



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

Second Quarter 2020 Earnings 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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C O N F E R E N C E C A L L P A R T I C I P A N T S

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Andres Cardona, *Citigroup*

Alejandro Chavelas, *Crédit Suisse*

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

Operator

Good morning, everyone, and welcome to Nemak's Second Quarter 2020 Earnings call.

Armando Tamez, Nemak's CEO; Alberto Sada, CFO; and Adrian Althoff, Investor Relations Officer, are here this morning to discuss the Company's performance and answer any questions that you may have.

As a reminder, today's conference 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 the quarter. Alberto Sada, our CFO, will then discuss our financial results in more detail. Afterwards, we will open up for a Q&A session.

Before we get started, let me remind you that information discussed on today's call may include forward-looking statements regarding the Company's future financial performance and prospects, which are subject to risks and uncertainties. Actual results may differ materially, and the Company cautions not to place undue reliance on these forward-looking statements. Nemak undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

I will now turn the call over to Armando Tamez.

Armando Tamez

Thank you, Adrian. Hello, everyone, and welcome to Nemak's second quarter 2020 conference call.

As we mentioned in our earnings report issued yesterday, the spread of COVID-19 precipitated a historic shutdown in the global automotive industry in the second quarter, with a substantial impact on OEMs and suppliers alike.

At Nemak, we continued with efforts to address the crisis on two main fronts: implementing extensive new measures to protect the well-being of our people while optimizing costs, expenses, and cash flow in response to unprecedented levels of volatility in customer demand.

Our manufacturing facilities outside of China experienced production stoppages lasting approximately eight weeks on average during the quarter. We made good use of the downtime, redesigning the main settings for employee interaction including production lines, administrative offices, and common areas, among others, with the health and safety of our people in mind. Moreover, we carried out a global communication and training program to reinforce essential measures to minimize risk of transmission of the virus. We consolidated our learnings and practices in this regard into a pandemic control plan, which we made public, containing detailed guidelines on access control, distancing, personal protective equipment, and hygiene, among other priorities.

Subsequently, these preparations proved invaluable to our efforts to facilitate a safe return to normal business activities; by the end of May, we had resumed operations at all our sites worldwide, in line with the production ramp-up of our customers.

Since then, we have remained focused on ensuring continuity in supply to our customers, while taking a series of actions to help us better adapt to evolving conditions in our industry.

I am confident that our continued progress towards making our operations more efficient and conserving cash will help us to emerge even stronger post-pandemic. As you may already know, we adopted a similar approach during the Great Recession of 2008-2009, which proved instrumental in laying a solid groundwork for growth in subsequent years.

Regarding the second quarter, the production stoppages I just described were the main factor affecting business performance, as volume and revenue finished down 61% and 60%, respectively.

I would like to emphasize that, in the face of these extraordinary circumstances, we intensified efforts to make our cost structure leaner, which we expect will help to support margins as the industry recovery moves forward. This includes implementing workforce reductions for which we recorded severance payments totaling \$38 million. Absent this severance effect, EBITDA for the period would have been \$1 million.

I would also like to highlight our continued discipline in controlling costs in response to ever-changing production schedules. Our ability to react quickly on a variety of fronts in this regard - ranging from manufacturing costs to maintenance, contracted services, and other expenses - proved critical to mitigating the impact of the shutdowns on our result.

At the same time, we moved proactively to implement additional measures to increase financial flexibility. We worked in close consultation with our customers to defer certain non-essential investment, resulting in a significant reduction in cap ex versus our original expectation for the period. As you may already know, we also held a General Shareholders' Meeting on June 19, at which shareholders approved the recommendation of our Board of Directors to cancel the remaining dividend payments scheduled for the year.

I would also like to emphasize that we maintained a continuous dialogue with our banking partners on our progress towards addressing the effects of the pandemic on our business. These efforts culminated in the successful negotiation of amendments to all our existing loan agreements containing leverage covenants, whereby the maximum leverage threshold was increased from 3.5 to 4.75 times.

Additionally, we tapped into credit lines to help us finish the period with \$636 million in cash, further enhancing our liquidity position.

