



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

Third Quarter 2022 Conference Call

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

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

Operator

Good morning, everyone, and welcome to Nematik's Third Quarter 2022 Earnings Webcast. Armando Tamez, Nematik 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 for the quarter. Alberto Sada, our CFO, will then discuss our financial results in more detail. Afterwards, we'll 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 Third Quarter 2022 Earnings Webcast.

During the quarter, we shall continue positive demand trends as new product launches and increased customer production supported higher volumes amongst a further easing of semiconductor supply constraints in our industry.

We also made good progress in ongoing efforts to address extraordinary inflationary pressures, including higher energy, raw material, labor, and transportation costs. Successfully concluding negotiations with additional customers aim at mitigating such effects on our results. During the period, higher volume and higher income prices enable us to deliver a 42% top line improvement on a year-over-year basis income. Volume combined with a better product mix, including piles for eMobility and structural applications, helped drive a 37% EBITDA increase.

By the end of the quarter, we have implemented measures to address inflationary effects intended with a large majority of our customers. I would like to emphasize that we continue to work towards finalizing similar agreements with our remaining customers with the aim of concluding these discussions in the fourth quarter.

Meanwhile, on the operation side, we maintained a prudent approach to financial management with a focus on keeping the cost structure lean while supporting customer requirements, linked to (inaudible) industry recovery, as well as launches of new electric vehicles. These efforts help us to keep leverage stable on a sequential basis.

Turning to strategy execution, we made further strides in ramping up production of (inaudible) mobility and structural applications in the third quarter. Higher production levels were driven mainly by new launches of battery housings and structural parts for our customers in Europe and North America.

I am also pleased to share that we initiated the setup of three new manufacturing facilities that will support recently awarded business to produce battery housings for fully electric vehicles of global customers. This business amounts to approximately \$350 million annually, with total investment expected to be around \$200 million. These facilities, which are being set up in Mexico, Germany, and the Czech Republic, will supply parts to a premium German OEM in North America and Europe. We expect to start production in Mexico and Germany in the second half of 2023 and in the Czech Republic in the second half of '24. Moreover, once these facilities are fully online, we will have the flexibility to increase production capacity depending on customer demand and future business awards.

On the sales and marketing side, we won contracts in the third quarter worth a total of approximately \$40 million annually. Of this amount, the majority were (inaudible) business to produce eMobility and structural applications, bringing our total accumulator (phon) order book in this segment to approximately \$1.57 billion annually.

The main highlights for the period included winning business to produce soft frames for fully electric vehicles of a European OEM using existing capacity in China where we will adapt processes and

technology traditionally used for ICE applications to now produce parts for vehicle structures. This product features an innovative solution that was conceived and developed by Nematik in tandem with the customer, marking an important step forward in harnessing our leading-edge design engineering capabilities to deliver higher-value-added lightweighting solutions for the global EV market.

In fact, based on our (inaudible) business to-date, we expect to become the largest supplier of soft trends to these customers EV offering globally in the coming years. More broadly, we see tremendous opportunities across a variety of structural implication for EVs, given automakers need to reduce the weight of these vehicles, thereby enabling them to drive longer distances on a single charge.

During the quarter, we also continued to pursue a robust pipeline of new opportunities focused on EVs, on pricing potential business worth a total of more than \$2 billion annually to produce battery housings, eMobile housings, and structural parts, among others.

Before I conclude, I would like to touch on significant industry recognition we recently received for our ongoing efforts to advance innovation in light-weighting and sustainability. This year, we were selected as the winner of two Altair Enlighten awards. The first is in the sustainable process category, which recognizes our melting center in Monterrey, and its recycling of secondary materials. The use of secondary aluminum alloys is the key lever that we have to achieve our environmental goals as a Company, including emissions reduction. In fact, using recycled material can enable us to reduce energy consumption by more than 90% compared to primarily materials.

The second award is in the future in lightweighting category for the development of Nemet alloy, a next-generation aluminum alloy designed to help customers improve mechanical properties while reducing vehicle weight and cost.

With that, I will now hand off the call to Alberto.

Alberto Sada

Thank you, Armando.

Good morning, everyone. I want to give you a quick recap of industry trends during the quarter, followed by a summary of our financial results. We had a positive quarter overall, showing an increase in both our top line and our operating cashflow, both on a year-over-year basis as well as on a sequential basis, mainly due to a stronger volume and product mix across the regions. We also made progress in negotiations with customers to address inflation, which allowed us to offset a large portion of the related effects on our results.

