



NEMAK, S.A.B. de C.V.

Second Quarter 2024 Earnings Webcast

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PRESENTATION

Operator

Good morning, everyone, and welcome to Nemak's Second 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 the quarter. 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 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. Nematik 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 Nematik's Second Quarter 2024 Earnings webcast.

This quarter we improved our EBITDA to \$163 million. This result came despite challenging conditions in the automotive industry with light-vehicle production declining in some regions. Overall, our volume decreased 6%, and EBITDA improved 6% compared to the same period last year.

To continue on our path towards margins recovery, we are focusing on internal efforts to improve our cost structure and commercial negotiations to offset inflationary impacts, and address underutilized capacity in the e-mobility, structure, and chassis applications segment.

The implemented cost reduction program encompasses actions directed towards aligning our fixed cost structure with the volume trends we are seeing and replicating best practices within our global footprint.

Our benchmark tools have reached a new level, with agility and flexibility at the forefront of our plans. To provide more color on the items that comprise this program, we are optimizing discretionary spending, rightsizing headcount to current volume requirements, and further improving our manufacturing cost on the back of cost improvement projects.

On the commercial negotiations front, we have made partial progress in the matter of labor inflation recovery, while negotiating in parallel the re-pricing of certain products that are below the desired profitability targets.

We also continue discussing with our customers the underutilized capacity in the e-mobility, structure, and chassis applications segments. Overall, we expect to conclude all the mentioned negotiations during the second half of this year and feel confident that the response from our customers will be positive.

Moving on to awarded contracts, year-to-date we have been awarded business for approximately \$165 million in both segments. Considering our current capacity in the ICE powertrain field, most of these new contracts will be satisfied with minimum investments, allowing us to maximize our existing asset base.

Our order book in the e-mobility, structure, and chassis applications segment remains at \$1.8 billion, reflecting the slowdown in electrification, which has also decelerating sourcing decisions as OEMs continue to reassess their product offering and strategy. In line with the pullback, we are currently re-evaluating peak revenue for the contracts in our order book for the e-mobility, structure, and chassis applications segment,

which is expected to be lower than was originally anticipated. In parallel, we are reducing the investments associated with these contracts with the purpose of preventing excess capacity.

As adoption of electrification has slowed in the short term, the relevance of the internal combustion engine will certainly be extended and volume requirements will be higher than previously anticipated. For Nemak, this presents an opportunity to capitalize existing assets to produce more volume in the ICE powertrain segment and shift to a cash-generation scenario.

At the same time, hybrid vehicles are becoming more attractive to end consumers, as they combine powertrain and electrification technology, offering the ability to combine and switch at the user's convenience. This trend suits our product portfolio, since hybrid vehicles require ICE powertrain components, as well as e-mobility, structure, and chassis components.

Moving on to innovation topics, I am pleased to announce that Nemak was named a 2024 Automotive News PACE Award winner. PACE Awards are prestigious among the automotive sector and accepted as the industry benchmark for innovation, recognizing suppliers for superior innovation and technological advancement. These awards have a trajectory of 29 years, with major Tier 1 automotive suppliers participating and submitting innovations that have been embraced by a customer and that have made it into commercial production. The recognized projects are decided by an independent panel of experts. Nemak's award was granted for the sustainable material card for a lightweight high-pressure die casting product, which enables more accurate simulations of crash test performance and results in design optimization. This innovation was applied to the E-Bracket design in conjunction with BMW, resulting in a 30% lighter component, while using recycled materials and renewable energy.

Additionally, Nemak received the PACE Pilot recognition, which spotlights innovations that have not reached commercialization yet. Our recognition was for an aluminum subframe prototype designed for Ford. This structural component was manufactured using novel casting techniques and innovative design concepts, achieving 43% weight reduction.

Both recognitions demonstrate our dedication to innovative lightweighting solutions and underscore our ability to design cutting edge components alongside our customers.

Our innovation efforts are a key element in our strategic agenda and I would like to share more insight on a particular project we are developing. We are collaborating with one of our customers, and leading the design of a hollow structural component, which will be the first of its kind in the industry. Through innovation in the process and the design, we are taking lightweighting to the next level, creating structural components with new hollow geometries that deliver top safety performance. I am confident that these efforts will soon reach the production field as we continue to lead in innovations in the automotive industry.

Regarding our sustainability agenda, we continue advancing our roadmap implementation. During the quarter we certified another three facilities with the Aluminum Stewardship Initiative performance standard. With this milestone, we are the first Mexican company to have certified plants in Mexico.