Taken together, these actions reflected our commitment to continue working towards maximizing shareholder value and strengthening our financial resilience.

We were pleased to see the three main rating agencies issue updates in the quarter upholding our existing credit ratings, citing our business fundamentals, liquidity, and debt profile, among other factors.

Due to the continued uncertainty over light-vehicle production trends for the second half of the year, we have decided not to issue guidance at this time; however, we will continue to monitor industry conditions closely in the coming weeks, with the aim of providing an update on our outlook as soon as reliable estimates can be made.

I would now like to move on to recent developments regarding sales and marketing activities. Notwithstanding the challenges I just described in the day-to-day operations, we continued to advance in tandem with our customers towards supporting their lightweighting and electrification strategies. This included winning new business to develop and produce structural applications for all-electric SUVs and crossovers for the European market. In this particular case, we are harnessing our design engineering, simulation, and casting capabilities to deliver solutions that support and protect critical parts such as the electric motor, all while contributing toward the customer objective of reducing the weight, and therefore increasing the battery range of these vehicles.

Taking into account these new orders, our total backlog of awarded business to-date to produce structural and electric mobility applications stands at approximately \$830 million in annual revenue.

In total, new contract wins for the quarter amounted to \$150 million in annual revenue, approximately 45% of which represented incremental business. These included contracts to produce cylinder heads and engine blocks in all our regions, on top of the business I just mentioned with electric vehicles.

Overall, our experience this past quarter serves as a reminder of the importance of working ever more closely with our customers and other stakeholders towards common goals. In this spirit, it was a great honor to receive the General Motors Supplier of the Year Award; as a 16-time winner, we are one of the five most recognized suppliers in the award's history.

I am also pleased to share that we received the Volkswagen Group Award in the category "Launch of the

Year” recognizing our performance in the development, innovation, and manufacturing of battery housings for electric vehicles.

In my view, these awards exemplify our customer focus, as well as our commitment to continue to deliver sustainable mobility solutions.

Our relationships with our customers provide us with an essential foundation for navigating these extraordinary times, and we look forward to continuing to join forces with them to build a stronger industry in the years ahead.

With that, I will hand off the call to Alberto, Nemak's CFO.

Alberto Sada

Thank you, Armando, and good morning, everyone.

I will share some additional information on our performance during the quarter and expand on Armando's comments regarding industry trends and financial results amid the COVID-19 pandemic.

Light-vehicle sales and production across North America and Europe were at historically low levels for much of the quarter, due to widespread plant shutdowns along with a pronounced slowdown in overall economic activity. In contrast, production in China entered recovery territory, even surpassing levels seen during the same period last year.

For the North American region, U.S. light-vehicle sales decreased around 34% on an annual basis, as lockdown measures, together with general economic deceleration, weighed on demand. Light-vehicle production was even harder hit, contracting 71% as automakers brought production almost to a complete standstill in April and most of May in response to the effects of the spread of the virus; however, they successfully resumed operations in late May. Light-vehicle sales partially recovered in June to a level of 24% lower than last year and have maintained a gradual upward trend since then.

With sales outpacing production in the period, light-vehicle inventories decreased in the US from 94 days to less than 60 days. In recent weeks, several automakers have publicly signaled their intention to rebuild U.S. inventories closer to normal levels, which in principle would imply further support for light-vehicle production in the region in the near term.

Turning to Europe, light-vehicle sales and production declined 58% and 66%, respectively. All our customers in the region successfully restarted operations in early May; sales for the month of June also partially recovered to a level 26% lower than last year, showing a gradual positive trend in subsequent weeks as well.

As for Rest of the World, Brazil experienced plant shutdowns along a similar timeframe to those in North America, whereas China showed a positive trend, returning to pre-COVID production levels in the period.

Nemak's volume decreased 66% and 60% on a year-over-year basis in North America and Europe, respectively, in line with the figures I just mentioned; meanwhile, it saw a 30% reduction in Rest of the World mainly due to lower sales in Brazil.

At the consolidated level, effect of the pandemic on customer light-vehicle production accounted for almost all of Nemak's total volume reduction in the quarter.

Regarding revenue, lower volume resulted in a 60% decrease during the period; aluminum prices also had an effect, albeit to a lesser extent.