The auto industry continued to show signs of recovery and it's easing supply chain conditions, particularly in semiconductors. As a result, light vehicle production in North America finished up 25% year-over-year in the quarter, while Europe showed at 20% growth due to the same drivers. In turn, China was up 31% in the quarter compared to the same period of last year, while Brazil saw a 33% increase. Additionally, on a sequential basis, light vehicle production in North America increased 3%, while in Europe it remained unchanged.

Typically in the third quarter, OEMs reduced production levels due to customary maintenance stoppages. But this year, we see a stable sequential movement which suggests underlying strength being driven by supply chain improvements. Going forward, we expect that pent-up demand for light vehicles, as evidenced by historically low inventory levels in the U.S. and long waiting times for vehicles in Europe, will lead to continued resilience in light vehicle production, and therefore demand for components in most of

our regions, which in turn, could potentially help to offset any effects of softening general economic conditions, particularly over the short to medium-term.

Turning to our financial results, volume was 10 million equivalent units, 28% higher year-over-year, mainly attributable to higher customer production and new product launches across the globe, particularly in our eMobility and structural applications segment.

On the revenue side, higher volume in aluminum prices drove a 42% year-over-year increase, rising to \$1.2 billion, more than offsetting euro-dollar exchange rate effects. On a sequential basis, revenue finished 2% higher versus last quarter, mainly due to volume.

During the third quarter, EBITDA was \$157 million, 37% higher versus the same period last year, mainly due to higher volume and improved product mix, supported by increased production of eMobility and structural applications. This enabled us to more than offset the negative translation effect associated with the depreciation of the euro against the U.S. dollar. Moreover, on a sequential basis, EBITDA was 5% higher than the second quarter.

Our EBITDA per unit in turn showed a 7% year-over-year increase to \$15.70 per equivalent unit. As mentioned before, we have made progress in negotiations with most of our customers regarding inflation issues retroactive to January 1, 2022, which have helped to alleviate inflationary pressures on our business results.

At the same time, following a disciplined financial agenda, we have continued to implement a variety of cost and expense optimizations initiatives, aiming to maintain strict control of our cost structure. Operating income in the quarter was \$80 million following the same dynamics that propelled EBITDA. This figure compared to the \$28 million reported in the same period of last year.

Net income in the quarter was \$19 million, which compares to the \$29 million net loss reported in the same period of 2021. These variation was mainly influenced by overall better results, which more than offset the accounting effect of the depreciation of the euro against the dollar.

Moving on to capital allocation, we continued prioritizing strategic projects linked to vehicle electrification, along with the de-leveraging.

Regarding Capex, we invested \$111 million, which was 35% higher than in the third quarter of 2021, investing directly in new product launches with a focus on our eMobility and structural applications segment. During the quarter, our net working capital level grew on a sequential basis due to a normalization trend following a relatively low balance in the second quarter.

However, on a year-over-year basis, it improved by \$50 million as we continued focusing on reducing our inventory levels, which decreased by 8% on a sequential basis. As of the end of September, net debt was \$1.3 billion, 11% lower year-over-year, due mainly to a combination of improved cash flow and exchange rate effects. On a sequential basis, net debt was 10% higher due to seasonal effects in working capital. Net debt to EBITDA and interest coverage ratios were 2.3 times and 8.7 times respectively.

Moving on now to regional results during the quarter, North America volume was 5.6 million equivalent units, 30% higher year-over-year, supported by higher customer light vehicle production and new product launches in our eMobility and structural applications segment.

Revenue was \$701 million, 51% higher than in the same period last year, supported by higher volumes and aluminum prices. In turn, EBITDA was \$90 million, which compares to \$56 million in the same period

last year as volume and a better product mix, together with commercial negotiations helped us to more than offset inflation-related effects in the region.

Europe volume was 3.1 million equivalent unit, 18% higher year-over-year, due mainly to increased customer light vehicle production and new product launches in our eMobility and structural applications segment.

Revenue was \$365 million, 27% higher than the \$288 million reported in the same period of last year as volumes and aluminum prices outweighed the effects of the euros depreciation against the U.S. dollar.

EBITDA was \$51 million, slightly higher than a year-ago as volume product mix and commercial negotiations more than compensated for inflation-related impacts and the effect of the 15% depreciation of the euro against the dollar. Rest of the world volume was 1.4 million equivalent units, 48% higher year-over-year, mainly due to higher volumes in Brazil and China.

Revenue during the quarter was \$153 million, an increase of 42%, mainly related to volume and aluminum prices. EBITDA was \$16 million, 48% higher than the same period of last year, driven largely by volume.

This concludes my presentation. I will now turn the call back to Adrian to open up the Q&A session.

Adrian Althoff

Thank you, Alberto. We're now ready to move on to the Q&A portion of the events. 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 the line of Louis Yen with Compass. Please proceed with your question.

