

Nemak
4Q24 Earnings Conference Call
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Speakers

- Alberto Tamez Chief Executive Officer
- Alberto Sada, Chief Financial Officer
- Denise Reyes, Investor Relations Officer

Operator: Good morning everyone, and welcome to Nemak's s fourth quarter 2024 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 greatly appreciate your participation. Armando Tamez, our CEO, will lead off today's call by providing an overview of business and financial highlights from 2024, and the Company's outlook for 2025. Alberto Sada, our CFO, will then discuss our financial results in more detail. Afterwards, we will open for a Q&A session, which participants may join live or submit written questions via the Q&A function.

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 Fourth Quarter 2024 Earnings webcast. I will provide an overview of our 2024 results and strategy execution, before moving on to our 2025 Guidance. Throughout 2024, we observed a shift in electrification

trends that favored and extended the lifespan of traditional internal combustion engines, while simultaneously increasing the demand for hybrid vehicles.

In response to this change, we strategically adjusted our investments, and prioritized margin recovery and commercial negotiations. Despite facing a year-over-year volume decline, these efforts enabled us to successfully generate free cash flow and improve our leverage position.

Our EBITDA increased by 9% compared to the previous year, rising to 633 million dollars. This growth was primarily driven by operating efficiencies, cost reduction initiatives, and successful commercial negotiations, despite experiencing a 6% decline in volume. Cash flow generation returned to positive territory during the year, climbing to 27 million dollars. This, in turn, reduced our net leverage to 2.4 times, an improvement over our target of 2.5 times by the end of the year.

Turning to strategy execution, we addressed the changing trends in electric vehicle adoption by making strategic adjustments to our projects and deciding to put on hold the launch of two new facilities in Mexico and Germany, which were intended to support the production of battery housings. Meanwhile, a third facility in the Czech Republic will continue its ramp-up plans during 2025.

To manage the financial effects of these changes, we secured commercial agreements that substantially compensated for the investments made and contributed to accelerating debt reduction. Having concluded negotiations, we are prepared to seize new opportunities and allocate this capacity to new projects, ensuring we remain agile and responsive to market demands.

Additionally, we concluded negotiations with our customers to address inflation, and re-priced certain products that were falling below our profitability thresholds. The combined effect of these actions has resulted in improved and sustainable margins.

During the year, we were awarded contracts worth approximately 460 million dollars across our different product lines. As industry trends continue to favor internal combustion engines, 80% of the new contracts were in the ICE powertrain segment, with the majority of new business directed towards hybrid applications. The remaining 20% of contracts were in the e-mobility, structure, and

chassis applications segment. With new opportunities in the ICE and hybrid fields, we reaffirm our strong market position and will continue to support our customers in these areas. Notably, all new contracts reflect the latest economic levels and pricing conditions, enabling sustainable long-term margins.

As a highlight of our commercial activity, we were awarded another contract to produce battery housings for a fully-electric heavy commercial vehicle from a European manufacturer. The production of these components will leverage our existing high-pressure die casting capacity and the valuable knowledge we have developed in this segment. Given that these heavy commercial vehicles require considerable battery capacity, we will be providing multiple battery housings per vehicle.

I am also pleased to announce that 2024 marked a significant milestone for Nemak, as we supplied our one-billionth powertrain component. Established in 1979 as a company dedicated to producing aluminum cylinder heads, Nemak has evolved and consolidated its presence as a global leader both in the ICE powertrain, and in the e-mobility segments. Today, we are present in 14 countries and have 40 manufacturing facilities worldwide. We remain committed to using our full range of advanced casting processes and global footprint to continue supplying ICE powertrain components as long as they are needed.

Our commitment to innovation is central to our mission, driving us to continuously advance our technology and engineering to deliver exceptional solutions. We are pleased to announce that the project to manufacture hollow structural components using high-pressure die casting technology, has successfully concluded its development stage and is now transitioning to pre-commercial status. We are confident that this innovation will drive value creation and lead to successfully productive applications.

Moving on to our ESG agenda, I am pleased to announce that Nemak was included in the Dow Jones Sustainability Indices for the sixth consecutive year. We remain committed to embedding sustainable practices into our strategy and operations. Moreover, we made further strides in the Aluminum Stewardship Initiative by completing the performance standard certification of six facilities in 2024 and achieving the chain of custody certification for two of these plants.

During the year, we also achieved Top Employer certification in our sites in Brazil, Germany, Mexico, Poland and the United States. This recognition underscores our dedication to creating a positive work environment and attracting top talent, which in turn drives our innovation and operational excellence.

This concludes my initial remarks. Thank you for your attention, I will now hand the call over to Alberto.

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 2024, followed by a summary of industry trends and financial results.

During 2024, we implemented a series of strategic initiatives that focused on margin recovery, cash flow generation, and improving our financial position. These initiatives involved implementing cost reduction projects and successfully concluding commercial negotiations, which included strategic product repricing, inflation recovery, and lump-sum payment compensations for idle capacity in the e-mobility, structure, and chassis applications segment.

Throughout the year, global light-vehicle sales increased 2% to 88.3 million vehicles, whereas light-vehicle production decreased 1% to 89.4 million units. This was the combined result of reduced production in Europe, which was offset by stable production in North America, and higher production in China.

From a regional perspective, during the fourth quarter, the seasonally adjusted annual rate for light-vehicle sales, in the US was 16.5 million units, 6% higher than last year. For the full year 2024, this metric increased 3% to 16.0 million units. Consumer demand was resilient supported by general incentives from OEMs and the EV incentives from the US government, amidst still-high average transaction prices.

Light-vehicle production in North America during the fourth quarter decreased 3% year-over-year to 3.6 million units, as OEMs deployed inventory reduction strategies, returning to 46 days of sales from 56 days year-over-year. For the full year 2024, production was 15.5 million units, 1% below the 15.7 million units in 2023, due to the same factors.

