



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

Fourth Quarter 2022 Earnings Webcast

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PRESENTATION

Operator

Good morning everyone and welcome to Nemak's Fourth Quarter 2022 Earnings Webcast. Armando Tamez, Nemak's CEO; Alberto Sada, CFO; and Adrian Althoff, Investor Relations Officer, are here this morning to discuss the Company's business performance and answer any questions that you may have.

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

I will now turn the call over to Adrian Althoff.

Adrian Althoff

Thank you, Operator. Good morning and welcome everyone. We very much appreciate your participation. Armando Tamez, our CEO, will lead off today's call by providing an overview of business and financial highlights from 2022 as well as our outlook on 2023. Alberto Sada, our CFO, will then discuss our financial results in more detail. Afterwards, we will open up for a Q&A session, which participants may access via dial-in or webcast.

Before we get started, let me remind you that information discussed on today's call may include forward-looking statements regarding the Company's future financial performance and prospects, which are

subject to risks and uncertainties. Actual results may differ materially and the Company cautions you not to place undue reliance on these forward-looking statements. Nematik undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

I will now turn the call over to Armando Tamez.

Armando Tamez

Thank you, Adrian. Hello everyone and welcome to Nematik's fourth quarter 2022 earnings webcast.

I would like to begin with an overview of 2022 results and the strategy execution before moving on to our 2023 guidance.

During 2022, we saw a positive top line trend as new product launches and increased customer production supported higher volume and amidst a gradual easing of semiconductor supply constraints in our industry. We also made progress in ongoing efforts to address extraordinary inflationary pressures, concluding negotiations with customers, which helped mitigate impacts to our results.

As you may recall, cost volatility reached historic levels affected by the war in Ukraine, particularly on the energy cost side in Europe. As a result, higher volume and higher aluminum prices dropped a 19% top line improvement compared to 2021, while the combination of volume, product mix and commercial negotiations enabled us to accept a large portion of (inaudible) and exchange rate effects on our results with EBITDA finishing 8% higher than guidance.

We maintain a prudent approach to financial management, focusing on keeping our cost structure flexible while supporting customer requirements linked to ongoing industry recovery as well as launches of new electric vehicles. These efforts help us to maintain leverage stable compared to year end 2021.

Turning to project execution, we made further strides in ramping up production of parts for new electric vehicles as new product launches in North America and Europe enabled us to drive revenues across e-mobility, structure and chassis applications approximately 20% higher than last year.

During the year, we were awarded contracts to supply parts to customers worth a total of approximately \$790 million across product lines with e-mobility, structure and chassis applications representing around 70% of that total amount.

It was our most successful year ever for capturing new business opportunities linked to the vehicle electrification trend as we grew our order book in this segment more than 50% year-over-year from \$1.05 billion to its current level of approximately \$1.6 billion annually.

We finished the year with several strategic business wins in the fourth quarter. Notably, we were awarded contracts that harness our expertise in innovative lightweight design concepts and eco-friendly 10 core production processes to supply subframes to battery electric vehicle sedan applications for an OEM customer in China and to supply e-motor housings featuring our patented Rotacast technology to battery electric vehicles, LGV applications of an OEM customer in Europe.

Moreover, we continue to pursue a pipeline of potential new opportunities worth more than \$2 billion annually across our e-mobility, structure and chassis product lines.

I am also pleased to share that we reached a new milestone in our efforts to foster cooperation and innovation in tandem with our customers. From the early development stages, we have installed a new

state-of-the-art engineering center in Germany that is wholly focused on cutting edge joining and assembly processes for e-mobility, structure and chassis applications. This facility is home to a cross-functional team working to accelerate development cycles and enhance (inaudible) processes behind the rollout of innovative lightweighting solutions for next-generation electric vehicles of global customers.

As we mentioned in our recent Analyst Day event, we see significant opportunities across the full range of products that we are supplying for e-mobility, structure and chassis applications, and we look forward to continue to strengthen our efforts to support our customer certification plans in the coming years.

Aligned with our 2030 strategy, Transform to Grow, we will continue focusing on creating a culture that constantly pushes the cutting edge with our talent at the center of this transformation. In this vein, I am proud to share that our operations in Mexico, the U.S.A. and Germany have all received the 2023 Top Employer certification.. Being certified as a top employer showcases our commitment to attract, develop and retain the best talent.