As mentioned before, we implemented extraordinary measures in the quarter to make our cost structure leaner in response to our evolving industry environment. We initiated aggressive control costs dating back to January, even before the virus began to spread worldwide; these efforts accelerated in the second quarter, helping us to keep manufacturing and other variable costs at a minimum during our production stoppages, which lasted close to two months. At the same time, we developed and executed fixed-cost optimization along several fronts: first, tapping into government support programs to process temporary layoffs where feasible, which was mainly in the U.S. and parts of Europe; second, applying rightsizing measures based on our assessments of emerging volume trends; and third, keeping all our discretionary spending down to a minimum.

Thanks largely to these efforts, compared to the first quarter, we reduced our total fixed cost by US\$125 million or around the 39%, which in turn helped drive reductions on a sequential basis of 44% and 37% in COGS and SG&A, respectively.

I would also like to emphasize that we remain flexible and well positioned to adapt to meet customer supply needs while maintaining our cost structure at around its current size, even as the market recovers. As a result, we expect that the optimization efforts I just described will be accretive to margins, assuming volumes remain stable or increase further in coming periods.

Just to further illustrate this point, we estimate that our break-even today in terms of volume is, on a global basis, at around 4.5 million equivalent units per quarter, down from around 6.5 million equivalent units per quarter pre-pandemic. In other words, we lowered our break-even point from 60% to 40% of steady state production.

As of today, all of our plants are running, producing at a rate of approximately 75% of pre-COVID levels.

During the quarter, operating cash burn was around \$225 million, which was in line with our expectation excluding extraordinary items, such as severance payments, personnel safety, plant redesign, inventory management, and dividends.

Turning to consolidated results, EBITDA was negative \$37 million, mainly due to the lower volume already discussed; this amount includes an impact of severance expenses of \$38 million associated with the rightsizing efforts I just described. Excluding severance expenses, EBITDA would have been \$1 million. Operating income was negative \$113 million, mostly due to the same factors affecting EBITDA. Net income during the quarter was negative \$125 million due to the same factors I just described, together with slightly higher financing expenses and a positive non-cash tax position derived from currency effects.

Regarding liquidity, we have maintained a focus on ensuring a high cash balance to provide flexibility to manage the situation. To this end, we have continued to exercise strict controls over working capital and other expenditures; for example, in the quarter, cap ex finished at \$42 million, which was about \$30 million less than what it had been our original expectation for the year. Additionally, we tapped into committed credit lines to secure \$134 million in additional funds, bringing our cash position to \$636 million at the end of the quarter.

Furthermore, thanks to our relationship with the banking community, we were able to amend loan agreements to secure temporary flexibility with existing covenant thresholds. As a result, our leverage ratio covenant has been increased from 3.5 to 4.75 times for the next four quarters, returning subsequently to pre-COVID levels. Under these amendments, the leverage calculation excludes severance payments.

As Armando mentioned, our efforts to maintain financial discipline amid the current environment have been well received by the main rating agencies, all of which reaffirmed their ratings of Nemak in the period.

During the quarter, Net debt to EBITDA and Interest Coverage ratios were 4.0 times and 4.8 times, respectively. Excluding severance, these ratios would have been 3.6 and 5.2 times, respectively.

Regarding regional results, North America saw revenue and EBITDA of \$182 million and negative \$24 million, respectively, mainly on the volume reductions and severance, as explained before.

Europe recorded revenues of \$156 million and EBITDA negative \$16 million, also reflecting effects of plant shutdowns and severance.

Rest of the World was less affected than the other regions mainly due to the relatively stable operations in China, as revenues finished at \$65 million and EBITDA at \$3 million.

We plan to maintain a prudent approach to financial management in the weeks and months ahead, given the current coronavirus crisis and the still early stages of economy recovery we are experiencing in our sector.

We are confident that the efforts I have described will help us to ensure continuity in our business, while positioning ourselves for a sustained return to positive cash flow generation as we continue to ramp up production in the coming months.

With that, I conclude my comments, and we'll now open the call for Q&A. Operator, please instruct the participants on how to place their questions.