In Europe, light-vehicle seasonally adjusted annualized sales decreased 1% in the fourth quarter to 16.2 million units, on lower organic demand and a high comparison basis. For the full-year, light vehicle sales were 16.1 million units, up 2% year-over-year, on the back of higher demand for ICE & hybrid powertrains, and amidst slightly lower EV adoption.

During the fourth quarter, light-vehicle production in the region decreased 12% year-over-year to 3.8 million units, due mainly to lower export demand, as well as longer-than-usual production stoppages. For the full year 2024, light-vehicle production totaled 15.6 million units, 7% lower than last year, due to the same factors mainly during the second half of the year.

In China, the seasonally adjusted annual rate of light-vehicle sales rose 5% year-over-year in the fourth quarter to 28.2 million units driven by delayed purchases from previous quarters, and government incentives. For the full year, light-vehicle sales in China were 25.8 million units, slightly up compared to the previous year. This is attributed to the favorable commercial conditions during the fourth quarter. In terms of light-vehicle production, China posted 8% and 4% year-over-year growth for the fourth quarter and full year 2024, respectively, amounting to 9.4 million and 29.9 million units, driven by domestic and export demand.

In Brazil, the seasonally adjusted annual rate of light-vehicle sales for the fourth quarter and full year 2024 was 2.8 million and 2.5 million units, respectively, growing 14% in both cases year-over-year. South America's light-vehicle production experienced an increase of 11% year-over-year in the fourth quarter of 2024, amounting to 0.8 million units, due to lower imports. On a full-year basis, light-vehicle production in the region increased 1% year-over-year to 3.0 million units, due mainly to the same factors.

During 2024 we continued to rely on our expertise, footprint, and technologies in the Internal Combustion Engine powertrain segment, as electric mobility adoption slowed. Our ICE powertrain segment accounted for 90% of our consolidated revenue, showcasing our potential in both high and low electrification scenarios.

Turning to our financials. Volume decreased 7% and 6% compared to the fourth quarter and full year 2023, totaling 9.0 million and 39.5 million equivalent units, respectively. This was due mainly

to customer inventory management strategies, customer plant stoppages in certain regions, and the declining e-mobility adoption rate among our customers during the year.

Revenue in the fourth quarter of 2024 totaled \$1.2 billion dollars, 6% higher than during the same period of 2023, despite lower volume. This was offset by successful commercial negotiations, and higher aluminum prices. For the full year, revenue was \$4.9 billion dollars, down 2% year-over-year; lower volume was partially offset by higher aluminum prices and commercial negotiations.

EBITDA for the fourth quarter and full-year 2024 increased 21% and 9% year-over-year, totaling \$156 million and \$633 million dollars, respectively. This growth was driven by cost-optimization strategies, commercial negotiations, and reduction in energy costs. Consequently, EBITDA per equivalent unit for the fourth quarter and full year were \$17.2 and \$16.0, respectively, up 30% and 16% on an annual basis.

In light of the recent strategic decisions to adjust our capacity for EV components, we wrote off fixed and intangible assets in the amount of \$80 million dollars during the quarter; therefore, we reported an operating loss of \$39 million dollars compared to a \$13 million dollars loss in the same period of last year. For the full year 2024, operating income was \$145 million versus \$177 million in the previous year, due mainly to the asset impairments I just mentioned.

Nemak recorded a net loss of \$51 million dollars in the quarter, compared to a \$26 million loss in the same period of the previous year, derived from a series of extraordinary items. On one side we had higher financial expenses associated with debt refinancing transactions, favorable non-cash effects from our net FX position, and higher deferred taxes associated with such currency effects. Net income for the year was \$25 million, compared to \$4 million in 2023, mainly due to the combination of the aforementioned effects.

Turning to our financial position, our net debt at the end of the quarter was \$1.53 billion dollars, a sequential improvement of \$233 million dollars, and 2% lower versus the same period of 2023. Cash flow generation during the quarter was strong, driven by the commercial negotiations and the seasonality of net working capital. Our net debt-to-EBITDA ratio was 2.4 times versus 2.7 times in the prior year, leading us to surpass the expectation to achieve 2.5 times by the end of

the year. In turn, the interest coverage ratio was 4.9 times versus 4.8 times at the end of the same period of last year.

To further strengthen our debt profile, during the fourth quarter we successfully concluded a debt refinancing of \$200 million dollars. Together with the \$250 million dollars long-term debt transaction we completed in the third quarter, we refinanced during the year a total of \$450 million dollars of debt. These transactions provide us with greater financial flexibility, allowing us to focus on long-term strategic initiatives and operating excellence by reducing short-term amortizations, while maintaining an optimal financial cost.

Capital expenditures in the fourth quarter and full year 2024 were \$109 million dollars and \$389 million dollars, respectively, a 30% and 28% reduction compared to the same periods of 2023. We are committed to streamlining our capital investments, mainly in the EV/SC segment, which we reduced substantially, balancing the development of capabilities between the two business segments. As a result, going forward we anticipate continued lower capital expenditures.

Moving to our regional results during the quarter. In North America, revenues increased 15% year-over-year to \$661 million dollars, as lower volume from decreased production by OEMs was offset by commercial negotiations. EBITDA was \$121 million dollars, compared to \$56 million dollars in the same quarter of 2023, as commercial negotiations and the depreciation of the Mexican peso were partially offset by lower volume.

In Europe, revenue fell 8% year-over-year to \$391 million dollars on lower volume, although this was partially offset by commercial negotiations. In turn, EBITDA in this region decreased to \$19 million due to lower volume and product mix, in conjunction with additional maintenance expenses. These impacts were in addition to a high comparable last year, due to the effects of commercial negotiations.

Revenue in the Rest of the World was \$157 million, up 9% compared to the fourth quarter of 2023, due mainly to favorable volume and product mix. EBITDA in this region increased 3% to \$16 million dollars, benefiting from the same factors.