I would also like to underscore our progress in 2022 towards the implementation of our overall sustainability agenda. Thanks in part to our continued efforts to assess and mitigate our environmental impacts across our operations, we maintained a B rating in the CDP's international recognized Climate Change Assessment, which keeps us above the North American regional average as well as the average of our sector.

It is also worth highlighting that for the fourth consecutive year, we were selected to be part of the Dow Jones Sustainability MILA Pacific Alliance Index, which is comprised of leading sustainability-driven publicly listed companies.

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

Alberto Sada

Thank you Armando, and good morning everyone. I'll begin with an overview of Nemak's business performance in the year before going in depth on recent industry trends and financial results.

As stated in previous webcasts, we saw a positive top line during the year, attributable mainly to industry recovery along with our progress in ramping up production of recently awarded business to supply electric vehicles. At the same time, we faced extraordinary cost side headwinds, which led us to engage in commercial negotiations aimed at mitigating effect of inflation and energy prices on our results.

Notwithstanding these challenges, a combination of a richer product mix supported by our new product launches for EVs and the commercial efforts I just mentioned enabled us to partially recover inflation rate impacts and delivered an EBITDA guidance beat of 8%.

During the fourth quarter, annualized U.S. light vehicle sales SAAR was 14.1 million units, 11% higher than last year, as vehicle availability improved during the period. For the full year 2022, 13.9 million units were sold, 8% below 2021 as supply chain constraints continued to weigh on light vehicle availability, particularly in the first half of the year. Light vehicle production in North America showed a 14% year-over-year increase in the quarter, reflecting continued improvement in supply conditions. For the full year, it finished 10% above due to the improvements I just mentioned.

Moving on to Europe, light vehicle sales decreased 3% in the fourth quarter, largely a reflection of effects of inflation and the war in Ukraine. Nonetheless, light vehicle production showed a 14% increase on easing supply chain constraints. On a full year basis, light vehicle sales were 8% lower and light vehicle production decreased 2% versus full year '21.

Regarding light vehicle inventories, we continue seeing historically low levels in the U.S. At the end of the fourth quarter, this stood at an average of 33 days sales, 10 days more vis-a-vis 2021, but it's still 60 days lower when compared to the more than 90-day mark before the pandemic. This reinforces the outlook for demand-side fundamentals, suggesting a potentially significant light vehicle production and sales rebound as supply chain conditions continue to show improvement.

Regarding our Rest of the World region, light vehicle sales in the quarter showed a low single-digit decrease in China and low double-digit increase in Brazil, whereas on a full year basis, we saw a slight reduction in Brazil and a slight increase in China. Meanwhile, light vehicle production grew mid single digits in both regions during the quarter and high single-digit during the year.

During the fourth quarter, consolidated volume increased by 18%, driven by growth in all regions. North America saw a 25% increase, supported by new launches in our e-mobility, structure and chassis segment, along with higher light vehicle production among OEMs. Meanwhile, volume in Europe and Rest of the World was 6% and 20% higher, respectively, following the same drivers as in North America.

For the full year, Nemak's volume performance showed an 11% increase versus 2021, due mainly to higher vehicle production in all regions as well as new product launches in our e-mobility, structure and chassis applications segment. In turn, consolidated revenue for the quarter showed an 18% increase versus last year, mainly due to higher volume. For the full year, revenue was 23% higher than 2021, following higher volume and aluminum prices. Both in the quarter and the year, top line drivers more than offset the effect of depreciation of the euro against the dollar.

For the fourth quarter, EBITDA was \$121 million, 9% lower compared to last year. It is worth mentioning that last year we had a onetime benefit in Brazil from commercial negotiation. Absent this effect, EBITDA would have dropped by 4%, which is mainly explained by the euro exchange rate effect. Inflation effect and launching expenses more than offset a strong top line and customer negotiations.

For the full year, our EBITDA was \$542 million, \$40 million higher than guidance, mainly due to higher volume.

Unitary EBITDA during the quarter was \$12.5, a 23% year-over-year reduction, reflecting the main factors that affected EBITDA.

For the full year, unitary EBITDA was \$13.7, slightly higher than our guidance.