Operator

Thank you. Ladies and gentlemen, at this time, we will conduct a question-and-answer session. If you'd like to ask a question, press star, one on your telephone keypad. A confirmation tone will let you know that your question is in queue. To remove your question from the queue, press the star key, followed by the number two key on your telephone keypad. Once again, to ask a question, press star, followed by the number one key on your telephone keypad.

Our first question comes from Luis Yance with Compass. Please state your question.

Luis Yance

Hi guys, how are you? Hope you guys are staying safe. Two questions from my side. The first one is also on the cost savings data that you mentioned. If I could get a little bit more color in terms of how much of those \$125 million of savings that you mentioned would be permanent, even if we start seeing a gradual ramp-up how much of that will come back as naturally more volumes come in, just to get a sense how much is temporary and how much is permanent. Maybe a related question to that is on the one-time severance payments, whether we should expect to see some additional severance payments in the third quarter or most of them were already there.

That's my first question. Then the second question is related to your comment of lowering the breakeven by 20%, if I heard correctly from 60% to 40%. I was just wondering that, if we can translate that into going forward if we were to see volumes at 80% of pre-COVID levels, that means perhaps EBITDA could be back to pre-COVID levels because of those savings. Is that fair to assume? Thank you.

Alberto Sada

Luis, this is Alberto. Thanks for your question. Related to your first question related to the cost savings, as we highlighted, we were able to reduce our cost structure by \$125 million, and that is a combination of items, which we believe we're going to be able to keep at that level and other ones that would be variable

with cost. We expect that we should be able to keep around 60% of those fixed cost reductions, and between 40% to 45% should be variable to volume. In other words, we do expect a portion of these savings to remain going forward. As volumes will ramp up, hopefully, in the next quarters, those should be accretive to our margins, as we highlighted before.

The second part of your first question on severance, that severance that we booked in this quarter is the majority of what we are expecting to have. Obviously, we're observing the volume developments. If there is a further need to reduce cost structure, certainly, we'll keep an eye on that. But the majority has been booked for now. We just have a small portion that could materialize in the third quarter.

Then you have another question around the breakeven point, and I think that's a very important one because all these efforts of cost reductions really help us bring that breakeven level to levels that we have not seen before. Back, let's say, on normal times, we had expected our breakeven to be at around 6.5 million equivalent units. With this effect, we were able to reduce the breakeven point to about 4.5 million equivalent units.

The combination of this, together with what I just described on the cost savings being variable and fixed, should help us again achieve higher margins going forward as we are able to capitalize on volume increases more marginally than otherwise. At this point, it's hard to say that if volumes—to your specific, if volumes are going to come back at 80%, if that EBITDA is going to take us to pre-COVID but certainly—because that's going to be all volume related, but certainly our margins should be higher than before.

Luis Yance

Great. Thanks a lot for the color. If I may, one follow up on that. On the cost side, could you share with us what should we expect in terms of capex for the remainder of the year?

Armando Tamez

Yes. This is Armando. We are trying to reduce our cap ex, and our target is to reduce it in approximately between 20% to 25% of our original cap ex figures, which were about \$320 million. We are expecting to finish the year with approximately \$220 million, \$250 million in cap ex.

Luis Yance

Okay, great. Thanks a lot, guys.

Alberto Sada

Thank you.

Operator

Our next question comes from Andres Cardona with Citigroup. Please state your question. Mr. Cardona, your line is open.

Andres Cardona

Good morning, everyone. Sorry, I was on mute. Yes, I want to have a better understanding of the EBITDA on the second quarter. Can you provide detail on how much you will generate over each of the months, just to have a sense of how the recovery process is going? Thank you.

Alberto Sada

Yes, Andres. As we described, volume development on the quarter was the first two months, which were the months of April and May, most of the operations were in complete shutdown. Altogether, it was eight weeks of shutdowns that we experienced. Then gradually, at the last part of May, volumes ramped up to the levels that we just described of being up to about 75% of pre-COVID levels operations at our facilities by the end of the month.