In terms of capital allocation, I would like to mention that during 2024, we repurchased nearly 97 million shares. We believe the low stock price at the time represented an opportunity to deliver value to our shareholders, thus the decision to repurchase shares. By the end of December 2024, the shares held in treasury represent approximately 4.5% of our total outstanding shares. We will propose the cancellation of these shares in an Extraordinary Shareholders' Meeting, whose date we will announce in due time. We strongly encourage your participation in this extraordinary meeting.

In summary, we concluded 2024 in a stronger financial position, with sustainable improved margins, a lower level of net debt, and streamlined investments. This places us in an adequate position to seize opportunities in both ICE and EV/SC segments, and to navigate potential challenges in the coming months. We will continue to prioritize delivering value to our stakeholders, maintaining cash flow generation, and deleveraging as key priorities throughout 2025.

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

Armando Tamez: Thank you, Alberto. I will now provide an update on our outlook for this year.

In terms of the Company's results in 2025, we expect to see recovered margins, thanks to the efforts made over the past year to improve profitability on a sustainable basis. Our margins, expressed as EBITDA per equivalent unit of volume, will return to pre-pandemic levels. However, we anticipate challenges in volume, with a projected decline driven by market volatility and the evolving landscape of OEMs' electrification plans. Potential tariffs in the US market and response from other economies could further contribute to this volatility.

We are well prepared to navigate both high and low electrification scenarios, with the proven ability to adapt to changing market conditions and continue to create value for our stakeholders through innovative solutions and strategic initiatives.

Investments will be aligned to new market dynamics and will be reduced compared to the previous years. Overall, these factors will increase cash flow generation during 2025, and we will continue prioritizing debt reduction.

Given these considerations, I would like to announce our guidance range for 2025:

For volume, a range of 37 to 38 million equivalent units; Revenue in the range of \$4.6 to \$4.8 billion dollars; EBITDA in the range of \$580 to \$600 million dollars; and Capex ranging from \$285 to \$295 million dollars.

With that, we conclude our presentation and would 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; If you would like to ask a question live, please press the 'Raise Hand' button at the bottom of your screen. When it's your turn to ask a question, you will be granted permission to speak. Questions will be addressed in the order that they are received, calling the name of the next person on the line. You may also place a written question using the Q&A function, also located at the bottom of your screen. Questions will be addressed in the order they are received.

We will now open the floor for questions.

The first question is from Alan Miranda from REDD Intelligence. Alan, please proceed with your question.

Alan Miranda: Hi, good morning. So, I actually have two questions: The first one is how much of your committed credit lines, which were \$400 million in September, are still available? And also, if you could give us an update on the reduction of scope 1 and scope 2 emissions that you have a commitment for 2026 and 2030. I understand that by 2023, well, at the end of that year they had decreased 15.3%. Could you give us an update of how much that has decreased as of the end of 2024 or later, if possible?

Alberto Sada: Thanks for your question, Alan, for sure, yeah. Related to our debt availability, as you correctly point out, we have close to \$400 million dollars of committed credit lines. All of them are fully available. So those remain outstanding for us to use them whenever we see any potential issues on the financial markets. So, from that point of view, we have significant availability of cash funds if they are needed.

And then related to your question around how we're progressing in terms of our commitments towards improving greenhouse gas emissions, those are on track to fulfill our commitment that we have on our bond structures. So, we don't anticipate there any issue to fulfill those targets. As we highlighted on the debt transaction, we are in line to reduce the greenhouse gas emissions altogether. And we are progressing accordingly. When we issue our report as of in the next month for the full year, you will see details on amounts for that metric.

Alan Miranda: Great. Thank you very much.

Alberto Sada: You're welcome.

Denise Reyes: Thank you, Alberto. The next question is from Nicolas Fabiancic from Jefferies. Nicolas, please proceed with your question.

Nicolas Fabiancic: Hi, thank you for the call. I'd like to ask a little bit about the tariffs topic. You can give us some color there. For example, who actually pays the tariff? Nemak versus the upstream, supplier or the OEM? How much of your volumes are actually crossing the border at the end of the day? And then a little bit more discussion about Nemak's competitive position and how you feel in light of this this threat, how realistic is it to move production from Mexico to the U.S. Any kind of color on the tariffs or risk would be great. Thank you.

Armando Tamez: This is Armando. Related to potential tariffs, certainly, I think it's important for you and the rest of the people that are connected to understand that all the parts that we sell in Mexico to customers in the U.S. are sold free-on-board at our facilities. So the customer has the responsibility of picking the parts at our plants and they do the exportation of the parts to their plants located in the U.S. or other regions. So, we don't see any potential impact in the event that the administration in the U.S. imposes any tariffs. We have already discussions with our customers indicating that Nemak will not absorb any potential increases. And certainly those are not included in the contracts that we have with all our customers. So, we don't see any potential downside related directly or impact in our bottom line.

Related to the competitive position, it's also important for us to tell you that we are the only independent supplier that has capacity in the U.S. We have 6 plants located in the U.S., in the

States of Tennessee, Kentucky, Alabama and Wisconsin. We have 6 facilities. Actually, we have open capacity in the event that tariffs are imposed and some of our customers want us to move certain production to the U.S., certainly we will consider depending if it makes economic sense of moving some of the production that is currently made in Mexico. But as I indicated, we are the only independent company that has capacity to produce cylinder heads and engine blocks in the U.S. But we are, again, with very competitive position in the market today and certainly everybody's trying to potentially convince the administration not to impose any tariffs that eventually will add cost to the end consumer.

Denise Reyes: Thank you, Armando. Our next question is from Alfonso Salazar from Scotiabank. Alfonso, please proceed with your question.

Alfonso Salazar: Hi, can you hear me?

Denise Reyes: Yes, we do.

Alfonso Salazar: Excellent. Thank you. In fact, my question is a little bit regarding the same topic on how to adapt operations and clients depending if tariffs are actually imposed. And the question I have just to follow up on the previous one is, you say that you have capacity, what else can you do with the capacity in Mexico? I mean, assuming that you can no longer produce to export to the U.S., because your clients don't want that. So, is there any flexibility to reshuffle with other clients and produce in Mexico and use that capacity to serve other markets?