Operating income in the fourth quarter was a loss of \$3 million compared to the \$43 million profit in fourth quarter of '21, but for the full year, it was \$186 million compared to \$221 million in 2021. These variations were influenced by the same factors as EBITDA, plus the effect of a noncash impairment of assets of \$33 million, mostly in Asia in the fourth quarter. This impairment derived from our ordinary assets assessment process, consistent with accounting principles. In this case, we had accumulated assets which had been idle for some time. About two thirds of these assets were in Asia where we have some historical assets that none were being used and the rest in other regions.

Meanwhile, net income during the fourth quarter was negative \$4 million, mainly due to the lower operating income. In addition, increased interest expense associated with LIBOR, together with foreign exchange losses, were offset by a favorable accounting income tax adjustments which was mainly a result of currency effects. For the full year, we finished with a net income of \$51 million.

We finished 2022 with net debt of \$1.2 billion, \$70 million lower versus the previous year, mainly due to higher-than-usual collection of receivables at year end or \$70 million, enabling us to maintain a leverage ratio of 2.3x. We expect this effect will reverse in the first quarter as working capital gets normalized.

On the financing side, during the fourth quarter, we secured a new banking loan facility for \$200 million, with the proceeds being used to fund the installation of our new facilities dedicated to the manufacturing of e-mobility, structure and chassis components. A portion of these funds were used to pay short-term loans that bridged the investments made in this facility in 2022. As a result, the net incremental amount of the loan balance comes to approximately \$100 million.

Regarding capital allocation, we recorded Capex in the fourth quarter of \$176 million, which was \$32 million higher than the same period last year. Capex for the year was equal to \$468 million, 30% higher than 2021 with an increased focus on new launches for our e-mobility, structure and chassis segment.

I would now like to move on to summarize our regional results. In North America, quarterly revenue was 29% higher, mainly due to a combination of improved customer production and launches in our new business segment. In turn, EBITDA was 15% higher as top line growth more than offset effects of inflation and launching expenses.

Regarding Europe, 8% revenue growth was supported by the same factors in North America, but EBITDA finished 23% lower, due mainly to inflation effects and nonrecurring launching expenses, which more than offset the effect of top line increase.

Regarding Rest of the World, revenue increased 8% compared to last year, while EBITDA decreased by \$8 million due to an unfavorable comparison effect attributable to a commercial negotiation in Brazil recorded last year.

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

Armando Tamez

Thank you, Alberto. I would now like to provide an update on our outlook for 2023. We expect to see further industry recovery vis-a-vis 2022, enabling (inaudible) vehicle production will finish higher than last year, notwithstanding a continued risk of volatility in (inaudible) supply chains linked to the ongoing semiconductor shortage.

Regarding the results, we have a positive outlook compared to 2022 marked by a combination of the (inaudible) on the one hand and the cost side headwinds on the other hand. We anticipate volume growth compared to last year, supported by two main drivers: first, increased production of higher value-added e-mobility, structure and chassis applications with revenue in this segment expected to grow 28% versus last year to \$600 million; and second, with improving industry trends I just described. In turn, we expect top line growth to support higher EBITDA, notwithstanding effects of elevated levels of inflation, which we are working to pass through to our customers. While these negotiations have proven challenging at times, I am confident that we will continue to make good progress with our customers towards implementing solutions to mitigate extraordinary effects of inflation on our business.

With this context in mind, our '23 guidance is as follows: For volume, \$41 million equivalent units; revenue \$4.8 billion; EBITDA \$560 million; and Capex \$490 million.

Before concluding my remarks, I would like to provide an update on segmented (inaudible).

As you may recall, last year we communicated our intention to disclose additional financial metrics for our business segment, focused on the electric vehicle market, which we refer to our e-mobility, structure and chassis business. We want you to know that due to the ongoing commercial negotiations, we have decided to maintain our current reporting format for the time being. As we move forward with these negotiations, we will consider potential additional steps to better illustrate our performance in this segment.

We are pleased with our progress in our new product lines to electric vehicles in which we are already delivering better profitability than our average. We continue to see this segment as our main driver for growth and profitability through the end of the decade.

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

Adrian Althoff

Thank you, Armando. We are now ready to move on to the Q&A portion of the event. 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

Our first question comes from Rodolfo Ramos with Bradesco BBI. Please state your question.

Rodolfo Ramos

Thank you, gentlemen. A couple of questions on my side.

