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NEMAKA.MX - Q3 2017 Nemark SAB De CV Earnings Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to Nemark's Third Quarter 2017 Earnings Call. Armando Tamez, Nemark 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 our business and financial highlights. Alberto Sada, our CFO, will then discuss key industry trends and our third quarter 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. Nemark 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.



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Armando Tamez Martínez - Nemak, S. A. B. de C. V. - CEO

Thank you, Adrian. Hello, everyone, and welcome to Nemak's Third Quarter 2017 Conference Call. Our result this quarter came in close to our expectations, reflecting prevailing industry trends across the regions where we operate. On the one hand, volumes decreased in North America, mainly due to the lower industry demand associated with destocking. On the other hand, favorable industry conditions combined with new program launches and an improved sales mix to drive volumes and profitability in our Europe and Rest of World regions.

At the consolidated level, volume and EBITDA finished down 4.1% and 15.1 -- 15.9%, respectively, as lower volumes in North America more than offset higher volumes in our other regions. Meanwhile, revenues increased 3.4%, aided by higher aluminum prices passed on to our customers. These results notwithstanding, we closed the quarter on an upward trend, delivering progressively higher consolidated volumes over the latter half of the period on the back of new program ramp-ups across our main product lines. Moreover, with most of these new programs not yet at peak volume levels, we are well positioned to continue accelerating this cadence through the end of this year and into early 2018.

I am also pleased to share that we made good progress this quarter in growing our sales backlog, winning new programs across our regions worth a total of \$570 million in annual revenues. In turn, the total value of the contracts won so far in the year increased to close to \$700 million.

Our latest new business wins include our first-ever program to produce battery housings for a North American OEM, a milestone in our efforts to tap into the emerging market for electric vehicles in the region. In addition to reinforcing our competitive position in highly engineered electric vehicle components, this program will enable us to further leverage our technological capabilities at our facilities in the U.S., where we're already conducting test production runs for a BMW battery housing program scheduled to be launched next year.

At the same time, we made strides in laying the groundwork for future quoting opportunities in the structural and electric vehicle components, with our customers advancing with a number of co-development projects focused on lightweighting solutions for body and chassis applications. We are currently quoting new programs in the structural and electric vehicle components worth a total of approximately \$500 million in annual revenues.

Turning to the operations side of our structural and electric vehicle component businesses. This quarter, we'll start ramping up our first 2 production programs at our new high pressure die casting plant in Slovakia. This consists of a program to supply complex structural components for several premium SUV lines as well as a program to produce battery housings for Daimler. Additionally, we successfully completed the ramp-up of our first structural component program in Mexico, which, as we have mentioned in previous calls, is dedicated to supplying the Audi Q5.

Overall, we remain on track with the rollout of our sales backlog in the structural and electric vehicle components, which is currently worth a total of approximately \$300 million in annual revenues.

Lastly, I would like to touch on our Investors Day, which, as you may have already known, consisted of events in Mexico and New York on September 27 and 28, respectively. I would like to give a special thank you to everyone who joined us. We were grateful for the opportunity to speak directly with you about our company's short, medium and long-term prospects. For the benefit of those who were unable to attend, I would like to provide a brief recap of the key messages that we shared.

One, Nemak is well positioned to manage industry developments. In particular, our global reach provides exposure to different industry cycles. Our presence in most of our customer vehicle platforms reduces individual platform performance risk. And regarding NAFTA, key mitigating factors in the event of an unsuccessful NAFTA renegotiation include our large manufacturing presence in the U.S. and the fact that we are the only independent producer of cylinder heads and engine blocks in that country.

Two, industry megatrends represent a major business opportunity for Nemak rather than a threat. We expect that the combination of increasingly stringent environmental regulations and internal combustion engine advancements will continue to yield higher value-added opportunities in our base business. Additionally, vehicle lightweighting and electrification are opening up new promising avenues for increased aluminum content in vehicles.