The Aluminum Stewardship Initiative standard certification paves the way for more sustainable efforts and is the precedent for the next step of chain of custody. Our plan is to certify all facilities, further supporting our sustainability targets.

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

Alberto Sada

Thank you, Armando, and good morning everyone. I will begin with an overview of industry trends, followed by a discussion of our financial results for the second quarter of 2024.

During the quarter, we delivered consistent financial results as EBITDA increased 6% year-over-year. This improvement was driven by advances in customer negotiations and the implementation of cost-reduction initiatives, offsetting the impact of persistent inflation and lower volume. The latter was largely attributed to the slowdown in the adoption of EVs, as well as changes in customer production schedules.

Transitioning to industry trends, during the second quarter, the seasonally adjusted annual rate for light-vehicle sales in the U.S. was 15.7 million units, slightly below the same period last year. This level was sustained by robust economic conditions, as well as a gradual improvement in incentives, offset by temporary disruptions in car dealership management software, which is estimated at 100,000 vehicles in the quarter. The sales are expected to be recovered in the next months. In terms of consumer demand, the market is signaling a growing preference for hybrid and ICE vehicles, slowing down EV adoption growth rate.

During the quarter, light-vehicle production in North America showed a 2% increase versus the same period of last year to 4.2 million units. This result reflects the ongoing demand for light vehicles in the region, and the continued inventory build-up.

In Europe, seasonally adjusted annualized sales increased 3% year-over-year to 16.3 million units, supported by resilient consumer demand. In turn, light-vehicle production in the region decreased 3% year-over-year, mainly attributed to a decline in EV adoption, as well as a high comparison basis due to more robust production last year as OEMs made efforts to meet pent-up demand.

In China, the seasonally adjusted annual rate for sales remained at a stable level at 25.7 million units, supported by government incentives and fleet renewals. Production in the region grew 9% to 7.3 million units, reflecting an increase in exports.

In South America, the automotive market in Brazil recorded a 15% increase in light-vehicle sales, nearing pre-pandemic levels at 2.3 million units. This growth was supported by positive consumer sentiment, as well as incentives. Production in South America decreased 1%, reflecting the impact of floods in Brazil in recent months.

Turning to our financial results, during the second quarter, Nematik's volume was 10.3 million equivalent units, a 6% decline year-over-year due to lower EV production and changes in the product mix among customers. Revenue was \$1.3 billion, down 5% year-over-year, primarily due to volume reduction and product mix.

EBITDA was \$163 million, representing a 6% increase year-over-year despite lower top line. This improvement was driven by operational efficiencies and progress in commercial negotiations with certain customers. Consequently, EBITDA per equivalent unit increased to \$15.90.

In turn, operating income was \$57 million, due mainly to the same factors that benefited EBITDA, which were more than offset by the impairment of obsolete assets for \$13 million.

Net income totaled \$45 million, favored by a positive non-cash benefit, related to adjustments in deferred taxes. Compared to the same period of 2023, net income was \$25 million higher as we saw a stable foreign exchange position versus last year. Furthermore, during the quarter we received incentives associated with

investments in one of our regions, which were booked as financial income and the corresponding financial expense.

Regarding our balance sheet, by the end of the quarter, Nemark's net debt was \$1.75 billion compared to \$1.68 billion at the end of last quarter, representing a 4% sequential increase. This increase was primarily driven by working capital requirements, derived from seasonal effects and pending collection of customer claims. As a result, the net-debt-to-EBITDA ratio was 2.9 times compared to 2.8 times at the end of March 2024, as we continue to balance debt levels with operational needs. Additionally, the interest coverage ratio was 4.7 times versus 4.6 times in the last quarter.

Regarding capital expenditures, Nemark invested \$79 million in the second quarter, 40% below the same period of last year. Our Capex reflects our streamlined investment strategy, which seeks to optimize expenditures, and enhance operational efficiency, while supporting long-term growth. Nemark remains committed to balancing long-term value creation with cash flow generation.

Looking ahead, future investments will be contingent on the rate of electrification adoption. This approach ensures the maximization of existing assets while aligning our growth strategy with market demand.

Moving to our regional results, during the second quarter, revenue in North America decreased 8% year-over-year to \$668 million due to lower volume and changes in product mix as a result of the slowdown in EV adoption and changes in customer production patterns. In turn, EBITDA was \$71 million, down 4% compared to the same quarter of last year, favored by customer negotiations on inflation and idle capacity, and partly offset by lower volumes, continued labor cost inflation, and additional launching expenses.