I just wanted to see whether you can elaborate a little bit more on any labor pressure costs that you're seeing in North America, in particular. It would be interesting to see whether you're facing any shortages or any cost pressures on that front.

My second question, it's a twofold, if I may. I'd just like to understand a little bit how you see in this Capex cycle that you're seeing right now and in future years as OEMs shift production to electric vehicles, how do you see your Capex cycle and your existing production plant going forward? How do you expect to negotiate with OEMs that transition?

And just finally, I don't know if you have any comments on this, but it would be interesting to see whether Tesla potentially opening a facility in Nuevo León, if this means additional business for you. Have you been in any discussions there? It would be interesting to hear about it. Thank you.

Armando Tamez

Thank you, Rodolfo. Certainly labor costs, not only in North America but around the world, certainly has been impacting some of our costs. As we're indicating, we are negotiating with the customers to try to get some support on the inflation. We are seeing in some countries double-digit, let's say, wage and salary increases necessary. As everybody knows, especially in the U.S., the unemployment rate is quite low, 3.5% on average, probably lower in the manufacturing sector, so our customers are aware that all suppliers, not only in Nemak, but the entire supplier base are facing this challenge to keep people in our facilities, in our plant. Certainly, we are trying to get compensation, not only in North America but in Europe as well on this area. We are confident that I think we have solid arguments to prove to our

customers that the labor cost is creating a huge impact in our cost. So, basically, we are following and trying to negotiate the best possible outcome.

On the Capex cycle, Rodolfo, as we have indicated, for instance, last year—and I just mentioned that we were very successful getting \$790 million worth of new business. Certainly, it was a little bit higher than what we were expecting. On the EV structural components segment, we got \$550 million worth of new business and that implies additional Capex. That's why we ended a little bit higher than our original guidance on the Capex side. Certainly, we are in this, let's say, transformation process in which we will need to, again, continue investing.

What we are doing as we speak is we are getting also some support from some customers to help us with a portion of some of the additional investment in Capex that we need, and we have been already getting some type of support from not only the North American-based customers, but also some of the European customers. We will continue with that, presenting to them that, again, requires a lot of capital to maintain and also to continue growing in our business.

The last question that you mentioned, we prefer not to make any statements or comments related to this company. I think, again, there is some news in the press, but certainly to our understanding nothing official yet. We will wait certainly for the news if they install a facility in Mexico. We expect then certainly, so again continue growing not only with this but with other customers as well.

Rodolfo Ramos

Thank you very much.

Operator

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

Alfonso Salazar

Thank you and good day everyone. I have also a couple of questions, three actually.

You mentioned right now that you're getting some support from customers when you need Capex to bring new capacity. Can you just elaborate a little bit on what are the terms typically for these arrangements and how this is helping Nemak to reduce the capital needs for this transition to EVs?

The other thing that I would like to understand better is you will be in a multiyear process in which you need to invest a lot as you ramp up new capacity for producing EVs and structurals. Just want to have a sense on how much do you think Capex will increase from the \$490 million that you are projecting for this year. I would imagine that in time, as you have more Capex, more contracts in your pipeline, this number could increase substantially, so I just want to get a sense on what are your expectations on Capex over the coming, let's say, three, five years.

Then the other question that I have is regarding the breakdown of revenue. You provide some breakdown on a region basis, but it would be very interesting—and I think you mentioned that you will start doing this—reporting on a business basis so that we can understand to what extent revenue is increasing in structurals and EVs, etc.. I don't know if you can probably remind us what was, the breakdown for 2021 and tell us what happened—how it changed in 2022.

Those are the questions that I have. Thank you.

Armando Tamez

Thank you, Alfonso.

Basically, related to the Capex support, what we certainly are addressing this issue with the customers is indicating thank you for the opportunity to do business with you, but unfortunately, we don't have the capital to fund 100% the all-new business opportunities. As I indicated, last year we grew significantly our order book, more than \$550 million just on the EV structural component side. We approached the customers and presented to them the alternative for them to fund a portion, not 100% but a portion of this capital, and we have been successful so far and we will continue pursuing that and looking for a win-win scenario in which they, let's say, contribute a certain amount of capital and the rest is coming from us. We will, again, continue looking for this avenue in a win-win proposal with our customers.