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And three, Nemak has a clear long-term business strategy, positioning to deliver increasing sales and profitability in the coming years. We expect that our base business will continue to grow, mainly on the back of an increased aluminum penetration in engine blocks as well as on organic growth in emerging markets, particularly China. Moreover, we seek to drive additional value creation via in-house machining and operational efficiencies. At the same time, we are focused on capitalizing on expected market growth in hybrid and battery electric vehicles, increasing our content per vehicle through expanding our total portfolio to providing higher value-added solutions. With the support of a new dedicated organization, we are targeting approximately \$2.3 billion in annual revenues by 2025 in our structural and electric vehicle component businesses.

In summary, we are laying a solid foundation for capturing attractive growth opportunities across our main product lines and toward achieving our financial goals.

I will now hand over the call to Alberto Sada, Nemak's CFO.

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Thank you, Armando, and good morning, everyone. Let me start by sharing relevant industry data for our main regions, something that might help to better understand our results for the quarter.

In North America, vehicle sales SAAR showed a 2% reduction year-on-year, in line with the consensus of industry analysts. Vehicle production declined 8% year-on-year in the region as OEMs adjusted production to reduce inventory levels to historical averages.

On the contrary, in Europe, the market was strong overall. Vehicle sales and production grew 4% and 5.4%, respectively, year-on-year as both the Eastern and Western areas reported growth.

Our volumes were 11.7 million equivalent units, a 4.1% decline year-on-year, mainly due to the production adjustments previously explained. Despite the decline in sales volumes, we reported quarterly revenues of \$1.1 billion, a year-on-year increase of 3.4%. This difference was a result of higher aluminum prices, which, as we have indicated in previous calls, are passed on to our customers through agreed formulas.

We reported consolidated operating income of \$66 million, 35.9% lower than the year-ago figure. The overall volume reduction already explained accounted for \$19 million or 2/3 of the total absolute decline year-on-year. Another factor affecting operating income was incremental launching expenses associated with new platforms, particularly in Europe and North America. This quarter, we reported close to \$5 million for this line item. Lastly, we reported a negative metal price lag in the amount of \$3 million as aluminum prices rose sequentially compared to the second quarter.

Reflecting the reduction in operating income, EBITDA finished at \$153 million. This is 15.9% lower than third quarter '16. In turn, EBITDA margin and EBITDA per equivalent unit were also lower than a year ago. EBITDA margin was 13.9% compared to 17.1% in 3Q '16. And EBITDA per unit was \$13.1, which compares to \$14.9 a year ago. Despite the decrease in EBITDA, our year-to-date free cash flow was \$46 million better than last year, which speaks well of our capacity to prudently manage outflows, such as working capital and capital expenditures, under challenging industry conditions.

Net income amounted to \$11 million. That is an 81% decline over third quarter '16. The main factors were: the reduction of operating income, which I already mentioned; foreign exchange fluctuations, in particular the appreciation of the euro against the dollar, which increased the dollar value of our euro-denominated debt; plus higher interest expenses.

Next, I would like to touch on our CapEx program. In third quarter '17, we invested \$93 million, continuing our efforts to optimize capital expenditures while adding capacity across our regions and product lines to support new program launches.

Now let me cover our regional results. As mentioned before, the North America auto industry reported lower year-on-year figures for both sales and production. In particular, General Motors adjusted production to reduce inventories. Ford reduced production of passenger cars in response to market demand. And FCA continued to see a high year-on-year comparison stemming from their cancellation of their small and midsize vehicle lines. Altogether, this translated into a volume reduction of 10.5% year-on-year in that region. As a result of the above, 3 quarter (sic) [third quarter]



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'17 North America revenues decreased 4.9%, with higher aluminum prices partly compensating volume reduction. EBITDA for the quarter was \$90 million. This is 26.8% lower than last year. The lower volumes just described explain the majority of the deviation, and depreciation of the peso against the dollar plus metal lags explains the rest.