In Europe, revenue decreased 2% year-over-year to \$438 million. In turn, EBITDA in the region was \$67 million, a 10% increase versus the same period of last year, favored by an improved product mix, lower energy cost, and commercial negotiations. These factors, together with operating efficiencies, helped to offset inflationary effects in the region.

In Rest of the World, revenue showed a 5% increase year-over-year, totaling \$156 million. This growth was primarily attributed to higher volume and improved product mix. EBITDA in the region benefited from volume, product mix and sustained operating efficiencies, resulting in a positive contribution of \$24 million, 36% higher compared to the same period of last year.

To further support margin recovery, we continue to address ongoing inflationary pressures while working with our customers on commercial negotiations, where we are progressing. We expect a successful conclusion during the second half of the year.

Meanwhile, we continue to focus on cost-saving initiatives, which include reorganizing and minimizing non-essential expenses. Our efforts to optimize our operations and fixed costs are expected to yield benefits in the upcoming quarters.

Looking ahead, generating free cash flow remains a top priority. We are confident that by adhering to disciplined capital allocation and remaining flexible in response to the evolving electrification landscape, we continue to lay the groundwork for future success.

Thank you for your attention. I will now turn the call back over to Denise.

Denise Reyes

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

Operator

(Operator instructions)

Our first question comes from Alfonso Salazar with Scotiabank. Please state your question.

Alfonso Salazar

Yes. Thank you, Armando, Alberto and Denise. I have a number of questions, but I will restrain myself to three only. The first one is if you can provide some color on the market for hybrids. We understand that as EVs slow down, demand for hybrids is going to increase. If you can give us more color on what to expect in the second half and, maybe more interestingly, in 2025 regarding hybrids demand?

The second has to do with the imposition of provisional duties in Europe for Chinese EVs. I've seen a lot of mixed comments regarding this, that it's not going to be very useful; some people think that they are necessary. I just want to see what is your take on these provisional duties and how they can help, or what are the implications for Nemak in the European region?

The final one has to do with combustion cars being produced in China that are now being sold abroad, especially in three regions: in Russia, in Mexico, and Brazil. Probably Russia is not a big issue for you, but Mexico it is and also in Brazil. We saw that your business in Rest of the World volumes were strong and I was expecting to start to see some pressure because of all these cars that years ago were sold in China, and now they are selling abroad. This could lead to some competition and market share loss of some of your clients. I just want to see what you think about that and any comments that you may have. That's it for me.

Armando Tamez

Thank you, Alfonso, for your three questions. The market for hybrids, as we are seeing in both regions in which we are participating heavily, the first one is North America and also Europe. We are seeing a big shift from the consumer preference that the consumers are again thinking that hybrids could be an alternative. We are seeing, as we speak, significant shifts from buyers that were looking to acquire (audio interference) hybrids. As we have indicated, hybrids also represent a great opportunity; those that will have combination of both internal combustion engine plus electric motor or (audio interference) components additional to structural components. We are seeing a (audio interference) change. All of our customers are moving audio interference) growth in both regions with preference for hybrids. Actually, we are adding additional volume (audio interference) requests from the customer. We are moving as fast as possible.

So, related to volume, we are seeing this (inaudible) and think it's a little bit early to know (inaudible). We're seeing a higher demand for this type of (inaudible), both in Europe, in North America and as well as in China. And now also we are seeing that volume of hybrids...

Operator

Excuse me, sir. I'm sorry. This is the operator. Your sound is cutting off quite a bit. Could you try to get closer to the microphone?

Armando Tamez

Yes. Thank you.

As I indicated, we are seeing and experiencing a higher demand for hybrid products and involved in the internal combustion engine, plus also some components, for instance like battery trays for hybrids also are increasing in demand.

Related to duties for EVs in both Europe and in North America, recently it was announced that the government imposed heavy tariffs on electric vehicles coming from China. They want 100% duties on vehicles and a significant also tax increase on batteries coming from China. There is also in Europe a mandated increase on duties on Chinese products that it varies depending on the OEM from 18% to 35% duties on (inaudible). We are seeing that that is related to try to protect the European as well as the North American sector.

Related to increase of vehicles coming from China, as you're indicating, in Russia we have seen already significant increase on the Chinese participation. They went from 3% to almost 40%. That was related to the reason that most of the western OEMs abandoned Russia. The other market that we are seeing also (inaudible) Chinese vehicles is Mexico where they are coming out in (audio interference). This is something that I feel confident that we will review later on, especially coming from the (audio interference).