Related to how do we see our projection for Capex over the next few years, we believe that over the next few years, first, we will increase significantly our EBITDA. We are confident that we could maintain in the \$400 million range the capital. I think it's important to tell you that we are seeing less and less the need to invest on the legacy business, which is on the powertrain side. We are not investing, only to maintain just marginal investments in that area.

The last question related to the breakdown, this year we are planning to increase our revenues on the EV side to approximately \$600 million and that is approximately 12.5% of the total, let's say, revenues. Last year, we ended with about 10%. So I think we are growing at a more faster pace than the industry related to electrification. And based on the contracts awarded, which are in the range of \$1.6 billion, certainly, we believe that by 2025 we will have nice market penetration.

Alfonso Salazar

Excellent. Thank you very much.

Armando Tamez

Thank you, Alfonso.

Operator

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

Peter Bowley

Hello Armando, Alberto, Adrian. Thank you for the call and the opportunity for questions. I just have two on the 2023 guidance.

EBITDA over equivalent unit, it looks like is about flat at \$13.7 per equivalent unit. Is there any color you can share on what you're expecting from North America versus Europe within this kind of consolidated figure? Then the second question is on the Capex of \$490 million. Can you just confirm this is—maybe outside of maintenance Capex, is this going exclusively to the EV structural component chassis segment? Thank you.

Alberto Sada

Yes. Hi Peter. This is Alberto.

As you correctly point out, our guidance has an implicit EBITDA per unit of \$13.7, which is very similar to what we have right now. The dynamics on a regional perspective, we are not providing any guidance on that sense. What I can tell you is that certainly, we have slightly different dynamics in each region. In some cases, we have a little bit higher volumes; in other cases we have even more inflation pressures going forward.

So I would say that the trend will continue as what we experienced in 2022. Certainly, we'll keep you updated as we progress on some of the outstanding points in the year to see if this can potentially be slightly different. But for now that's the number that we have.

Related to your second question on the Capex, the amount of Capex that we have for what we call normal investments, which is maintenance and tools and a few development expenses, that's around \$150 million. So the remaining is what we call strategic Capex, which is investments that are targeted for either capacity increase or revamping equipment. Out of those, the new segment will be close to 60% out of this strategic amount. I think that's pretty much consistent with what we have been seeing, and that amount going forward should be gradually becoming more and more percentage share of the total of strategic investment that we have. For 2023, it's close to 60% of what we're investing.

Peter Bowley

Thank you.

Alberto Sada

Thanks.

Operator

Our next question comes from Pedro Fabregat with Compass Group. Please state your question.

Pedro Fabregat

Hi guys. Thanks a lot for taking the time to answer my question.

The first question is a little bit in line with what has been asked in terms of the EBITDA guidance for the year being flattish because from one side you're mentioning of price increases. I just wanted to understand a little bit if volumes are growing and prices are somewhat being passed—inflationary pressures are being passed on to clients. Is your expected EBITDA have something to do with stronger currency or some currency fluctuations over there?

The second question is around the three new plants of electric vehicles that you guys are building. Do you have a point on how much the additional EBITDA would be from these three plants? Thank you.

Alberto Sada

Sure, Pedro. Thanks for your questions.

Yes, for 2023, I think it's essentially the guidance is made out of a number of headwinds and tailwinds. I think on one side certainly we're seeing a little bit better volumes as we are guiding for, and the addition of, as Armando just highlighted, more structural parts, which brings better mix. But at the same time, we have a number of headwinds also that we need to deal with, particularly on the inflation side. So I would

say that—and a little bit of exchange rates. Those items combined essentially, yes, result in the guidance that we have.

For sure, some of these items may change. We're working very actively with our customers to pass through as much as we can on the inflation side, and certainly we're aiming for being able to pass as much as we can on these elements. It's, I would say, a combination of those elements that's resulting in the guidance that we have provided.

Related to the contributions of the three new plants on our EBITDA, I would say that these facilities are gradually coming in play. Those don't happen overnight and we're seeing gradual capacity increases in 2023, so the contribution for those plants will be gradual, but certainly will be positive starting already this year.

Pedro Fabregat

Thanks a lot. One last question, if I may. Do you have an idea when you guys will start reporting some numbers on electric vehicles? Is it down the road, or you have it somewhere like near term? Just your view on the reporting. Thank you.

Armando Tamez

Yes. Pedro, that's a good question. Certainly, we are committed to provide more transparency in terms of, let's say, the profitability and metrics on the two businesses, the electric side as well as the powertrain side.