Louis Yen

Hi Armando, Alberto, Adrian. Thanks for taking my call and my questions and then congratulations on the great results. A couple of questions from my side and I guess the first one has to do with demand as we move forward. You mentioned clearly that we started getting some softness in demand and might be partially compensated by the fact that OEMs and then dealers have to restore inventory. Just wondering if you could talk a little bit about those dynamics.

What we've seen this year so far is that production from your customers in particular has been much higher than what demand is, implying that inventories are in the process of being reestablished. Just wondering, how much longer can we have that situation going? If you could comment a little bit on the supply chain issues; they seem to be improving nowadays. Do you expect them to be back-to-normal anytime soon? Perhaps touch on the European side of the equation because at the end of the day that seems to be the center of the crisis. Just wondering, as we move forward, how does this potential energy crisis translate into supply disruptions there? What are you planning to do there, etc.? Any comments around that would be great. That'll be my first question.

Alberto Sada

Thanks, Louis. Good question. Definitely we're seeing, for instance, on the supply chain some stabilization, especially on the semiconductor issue, that unfortunately, if you remember, last year on the

third quarter, we had a major disruption due to the shortage of semiconductors. It seems that their customers are getting better visibility in terms of supply.

I think we need to go by the different markets. I think on the North American side, we are seeing higher demand as we already presented. It's a combination of several factors. First, demand is there, pent-up demand is there. The availability of our customers to get better in terms of the supply chain issues that they were facing, I think that is very helpful.

In addition to that, I think because you were mentioning related to lower inventory levels from all our customers, they're trying to fill some of the lots with new vehicles. Definitely we are seeing that there is a lot of appetite from the customers to get new vehicles. The average vehicle is now approaching 12 years, which is probably the highest over the last 40 years.

That's something that—we are seeing also the price of used cars being reduced, which I think is very helpful also to have more appetite for new vehicles. Having said that, of course, there are some headwinds in front of us, so higher interest rates, as well as some related issues with other, let's say, commodities in the supply chain.

In Europe it's a little bit different. Certainly energy is the main issue that our customers are facing. Definitely, what we're seeing is that most of the European countries are preparing to storage natural gas to (inaudible) a potential reduction in supply from the conflict that we're facing in Russia. In terms of demand in Europe, we're seeing probably less demand than that we were anticipating. But I think the steel is a healthy volume that we're seeing.

In South America, even though the market is smaller we're seeing more stability actually. We presented solid performance both in South America as well as in China. In China we saw significant improvement in the production as well as demand during the third quarter.

We are to some extent optimistic about the overall situation, especially in North America. The reduction that we saw in Europe, our customers took advantage of some of the semiconductors to build more vehicles.

In summary, Louis, I think we're a little bit optimistic about how these supply issues will be solved and hopefully we will see better demand in the next 12 to 18 months.

Louis Yen

Great. Thanks a lot for the color there. My other question has to do with profitability. We saw a very nice improvement in profitability, the 15.7 per unit, that's quite outstanding. If you could give us a little bit more color on the main drivers. I know you mentioned improving mix, some operating efficiencies, but I just wonder, there was also a lot of comments you guys made about the negotiations with the customers and the fact that some of those negotiations to pass on costs were retroactive to January 1.

I'm guessing you had some big payments once you've finalized those negotiations. Just wondering, to try to understand how much of the 157 million (phon) you needed (inaudible) to do with that so that we get more of a normalized number and I'm guessing a little bit of that will happen also next quarter, so to get some color there.

Also more medium to long term. Is the 15-16 per unit still a good range to think about or as you accelerate the EV transition within your product mix maybe has a 17 on top of that, just to get a sense of how you see that evolving, how much of an impact have the direct (inaudible) in the third quarter. Thanks.

Alberto Sada

Yes. Sure, Adrian, thanks for your question. Yes, definitely. This was a very good quarter for us, as you correctly pointed out. Our EBITDA per unit was higher at 15.7. But you can see when you see the EBITDA per unit, on a year-to-date basis I think you're starting to see how we're looking at in general, after all these effects of customers negotiations are taking place. The year-to-date EBITDA per unit, it's close to \$14 per piece. That gives you a sense of more or less what we are gearing towards this year.

Certainly part of this will be also reflected on our results during the next quarter. But we believe there's going to be a reasonable profitability figure for the end of the year is something close or slightly higher than what we have on our guidance. Something close to the 13.7, 13.6 (inaudible). I think it's also important to highlight that as we are ramping up more products on the new segment, both on EVs and structural part, we're starting to see that those products are contributing favorably to our overall margins.