And also related to that question is the situation in China. What we have seen with China is that they are doing, following the same strategy with EVs that they did with steel, for example, which is having excess capacity and with dumping prices getting a big market share. Certainly, that's one of the reasons why we see these tariffs being implemented. But this is something that will certainly impact your clients, your main customers for GM, they see this as a threat. So, I just wanted to understand, if you are not absorbing any of the tariffs, could it be the case that the impact on your operations would be, you know, reduce volumes? Because of the competition of new entrants, Chinese entry companies, and also because the price of cars in the U.S. becomes higher, maybe interest rates are not going to be going down and, therefore, demand for cars can

be negatively impacted. So, I just want to understand how do you see all this unfolding? I know there so many uncertainties, but any color on this will be very helpful.

Armando Tamez: Thank you, Alfonso, for your questions. First, as I indicated, we have limited open capacity in the U.S. to produce additional parts. But if we were to move any volume from our capacity that we have in Mexico to the U.S., that will need to be making economic sense for Nemak to do it. And certainly, we would have to price products accordingly because everybody knows that the cost of doing business in the U.S. is higher than in Mexico, but this is something should be considered. I don't want to anticipate again any potential reaction from the U.S. Government, but what we are seeing, and this is a personal opinion, is a contradiction.

On one hand, the U.S. government is talking about reducing inflation in the U.S., and certainly tariffs would create the opposite. So, I think it's difficult for us to understand the rationale of this potential tariff. I think at the end of the day, we don't see them in conversations with our customers and other government officials, both sides in the U.S. as well as in Mexico, that these tariffs will be, if implemented, staying for a long period of time.

Related to the Chinese, I think it's important again, we don't have any possibility to make an impact there. But what I can tell you is the following. Nemak is well positioned in China. We are selling to North American-based, European-based as well as Chinese companies. Recently, even we were awarded a new contract with a top Chinese player. And we will make an announcement once we have confirmation from that particular customer. But certainly, we are very proud of this achievement. I think it's not for us to talk about potential dumping of one country to the next one. I think our customers certainly are complaining heavily about these prices and certainly they are pushing hard to compete in the same level playing field. That's what they are requesting. And I think these threats related to tariffs, they try to balance that situation, the one that you are mentioning.

Alfonso Salazar: Ok. Thank you very much.

Denise Reyes: Thank you, Armando. The next question is from Ron Dadina from Sumitomo. Ron, proceed with your question.

Ron Dadina: Can you hear me?

Denise Reyes: Yes, we do.

Ron Dadina: Ok. My question also is related to Nemak's competitive position as well as the tariffs. Firstly, can you please let us know for roughly what percentage of your production you are the sole supplier to the U.S. OEMs? And secondly, if at all, you have to move production to the U.S.? Is it likely that the production in the U.S. is going to be more expensive by around 20%? Meaning, does it make sense to move production to the U.S.? Or would it be better for the OEM just to pay the 20%? Because it would be more expensive to buy the part from Nemak in the U.S. So, I appreciate your help on these two questions.

Armando Tamez: Yeah. Thank you, Ron. Related to the contracts that we have, we're very proud to say that in 90% of all the parts that we manufacture, we are the sole supplier. This is not common in this industry and we're very proud, as I indicated, because our customers have trusted us because of quality, technology, deliveries, service and cost. And they have trusted us to give us 90% of in which we are the sole supplier and in most of the products that we produce in Mexico we are the sole suppliers. As I indicated, Nemak is the only one that has capacity from the independent side for producing cylinder heads and engine blocks for internal combustion engines. And in the event, as you are indicating, we have made already a calculation. If they impose the 25% tariffs on some of the components that we manufacture and those will have to be paid by our customers at the end, by the end consumer. We have made the calculation that in spite of that, it will be less expensive for our customers to pay the tariff or the duty than moving the parts to be produced in the U.S. And the main reason for that is because that will require huge amounts of CAPEX to move the production from Mexico to the U.S. And please remember this, Mexico is currently exporting \$115 billion dollars in automotive parts and most of the companies that are located in Mexico are U.S.-based companies. So that will have a tremendous impact, not only for our company, but also for the general industry overall. And that certainly would make vehicles in North America more expensive.

Ron Dadina: Thank you.

Denise Reyes: Thank you, Armando. Our next question is from Antonio Luis Gomez from NinetyOne UK. Antonio, please go ahead with your question.

Antonio Luis Gomez: Hi there. Thank you for your time. The first question I had was associated with your financial strategy going forward. It mentions that you were looking to reduce your leverage or your net debt going forward. I just wanted to understand what's your leverage target and how you're looking at your financial strategy more generally. My second question is related to tariffs as well. You're mentioning the spare capacity in terms of volumes, assuming you move as much production as you can into the U.S., what's the percentage of volume that you have that's still being sent from Mexico to the U.S. from a production perspective? So, what's the volume at risk that you can't really displace and move into the U.S.? Should the need arise.

Alberto Sada: Sure. Thanks for your question, Antonio. This is Alberto. Related to our financial strategy and as I highlighted at the end of my comments, what we're aiming for is in the short term to continue improving our overall profitability as well as to continue generating positive cash flow. As you saw on our guidance, we are reducing the amount of capital expenditures that we have for the year. And therefore, with that, allowing us to continue improving that cash flow and we'll apply that to debt reduction in the year. So that should take us in the right direction to continue advancing and progressing towards our overall leverage target, which we're aiming to be at levels of close to 2.0 times on a net debt to EBITDA basis. That's how we have been operating for many years before pandemic. After pandemic, for all the reasons that we have discussed all along the years, we have had to increase our leverage, increase CAPEX towards adjusting our capacity for EV production. And now that we are collecting a big portion of that from our customers and realigning our CAPEX, we should be able to reduce that leverage to achieve those levels. And related to your second part of your question, related to the spare capacity, as Armando highlighted earlier today, as you know, we have our contracts which are ex-works. So, we don't have any direct responsibility for transportation or importation duties or anything like that. And just to give you a little bit of sense of the amount of volume that crosses the border directly from our products, that stands around 12% of our consolidated revenue. So, that will give you an idea of how much of our volume that we produce in Mexico ends in the U.S. directly, the rest ends within our customers in Mexico.