EBITDA, as you may extrapolate, was lower on the first two months of the quarter and then positive on the last month of the quarter. Certainly, it's totally directed, linked to volume minus all the cost adjustments that we described, both the temporary and the permanent ones that helped us mitigate those effects on those first months. But certainly, it was very low EBITDA in the first two months and then with higher EBITDA on the month of June.

Andres Cardona

Okay. Thanks. Any chance you can put a number at least for June, how much was the EBITDA contribution in June?

Alberto Sada

Yes. I think it's—I mean, we'd rather keep it like that, Andres. Certainly, the effect of volumes have a very dramatic effect, both negative and positive. But we believe that the month of June was quite representative (audio interference)

Andres Cardona

Okay. Thank you.

Alberto Sada

Thank you.

Operator

Our next question comes from Alejandro Chavelas with Crédit Suisse. Please state your question.

Alejandro Chavelas

Hi gentlemen. Thanks for taking my question. I think it's just to get a little bit more of a sense of the volume trajectory for the upcoming quarters and for 2021.

Armando Tamez

Yes?

Alberto Sada

Yes. Well, Alejandro, as we described, I mean, we're observing the situation quite closely with our customers to see how the volumes develop. Certainly, we are seeing positive developments on the different regions where we play, as we highlighted already in the last month of the quarter. The industry in

the U.S. was operating at 25% below what, call it, below the last year figures of the month of June. Similar figures in Europe, and China was even higher than last year. Our expectation is hopefully for those figures to stay in a similar fashion going forward and gradually continue ramping up, adjusted for the regular cycles that the industry has for the summer months and the year-end.

We'll have to observe it. I think things are very fluid, and it's all going to be a subject of hopefully no further additional effects of shutdowns. Hopefully, we don't see any of those. If the virus can be contained as hopefully we could, we should be able to see volumes gradually recovering. But again, at this point, it's too early to tell to see how things would look like. Analysts are expecting adjustments on a full year basis, as Armando highlighted, between 20%, 25% on a global basis. Twenty percent on a global basis and then slightly higher in Europe and North America.

Alejandro Chavelas

Okay. Thank you very much. Just a follow-up question. I don't know if—I understand this situation is quite fluid, but looking towards 2021, we have been talking about the backlog for some time now, about the backlog for electric vehicles and hybrids. How much of a contribution perhaps in equivalent units do you think that (audio interference) roughly in the same levels they are today? How much of a contribution could we expect from this backlog of new products or new contracts going into 2021?

Armando Tamez

Alejandro, this is Armando. I think at this point in time, it's a little bit difficult for us to really project forward-looking volumes. We are talking to many different analysts, and they are projecting a potential recovery of the automotive industry for 2021. They are expecting, for instance, most of the analysts, a range, for instance, in the U.S. from today, where they are expecting that the volume will be in the range of about 12 million to 13 million, that in 2021 it's going to grow all the way to about 14 million to 15 million units. Similar case for Europe, and Asia is significantly more stable, especially in China.

I think for us, it's a little bit early to fully assess the penetration of electric vehicles during this current situation. However, we have seen a strong demand, especially in Europe for electric vehicles, a lot of hybrids in which we are very well positioned in both. We have, in our opinion, good expectations for additional growth in the following year. But I think as Alberto was indicating, at this stage, it's difficult for us to really make an assessment. I think for the next quarter, we should have a better picture that we could share.

Alejandro Chavelas

Okay. Thank you very much.

Alberto Sada

Thank you.

Operator

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

Marcelo Motta

Hi, and good morning, everyone. Thank you for the opportunity. The first question is somehow related to volumes. But when we see the OEMs reopening, do you guys feel that the mix of product is still the same

as before or have companies be changing to, let's say, more simple projects, cheaper type of projects rather than more complex projects? I'm just trying to understand how to think about the value added on the sales mix for NIM that should be geared to, let's say, cheaper type of products, simple geometry or if it could be more to high value added.

The second question regarding the covenant renegotiation. Was there any specific fee paid during this quarter? Will this increase cost of debt over time? How should we think about it on the impact on financial expenses?