Turning to Europe. We benefited from strength of the market and the launching of new programs to report a 5.9% increase in volumes. On top of that, higher selling prices allowed us to obtain an 11.2% increase in revenues. Altogether, these positive factors outweighed negative metal lag and increased launching expenses, driving EBITDA growth of 6.3% year-on-year.

We also saw a positive trend in our Rest of World operations in the same quarter. In China, we continue to ramp up production of recently launched programs. While in Brazil, the industry showed signs of improvement. On a year-over-year basis, Rest of the World volumes and revenues grew 8.3% and 29.7%, respectively. In turn, EBITDA was 20% or \$2 million higher than a year ago. This region continues to deliver a good performance as had been the case throughout the year.

And with that, I would like to open the call for your questions. Operator, please instruct the participants on how to place their questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alexandre Falcao with HSBC.

Alexandre Pfrimer Falcao - HSBC, Research Division - SVP

Just on EBITDA per unit. When you break it down for regions, the fall on the U.S. division was north of 20%. I just wanted to check, was all this metal lag? Is this -- it seems to me that this is particularly weak for the U.S. specifically. So if that's the case, when can we expect this to come back? Or if -- and into what levels now would we expect this to come back? If it's only metal lag, are we going to see the same sort of strength going forward? That's the first question. The second question is regarding the contracts that you guys won. Out of the \$570 million in revenues, how much of that is focused on EVs and battery housing and how much are the rest?

Alberto Sada Medina - Nemak, S. A. B. de C. V. - CFO

Okay. Alex, let me first explain or give an answer to the first part of the question. I think, as you correctly pointed out, this quarter particularly was lower in terms of volume for our operations in North America. And the reason why we see a slightly higher effect on volume is because most of that impact was in our operations in Mexico, which, as you know, have a little bit higher margin than the ones in the U.S. So that explains the volume effect, close to 75% of the EBITDA reduction for that region. The remaining is a combination of launching and metal lag. And metal lag is slightly less than net launching of that difference. So metal lag was not as high the impact in this quarter as we have seen in previous quarters. So rather, that should be stabilizing, though we're seeing some aluminum slightly increasing in the last 5 to 6 weeks. So we're still expecting to see a little bit of effect, but to a lesser extent of what we saw in the first half of the year.

Armando Tamez Martínez - Nemak, S. A. B. de C. V. - CEO

Yes. Alexandre, related to the new contracts, we were able to capture this quarter \$570 million to almost reach about \$700 million in new contracts this year. A significant portion of these have been on the base business, which is the powertrain. We just got, as we indicated, a new contract this year with a new OEM for North America for an electric housing that we will be producing. But most of the business was for the conventional powertrain business that we have already indicated.



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Operator

Our next question comes from the line of Fernando Sánchez with UBS.

Fernando Sánchez

Two questions from my side. The first one is regarding the volumes falling in North America. So your clients' volumes fell like around 7% and yours fell 10.5%. So I just want to understand why this gap is being generated within your volumes. And the second question is regarding your medium-term view in the automotive industry in the U.S. Are we on a peak on this 17 million or could there be more growth? And how would that translate in terms of your sales volume in 2018 and 2019?

Alberto Sada Medina - Nemark, S. A. B. de C. V. - CFO

Yes, Fernando. Thanks for your question. This is Alberto. Yes, related to your question around the volume decline in the industry in North America versus our decline, yes, we saw production being reduced about 8% from our customers, but our volume was slightly less -- or we had a slightly higher reduction to about 10.5%. And that is explained by 2 aspects. The first one is, we saw General Motors reducing production to reduce inventory levels, but we also saw some reduction on Ford -- or we continue seeing reduction on Ford's I4 small vehicle applications, together with a little bit of effect of the FCA cancellation of their small and midsize vehicles. So altogether, that explains the, let's say, the difference of volumes versus what we had last year, but are slightly higher than the industry because of the last 2 effects of Ford and FCA.