Antonio Luis Gomez: OK. And sorry and how much of that 12% that's at risk, how much could you move to the U.S.?

Alberto Sada: Well, in the end it depends on a series of circumstances. Those are the combination of both heads and blocks, and then there is a particular capacity which is open for both products in the U.S. So, we have to make, obviously, detailed analysis on how much that can be adapted to the existing capacity, and there may be other ones where we will need a little bit more capacity to add to the region. But I would say that on one side, buying equipment opens your capacity, but a big constraint for somebody that doesn't have a presence is to really set up the manufacturing footprint. So, we have that in place, as Armando highlighted, four sites with six plants that we can easily add capacity if the economics makes sense.

Antonio Luis Gomez: Yes, sorry. And one final question. In terms of this it is just the parts that you see that move across the border from an export perspective. Is there any kind of revenue or volume at risk in terms of a part that you sell that then goes within a production line in Mexico that ultimately then has to be exported to the U.S. as well that we're not talking about here? Or is this from the analysis the full revenue that's at risk, the 12%.

Alberto Sada: Yeah, that will be hard to quantify, because at the end it's up to our customers to move the final products to the region that they that they want. As you know, our components go to engine plants, those get assembled in the region. I mean an entire region in Canada, in Mexico and in the U.S. and those engines will then be built into vehicles that those vehicles either may end up in the North American region as a whole or it could be even also exported. Yeah, I would say it will be hard to quantify. And at the end, it's up to the customer's decision how they want to move around their capacity to optimize tariffs, if those at the end get implemented in the way they're being signaled.

Antonio Luis Gomez: OK, perfect, thank you very much.

Alberto Sada: Thank you, Antonio.

Denise Reyes: Thank you. Next question is from Andres Cardona from Citi. Please proceed with your question.

Andres Cardona: Thank you, Denise. Good morning. I just wanted to ask about the commercial agreements that you reached last year. So, if we look backward to the pre-COVID time margins, should be around \$15-16 dollars per equivalent unit. I just wanted to check that range. And the second one is if you get any compensation because of the cancellation of the firm capacity contract with this supplier, somehow in cash, if you have received that money yet, if there is something pending to collect? Yes, any color you could share about the agreement itself.

Alberto Sada: Thanks for your question, Andrés. Related to the commercial agreements, yes, as you correctly point out, the margins that we have been operating prior to the pandemic have been in that range, around the low 15s. As you can see on our guidance, we are setting up our margin expectations at around that same range that you just highlighted. So, that is the result of all the different commercial negotiations that we concluded in 2024 and some of them also in 2023 related to inflation adjustments and pricing realignment. We also, as we highlighted, had negotiations around recovering part of the capital expenditures that we did, for which we have not yet seen volumes as expected and those have been practically for all of them have been already collected. There's just a very few that are pending in 2025, but most of them are part of that cash flow generation that we saw in the fourth quarter.

Denise Reyes: Thank you, Alberto. Next question is from Laura Acosta from Sumitomo Mitsui Banking Corporation. Laura, please go ahead. Laura, please proceed with your question. Ok. We'll move on to the next question from Christina Ronac from HSBC. Christina, please proceed with your question.

Christina Ronac: Hi, thank you so much. I just want to take a further step back than just 2025. I saw that your CAPEX in in the fourth quarter, \$83 million versus I thought you guided for \$109 million was a big drop and then you're dropping again to \$290-ish for 2025. It's ok if the top line, your revenues drop a little bit over time. That's not a concern. I just want to get some feel of you are cutting back quite a bit on CAPEX and your ability you know to keep revenues and margins at least near this area. If you can speak into that would be great. Thank you.

Armando Tamez: Yeah. Thank you, Christina. Certainly, as we have indicated, Nemak made significant CAPEX expenditures over the last few years because we were transforming our company from 100% ICE company to a company that will be more flexible to produce EVs as well

as structural components and we made a significant amount of investments. Now, what we are seeing is a significant different trend. Now we are seeing, especially in the North American base and the European markets, a preference from the consumer to go more for ICE and hybrids. And that is certainly a benefit to our company because we have already installed capacity to support most of our customers. We are reducing significantly our CAPEX, not only for this year, but we are seeing in our projection that we will have a more limited amount of CAPEX expenditure over the next several years, three or four years. And we are confident that with this level of CAPEX, we will be able to sustain what our customers need. We have open capacity in the two main components that we make in the ICE, hybrids, as well as EVs. We have two plants, as I indicated that are ready for EV components in the event that some customers will be interested at the later time and that certainly will reduce significantly our amount of CAPEX. We're projecting for this year to have a range between \$285 and \$295 million top, and that will certainly be a benefit because at the end of the day, we're expecting to generate free cash flow in the over \$100 million dollar in that. And that we will be planning to use these free cash flow to reduce our debt and certainly reduce our leverage ratio. That's our focus.

Christina Ronac: Got it. So, like this CAPEX level can maintain this business for at least four, maybe 4-5 years. Okay, if I can add on, just kind of wondering, your tax paid, it's pretty high for the net income or EBT you're generating. I see you paid \$81 million in 2024. It did drop, but that's still a lot. What's the cash tax payment, If you can give us any number, for 2025?

Alberto Sada: Yeah, sure. Christina, this is Alberto. Yeah, certainly the overall cash payments have multiple effects. On one side, we have also some currency gains, which trigger some of those tax payments. So, that's a reason why you saw a little bit higher tax payments than usual, particularly in 2023 and 2024. Going forward, we expect to reduce that significantly as we're seeing there an end to those effects. And the number to plan for the next two to three years will be around the \$65 to \$70 million at most.

Christina Ronac: OK. Thank you so much. That's it for me. Thank you.

Alberto Sada: Thank you.