Operator

Thank you. We will switch to the next question. Our next question comes from Alejandro Azar with GBM. Please state your question.

Alejandro Azar

Hi. Alberto, Armando, good morning. Just two quick ones. The first one is on your income statement. There are some interest expenses I thought they were a bit high; closer to \$43 million during the quarter, when usually you guys have around \$90 million, \$80 million a year.

The other one is, there is \$20 million other financing income. I was wondering if you could explain those \$20 million. Where do they come from?

And my other question is on free cash flow. I think, Alberto, you already mentioned this in your remarks, but I just wanted to ask again. There are like \$200 million impact on working capital. Are you still targeting to have stable working capital or working capital gains during the year?

Alberto Sada

Sure, Alex. Thanks for your questions. Related to your first question on the items that we booked through financial expenses and income, as I briefly highlighted on the remarks, those are associated with certain incentives that we got in one of our operations where we got incentives on investments that were categorized as financial income, so that shows that jump in financial income that shows on the financing cost or financing result. Then there is a corresponding expense associated with commissions and a few other things around those incentives schemes that we closed in this quarter. That's the reason why you see a spike in interest expense.

A little bit has to do with higher interest expense due to a little bit more debt and a movement in the reference rate, but the other one has to do with costs associated with these incentives that were booked on the income side as financial income or interest income and spend side as interest expense.

Then related to your second question around free cash flow, yes, we have seasonal effects on working capital that impact first and second quarter of the year which we will be gradually seeing come back in the third and fourth quarter. We are totally confident about getting back to the levels that we would normally have as of the end of the year. I think it's important also to mention that this quarter we have certain commercial claims that we booked in the quarter that will be collected in the next few days. Those were caught at the end of the quarter and therefore that represented a little bit higher working capital than otherwise. But we're confident that we'll be recovering most of that working capital during the third or fourth quarter.

Alejandro Azar

One more, if I may, related to the second one, Alberto. The claims that you mentioned that had an impact or a benefit on the income statement, we did not see that as a cash entry during the quarter. Is that correct?

Alberto Sada

Yes. Yes, correct, because those had certain payment terms and we had to wait because some of those negotiations concluded at the end of the quarter.

Alejandro Azar

Okay. Excellent. Thank you. Thank you very much, Alberto.

Alberto Sada

You're welcome, Alex.

Operator

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

Denise Reyes

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

The first question comes from Jonathan Koutras from JPMorgan and it reads: how much did the commercial negotiations add to EBITDA in the quarter? What is the idleness rate in both segments currently? EV, SC and chassis.

Alberto Sada

Thanks for the question, Jonathan. Due to the nature of the negotiations with our customers, we're not disclosing the amount of those commercial negotiations and benefits. Certainly, we closed a number of those outstanding discussions and that had a benefit on the quarter. Some of those had to do with retroactive payments all the way from the first quarter, and other ones had to do with payments associated with idle capacity, particularly on the EV side. So yes, it is included, but unfortunately, we cannot give any detailed information about that due to the confidentiality nature of some of those negotiations.

Related to the idleness on EV and SC segment, I would say that that currently is evolving and is changing on every quarter. At this point, we should be at a level of around 60% and that difference between what we're using and what we have invested is part of the negotiations and discussions with our customers.

Denise Reyes

Thank you, Alberto. We will now move on with a second question from Jonathan Koutras, from JPMorgan: What is the peak revenue now estimated from the \$1.8 billion order book? Is it around 1.5 billion? Thank you.

Armando Tamez

Yes. Thank you, Jonathan. I think it's a little bit too early to tell. As I indicated in my speech, our customers are evaluating the preference of electric vehicles. At this point in time, we have \$1.8 billion. We know that the electric vehicles are not growing as our customers were anticipating a few years ago, and they are reviewing internally their strategy and also the potential sales. I think we will be announcing what will be, for instance, the impact for Nemak in that regard.

As I have indicated also, we are seeing compensation of more internal combustion engines as well as hybrid vehicles, which I think also will have beneficial effect on Nemak.

Denise Reyes

Thank you, Armando. We have another question from Emiliano Rangel from Compass Group: What is the situation of recovery in U.S.A.?