Armando Tamez Martínez - Nemark, S. A. B. de C. V. - CEO

Fernando, the second part of your question related to volumes in the next few years. What we indicated in the Nemark Investor Day is that basically for North America, we are seeing 2018 and 2019, and those are numbers provided by IHS, a flat industry. We are not expecting that the industry will grow. It is expected that it will continue at approximately a little bit shy of 17 million sales in the U.S. and the production a little bit higher than that. About 17 million units is expected for the next couple of years. Not a major decline is expected for the next 3, 4 years in North America, according to IHS. For Europe, what we indicated is that we're expecting a growth of approximately 1.5% over the next 3, 4 years. However, our volumes are increasing higher than the industry in that region as we have already indicated in our report. And for China, it is expected that China will continue growing at a pace of about 2% to 3% for the next few years. And similar to what we are doing in Europe, our volumes are increasing at a much faster pace than the industry in that particular region.

Operator

Our next question comes from the line of Vanessa Quiroga with Crédit Suisse.

Vanessa Quiroga - Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil

My question is regarding the declining margins year-over-year. Is it possible for you to quantify specifically how much of the decline came from the metal lag? And also if you can quantify how much was spent in new program launches in the quarter so that we can see more better what was the -- what would be the recurring or adjusted margin.

Alberto Sada Medina - Nemark, S. A. B. de C. V. - CFO

Sure, Vanessa. This is Alberto. Yes, the majority of the difference on EBITDA was associated with volume. Volume represented an effect of around 70% or \$19 million for the quarter when we compare that versus last year. The next effect was launching expenses which accounted for about \$5 million. And that is, let's say, nonrecurring launching expenses of the new programs that we're launching, both in North America and Europe. And



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in this quarter, metal lag was not as high as in previous ones. The effect of metal lag was around \$3 million. So those are, let's say, the 3 major items that explain the EBITDA deviation versus last year.

Vanessa Quiroga - *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

Okay. It's interesting what you mentioned about the volumes in that -- I mean, a lot of the decline came from Mexican plants. Do you think this situation will continue? So we are talking about a different level of margin per unit that we should look ahead?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes. And no, no, I think this is in particular for the effect that we saw from General Motors, as we're doing a lot of GM's production at our plants in Mexico. And given that they were, let's say, the ones that reduced production to level their inventories to average historical averages, it was, let's say, an effect that we are seeing only in this quarter. But we don't expect that situation to continue at our plants in Mexico. That should eventually level out in the next quarters and next year.

Operator

Our next question comes from the line of Luis Miranda with Santander.

Luis Miranda Valenzuela - *Santander Investment Securities Inc., Research Division - Head of Food and Beverage*

A couple of follow-ups. The first one is in North America. Armando, you were mentioning that you believe that GM should level out in the next couple of quarters. I just want to have -- if you have some visibility in the third quarter -- sorry, in the fourth quarter, if we could start to see some improvement in GM and Ford in the next quarter? And if we still have an impact of Fiat Chrysler in the C200 and the Dart in the fourth quarter or that should be phasing out in the -- relatively soon? And my second question is regarding with the backlog on the third quarter. Can you just help us understand how much of that was organic and how much is replacing of current contract?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes, Luis. Certainly, as Alberto indicated, we saw some decline in volumes during the third quarter. I think it was already explained that we saw some reduction, especially GM made some announcement to shut down several plants, 5 actually, 5 assembly plants in the U.S. and Mexico to compensate for the, let's say, high inventories, to level those off. Ford also is switching for -- from passenger cars to SUVs, and that also have some effect. What we are seeing is a strong fourth quarter. It is mainly a result of now that their customers are requesting higher volumes. It has some effect also due to the recent hurricanes in the Houston area as well as Florida. We are seeing a little bit an increase in demand as well as more stable inventory levels from our customers. Related to the programs that we have been already awarded, we will say that approximately 1/3 of the total \$700 million is incremental volume and about 2/3 is replacement business.

Luis Miranda Valenzuela - *Santander Investment Securities Inc., Research Division - Head of Food and Beverage*

Perfect. Just in terms of Chrysler, fourth quarter should continue to be affected with the phaseout of Dart and the C200? Or is this over?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

I think it's already discounted.



