMs. It's worth keeping in mind that underlying demand drivers remained robust, reinforcing our positive outlook on the industry overall going forward. Absent the supply chain constraints, we believe that light-vehicle availability and therefore sales would have been higher.

During the fourth quarter, annualized U.S. light-vehicle sales SAAR was 12.8 million units, 20% lower than last year, mainly affected by supply-side constraints. However, 15.1 million units were sold for Full Year '21, 3% higher than 2020, as stronger sales in the first half more than compensated for softer sales in the second half. Light-vehicle production in the region showed a 17% year-on-year decrease in the quarter, with semiconductor supply weighing on OEM output; however, for the full year it finished down just 1%, following a similar trend to sales.

Moving on to Europe, light-vehicle sales decreased 25% in the fourth quarter, basically for the same reasons as in North America; in turn, light-vehicle production showed a 28% reduction compared to previous year. On a full year basis, light-vehicle sales were 2% lower and light-vehicle production decreased 5% versus Full Year 2020.

As additional context, keep in mind that light-vehicle inventory levels remain historically low in all major markets, particularly in North America. At the end of the fourth quarter, light-vehicle inventories in the U.S. stood at an average of 23 days' sales compared to more than 90 days before the pandemic. In our view, these inventory levels, together with continued favorable demand side fundamentals, suggest that light-vehicle production and sales could potentially rebound significantly once supply chain conditions begin to improve.

Regarding our rest of the world region, light-vehicle sales and production figures were softer year over year in the fourth quarter, but higher on a full year basis, both in Brazil and in China. During 2021, Nemak's volume performance showed a slight recovery versus 2020 despite the volatility in vehicle production schedules in our main regions, closing the year up 2%, supported by new product launches primarily in our e-mobility and structural applications segment.

During the fourth quarter, consolidated volume decreased by 19%. North America showed a similar trend in volume, driven by lower light-vehicle production among OEMs, as previously indicated. Meanwhile, volume in Europe and rest of the world was 16% and 25% lower, respectively, following the same drivers as in North America. In turn, consolidated revenue for the quarter was close to the same level as last year as higher aluminum prices almost offset volume effects. For the full year, revenue was 21% higher than 2021, reflecting higher aluminum prices as well as volume.

For the fourth quarter, EBITDA was \$133 million, 11% lower compared to last year, as we were able to partly offset effects of lower volume thanks largely to a combination of an improved mix of higher value-added products including newly launched e-mobility and structural applications and the completion of customer negotiations.

At the same time, we made continued progress on the efficiency side in the quarter, achieving a 10% year-over-year reduction in SG&A.

Meanwhile, cost of goods sold saw a 5% increase for the period, mainly reflecting higher aluminum prices. For the full year, we saw a 20% increase in cost of goods sold, aligned with the increase in

revenue, whereas SG&A was up 5% versus 2020 as we adjusted labor costs and expenses to meet increased volume requirements, particularly in the first half of the year.

Related to unitary EBITDA, this quarter we achieved important milestones for the quarter and full year. Our fourth quarter EBITDA per equivalent unit was \$16.20, representing our best-ever mark for any fourth quarter in our history. For the full year, EBITDA was \$567 million, higher than our revised EBITDA guidance estimate published last October, which in turn enabled us to finish with a unitary EBITDA figure of \$15.90 per equivalent unit, a tie for our best-ever mark in our history.

In turn, operating income in the fourth quarter was \$43 million, 22% lower than a year ago, while for the full year it was \$229 million, more than double the previous year's figure, influenced by the same factors as EBITDA.

Meanwhile, net income during the fourth quarter was negative \$50 million. The result was negatively affected by a \$50 million non-cash evaluation of tax assets at our U.S. operations. This revaluation was for accounting purposes and applying financial reporting standards given the volume effects and results on the last years of these operations. However, the tax asset remains available to us to offset future profits, as applicable.

As for the full year, we finished net income at \$5 million, as the factors benefiting operating income outweighed the combination of the non-cash effects just explained, along with the costs of refinancing our previously held '24 and '25 senior notes in dollars and euros in the summer of last year. Absent these non-recurring effects, net income would have been \$90 million for the full year.

We finished 2021 with net debt of \$1.3 billion, an increase of around \$80 million compared to the previous year, associated mainly with higher working capital requirements resulting from higher aluminum prices plus higher inventory.

Regarding capital allocation, we recorded Capex in the fourth quarter of \$144 million, which was \$63 million higher than the same period of last year. Capex for the year was equal to \$360 million, 34% higher than 2020, with an increased focus on new launches for an EV and structural component segment.

I would now like to move on to summarize our regional results from 2021. In North America, our EBITDA for the quarter was 21% lower than the same period of last year, aligned to a 19% lower volume, and in Europe our EBITDA finished 11% lower, also due mainly to lower volume. Regarding rest of the world, volume decreased 25%; however, we were able to achieve a 100% increase on EBITDA compared to the last year, mainly due to commercial negotiations in Brazil.

I would like to conclude by recapping several recent developments which may be of particular interest to shareholders.