Denise Reyes: Thank you, Christina. We have no more live questions, so we will move on to written questions. We just received new questions online. So, we'll move on with the next question from Nikolay Menteshashvili from Candriam. Nikolay, please proceed with your question.

Nikolay Menteshashvili: Good afternoon. Hope you can hear me.

Denisse Reyes: Yes.

Nikolay Menteshashvili: Great. Just a couple of questions on my side: First of all, on the volume guidance, I think the 2025 guidance assumes around 5% decrease versus 2024, I just wanted to check if there is any potential downside or upside risks. We see a lot of news on the OEM side that production is being cut, that they will need to go through inventory rationalization. So, it will be great to understand if you see any potential, for example, risks to that volume guidance. And then secondly, if I look at the EBITDA per unit and just EBITDA in general for the European business, it dropped quite a bit in fourth quarter this year. Would you give a bit detail what was the main driver for that? And if you expect it to recover. Thank you.

Alberto Sada: Yeah. Thanks for the questions, Nikolai. Yes, as you correctly point out, related to the volume our guidance stands at reduction of close to 5%. And certainly this is a combination of different effects. Certainly, we saw a little bit of movements in terms of production in 2024, particularly at the end, where we saw adjustments in production, both in Europe as well as in the U.S., for different reasons. In the U.S. we saw inventory reduction strategies, so OEMs stop production for that purpose. And we also similar effects in Europe, but more related to other items such as the export activity reducing a little bit as well as some production stoppages strategies, particularly by VW. So going forward, what we have is as we communicated, or as we see in the industry, we see a stable industry development so far. But certainly, the production can be going up and down, depending on how some OEMs define their production strategy. And there could be a strategy to continue producing a little bit more in the U.S. to fill up back in inventories if they want to continue at the levels that they were having before the end of the year. And certainly, depending on how the whole export activity in Europe happens, we could see higher or lower volumes. For now, what we see as our base case is what we have guided for, and that range considers particularly those elements that we see in terms of potential volume fluctuations. And then your second question related to the EBITDA in Europe. In the fourth quarter of this year, we

saw a couple of major items. On one side, we saw that reduction in volumes that I just explained from some of our customers in the fourth quarter. So, we saw a reduction that was higher than usual for the fourth quarter. And we also take advantage when we have such volume adjustments to do maintenance at our operations. So, those are extraordinary expenses and whenever we see those type of longer stoppages, particularly on the Christmas breaks or on the traditional summer shutdowns, is when we take advantage and do much of the maintenance that that we need for the next year. So, for that reason, we saw higher than usual expenses in Europe that drove to that reduction in EBITDA together with the volume adjustment that I just mentioned.

Nikolay Menteshashvili: Perfect. Thank you.

Alberto Sada: Thank you.

Denise Reyes: Thank you. We have another question from Alfonso Salazar from Scotiabank. Alfonso, please proceed with your question.

Alfonso Salazar: Yes, thank you. Just a follow up on the U.S. and tariffs, let's say that tariffs stick for long, are applied and they stick for long. What is necessary for Nemak's management to pull the trigger and build a new plant in the U.S.? What will be needed? How long would it take for you to go ahead and build a plant because your clients need it?

Armando Tamez: Yeah. Thank you, Alfonso. As I indicated, we have open capacity in the U.S. to produce some parts, heads, blocks and transmission housings, depending on the need. And if we were to invest in a greenfield facility in the U.S., that would have to make economic sense. We will not build capacity unless the internal rate of return of that particular investment is justifiable. And certainly, if we were talking about ICE, we would be to some extent reluctant to make an investment without the full commitment from a particular customer or customers related to volumes and certain pricing agreement that would justify the investment. So that that is certainly our strategy and position. And in the event that the industry decides to produce everything in the U.S., certainly we will be prepared, but we as I indicated, every project will be analyzed on a case-by-case basis and needs to be something that it is attractive from the financial point of view.

Alfonso Salazar: Yeah, that's very clear. Thank you very much.

Armando Tamez: Thank you, Alfonso.

Denise Reyes: Thank you. Next question is from Laura Acosta from Sumitomo Mitsui Banking Corporation. Please proceed with your question.

Laura Acosta: Hello, can you hear me?

Denise Reyes: Yes, Laura.

Laura Acosta: Oh, thank you. Thank you, Armando and Alberto, for your comments. I have a question about the U.S. estimates for Nemak. On top of the EV slowdown, we know that President Trump is eliminating tax incentives for new EV vehicles. I was wondering if this was also considered in the 2025 guidance for volume and EBITDA. And also, given this shift, will this have an impact in the pipeline, in the mix and the backlog of the plants the U.S.? Additionally, I would like to know if there are any expectations in terms of Europe and China, performance kind of compensating lower sales in the U.S. And finally, if you can give some color about the \$80 million write-off for 2024.

Alberto Sada: Yes, thanks for your question, Laura. Yeah, as you correctly point out, the new administration in the U.S. is guiding their intention to reduce incentives that were placed to promote EV production. So certainly, in our forecast, what we are putting all together is the latest views from our customers. So, to the point that our customers have already included some of that, certainly that's part of it. And we are seeing it in terms of their views around the need to continue prolonging and in some cases increasing the ICE and demand. So, I would say altogether we feel comfortable with the mix of product that we have in the U.S. And certainly, we're evaluating how at the end the whole backlog in terms of even components will turn out, given these changes that we're seeing altogether, not only in the U.S. but also in Europe. Certainly, the commitment from our customers has been guided to continue electrifying their powertrain, though the speed will most likely be slower than everybody has anticipated. And currently promoting more hybrid applications, which as you may be aware, includes both the electric as well as the internal combustion power train, which is all of those are good news for us.

So, and related to our China business, as you see in our rest of the world, which is both China and South America, in general, the performance has been very robust. We have seen for the last three years continuous improvement both in the top-line and bottom-line. And we expect that to continue with the same trend.

Denise Reyes: Thank you.

Laura Acosta: Thank you.

Alberto Sada: Thank you.