Alberto Sada

I'm not sure exactly what is intended on that question. From an industry point of view, I think the U.S. market is performing quite sound, as I highlighted in my remarks. That is benefited by an overall sound economic condition. As I also indicated, it was partly affected on the vehicle sales side because of the interruption at the dealerships because of this situation with the software company that was compromised by a cyberattack. That had an effect which, on a SAAR basis, was around 0.5 or 0.4 million vehicles. That SAAR rate should have been at a level close to 16. So we believe that's going quite well, and certainly the expectation for the full year is to remain at those levels. I hope that answers the question.

Denise Reyes

Thank you, Alberto. The next question comes from Cesar Martinez: Having in mind the current debt situation, have the Board considered raising capital by issuing stock in the mid term?

Alberto Sada

Thanks for the question, Cesar. At this point, no, we're not considering raising any capital in the short term or mid term. Basically, the deleveraging that we're expecting in the full year will come from our cash generation coming from the operation as well as certain commercial claims that we have with our customers. That is the main source of deleveraging through cash generation and the commercial initiatives that we have.

Denise Reyes

Thank you, Alberto. We have a question from Bert Whitson from American Century Investment: What is the difference in Nemak's average content per vehicle for battery electric, hybrid, and ICE?

Armando Tamez

Yes. Yes, thank you, Bert. On average, the ICE content on a vehicle is approximately \$600 per vehicle. On the hybrid, it's about \$800 because, as I indicated, it has internal combustion components such as cylinder heads, engine blocks, transmission housing, and also some battery housings or electric motors. On the pure electrics, the range fluctuates between \$1,400 to \$1,500 per vehicle.

I think it's important to mention that, yes, we will have more content from Nemak side on pure electric, but having said that, we will need more Capex to support the electric vehicles.

One of the benefits that we are seeing as we speak is that we are seeing that all our customers are increasing the demand for the internal combustion as well as hybrids, and I think it's very important to mention that that will need almost no additional Capex from our side, so that will generate more cash flow for the Company.

Denise Reyes

Thank you, Armando. Now we have a question from Consuelo Salazar from Nummos Asesores Financieros: Could you briefly repeat your answer regarding the perspective on Chinese EVs in Europe and U.S.A.?

Armando Tamez

Yes. Yes, sorry. We have a problem with the connection. The new tariffs that were informed by the European Commission range between 18% to 35% for Chinese OEMs. Depending on the OEM, they have different tariffs on them. For the U.S., for Chinese vehicles, the government imposed a new tariff of 100% tariff. And in Mexico, it is our knowledge that there are no taxes. I think it's important also to mention that Mexico represents only about 1 million units, 1.2 million total units out of 16 million that are sold in North America.

Denise Reyes

Thank you, Armando. We have a question now from Agustín Bonasora from PineBridge: Can you comment what is the amount of available credit lines?

Alberto Sada

Yes, thanks for the question, Agustín. As we have shared on previous calls, we have right now about \$400 million worth of committed credit lines that are fully available that have not been used. We have on top of that noncommitted facilities from different financial institutions, the typical trade lines in the amount of close to \$350 million. So, altogether we have more than enough credit lines available to fund our needs.

Denise Reyes

Thank you, Alberto. The next question is from Pasquale de Filippo, from Nuveen: Considering the outlook around EV sales, do you anticipate any changes related to Capex guidance for the full year?

Armando Tamez

Thank you, Pasquale. No, we are expecting to end the year between a range of \$380 million and \$395 million as we stated in our guideline at the beginning of the year.

Denise Reyes

Thank you, Armando. Now a question from Javier Dosal from AM Advisors: Based on what was mentioned, there was a benefit in the quarter due to underutilized capacity. If this continues into next year, is there an agreed amount in place? If so, is it linked to the percentage of underutilization?

Alberto Sada

Thanks for the question, Javier. Yes, as highlighted, we have ongoing commercial discussions with our customers to address both on one side the inflation situation that we're experiencing on certain cost elements, as well as the capacity utilization or percentage of take rates versus what was originally agreed. Those discussions and negotiations with the customers address both factors.

However, to the point that we see less amount of volume of any particular platform, we'll be open again to have further discussions with our customers. But for now, I think what we have agreed with certain customers—not all of them because part of that will be negotiated or will be closed in the second half—addresses the current view on volumes.

Denise Reyes

Thank you, Alberto. We now have a follow-up question on the line, so I will move it back with the operator.

Operator

Thank you. Our follow-up question comes from Alejandro Azar with GBM. Please state your question.