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Luis Miranda Valenzuela - *Santander Investment Securities Inc., Research Division - Head of Food and Beverage*

I mean, on a year-over-year.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes, it's already discounted. We don't see a major effect. As we speak, we are also seeing other programs from FCA running very strong. Especially on the Pentastar, the volume, we are running almost at capacity. So I think this is very positive.

Operator

Our next question comes from the line of Valentín Mendoza with Banorte.

Valentín III Mendoza Balderas - *Casa de Bolsa Banorte Ixe, S.A. de C.V., Research Division - Research Analyst*

I have a couple. The first one is related to your guidance for 2017. I was wondering if you could share your reasons or the main drivers for an EBITDA of around \$200 million in the fourth quarter given that IHS is estimating a decline in the production of around 3% in NAFTA; GM is expected to fall, according to IHS, 18%; at Ford, 1%; and FCA, 7%. And the second one has to do with the launching expenses. I was wondering if you could give us some color on your expectation in the coming quarter for this. I mean, should we expect further impact in your results in the coming quarters?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Valentín, related to our guidance, we are sticking to our guidance of \$750 million in EBITDA for the year and we are expecting a stronger fourth quarter. And this is related to some of the releases that we are receiving from customers in which we are seeing strong volumes as well as, as we indicated already, the ramp-up of new programs that we are currently developing. And those are already, let's say, expected to have higher volumes during this quarter. So we are, again, ratifying our revenues of about \$4.4 billion as well as \$750 million in EBITDA for the year.

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

And Valentín, related to the -- this is Alberto -- to the question on launching expenses, those are extraordinary expenses that we sometimes incur when we are developing our projects. And depending on variations of the launching curves of the volume of our customers, those may be higher or lower. We don't expect more incremental launching expenses in fourth quarter, though we do still have some launching programs that will have a contribution in 2018. But I think this was an unusually high level of launching expenses that we don't expect to be recurrent.

Valentín III Mendoza Balderas - *Casa de Bolsa Banorte Ixe, S.A. de C.V., Research Division - Research Analyst*

Just a final question, just to confirm, the bases will be -- finally become comparable with the FCA effect in the fourth quarter, right?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes. Yes. Actually, this quarter was already very small. It was less than 10% of the volume deviation.

Operator

Our next question comes from the line of Pablo Carrillo with BBVA.



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Pablo Carrillo

Most of my questions have already been answered. I just didn't really catch when you were talking about the backlog. I was wondering if you could just repeat the number real quick.

Armando Tamez Martínez - Nemak, S. A. B. de C. V. - CEO

Yes. As I already indicated that what we have already been contracted this year is about approximately \$700 million in new programs. And as I indicated, about 1/3 of that amount is incremental business and 2/3 is replacement business.

Operator

Our next question comes from the line of Erik McKee with Lazard.

Erik McKee - Lazard Asset Management LLC - Director, SVP, Portfolio Manager, and Analyst

So first, just thinking about the metal price lag. If you compare your ASP increases relative to what's happened to aluminum prices, I mean, it's not even close. So is there more pricing to show up in the fourth quarter? When do we expect to see that? Is there more lag effect next year? That's my first question.

Alberto Sada Medina - Nemak, S. A. B. de C. V. - CFO

Yes, Erik. Yes, related to metal, we saw a little bit of that effect in the third quarter. And as I was saying, aluminum metal prices also increased in the last 4 or 5 weeks, but having stable at the level that they reach at that time. So we may expect a little bit of an effect in the fourth quarter. And for the next year, it's really hard to see what's going to happen with the development of the aluminum prices. What we are listening from industry experts is that this may be the highest point, but we're not sure about that. And also we will keep observation of how that develops. But essentially, at this point, if the aluminum prices stay at the same level, we should see no little -- no effect or only very small marginal effect next year in particular in the first quarter.

Erik McKee - Lazard Asset Management LLC - Director, SVP, Portfolio Manager, and Analyst

Okay. And with regard to the startup expenses you were speaking of before, the \$5 million. Does that fall under S&A expense or is it under COGS? Where does that number fall?