Laura Acosta: And sorry, just to wrap up, can you give us some color on the \$80 million write off for 2024?

Alberto Sada: Sorry, sorry I missed that. Yeah, I think that's directly associated with the decisions from some OEMs to delay or cancel some of the contracts that they have with us on the EV side, so essentially wrote off those assets that will not be used for the foreseeable future. Having said that, I think it's also important to say that those assets are within our premises in general. So, we have those assets available in the case some of those projects re-engage or if we have other projects where we can use those assets, we'll certainly deploy them for any new applications. But at the end, what we wrote off was the portion of the assets, both tangible and intangible, that will not be used associated with those changes and decisions.

Laura Acosta: Thank you, Alberto. And one follow up question. Are you being compensated for all that idle capacity, somehow?

Alberto Sada: Yes, yes, totally.

Laura Acosta: OK, good. Thank you for your responses. I appreciate it.

Denise Reyes: Thank you. Our next question is from Jose Olazabal from Credicorp Capital. Jose, please proceed with your question.

Jose Olazabal: Thank you, Denise. Just regarding the guidance, I don't know if you can elaborate a little bit more about what's behind these estimates. And particularly if this considers any potential tariff impact. And a second question is regarding dividends, if you are considering any distribution for this 2025. Thanks.

Alberto Sada: Thanks Jose, for your questions. Related to the guidance, the guidance incorporates the best information we have to-date related to what are the plans from our customers to continue having production in the regions. So, it will be hard to really understand to what extent tariffs may be considered or not. I think at the end, what's important is to highlight that our customers have signaled some of their views in terms of that, some of them have indicated that there's going to be incremental cost, other ones saying that they have certain flexibility to move capacity up and down. I think given the way that we have our contracts that we highlighted, we are ourselves not under obligations to pay any tariffs. So, I think at the end, it's up to our customers to deal with capacity relocation as well as the tariff implications for them to achieve the expected volumes. In this industry, we see that normally volume is something that our customers certain value a lot given the high fixed cost intensity of the industry. Therefore, we believe they will prioritize volume versus overall margins. So, we'll have to see how that evolves and the reason that we're guiding a range is because we are trying to incorporate a little bit of ups and downs depending on how those things evolve.

Armando Tamez: Related to the dividend question. Our main focus today is reducing our debt and reducing leverage. So, there is no plan for dividends until we achieve a level of leverage that it is appropriate and that will be below 2 times. So, we will use our free cash flow that we will generate this year to reduce our debt.

Jose Olazabal: OK. And, just one additional quick question. Regarding your EBITDA per ton ratio for the quarter. If you have a calculation that excludes the compensation effect.

Alberto Sada: No, Jose, we unfortunately have specific agreements with our customers not to disclose the amount of compensations that we receive. So unfortunately, I cannot disclose that breakdown, but you can have a little bit of a sense based on how the EBITDA per unit has evolved and how it's looking going forward.

Jose Olazabal: Great, great. Thanks.

Denise Reyes: Thank you. Our next question is from Alejandro Azar from GBM. Alejandro, please proceed with your question.

Alejandro Azar: Thank you, Denise. Good morning, Alberto, Armando. Just a quick one: I don't know if you mentioned that the impairment of assets, the \$80 million is related to the EV/SC segment. My question is, are you already writing those off? Despite you might use the capacity in 3, 5, 7 years if suddenly the markets continues to grow.

My second question is also on this EV/SC segment. How much do you sold in 2024 and how much are you expecting to sell in 2025?

And the third one is, you mentioned previously about your internal rates of return on this business being, if I'm not mistaken, 17-18% with the delay in the ramp up, you already increased prices to catch up, you already received compensation. How is that internal rate of return looking now? Are you also expanding the life of the cash flows in order to get back to that 17 or you are lowering the returns on that segment? Thank you.

Alberto Sada: Thanks for your questions, Alex. Let me respond the first one. Yes, as you correctly pointed out, and as we just said, based on the accounting rules, we have to write off or impair those assets that are currently not being used. But that doesn't mean that we are discarding them. Those assets are within our premises as I highlighted before, and those can be used anytime if we see some of those projects restarting or if we see the possibility to use some of those assets for other projects, which we are actually evaluating as we speak. So, at the end, that's just essentially non-cash, from a financial point of view, a non-cash transaction and for accounting reasons. But certainly, if we see use for those in the next 12-18 months, we will certainly bring them back to our balance sheet and use them. And then your second question related to how much of the 2024 new contracts were associated with EV/SC segments. Those account for around 20% of the 400 plus million that we booked in 2024. For 2025, it will be hard to say, there's still some customers analyzing opportunities. There is more demand associated with the hybrid world and I think there we see a little bit of components for the EV capacity as well as for the ICE needs. So, we'll have to see how that how the demand moves. But I would say that it's most likely something very similar to what we saw in 2024.

And then, last but not least, you mentioned about the IRR and as you correctly point out that target IRR continues to be the way we want to operate with the new segment. And as it was discussed, the compensations that we got from our customers had two components, on one side was associated with the capacity that won't be used, at least not on the foreseeable future. And then another portion was to adjust the prices so that under the low volume scenario, we'll be achieving at least the same level of IRR that we committed. So that's our expectation on our aim. And if for some reason something doesn't work well, we'll continue discussing that with our customers to make sure that we comply with that expected IRR.

Alejandro Azar: Alberto, if I may, 2 two easy ones, on your guidance CAPEX, the \$290 million dollars, can you break down how much of that is directed to EVs? And you are starting to mention quite a bit the hybrids and allocating perhaps new contracts to hybrids. How should we think about CAPEX and needs when you're growing or when your clients ask you about hybrids? How can you reutilize capacity, the idle capacity you have on the powertrain side without material investments?