That's generally moving our averages to the better and that these numbers will continue to progress positively. We're going to see more and more contribution of this segment in our results. Going forward, I think your point about our long term target of having an EBITDA per unit somewhere between the \$15 to \$16. That stays true. That's where we are aiming for and potentially even higher depending on how much more we can bring on the new segment which is coming at better profitability than average.

Louis Yen

That's great color. Then my last question has to do with the electrical and the structural portion. I started to see on your presentations that you started to show us where you are, what you're expecting in 2022, 12% of sales thing. But just wondering if you could give us a bit of a progression, given that the lead times, the construction of the new plant, how do we progress at this year might be the 12%? How should we think about next year and the following? I know you want to get to 40% by '25 and 60% by 2030. But if you look at it on a year-over-year basis, how should we think about that? Because clearly your backlog is quite strong, but it's obviously certainly has to do more with the timing there.

Then if at some point you're planning to provide more data points there. I know it's tough because of stuff to differentiate what's truly on the margin on those things when they're all combined. But do you have more clarity on that front? What else are you seeing there would be helpful. Thanks.

Alberto Sada

Preluded to the introduction of electric and structural components, we're very pleased with the progress that we're making. This year revenue expected for this segment is in the range of about \$470 million and growing. We think that we are growing at an even faster pace than the introduction of electric vehicles globally. I think that's quite positive. We believe that the profitability that we're getting out of this segment is even higher than the legacy business. We're very happy with that and we will continue striving to get new orders with higher profitability.

That's the main driver that we're setting in our entire team. We believe that in the near future we will be ready to potentially be open and disclose, let's say, more information related to this new segment. I think what we have mentioned in the past was the fact that we wanted to have a reasonable scale. I think we are moving in the right direction. Related to the percentage of revenue, at this moment in time we prefer not to release that information. However, we're confident that we will double our size on the revenue side in the next probably 18 months to 20 months.

Louis Yen

Thanks. Finally, any changes on your guidance for this year, whether it's top line or EBITDA, Capex in particular, and as we look into 2023, I know it's too early and there's so many variables in play that would affect that, but any initial thoughts about how we should see 2023? Perhaps some growth on the EBITDA side is what is expected. Just any color you can give us there would be great.

Alberto Sada

For 2023, I think we will have to wait for our guidance release early next year. But certainly the dynamics are positive for us, both from the ramp-up of new components (inaudible) highlights which are coming with very good contributions, as well as the recovery of the industry that we're seeing overall. Both mostly on the production side as all these matters related to pent-up demand and waiting times in Europe will eventually fall on higher production in regards to higher demand for vehicles turns out. As we know, the customers are still working to replenish their inventories as well as to normalize the production schedules in Europe. All in all, I think it's a favorable environment for next year, but the details will be shared on our guidance later, earlier next year.

Louis Yen

Understood, and thanks a lot for your answers and congrats again on the results.

Alberto Sada

Thanks.

Operator

Next question comes from the line of Tom Swift with Morgan Stanley. Please proceed with your question.

Tom Swift

Hi. Good afternoon, guys. Just a couple of questions from my side. In terms of just coming back to the last question, just in terms of the guidance for this year, any changes or not really?

Alberto Sada

No. We're not changing the guidance. But as we highlighted before, I think we're having favorable results. We believe that we're very comfortable to meet and exceed the guidance, but the numbers will not be changed for now.

Tom Swift

Okay. Understood. Thank you very much for that. Just to understand some of the pieces, I understand that the working capital was seasonal, but can you just elaborate a little bit as to what was happening in the third quarter specifically? Some of the moving parts looked a little bit different than usual. If you could just, particularly on the payables side, if you could just elaborate what happened there, that'd be very useful. Thank you.

Alberto Sada

Sure. As you know, working capital has seasonal effects, so traditionally it moves up and down during the year. Particularly this quarter, we see, when we look at it sequentially and we compare it to the second quarter, we see fairly—or let's say, a higher increase than we would normally show. That's because the

second quarter figure was way lower than what it usually is. We showed, as you may have seen, in the reports on the second quarter, we have negative \$16 million of working capital, which compares to about \$150 million positive on this quarter.

Most of that effect has to do with the seasonal effect that we see normally on a third quarter where we see higher working capital. But it compares tough with second quarter, which was way lower than we would normally have. We expect that working capital to continue normalizing during the year. We expect it to be back to normal levels by the end of the year. That effect had to do both on supplier side as well as on the inventory side, which we're focusing on improving, which has been seeing reductions. With the (inaudible) on the supplier side, we should be seeing back to normal working capital figures by the end of the year.