First, the successful placement of two bond issuances, one in dollars, the other in euros, which enabled us to refinance our previously held 2024 and 2025 senior notes. In particular, it's worth reiterating that, combined, the proceeds from these issuances enabled us to extend the average life of our debt from 3.9 to 7.3 years while reducing our financing cost for the coming years by an estimated \$11 million per year.

Second, the merger of Controladora Nemak into Nemak, which represented the culmination of the spin-off from our former parent company, Alfa, and therefore the start of a new era for us as a fully independent company. Moreover, through creating a single-listed entity with a higher stock float, we expect this transaction to have a positive effect on share liquidity over time.

Third, our share repurchase program. As you may already know, we repurchased around 21.3 million shares during the fourth quarter alone. Going forward, I want to emphasize that we intend to continue to evaluate the potential use of share buybacks on an ongoing basis while keeping in mind our end goal of driving value creation for shareholders.

Fourth, the recent growth in our order book linked to new opportunities in electric vehicles. We have been able to fund growth in our e-mobility and structural applications segment through our own cash flow generation together with our existing credit facilities, and I would like to emphasize that we expect to maintain this approach for the foreseeable future, including for the investment needed to launch our newly awarded business in battery housings for fully electric vehicles, which we announced earlier today.

With that, I would now like to hand the call back to Armando.

**Armando Tamez**

Thank you, Alberto.

I would now like to provide an update on our outlook for 2022.

We expect that our industry environment will show gradual improvement, enabling full year global light-vehicle production to finish higher than last year. At the same time, we see a continued risk of volatility in supply chains linked to effects of the pandemic and the semiconductor shortage, particularly in the first half of the year, which has led us to adopt a cautious approach for planning purposes.

Regarding our results, a combination of tailwinds and headwinds underpins our outlook for the year. On the one hand, we anticipate certain volume growth compared to last year, based mainly on the industry trends I just described, together with the continued ramp-up of our e-mobility and structural applications segment. On the other hand, we see increased effects of inflation, including in energy, labor, and transportation, among other categories, which we are working to pass through to our customers.

Given these considerations, our '22 guidance is as follows. For volume, 36.9 million equivalent units; revenue, \$4 billion; EBITDA, \$502 million; and Capex, \$415 million.

With that, we conclude our presentation and would now like to move on to open the call to Q&A.

**Adrian Althoff**

Thank you, Armando. We are now ready to move on to the Q&A portion of the event. Operator, please instruct the participants on how to place their questions.

**Operator**

Thank you. Our first question comes from Alejandro Azar with GBM. Please state your question.

**Alejandro Azar**

Hello, Armando, Alberto. Good morning, Adrian.

A couple of questions. The first one is obviously on your guidance, especially on EBITDA per unit. Your implied EBITDA per unit is \$13.60, which seems a bit cautious thinking that you have enhanced a new cost structure with—you mentioned a lot the word historical margins in the fourth quarter and in the last year. So what are you looking here? You mentioned energy. You mentioned labor, transport. But to be



more clear, should we think that these are the new margins that we should account going forward? That's the first one.

The second one is also on guidance on volume. Some of your clients, and I'll be direct here, General Motors, for example, is targeting production growth of north of 20%. What is embedded on that 3% growth on your outlook? Are you accounting for lower volumes in Europe? Those would be my two questions. Thank you.

**Alberto Sada**

Yes. Hello, Alex. How are you? This is Alberto. Thanks for your questions.

Related to the question on our unitary figures for EBITDA in our guidance, as it was explained by Armando, this year we're facing inflation pressures on different elements of our costs. So, we talked about energy, labor, and a few others. We're also facing a little bit of launching expenses which we will have to incur this year for the launch of the new business, which will not be recurring going forward. Part of that is already included in our guidance.

For us, what we also explained on the fourth quarter, we're currently working with our customers to pass along such effects on pricing. Those discussions are currently happening, and certainly that's going to help us offset part of these effects that we're currently incorporating in our guidance.

We have the combination of inflation effects, which we are anticipating happening this this year. We also have this launching effects cost that we are incorporating in our guidance, and a little bit of an impact because we are reducing inventory levels, which we took higher than normal last year. So, those will be let's say, the effects that we have. But as I said, we're working actively with our customers to pass along this effect and go back to the previously achieved EBITDA per-unit figures that we had. We still have that as our internal targets; but for guidance purposes, we're keeping ourselves on a conservative tone.

Relating to the volume figures, I think, yes, correctly, as you as you indicate, we have close to a 4% increase on our volumes for 2022, and our guidance also there reflects, let's say, our latest views in terms of the impact that the industry is still facing due to the semiconductor shortages that our customers are facing. We expect this to gradually be easing out along the years, so we expect the low/high type of volume. And hopefully, by the end of the year, we'll see higher figures in terms of volumes as we're seeing these supply or semiconductor constraints improving along the year.

Where is that growth coming? It's basically in all regions. We're seeing increasing productions scheduled from our customers, both in North America and Europe. But that will be, again, subject to, let's say, the easing of this semiconductor constraints in the supply chain of the OEMs.

**Alejandro Azar**

Thank you, Alberto. One more if I may, on your EV and SC business, if you could share with us the sales of 2021. And what do you expect for 2022?