Armando Tamez

Yes. Thank you, Marcelo. What we are seeing especially in the North America region, is that our customers are producing today significant quantities, very high volume in terms of SUVs and large pickup trucks. This segment is what our customers are giving the highest priority. For the following reason, I think customers are going after these products as well as probably you are aware, the GM experience and a strike that lasted 40 days. The inventories of this type of vehicles were depleted, so they are trying to go as fast as possible in this segment, which is reacting very positively. For us, it's great news because we are very well positioned with different engines. But certainly, for us, it's very attractive to produce these larger engines. As well, we are seeing a very competitive price of gasoline prices in the U.S. that a lot of customers are switching to bigger engines. We're seeing that as we speak, and we are very happy to see this reaction, which is very positive for our Company.

In the case of Europe, I think it's—we are not seeing a direct trend in any type of, let's say, segment. We are seeing that people continue buying, certainly at the lower pace than the previous crisis. But we are confident that we're very well positioned with a lot of the European customers.

In China, what I can tell you is that our plants are running at full capacity, and some of our customers are even asking us to consider the possibility of adding additional capacity. It seems that the—just to mention the last month, the volume in China on an annualized basis was above the previous year, which shows a full recovery in that region.

Alberto Sada

Marcelo, related to your second question on the covenant negotiations. Certainly, as also was highlighted, thanks to the good relationship we have with the banks with which we hold business, we were able to renegotiate and amend our credit agreements to give us flexibility to deal with the situation and gave us room on the leverage ratio, which was certainly going to be impacted by the EBITDA that we were expecting. All that came with fairly marginal cost increase, as I would say almost the same cost that we had before. The fee that we had to pay for that is already included in the financial expenses for the quarter, and the incremental cost going forward should be extremely marginal, almost the same.

Marcelo Motta

Perfect. Thank you very much.

Alberto Sada

Thank you.

Operator

Just a reminder to everyone, if you'd like to queue up for a question, press star, one on your telephone keypad. Press star, two to remove your question from the queue.

Our next question comes from Pedro Cardoso with Finantia. Please state your question. Mr. Cardoso, your line is open.

Pedro Cardoso

Hi, thank you. Good afternoon. Can you please provide an overview of the remaining access to committed lines? Are you working with banks in order to increase such lines? Thank you.

Alberto Sada

Yes. Pedro, if I understood correctly, because the line was a little noisy. You want to know the amount of credit lines available?

Pedro Cardoso

Yes, and whether you are working with banks in order to increase this line.

Alberto Sada

Yes. Yes, for sure. Yes. As I said before, I mean, we have very good relationship with a number of banks, and we have been working with a few of them to extend availability of funds. To that regard, we still have available lines. These are not the committed ones. The committed ones have been fully disbursed, but we still have noncommitted lines in the neighborhood between, if I recall correctly, somewhere in the \$70 million to \$80 million range. But we continue to discuss this with banks, and we are looking for alternatives to add additional amounts into that. For now, given the current cash position that we have, we are not in a need to tap additional credit, but those are to give us further flexibility going forward. But for now, we have a little bit more available. But again, with the cash position that we have, we believe we are very well covered.

Pedro Cardoso

Thank you.

Alberto Sada

Thank you.

Operator

Our next question comes from Alejandro Atar with GBM. Please state your question.

Alejandro Atar

Hi, good morning, Armando, Alberto, Adrian. Thank you for taking my questions. I just have three quick ones. The first one is, is it fair to say that your capacity utilization levels during June were around 75%?

The second one is related to your free cash flow and on your working capital. We see high working capital outflow mainly regarding payables. Could you give us more color on this?

The last one is related to your quotation pipeline in the structural and electric vehicle components business. At what level is it currently? And are you seeing an increase in this given all the stimulus we are seeing across the developed markets? Thank you.

Armando Tamez

Yes. Thank you, Alejandro. Good question or set of questions. The first, I think we were operating at the rate of about 75% of our, let's say, budget or guideline for this year. I believe that we were operating most likely at about maybe 50% of our existing capacity. We have a lot of open capacity. However, we have been able to reduce our fixed cost accordingly. The number that was mentioned related to the 75% was related to—compared to our guideline.