Tom Swift

Okay. Thank you. Just so that's just a timing issue, and then just my last question before I get back in the queue is can you just indicate what your minimum cash need is for the day-to-day running of the business? What would you say it is? Thank you.

Alberto Sada

Sure. This has to do obviously with maintaining sufficient cash to deal with that seasonality that we see in working capital during the year. Normally we feel comfortable with something around 150 to 200 (phon). I think that gives us plenty of room to deal with the seasonality effects of working capital. As you may have seen, we have had higher figures of that. That's essentially staying within a prudent cash balance approach.

Tom Swift

Okay, thank you very much.

Alberto Sada

Welcome.

Operator

Our next question comes from the line of Marcello Natta with JPMorgan. Please proceed with your question.

Marcello Natta

Hi, everyone. Good afternoon. Thank you for taking my question. I have a question regarding the margins in Europe. If you look at the EBITDA margin in Europe it was 14%. That was a big contraction compared to 17% that you had in 2021, so just wondering, now that you've said that you still have some inflation pass-through to happen in the fourth quarter to reach 100% of our clients, do you think is reasonable to believe that these margins will recover and increase, go back to the levels that it was in the previous year or not? That is the first question.

Alberto Sada

Marcello, good question. Certainly, we are seeing huge increases in energy in Europe, and we have been able to get a portion with some customers. We are still in negotiations and we're expecting that we will

finalize these negotiations during the fourth quarter. Certainly, our margins in Europe, we're expecting that once the energy prices and inflation stabilize, our margins will be recovered. We are absolutely confident on that. Actually, our performance from the operational side in Europe is extraordinary and so that's why we are very confident that our margins not only would be recovered, but I think would be improved. Having said that, we're making investments in the new product lines, as I already indicated, and we're confident as well that the margins for the new products will certainly enhance our profitability.

Marcello Natta

Perfect. Very clear. When looking at demand, do you feel that in Europe there might be a pre-production (inaudible) anticipating production because during the winter there might be some potential rationing or let's say, surplus on the tariffs and it might make more expensive so we might see companies frontloading a little bit of volume and (inaudible) happen part of the fourth quarter and reduce seasonality that we usually see in the fourth quarter or not? How to think about the volume dynamics in Europe given the potential rationing, not even the higher price, but the fact that they might have a lack of some of the raw materials?

Alberto Sada

You mean demand for our products or sales of vehicles in Europe?

Marcello Natta

For your products, like companies anticipating production to build inventories so they have the minimum to sell if there is a halt in production due to an energy ration?

Alberto Sada

Well, the dynamic in Europe is similar to what we're seeing in North America, where there is a need to increase production even though sales may change. The reason for that is that in Europe, there is still huge waiting times for the delivery of new components, but certainly, we are watching very carefully how the customers' production is moving, particularly with the issues that the European customers are facing with energy. So far we're seeing no changes and production levels in Europe remain fairly strong for us.

Marcello Natta

Perfect. Very clear. Thank you very much.

Alberto Sada

Thank you, Marcello, for that question.

Operator

Our next question is a follow-up from Louis Yen. Please proceed with your question.

Louis Yen

Hi guys. Back again. Just trying to get a bit more color on the EV side, if you could give us some color in terms of how does the backlog look like? How do you expect that to evolve going forward? Is it still heavily geared toward Europe? I remember it was like two-thirds electric, one-third hybrid. Is it still around those trends, or do you expect any changes there?

I guess the other thing is, once you get, let's say, \$1 billion in revenues or \$1.5 billion, which is your backlog today, in revenues from those segments, how much of that do you think will be incremental business for Nemak? How much of that is actually internal combustion engine type of business coming down a little bit and this gaining market share, or you see the traditional business is still growing a little bit and this is just all incremental business? Trying to get a sense of that. Thanks.

Armando Tamez

Thanks, Lewis. Good question.

Related to the book order that we have, which is \$1.57 billion, approximately a little bit more than \$1 billion is with electric components and the rest on the structural part, which, by the way, they go mainly to electric vehicles. We're very confident that we will reach the \$2 billion target that we set for 2025 ahead of this date with the progress that we're taking.

I just want to make clear that we are looking to get new contracts with high profitability rather than just get the orders. I think we have, as I already indicated, in front of us approximately a little bit more than \$2 billion worth of business opportunities and we're very selective. Where do we want to invest our capital, which is limited? Certainly, we're choosing what we consider the most attractive products based on customer, region, and product lines, and based on that, we will make our capital allocation, getting in consideration the highest profitability that we could make, the highest internal rate of return.