Armando Tamez: Alex, yeah, thanks for your question. What we are seeing, for instance this year in our guidance for CAPEX, in which we have a range of \$285 to \$295 million, we are seeing very limited amount of CAPEX for EVs, just on structural component, I will say out of this probably in the range of \$25 to \$30 million will be invested. The rest will be for maintenance to keep our operations running in the best possible shape and also some additional investment in ICE, especially for hybrid vehicles. I think it's very important to remember that our customers are using for hybrids the combination of an internal combustion engine plus an electric source. And it could be for instance, depending on the type of propulsion, it could be plug in hybrid in which we could be making for instance some investments for battery trays, small ones that we could make in our process HPDC. Or if it is just, for instance, a mild-hybrid, then they could use a very similar heads and blocks that we are currently producing. And this is why, Alex, we are reducing significant our CAPEX and we are seeing as, I indicated, for the next 3 or 4 years a similar amount of CAPEX or even less than what we are projecting for this year.

Alejandro Azar: Thank you, Armando. If I may just one more, if I can pick your brains. On the structure of the industry during the past five years tier 1 suppliers have been hit by OEMs and struggled. I Would say more than in the history. How do you guys see the industry evolving in this

sense? Do you think in the medium to longer term, maybe OEMs would try to vertically integrate again? Or the suppliers would consolidate, to strengthen, to be more efficient? What do you see on that front? What are you reading from your clients? From your discussion with clients, etcetera. Thank you, that would be my last question.

Armando Tamez: Yeah. Thanks, Alex. Excellent question. Yes, you're absolutely right, about the last four or five years, it has been rough times for the industry overall, especially for the OEMs as well as suppliers. What we think is going to happen in the future is that there is going to be certain consolidation of the industry, in terms of OEMs as well as Tier 1 suppliers. Definitely, I think the best OEMs and the best suppliers will survive and the rest I think will be absorbed or integrated. In terms of, for instance, the strategies for OEMs, I think it's going to be quite a challenge for the OEMs to integrate more because that will require certainly significantly more CAPEX for them to build the capacities and know-how. I think we will see a combination of both in which OEMs will tend to have certain core competencies in which they will certainly like to do it themselves, but they rely heavily on external suppliers, especially on the R&D side. It's quite difficult to have everything on the same company and be the best in the industry. I think they need to leverage, let's say experience and know-how. And it has proven that the top Tier 1 suppliers provide not only competitive cost, but also new technologies that I think for the OEMs to have everything on the same job is going to be more challenging. But certainly, it's going to be over the next few years more consolidation in in terms of OEMs as well as the supplier industry.

Alejandro Azar: Thank you, Armando.

Denise Reyes: Thank you. There are no more live questions, so we'll now move on to the written questions.

The first question is from Declan Hanlon from Santander. Thank you for the call. Can you walk us through the drivers for the deleveraging in the quarter? How much of a cash source was working capital? And secondly, can you update us on your total committed credit lines and availability at the year end?

Alberto Sada: Yeah, related to that question, Declan, about 1/3 of the cash flow generation of the fourth quarter had to do with working capital. The rest has to do with the operating results.

And related to the committed and total line availability that continues to be at a very high level, as discussed before, \$400 million of committed grade lines fully available, as well as close to \$600 million of non-committed traditional working capital credit lines available. So, plenty of cash sources if needed.

Denise Reyes: Thank you, Alberto. We have two questions from Reynaldo Richardson from Richardson BR and also from Diego Garza for Late Ventures. Regarding the buyback program, if it's planned to restart this year.

Armando Tamez: Yes, Reynaldo. The short answer is yes, we will continue buying back our stock, which we totally believe that the price of our stock is significantly undervalued. So, we have authorization from the Shareholders Meeting to buy up to 500 million pesos, which is roughly \$20 to \$25 million dollars, so definitely Nemak will continue buying back our stock.

Denise Reyes: Thank you, Armando. The next question is from Stefan Styk from Barclays. Where are you cutting CAPEX in 2025 versus 2024 and what is your policy on share buybacks? Which was already answered. OK. We'll move on to the next question from Sergio Calciazcona from UBS. Can you please provide expectations for gross debt, net debt and free cash flow generation in 2025? And, also more details on EBITDA guidance being lower than 2024?

Alberto Sada: Yeah. Well, related to the free cash flow generation, as it was highlighted by Armando, we expect that to be more than \$100 million dollars in the year and that would be applied to debt reduction. So, we ended the year with on a net debt basis with close to \$1.5 billion dollars. So, we'd expect that free cash flow generation to be applied to net debt reduction. We had a cash balance of close to \$340 million dollars as of the end of the year. On a gross basis, the debt amount stands at about \$1.9 billion dollars. And related to the EBITDA, I think we already highlighted the reasons for that. We had extraordinary items happening in 2024 that will not be recurrent in 2025 plus the effect of the efficiencies and repricing that we have discussed already.

Denise Reyes: Thank you, Alberto. Our next question is from Marcelo Motta from JP Morgan. Please comment about capital allocation given the reduction in CAPEX, what do you expect in terms of dividends and buybacks.

This has already been covered, so we'll move on to the next question from Paola Vera, Deutsche Bank. Do you have an approximate ratio of spare parts dependency from Chinese parts for imports on U.S. or Mexico? What percentage stays for your local production?

Alberto Sada: Well, related to spare parts, no. We have most of our spare parts are either European or North American based. So, very little exposure to China from that point of view.

Denise Reyes: Thank you. The next question is from Jose Olazabal from Credicorp Capital about debt and leverage reduction. What is the target?

Alberto Sada: Well, I think we are targeting on a net leverage basis to be, as Armando highlighted, at two times. So, we're on our way there from the 2.4 that we achieved at the end of this year.

Denise Reyes: Thank you, Alberto. And the next question is from Elizabeth Solis from Inbursa. What is the current value of your EV order book?

Armando Tamez: Yeah, the current hasn't changed. It's about \$1.8 billion in total for the EV and structural component side. I think it's important to also for us to understand due to the recent trend in which our customers are delaying or having less sales and originally projected, I think we still are studying very carefully the new projections from our customers once we have that available, we will certainly share that in this type of conference calls.

Denise Reyes: Thank you, Armando. There are no further questions at this time. And 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.

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