Alberto Sada

Alex, and related to the second part of your question on free cash flow, I think you are spot on, on the development of working capital. As we are seeing operation, let's say, reduced, there is a reduction in the amount of activity, and therefore, you see those imbalances of payables that they become due. As we gradually ramp up operations, those figures should be coming back up again to the original levels that we had on working capital. For that reason, you saw an increase in working capital mainly, also a little bit more of inventory that we held on hand to protect the relaunch of the operations that we have.

Armando Tamez

The last portion of your question, Alejandro, related to penetration of structural components and EVs, what I can tell you is that during this last quarter, we saw less activity from our customers related to growth (phon). Even some of the processes that they were following, they stopped them. The main focus of most of our customers, especially on the purchase and engineering and manufacturing activities, were related to how to restart safely, and so they put a hold in some of the quotations or the processes. However, we are seeing that there is a strong push for lightweighting. Certainly, we are very well positioned. We are very happy and very proud of the award that we received from the Volkswagen Group related for one of the platforms, which is for them the bread and butter. Actually, these electric components go into the Gold (phon), which is the bestselling vehicle that they have in the Volkswagen Group. We have also other models in the same platform, which is for us outstanding news.

We are definitely expecting that over the next few months, we will receive a significant number of additional quotes and requests for support. I think our position has proven to be very, very solid from the technical point of view, not only with the North American-based customers, but also with the European ones as well. The project that we just announced was for Asia. I think we have also positioned our Company very solid in related—or regards to these new components that are part of our diversification strategy.

We are very, let's say, happy to see that we are very well positioned and that we will see over the next few months a higher number of orders. We are confident that the target that we set several years ago to reach the \$1 billion revenue by 2022, I think we are in a good track now with about \$830 million already awarded to us and many different additional opportunities open for us.

Alejandro Atar

Okay. Just a quick follow-up on Alberto's. On working capital, it would be fair to think that you are going to get back some of the outflow loss during this quarter in the second half of the year, right?

Alberto Sada

Correct. Yes, yes. We expect that to re-stabilize as supplier balances will increase according to the increment in activity of the operations. Yes, the direct answer is, yes, we should expect positive working capital balance on the second half.

Alejandro Atar

Okay. Thank you very much and stay safe.

Operator

Our next question comes from Luis Yance with Compass. Please state your question.

Alberto Sada

Thank you.

Luis Yance

Hi guys. Just two follow-up questions. The first one is on capital allocation, and that's regarding your M&A appetite, buybacks and dividends. I understand everything might be on hold at the moment. But how should we think about that returning? Is there a particular trigger that we should be looking at, perhaps certain level of leverage, where you wouldn't be doing any of this? Once you get there, you might restart some of that? If so, which one of the three, dividends, buybacks and M&A, might come back earlier than the others? That's my first question.

Then a follow up on the rightsizing of the business that you mentioned and the fact that you mentioned that you're operating at 50% of your nameplate capacity. Hopefully, you start ramping up gradually. But I wonder, 50% is still quite low. I was wondering if you're thinking about potentially doing a much more structural rightsizing, perhaps shutting down plants more permanently combining output so that you lower your breakeven even further. Thank you.

Armando Tamez

Yes. Yes, Luis, thank you. Related to, first, on the capacity, you're absolutely right. On the M&A side, certainly, what we will do is our investment will be dedicated mainly to support the new business development that we are getting in the structural component side as well as electric. I think we have a lot of capacity open to support the conventional powertrain business. Our investment in that regard will be very marginal. Certainly, of course, we'll need to continue maintaining as always in the best shape our assets. Maintenance also is part of our cap ex.

Related to the—so we will allocate most of our capital in structural components as well as electric products. That's moving forward where we think that we will allocate our capital. Certainly, looking for products that are attractive with solid customers as well as parts that are complex that could convey nice margins and good returns for our Company.

On the M&A side, what I can tell you is the following. There is a lot of activity right now as we speak. That is related to companies that didn't do their homework and they are facing some financial issues. We have received already from several customers requests to take a look at some companies. As always, Nemak has been a Company that is prudent, especially in these particular times. We are certainly studying opportunities. But at this point in time, we don't have a particular target to be totally open with you. If a target comes at the right price and makes strategic and financial sense, absolutely, we will take a look. We think that we were operating below 2x leverage for the past 6.5 years, so we are confident that once

volumes recover to a certain level, not even at pre-crisis level, our leverage will substantially go back to previous levels.