Having said that, we are confident that our order book would materialize and we will continue getting stronger and stronger. This year, we've almost doubled our revenues and we will continue with this trend. We truly believe that the internal combustion engine is still strong. Actually, we are expecting, in our business plan, that the volumes not only will stabilize, but will continue growing because of industry recovery that we're expecting that over the next few years. Then we will see most likely by '27, '28, a reduction, but at the same time, we will see higher revenue coming out of the new business. I think we're very confident that rather than reducing our revenue midterm or long term, we're seeing or we're expecting that our revenues will increase as well as our profitability.

Louis Yen

Great. Thanks. Another question on capital allocation, can you give some color on some of the other items you haven't discussed at length, the working cap side, perhaps on the Capex, is it still \$450 million to perhaps \$500 million per year for a couple of years given the high investment phase? Are there any potential asset sales from internal combustion engine? Because I know some plants, you can reconfigure them, but some others, not. How do we think about M&A in this new business that you're building? Any color there would be great.

Alberto Sada

Yes, as we have discussed in the past, for us, capital allocation is very critical and we put a lot of emphasis in making sure that we do all the investments the right way. Our capital program going forward follows a very thorough approach on what we can recondition of the existing business to the new one, but there's obviously part of the investments needed that are directly geared towards bringing new capacity in place. Those numbers that you're saying look accurate. That's more or less what we're expecting for.

Again, we are aiming to invest as efficiently as we can and we're trying to reconfigure some of the existing plans whenever they become available for the new segments, but we're also building new ones like the ones Armando just highlighted during the call in Mexico and in Europe. It's a combination of both, but

certainly we are very observant about how we're allocating capital and we're doing it in the most effective way.

Louis Yen

Any M&A that we could expect or selling assets?

Alberto Sada

Well, not at this point.

Louis Yen

Great. Thanks a lot again, guys.

Operator

Our next question is a follow-up from Tom Swift. Please proceed with your question.

Tom Swift your line is live.

Tom Swift

Sorry, just to come back to the point on the new manufacturing facilities, so SOP is the second half of '23 and then '24, and it was the total investment for \$200 million. That investment, has that been completely spent or is there still some of that to come out of that Capex?

Armando Tamez

Tom, basically what we are doing is some investments this year to launch the facilities, but gradually we will, let's say, continue with the investment. We are not investing this year, the 200 (phon). I think it's going to be in a period of approximately 2.5 years, the final period to, let's say, launch these three new manufacturing facilities as I indicated in Mexico, Germany, and the Czech Republic.

Tom Swift

There is some of it in this year's numbers, but it's still to follow on over the next 2.5 years essentially.

Armando Tamez

Exactly. Yes, probably more like 1.5 years because we are already investing this year a portion, and then over the next 18 months we will continue with additional investments to finalize the three manufacturing facilities.

Tom Swift

Understood, that's very clear. Broadly, just on the point on Capex, I think just to follow-on questions. When it comes to capital allocation and projects that you want to invest in, what's the measuring stick here? Is it a ROCE target? Is it some period of payback? How do you think about Capex and what's the barometer for you to select certain projects and for you to tender for certain contracts from OEs and for you to say you don't want to go for these projects? How does it work, particularly in the EVSE part of the portfolio?

Alberto Sada

Yes, Tom. Certainly as we highlighted, we are very prudent on how we approach capital, and how we select business is also a very thorough approach. Normally, the way we value every investment that we do, any opportunity of new business that we engage with is taking into consideration on multiple indicators. On one side you have the rate of return expectations, and the other side you have paybacks and the corresponding risks with the platforms that the products are aiming for.

We do a combination of both to select those products what we want to pursue and what we want to invest. Very selective, we're focusing ourselves very heavily on bringing projects with increased profitability and not just adding new products for the sake of adding revenue. That's why we are seeing numbers going up and down on our new business wins and it's potentially a combination of what's available and also being selective in what products we want to engage with.

Tom Swift

Very clear, thank you very much. I think my last question really is if we split Capex between maintenance and growth, what would you say broadly is the split and how likely is that to change going forward?

Alberto Sada

While maintenance is fairly stable there, we're seeing close to \$140 million to \$150 million. That's Capex that goes to maintaining the existing facilities as well as some tooling and some development expenses and the rest above \$140 million, \$150 million is a strategic investments aimed both for growth as well as on replacement business when there is any need to change or adapt equipment.

Tom Swift

Very clear, very helpful. Thank you very much.

Operator

Thank you, Tom. I'd like to hand it back to Adrian Althoff for the web questions.

Adrian Althoff

Thank you, Operator. We will now move on to questions from the web. We have a question from Alan James from Singham Research and reads as follows: you announced a new plant in Germany and the Czech Republic. I'd like to ask if given the high energy prices in Europe, this decision does not represent a risk factor for the Company?