**Armando Tamez**

Yes. Thanks, Alex.

We ended last year, Alex, with approximately \$380 million combined on the EV and structural. And we're projecting that this year it will increase by about 23% to approximately \$470 million combined.



**Alejandro Azar**

Excellent, Armando. Thank you again.

**Armando Tamez**

Okay.

**Operator**

Thank you. Our next question comes from Peter Bowley with Bank of America. Please state your question.

**Peter Bowley**

Hello, Armando, Alberto, Adrian. Thank you for the call.

I have two questions. The first is just in terms of the Capex guidance, \$415 million. Can you share how much is growth versus maintenance? And on the growth Capex geographically, where's the focus of that?

**Alberto Sada**

Yes. Hi, Peter.

Well, out of the \$415 million, and in the same fashion as what we have been having in previous years, close to \$120 million represents, let's say, maintenance as well as a few capitalization of expenses and tunings. The remaining investments are for strategic purposes, so those are the growth-oriented Capex that we have. And it's distributed among regions in line with the orders that we have been gaining. At this point, we're not disclosing the Capex on a regional basis, but it's pretty much in line with the type of business that we have in both regions.

**Peter Bowley**

Great. Thank you. The second question was, on the 2022 guidance press release you mentioned cost volatility, including energy prices. My understanding was energy costs are fairly low proportion of OpEx. Is there any change going forward that we should read into this comment, particularly in light of developments going on in Mexico's electricity sector?

**Alberto Sada**

Yes, well, certainly electricity costs are not the highest cost that we have, certainly are in relative terms fairly small. But we're seeing volatility, particularly at our operations in Europe. And that is part of what we are seeing as impact in our costs for 2022. For the Mexico side, we still have not seen any changes yet.

I mean, there is a lot of debate on the government side on how to adjust that. But for now, that's not included in our figures for 2022. We'll have to see how that develops. Most likely, might be an impact for next year, if any.

**Peter Bowley**

Thank you.

**Alberto Sada**

Sure. Thanks, Peter.

**Operator**

Thank you. Our next question comes from Marcelo Motta with JPMorgan. Please state your question.

**Marcelo Motta**

(Inaudible) I have two questions as well. The first if you can comment how do you see your long-term guidance? If I recall correctly, during the Nemak's Investor Day last year in November, you guys were talking about reaching \$5.5 billion in revenues by 2025. So, just wondering if there's new guidance regarding volume for 2022. Looks like a big growth to happen in three years. Is there anything that could change on this long-term plan?

The second question is regarding EV and structural components. You comment that revenues this year, or better in 2021, they were like twice the level of 2020, so if you can give us more detail about this number. And what should we expect for 2022? Could they double again, could they continue to grow above company's top line? Those are the two questions. Thank you.

**Armando Tamez**

Yes. Thank you, Marcelo.

Related to our guidance, we are still, let's say, with the same figures for 2025. Certainly, we are facing today, as we already discussed, the issues of the pandemic in certain regions as well as the shortage of semiconductors. Most of the analysts are projecting that the semiconductor issues will be solved at the latest by 2023, and we are already, let's say, expecting, since most of our customers have very low inventories that there will be a nice recovery in '23 and, of course, '24 and '25.

Again, based on our book order and this expectation that the industry will recover in the following years, we are again committing to achieve the numbers that we presented in the Investor Day.

Related to your question about EVs. I think as I have already commented, we recently won orders for \$350 million additional EVs with key customers. And as we speak, we have a lot of opportunities. In today's environment, we have opportunities in front of us worth approximately \$2 billion, so we are very confident that the goals that we set during the Investor Day of \$2 billion by 2025, that we will achieve this figure significantly faster than we anticipated.

**Marcelo Motta**

That is very clear. If I may do a follow-up, I understand that one thing is the backlog of potential annual revenues that Nemak has, and a different thing is how much of those revenues are already flowing through the P&L. If you look at these \$1.4 billion that you have today in potential annual revenue, do you think that we should see these representing exactly these \$1.4 billion already offshore revenues in 2022?

**Alberto Sada**

Well, Marcelo, this is Alberto.

As of now, and as I shared just a question before, we're expecting for 2022 close to \$470 million worth of sales for structurals and EVs. That represents roughly somewhere between 12% to 13% of our consolidated revenue. That number should continue growing in the future as we are launching the new products that you correctly highlight that we have on our backlog for structurals of \$1.4 billion. So, we should be seeing that in the next coming years flowing into our P&L and therefore increasing the share of total revenues for this new segment.

**Marcelo Motta**

Very clear. Thank you very much.

**Armando Tamez**

Thank you, Marcelo.

**Alberto Sada**

Thank you.

**Operator**

Thank you. There are no further questions at this time, and I'd like to turn the conference back over to Mr. Althoff for additional or concluding remarks.

Sir.

**Adrian Althoff**

Thank you, Operator.

I would just like to thank everyone for their time and for participating in today's event. Please feel free to contact us if you have any follow-up questions or comments. Have a great day.

**Operator**

Thank you. This concludes today's conference.