Alberto Sada Medina - Nemak, S. A. B. de C. V. - CFO

A little bit on both, about half and half.

Erik McKee - Lazard Asset Management LLC - Director, SVP, Portfolio Manager, and Analyst

Okay. And then just finally, you had a very high tax rate last quarter. Is there -- actually, it seems like it happened last year as well in 3Q. What's that about? And is it going to normalize and to where?



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Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Well, actually, what has an effect on taxes is the implication of foreign exchange movement. And as you saw, there are effects as we recognize on our U.S. -- on our accounting numbers the difference of certain balance sheet elements as they move -- when we translate into dollars, especially from our euro-denominated assets and liabilities. So that generates movement in the profit for tax purposes. So that's why you see an unusually high or low number. It most of the time has to do with the foreign exchange movement. But we essentially see on an average basis for the year similar figures, maybe slightly higher than last year, but really marginal, pretty much on the same levels.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Erik, just to -- coming back to the metal lag. I think it's important for everybody to understand that this year, we have had a very unusual metal price increase. When we started the year, the metal price on a per ton basis was about USD 1,600. Now it's about USD 2,150, which represents an aluminum price increase of 34%, something that we have not seen in several years. And coming to your question, we have been talking to analysts that are tracking different commodities. They expect that this will stabilize. But again, as Alberto indicated, very difficult to really predict how commodities will behave. But that certainly -- that increase in prices, we are not able yet to capture even though we have a metal formula in which eventually we will be able to capture, let's say, what we have already so far in terms of this metal lag.

Erik McKee - *Lazard Asset Management LLC - Director, SVP, Portfolio Manager, and Analyst*

Yes, I mean, that was my question because you haven't seen anything close to a 20% hike in your ASPs, which would be -- which you would need to put through, assuming you are able to actually pass through the aluminum price. So either you have a very sharp 4Q ASP hike or you have a little bit more in 4Q and some more next year. But that was my thought.

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes, depending on the contracts and the customers, those pass-through contract arrangements have a lag between 2 months, plus/minus. So depending on the adjustments on those, plus we have slightly different indicators in Europe as we have in North America. Some of them are LME-related. The other ones are Platts-related. So there may be some differences that may give you a slight imperfection on that 2-month period. But essentially, eventually, we'll recover some of those and part of that happens in the fourth quarter.

Operator

Our next question comes from the line of Christian Landi with Scotiabank.

Christian C. Landi - *Scotiabank Global Banking and Markets, Research Division - Deputy Director of Metals & Mining and Associate*

My questions have been actually already answered. I just didn't know how to unqueue.

Operator

Our next question comes from the line of Till Moewes with Schroders.

Till Moewes

Your leverage ticked up a bit this quarter to 1.9x and I just wanted to know if you have an update on the timing when you expect to reach the 1.5x leverage target. I think your next call date's at the end of February next year in 2019. And do you think that you'll arrive 2019 or '18 or about when?



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Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes. The expectation for the end of the year is essentially to be at very similar levels as what we had last year, maybe with a slight effect on the devaluation or the appreciation of the euro on our debt. That has a small contribution. So we expect within -- yes, within next year to be close to that level. I think this year, we should be ending up at around 1.7x or slightly less than that. And eventually, with the cash flow generation and the EBITDA increases, we should be able to get closer to the 1.5x by next year.

Till Moewes

Okay. And your target is still to call the bonds once you have investment grade, is that correct?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Well, that, I think, it's subject to be reviewed. I think we continuously analyze the different opportunities we have to optimize our financial cost. So if the leverage ratio continues moving in that direction and if we have opportunities to improve our debt cost, we will definitely look for ways to do that. But at this point, we are analyzing. But obviously, we have to see how market conditions behave and the different options that we may end up having.

Operator

(Operator Instructions) Our next question comes from the line of Alejandro Azar with GBM.