Alberto Sada

Well, certainly there is always, let's say, an external risk in every project that companies make, but with this particular customer we feel very comfortable as we have indicated is a German premium OEM in which we have a very long relationship with them. We truly believe that in the event that for some reason the volumes doesn't materialize, we will be able to recover a significant portion of our investment.

This is a very strong player in the industry and as I indicated, a relationship with them has proven over many years that this is a very reliable customer. That's one of the things that we're considering for these new investments. The customer is very important as well as the product line and the regions in which we

feel comfortable. Yes, today we're facing this crisis situation in Europe related to energy which does increase very highly.

However, as I indicated, we need to think long-term. We eventually think that this issue is a transitory issue and will be solved. How long is it going to take? We don't know. But as I indicated, we have a lot of confidence in this German OEM customer.

Adrian Althoff

Next question comes from Bert Whitson from American Century Investments. Given that Nemak is rated just below investment-grade and recent sharp rises in high-yield credit spreads, is there any concern or stress on short-term financing arrangements or your ability to finance the new projects mentioned with the third quarter reported?

Alberto Sada

The direct question is no, we don't see any issue with our ability to finance Capex. As you know, we refinanced the majority of our debt last year with new facilities at very competitive terms, and we don't have any needs to refinance anything significant in the next six years. We're quite healthy on that front, and the capital expenditures that we're seeing ourselves going forward will be financed with our own cash generation and just a little bit of extra financing that we have from our committed credit lines. There is not an issue with our ability to form our Capex investments gone for.

Adrian Althoff

The next question comes from (inaudible) from (inaudible). He asks, you paid for the \$200 million investment for the three new plants, if it was your own Capex or will the project receive contributions from your customers, and what are the EBITDA margins on these \$350 (phon) million in annual revenues?

Alberto Sada

I will take the first part of the question. Related to the investment, Nemak has the capability to form the \$200 million. Certainly the customers finance or paid for some of the tooling that will be dedicated for them. Basically in that regard, it will be a combination, both the \$200 million plus or the customers need to invest that we are not considering in the tactics. At this point in time would prefer not to release what are the margins for confidentiality reasons but what I can tell you is that those are very healthy margins. Certainly as we have already indicated, our profitability in the new segment is higher than in the legacy business.

Adrian Althoff

Next question comes from Alfonso Salazar from Scotiabank. He asks, what are your expectations for your operations in Europe in the winter given the ongoing energy crisis? That's the first part of the question. The next part is, beyond pent up demand for new cars, what do you think can support higher sales ahead if interest rates increase and cars are becoming less affordable due to inflation and the structural change to premium, more expensive cars according to leading OEMs strategies?

Alberto Sada

Yes. Related to our operations in Europe. I think certainly it's—we're observing the situation very carefully and how the whole energy situation develops. But as you may have seen in the press, I think it is quite favorable to see that most of the countries have already built up sufficient natural gas inventory within

their reserves to cope with any supply issues of gas during this winter. We feel confident that from that point of view, the energy crisis will not have a serious direct impact on our customers' ability to produce or the country's ability to meet the energy demands. Certainly we'll need to see how next winter, next year things develop so according to that.

On the cost side, certainly we are working with our customers to make sure that all these cost increments on energy are being passed through to the prices, so from a financial point of view, we shouldn't see any major effect given these negotiations that we have achieved with our customers. In relation to that, Alfonso, what we are seeing, yes, we're seeing high interest rates that are influencing, let's say, the cost for, let's say, the vehicles.

One element that we're starting to see is that customers that eliminated all discounts and actually increased prices on their vehicles. What we're seeing as we speak is better financing terms that some of the customers are already offering. We are expecting that to some extent, if the customers start seeing some effect on financial costs, that they will start offering more attractive rates to help sell more vehicles. That's something that for the moment we're starting to see. We need also to consider that unemployment rates are very healthy today and also the age of the fleet, as I already mentioned, that is becoming older, not only in North America but also in Europe.

Adrian Althoff

Next question is from Peter Valley, from Bank of America. He asks, please share what percentage of Nemak customers are still remaining to reach inflation-driven agreements by the end of the fourth quarter?

Alberto Sada

Yes, as we highlighted, we have reached agreement with the majority of our customers, it's just a few that are pending, and we should be able to close those by the end of the quarter.

Adrian Althoff

The next part of the question is, how is the Nemak's Europe operations prepared for a potential energy crisis in the upcoming (inaudible)?

Alberto Sada

I think that question was already answered.