Unfortunately, at this point in time, due to all the negotiations that we have in front of us related to inflation, which are huge, we prefer to wait until we have solved this situation. Once we have more stability in terms of inflation and recovery of the operational costs, certainly we will be ready to provide, let's say, this type of detail on the two segments of the business that we have.

Pedro Fabregat

Great. Thanks a lot, Armando, Alberto and Adrian. Thanks a lot for the time.

Armando Tamez

Thank you.

Operator

Our next question comes from Laisha Zaack with GBM. Please state your question.

Laisha Zaack

Hi. Thanks for taking my question. I just wanted to ask two.

The first one would be if you could provide more color on why the EBITDA per unit for the quarter declined so much. The second one would be if you could give us more sense of the timing for the plants. When should we expect, for example, the full contribution of these facilities and if they are coming in different timeframes?

Alberto Sada

Yes. Thanks for the question, Laisha.

For sure, on the EBITDA performance for the quarter, certainly that was lower than last year and that's related to a few aspects. The first one has to do with the comparison. Last year, we had a slightly high comparison point because we had the onetime commercial negotiation reported in Rest of the World, particularly in Brazil, which that makes it a little bit of a tough comparison.

The remaining effects have to do with both the inflation effects that we experienced in the fourth quarter as well as some launching expenses that we had in the quarter as well. Those launching expenses have to do with the ramp-up of a few products that normally on the early stages, those cases, you will see higher cost than usual. Those are normal and those are part of what we budget for. But in this case as we're having a number of launches, those ended up being a little bit higher for this fourth quarter. Those are the two, let's say, main aspects.

We also had a little bit of effect of exchange rates in the euro side and that also had an effect on the fourth quarter when you compare it with last year.

Laisha Zaack

Okay. Just a quick follow-up on that.

Do you expect to keep engaging in commercial negotiations to keep passing through those inflation effects, right? This is just like a onetime thing that that coupled with the ratio effect may be EBITDA per unit low, right?

Alberto Sada

Mm-hmm. Yes, I mean those discussions, some of those we closed them in the third quarter and there were a few that we closed also in the fourth quarter. Those are, again, constant negotiations that we're having with our customers. That will be an important element also in 2023 for us to deal with related to our results.

Laisha Zaack

Okay. Thank you.

Alberto Sada

Then, if I may, if you could repeat your second question related to timing, do you mean timing of the new facilities or ...?

Laisha Zaack

Thank you very much.

Yes, just a little bit more color on when would these facilities be ready. When are they expected to have a full ramp-up? And if these timeframes are different for each one of them or can we see them overlap in that case?

Armando Tamez

Thanks, Laisha. We have announced the construction of three new electric mobility centers for customers in North America as well as in Europe. Three facilities, one in Mexico, two in Europe—one in Germany and the other one in the Czech Republic. We are planning to start production on two facilities in 2023, and the other facility will start in 2024. Gradually, we will start producing, let's say, these EV components, which are battery trays for again, from customers in Europe or European customers as well as North American. We're expecting that these facilities will be at full capacity, two of them in '24 and the other one in '25.

Laisha Zaack

Okay. Thank you very much.

Armando Tamez

Just for your information, these facilities will generate approximately \$350 million worth of additional revenue.

Adrian Althoff

We'll now move on to questions from the web. Our first question comes from Francisco Jesus from Finantia, and it reads, how do you compare your financial results for 2022—especially in terms of margins—to the pre-pandemic results seen for your 2019?

Alberto Sada

Yes. Well, related to our margins pre-pandemic, those were around \$14 per equivalent unit on an EBITDA basis. This year, we ended up with \$13.7 million, and that's a similar figure that we're expecting for our 2023 guidance.

Again, as we discussed, the dynamics are different than what we experienced before. Certainly, we have pressure of volume still not being at the level that we had pre-pandemic, but also the different effects that we just discussed on inflation and some launching expenses are weighting on our results.

I think gradually, we should be going back to the levels that we had earlier from the 2019 timeframe as some of these headwinds ease and we're successful with the negotiation with our customers.

Adrian Althoff

Our next question comes from Lucror Analytics and it reads, was the Russian facility written down or off in fourth quarter?