We have that confidence based on the recently cost reductions that we are taking. We're very, very serious. I think we have a great team, the same team that we had in the 2008/2009 crisis. We are using our playbook, even with some new ideas that we're implementing that we are very confident that our Company will be very solid if the market recovers. Certainly, our profitability will return even to higher levels than before.

Again, on the M&A side, we will be willing to take a look. But as always, we are very selective on what companies we—and if the right one comes, absolutely, we will take a look.

Luis Yance

Great. Thank you. And how about buybacks? Could that be something that comes sooner than dividends? Or the liquidity of the stock could prevent you from being more aggressive on that front?

Armando Tamez

We have authorized by our shareholders assembly up to about MXN 2,500 million to potentially buy back shares. At this moment, I think we would like to keep our liquidity to navigate these difficult waters. But once things stabilize, certainly, we have that opportunity, and we will take a look.

Luis Yance

Great. Thank you very much.

Alberto Sada

Thank you.

Operator

Our next question comes from Augusto Ensiki with HSBC. Please state your question.

Augusto Ensiki

Hey, good afternoon gentlemen. Apologies if this has already been asked, I got disconnected. But could I ask about your breakeven—I'm sorry, not breakeven, the current cash burn? I think last quarter, you mentioned that, give or take, \$100 million per month, was it? If that is still the level that holds, if that's come down a bit or increase as it were?

Then secondly, a question on your headcount, following the rightsizing or severances of the past quarter. How quickly or what would you need to do to get back up to full production? Or how would that work exactly? Thank you.

Alberto Sada

Hi Augusto. Related to your first question on the breakeven and cash usage. I think that's what we mentioned, the amount of costs that we were able to take away from our system helped us bring that

breakeven point by 20 percentage points. From the 60% that we had originally to 40%, that's what we saw on the quarter.

As we said before, the cash burn was expected to be at about 100 per month while we were on the full shutdown. That's more or less how much we had. The month of June, it was a gradual operations restart, so there was also a little bit of cash consumption. But all in all, I think it is around the same level than what we had anticipated, and this is absent of the extraordinary expenses related to COVID. With this reduction in breakeven, we do expect that the cash burn could be reduced if we were to see similar effects. But certainly, what we're seeing going forward is our volumes to stabilize and gradually grow as we see demand from our customers increase in the next few months.

Augusto Ensiki

Okay. Then on the headcount issue, as a percentage of your workforce, could you tell us like how much that was reduced? Then how challenging is that to come back to full production?

Alberto Sada

Yes. Basically, the estimate that we have is to reduce approximately 20% of our total workforce. It's about 4,300 people that, unfortunately, we had to lay off and dismiss. We're in that process, and that's why we booked this \$38 million in severance. That's something that, unfortunately, we have to do to rightsize the cost structure according to the new market reality.

Augusto Ensiki

Thank you very much. I really appreciate it.

Alberto Sada

Thank you.

Operator

Our next question comes from Gabriel Camara with SMBC. Please state your question.

Gabriel Camara

Thank you, everyone. Thanks for the presentation. Thanks for the time. I just had a quick question. Have you seen any type of deterioration on your receivables or—I mean in terms of seeing increase in falling payments and especially from your smaller buyers? Thank you.

Alberto Sada

No. The direct answer is no, we haven't seen any change or deterioration of our receivables. We are, again, seeing that our customers fortunately are, in a way, much better situation than what they were in the 2008/2009 crisis. I mean, they are all with higher levels of liquidity than they had before and way lower leverage than what we saw at that time. None of our customers have had any issues to honor their receivable payments.

Gabriel Camara

Okay, great. Thank you.

Alberto Sada

You're welcome, Gabriel.

Operator

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

Adrian Althoff

Thank you, Operator. I would just like to thank everyone for participating in today's call, and please feel free to contact us if you have any follow-up questions or comments. Have a good day.

Armando Tamez

Thank you.

Operator

This concludes today's conference. All parties may disconnect. Have a good day.