Adrian Althoff

Yes. Moving on, the next question will be from Lucille Gomez from Compass Group regarding the (inaudible) guidance of \$13.60. Could you say what would be (inaudible) for the next quarters, is \$15.70 sustainable?

Alberto Sada

Well, clearly 50%, \$15.70 is a little bit higher than normal for this year, as we have seen, so what we expect for the end of the year, as we highlighted, is to be at guidance or slightly higher. That's more on the range of between \$13.60 and \$14 per unit. Going forward, as we see more production and sales of the new segments becomes larger, we'll see that overall (inaudible) EBITDA increasing going forward. We will see that together with the scale effect with recovery of volumes.

Adrian Althoff

Next question from Gabriela Shapiro from BCP Securities. What is the amount available in your committed and uncommitted credit lines?

Alberto Sada

Yes. We have altogether approximately \$800 million of credit lines available. Half of that is committed, the other half is uncommitted, but with very good relationship banks.

Adrian Althoff

(Inaudible) can you elaborate on the role of the easing of semiconductor charges and what it plays in the rising production of the (inaudible)?

Alberto Sada

Certainly, as we have already mentioned, we have seen that the customers are getting more semiconductors than last year, especially in the second half of last year was a significant drop in production due to lack of semiconductors. We're seeing that to some extent hasn't been sold 100%, but I think is going in the right direction. Our customers are able to get more semiconductors.

We're seeing, as we have already presented, stronger demand in the third quarter. We are seeing also very strong demand for the full quarter, especially in North America. We're seeing a stable demand, at least the visibility that we have from our customers over the next few weeks is stable also in Europe and strong in South America and China.

Adrian Althoff

Next question is from Philippe (phon) (Inaudible) from (Inaudible) Analytics and he asked about volume expectation going forward. He asks, shouldn't we expect volumes to surpass the guidance given the volume of 36.9 million equivalent units today?

Alberto Sada

Well, as we highlighted on our last conference call, we are at least a million equivalent units higher than what we were planning for during the year. We are seeing positive trends this quarter and next quarter. For sure, as we said, we'll be above guidance. The details, we don't want to disclose them yet, but for sure our four quarters are not going to be as low as was indicated in the question, so we should see a continued positive trend on our volume.

Adrian Althoff

Next question is from Augustine Bonasora from PineBridge, asking if you're taking any measures to avoid the impact of higher energy costs in Europe other than negotiating with customers, such as a hedging strategy.

Alberto Sada

Well, we engage in energy contracts with, in particular in Europe, with our energy suppliers. Those are strategically—decisions are taken strategically on when to hedge and when not to hedge. We have been

trying to manage as much as we can the current situation to minimize the impact and stay away from being 100% on spot buys but we're trying to gradually be increasing the amount of hedges that we do both in Europe as well as in North America.

Adrian Althoff

This question is from Mark Regenbogen from STRS Ohio. He asks, what is the status of the Russian facility? Have you written off the entire book value to zero?

Alberto Sada

As we announced before, after the conflict (inaudible) our Russian facility, we are in conversations with our customers there and basically waiting for them to have a final answer in what is what they're planning to do related to that. We have not written off any of our assets in Russia yet.

Adrian Althoff

Next, Diego Garcia (phon) from Late Ventures asked, is there a chance we'll see a dividend or share buyback this year or in 2023?

Alberto Sada

Well, as we said, we are allocating most of our cash flow to fund our growth, which it's coming as we highlighted in very good terms. Depending on how cash flow develops, we could see some of that, but for now we're focusing most of our resources towards funding our Capex needs and deleveraging.

Adrian Althoff

Next question is from Jacob Steinfeld from Ashville. He asked how much of the EBITDA in third quarter is non-recurring and from the cost recovery in first half?

Alberto Sada

I think we already highlighted that, but the way we can see that is taking the year-to-date unitary figures as what we see a net effect of all the claims from customers as well as the inflation impact.

Adrian Althoff

Next question comes from Alejandro Delgado from Major CAM. He asks, the probability of recession in U.S. has been increasing for 2023, what would you expect to be the impact on vehicle production if we get into recession?

Alberto Sada

We have already conversations with the chief economists of major banks as well as the experts (inaudible) expecting a mild cessation. However, as we indicated, they're out in the industry in the market. Some losses like low unemployment rate, old fleet in general. We don't expect, at least based on the information that we have from industry experts, a major decline and I think the fundamentals of the economy in the U.S. are very strong. Certainly, we may see that the customers will be forced to give some price reductions as well as some help with financing to potentially, let's say, balance supply and demand.

Adrian Althoff

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.

Alberta Sada

Thank you.

Operator

Ladies and gentlemen, you may disconnect your lines at this time. Thank you for your participation and have a wonderful day.