Alberto Sada

Well, yes. As we explained, we had a number of write-offs in this fourth quarter. Most of them had to do with assets that were idle for a long period of time. This is a process that we do every year. This time, we had accumulated assets that have not been used for a long period, and were written off. Most of those were in Asia. The rest of them were a little bit in Canada from our facility that we closed down a few years ago and a very few in Russia. But that facility has not been written off and that's still standing, and they are expanding negotiations with our customers.

Adrian Althoff

Our next question comes from Brett Whitten from American Century Investments. It reads, what were total launch expenses in full year 2022, and what do you expect launch expenses to be in 2023?

Alberto Sada

Well, launching expenses are—as long as we are active, those will be there and those are normally taken into consideration in our financial planning. This year was no different than some others, maybe a little bit higher, particularly in the fourth quarter. For the full year, launching expenses were in the neighborhood of \$30 million that we had experienced. Next year, we most likely have a similar amount, hopefully less, but as long as we're in that ramp-up phase, we will have additional expenses that we will not have in the future as we stabilize operations.

Adrian Althoff

Next question comes from Diego Garza from Late Ventures. It reads, between 2014 and 2018, Nemak had gross margins of 15% and 16%. Is there a chance we will see those margins again?

Alberto Sada

Yes, for sure. That's what we're aiming for, and we're aiming for higher margins. Certainly, we have, as we indicated, a few headwinds, but I think tailwinds will be higher than headwinds for the future as we increase the amount of business in the new segment, which as we have indicated comes at higher profitability than average. Those should be adding up nicely in the next few years. And for sure, we'll be getting back or even higher margins than what we had on that 2014-2018 timeframe.

Adrian Althoff

Our next question is from Ernesto Montemayor from Santander Mexico. It reads, you mentioned a Capex estimate in 2023 of \$490 million. Where is it mainly headed?

Armando Tamez

Ernesto, basically a significant portion of that Capex is going to the new business that has been awarded on the EV side and the structural component side. Approximately 50% is going to be allocated in North America, 45% in Europe and about 5% in Asia. That's, to some extent, the percentage that we are allocating in our Capex for 2023.

Adrian Althoff

The next question comes from Filipe Botelho from Lucror Analytics. How are you expecting working capital to develop in 2023?

Alberto Sada

Yes. As we explained, we had favorable working capital in 2022 that was unusual, but that will be reversed in 2023. Most likely working capital is going to be a reversal. We will be taking that working capital balance to similar levels of what we had in the prior year. We'll see a negative working capital figure in 2023.

Adrian Althoff

Okay. Next question from Alan Miranda from REDD Intelligence. Can you please provide some color about how big the contributions from your EV and structural component clients are for increasing your production capacity?

Armando Tamez

At this point in time, we have some confidentiality agreement with customers, so we prefer not to reveal this information. But I think it's gradually increasing the support with some customers and we believe that they will continue supporting us.

Adrian Althoff

Next, Javier Dosal from AM Advisors writes in. If we exclude launching expenses in the fourth quarter, what would have been the EBITDA per unit metric?

Alberto Sada

Well, as we said, we had \$15 million roughly of launching expenses in the year, so doing the math there it will be about at least—yes, that will have taken our quarterly EBITDA per unit to about \$13.60 per piece.

Adrian Althoff

Next, Jonathan Koutras from JPMorgan. Could you please shed light on free cash flow generation expectations for the year, and where in Asia exactly was the fourth quarter impairment related to? And has the Russian operation already been fully impaired?

Alberto Sada

Well, yes, this year as we have highlighted on our guidance, we have a high Capex for the year of \$490 million. That together with this working capital reversal that we'll see from the positive effect we had in 2022 is going to translate into negative cash flow.

We don't guide specific cash flow metrics for the year, but it might be easy to calculate based on the normal level of interest rates, interest expenses as well as taxes what we will be having as cash flow. For sure, I mean, we can anticipate that it's going to be slightly negative versus the positive cash flow that we had in 2022.

Adrian Althoff

Next question is from Marcelo Motta from JPMorgan. What is the outlook on free cash flow generation given that Capex for 2023 represents 88% of EBITDA?

Alberto Sada

I think we just responded to that question.

Adrian Althoff

Right.

There are no more questions at this time. With that, we will conclude today's event.

I'd 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

Thank you. This concludes today's conference. All parties may disconnect.