Alejandro Azar

Hi again, Alberto, Armando. I just wanted to pick your brains on a piece of news that was recently on Saudi Aramco buying a 10% stake in Horse Powertrain. Horse Powertrain, it's a powertrain company. I think they built around 3 million engines. The valuation was close to EUR 7 billion. My question was, first, Horse shareholders are Renault, Geely, which are your clients. Just wondering if you have a relationship with that company and what are your views on the value of the powertrain now that we are seeing—we are thinking that it's going to live a longer life.

Armando Tamez

Yes. Thank you, Alex. No, we are not familiar with this company; it's for us news. What I can tell you is the following. For instance, if we take a look at what the CEOs of major OEMs are declaring is the fact that they are seeing right now a shift in preference from the consumer. Certainly, we are seeing, as we speak, significantly higher demand for the internal combustion engine components as well as hybrids. We are not seeing, for instance, a significant growth on the electric side this year compared to previous year. And certainly the growth, we are not expecting significant growth. Basically, most of the OEMs are making statements indicating that they are adapting their strategies to offer customers with more internal combustion engines. As I indicated previously, we are seeing high preference for customers going to bigger

engines. V8s, last year was the best year ever for Nemak in terms of sales of large components, cylinder heads and engine blocks, and also transmission housing for big engine displacement.

We are seeing that customers are also moving as fast as they can by offering more the hybrid vehicles.

Definitely, Alex, I think this is positive news for Nemak because we are seeing that the demand for which is our core business. Basically it represents about 88% of our assets and revenues, is for internal combustion engine as well as hybrids, so we are seeing this positive. That will help us to generate more free cash flow over the next years so that we can go back to previous leverage ratios of 2x or less than 2x.

Alejandro Azar

Thank you, Armando. One more, if I may. The way my brain thinks is if you have a sudden shift in what companies are doing, let's say putting a lot of money on electrification and forgetting about the powertrain business, wouldn't that cause the powertrain assets or the utilization to tighten now that everyone is moving back to that technology? What are you seeing on that front in terms of industry? In terms of Nemak? And if you think that in the short term, you can get on the negotiations that you are doing on powertrain, you can get more piece price, let's say like that, because the industry is tight. Nobody new wants to invest in that asset and you have a leading position on that technology.

Armando Tamez

Yes. Thanks, Alex. Good question. Certainly, we have, as I indicated, with some customers legacy prices that doesn't reflect our current cost structure. We are using this as a leverage to negotiate better prices. Currently, we are making progress in that regard and we will continue. We will continue pricing our products accordingly to the new market reality and definitely we will use this as leverage to open more capacity for certain customers.

Alejandro Azar

Okay. Thank you. Thank you again, Armando.

Operator

Thank you. Our next question comes from Alfonso Salazar with Scotiabank. Please state your question.

Alfonso Salazar, your line is open. Please go ahead. Please unmute yourself.

Alfonso Salazar

Sorry. I was on mute.

This is more than a question. It's more probably a suggestion. Given the big changes that we have seen and the delays in the EV adoption curve, maybe it would be interesting to see if Nemak can provide some long-term guidance review. I remember that a few years ago you provided a very useful long-term guidance on what to expect. I don't know if you have some comments on what could it look like, or maybe by the end of the year you can provide a new update on your long-term outlook.

Armando Tamez

Thank you, Alfonso. Actually, we are reviewing, let's say, our business plan for the next five years. We're trying to get, let's say, clarification from customers related to demand on ICE, hybrids, as well as electric

vehicles so that we can build a robust 5-year business plan. Once we have that, Alfonso, yes, we will be able to share a guideline of where do we expect Nemak to be in the next five years.

Alfonso Salazar

That will be fantastic. Thank you.

Operator

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

Denise Reyes

Thank you, Operator. We have received another question on the web. It's from Alan Miranda from REDD Intelligence. Does Nemak supply any of the Chinese brands that have grown in emerging markets in recent years, like BYD, MG, JAC, etc.? How much of your sales come from them?

Armando Tamez

Yes. As we have indicated, yes, we are selling directly to Chinese OEMs as well as companies that have a JV with the Chinese (OEMs). As it was presented by Alberto, our growth, especially in Rest of the World, was significantly and thanks to higher penetration of our Chinese plants that are performing significantly better than before, as well as filling the open capacity that we have.

Yes, we are already having many Chinese customers in our portfolio, and we are in conversations with all the major players for potential opportunities, not only in China but also in other regions.

Denise Reyes

Thank you, Armando.

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.