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

Most of my questions have already been answered. I just have a quick follow-up regarding your backlog on the structural and EV business. With the new contract you mentioned during the quarter, how much would that be on your backlog? I remember that you already had around \$300 million for this type of components.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes. Well, certainly, it is -- the \$300 million does include the additional contract that we just announced, which is for an electric housing for a North American OEM. And this is what we have and combine with electric vehicle components as well as the structural components.

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

And one more if I may. You mentioned that you were expecting to maintain your \$750 million EBITDA guidance for the entire year on the back of new programs. Would you specify in which regions would we see the incremental ones for the fourth quarter?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes, for the fourth quarter, we're expecting that in North America, certainly, we will have, let's say, higher volumes than we have in quarter #3 and also we're expecting higher volumes as well as in other regions, strong volumes in Europe as well as in China.



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Operator

Our next question comes from the line of Augusto Ensiki with HSBC.

Augusto Akihito Ensiki - HSBC, Research Division - Latin America Analyst

Two questions regarding the FX line. We've seen that FX take a loss kind of when the peso goes down. We've also seen a loss when the peso goes up. Just how should we treat that line going forward? And secondly, kind of getting into the tax line again as a follow-up to Erik's question. You're saying we should look for something kind of similar to last year. So is that, just to confirm, in the 25% to 30% range?

Alberto Sada Medina - Nemak, S. A. B. de C. V. - CFO

Yes, Augusto. On the FX line, that has to do mostly with the development of both the dollar-peso exchange rate as well as the euro-peso exchange rate. So fluctuations between the 2 will generate either losses or gains that would be reflected to the income statement on that foreign exchange loss/gain line that you see on the income statement. So it goes, obviously, depending on where the currency closes on the end of the quarter. That's when we do those calculations and make those adjustments according to the Mexican accounting -- according to our standards that we follow. So depending on how the currency moves, we should be seeing that number going up and down. If the currency stays more or less the same, we should see relatively low impact on the FX line. And going back to the taxes, yes, those are average levels that we have seen in the past. So we don't expect to see any major change on the effective tax rate for -- that applies for our financials.

Augusto Akihito Ensiki - HSBC, Research Division - Latin America Analyst

And so then the FX moves, I mean, that's all -- that's all noncash, right?

Alberto Sada Medina - Nemak, S. A. B. de C. V. - CFO

The FX moves so, let's say, the accounting adjustments due to those foreign exchange movements because remember that our, let's say, assets and liabilities in Europe mostly are euro-denominated. Most of our assets as well are U.S. dollar-denominated; part of our cost is pesos. So at the end, when we do the translation for pesos when we report to the Mexico Stock Exchange and our financial figures, then we need to translate those exchange rate movements into our income statement through that line.

Augusto Akihito Ensiki - HSBC, Research Division - Latin America Analyst

Okay. And one last question, regarding the structural components. Could you give us how much revenue, EBITDA and volume were structural components this quarter?

Armando Tamez Martínez - Nemak, S. A. B. de C. V. - CEO

Yes. It's in the range of about USD 100 million in revenues. This is where, as we told you, we're ramping up these new programs.

Alberto Sada Medina - Nemak, S. A. B. de C. V. - CFO

And that is for the year.



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Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes.

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

For the full year. That can be low, high. We're seeing higher numbers in the third and fourth quarters for both.

Operator

Our next question comes from the line of Pedro Cardoso with Banco Finantia.

Pedro Cardoso

Could you please give some color on possible effects of a down scenario in the NAFTA negotiations and the withdrawal of the U.S. from NAFTA and how you could deal with the situation?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes, Pedro, we have already explained that we don't expect a major impact on Nemak regardless of any type of agreement or even if they walk away and don't reach any agreement of NAFTA. And let me tell you why. First of all, in the event that U.S. decides to -- or the negotiators walk from the table, we have information that the rules of the WTO, of the World Trade Organization, will apply to auto parts. In this particular case, the duty or tax on Mexican parts going to the U.S. will be approximately 2.5% in taxes. So we don't expect that again to be a major roadblock. We also indicated on our supplier day, or Investor Day, I should say, that in 90% of the products that we sell in Mexico to U.S. customers for export, the customers manage the transportation and logistic for these products. So we will not have to pay for that in the event that this happens. In addition, I think it's important to remind everybody that Nemak has 5 plants in the U.S. that produces aluminum cylinder heads and engine blocks. We certainly are getting today more requests for quotes for these plants from certain customers. We are seeing a lot of activity related to that. And in addition, we are the only independent supplier that has plants that produces heads and blocks in the U.S. as well as in Canada. So with that regard, we don't see a major effect, if any, related to the potential, let's say, NAFTA issues.

Operator

Our next question comes from the line of Jose Vazquez with GBM.

Jose Vazquez

My question is, the -- for the cumulative year, we've seen that the EBITDA per unit in euro is down 11%. Would this be due to the metal price lag, on FX, or which are the key issues here?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Your question is specifically for Europe or overall?

Jose Vazquez

Yes, for Europe.



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Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes, no. In Europe, we have seen a couple of aspects. The exchange rate doesn't have an effect because, as you know, we're selling and we have all our fixed cost -- all our cost structure and revenues in the same currency, so that doesn't translate into an issue. The majority of the effect has to do with metal lag and a portion of the launching expenses that we just discussed.

Operator

Our next question is a follow-up question from Erik McKee with Lazard.

Erik McKee - *Lazard Asset Management LLC - Director, SVP, Portfolio Manager, and Analyst*

Just looking at, again, at your ASPs. North American ASPs are consistently lower than Europe or Rest of the World in some occasions. Is this just sort of a mix impact of products that you sell in the U.S.? And should we expect this to narrow over time?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

When you say, Erik, ASP, you mean average sales price?

Erik McKee - *Lazard Asset Management LLC - Director, SVP, Portfolio Manager, and Analyst*

Yes.

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes, no. Eventually, I mean, the prices on average move up and down depending on the mix. So to be honest, I don't have an answer yet to explain to you exactly what are the explanations we have for such a difference. But at the end, everything is a result of that mix changes that happens. And it depends on the type of products that are being sold, or also it has an effect of metal and the like. So we'll have to check into the details to explain those change in mixes, but that certainly is not an issue that impacts profitability. Because there are products which are less -- with less weight and more weight that have, at the end, an effect on the average price. And if you recall, the reason why we don't report EBITDA margins or anything related to sales, we do that more on volumes and EBITDA per part, is because in regards of the weight and potential total price, the margin is, at the end, a result of the value added and the type of product and complexity, not necessarily weight and therefore corresponding total price.

Operator

Our next question comes from the line of Alejandro Azar with GBM.

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

I'm sorry for the question -- for the follow-up. You mentioned the tariff from the WTO, the 2.5%. What can you comment about the related Chicken Tax on the pickups, that said 25% tax that the U.S. imposes on foreign pickup trucks? What can you say about that on the industry? How is your exposure on the pickup trucks in the U.S., especially on the ones manufactured in Mexico?



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Armando Tamez Martínez - Nemak, S. A. B. de C. V. - CEO

Yes. Well, certainly, we sell to Mexican engine plants as well as plants located in the U.S. So in the event that they impose this 25% on trucks, certainly, our customers will have to pay for that. And at the end, they will have to try to recover that with the end consumer. We will not expect that we will be affected or that we will have to pay for this type of tax because we don't make the exportation of the vehicles. We sell the products at the customer plant, either in Mexico, the U.S. or Canada, and they take care of any additional potential taxes or duties that they will impose on vehicles. That's why we're only referring to the part that we manufacture. And as I indicated and ratified, in the event that they are not able to get an agreement, what we are seeing is that we will have a maximum exposure to up to 2.5% duties on the products. And I want to repeat again that in 90% of the products that we sell, we sell free on board at our facilities in Mexico. So our customers are making all the logistics and transportation of these products to their engine plants in the U.S.

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.

Adrian Althoff

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

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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