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NEMAKA.MX - Q3 2016 Nemak SAB De CV Earnings Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to Nemak's third-quarter 2016 earnings call. Armando Tamez, Nemak's CEO, and Alberto Sada, CFO, and Maximilian Zimmermann, Investor Relations, 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 would now like to turn the call over to Maximilian Zimmermann. Please go ahead.

Maximilian Zimmermann - *Nemak SAB De CV - IR Manager*

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 those 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 - *Nemak SAB De CV - CEO*

Thank you, Max. Hello everyone and welcome to Nemak's third-quarter 2016 results conference call.

I would like to start off with an update on our planned acquisition of Cevher, a supplier of complex aluminum and automotive castings based in Turkey. Since signing an agreement to acquire the company this past August, we have been focused on securing the required regulatory approvals and arranging the closing of the transaction.

Today I am pleased to share that the process is moving along on schedule and we expect to close before the end of this month. We are confident that the acquisition will create value and advance our growth plans particularly in Europe where we expect it will bring three main benefits to our existing footprint and our overall competitive position in the region.

First, we are operating near capacity in Europe and this gives us access to more capacity thereby enabling us to meet projected increases in demand from our customers. Second, it makes our cost structure in Europe more competitive. And third, integrating Cevher's resources and know-how into our system will serve to further reinforce our relationship with premium automakers in the region.

Turning to the quarter, we saw EBITDA down 6% mainly due to the one-off impact of metal price lag. As you may recall, falling aluminum prices in the third quarter of last year created a tailwind for us in the form of a positive metal price lag making for a tough comparable. Additionally, rising aluminum prices this quarter translated into negative metal price lag affecting our profitability.

Volumes also had an impact in the quarter but to a lesser extent. Our lower volumes in North America were mainly due to the effects of (inaudible) from FCA's decision to scale down its (inaudible) platforms, more than offset higher volumes in Europe and rest of world by a narrow margin.

I want to emphasize that our EBITDA results for the quarter were in line with our annual guidance. We have already built into our forecast for the year the assumptions that the benefits we will receive from positive metal price lag last year will not recur this year.

Meanwhile, revenues decreased 3% mainly due to lower year-over-year aluminum prices. Please keep in mind that the pass-through agreements we have with our customers protect our bottom-line from the effects of changes in aluminum prices excluding any temporary effects of metal price lag.

Moving on to CapEx, as we have mentioned in previous conference calls, one of the main focuses over the past few years has been to execute new capital investments to keep up with growing industry demand and to further enhance our R&D and manufacturing footprint. I want to start with Europe where our priorities have been to continue with capacity expansions as well as the ramp up of our structural components business.

During the quarter, we continued to invest in further development of our technological capabilities at our product development center in Poland where we are providing support for the launches of full structural component programs currently in our pipeline. In addition, we advance with the construction of a new plant in Slovakia where we will be producing structural components beginning in the second half of next year.

I also want to touch on Mexico where the main highlights have been the construction of a new materials center and a new high pressure die casting plant and I am pleased to share that we began operating the materials center just this past September, a milestone in our efforts to provide more value added services to our consumers and we remain on track to integrate the high pressure die casting plant before the end of this year.

With (inaudible) increasing production to Mexico from all around the world, these investments will put us in an even better position to capitalize on future industry growth. Kia models and Audi are both good examples of how Nemak can benefit from this strength. Kia opened a new engine and vehicle assembly plant in Monterrey just this past September and we are currently ramping up several new programs to supply them with cylinder heads. Also in September, Audi launched a new vehicle assembly plant in Puebla, which we will be supplying with structural components out of the new high pressure die casting plant starting in the first half of next year.

I would now like to move on to our volume performance in terms of our regions. As I mentioned before, we have seen slower volumes in North America so far this year mainly due to the impact of LCA's decision to scale down their midsized sedan lines not as a result of industry deceleration.

I also want to emphasize that given our global footprint we see ourselves as well positioned to balance growth across the world's largest and fastest-growing automotive markets going forward. In particular, we expect our presence in Europe and Asia where we see solid fundamentals of continued market growth to further support volumes and profitability.

I would now like to say a few words about the structural components. With most of our backlog of programs to produce structural components scheduled to reach [series] production in the next 12 to 18 months, we are highly focused as an organization on continuing to strengthen our capabilities to produce these components. A key example of this effort has been our team based in Munich, Germany where we are developing an operation dedicated to performing high-value added secondary processes including heat treatment, strengthening and machining on the structural components for the BMW 7 series. We have been ramping up these operations in the first half of this year and it is expected to reach full volume by the end of this year.

The knowhow we are gaining from this work will be applicable across our structural components business and will position us to further strengthen our relationship with customers.

In addition to representing a natural [outlook] of our work to help customers reduce CO2 emissions and improve the fuel efficiency of their vehicles, we see these structural components as a bridge to the growing market for electric vehicles. Not only do electric vehicles require structural components made out of aluminum to maximize (inaudible) efficiency, but there is considerable overlap between the technical capabilities required to produce aluminum structural components and those required for the production of components used in electric vehicles.

In particular, we believe that we are well-positioned to compete for new business in complex e-drive applications, battery housings and in motor components.

Given that across the board our customers have the scale of (inaudible) new investments in technologies and applications for electric vehicles, we are planning accordingly and working harder than ever to capitalize on new business opportunities in this segment. I am pleased to share that these efforts are starting to pay off as we won an important new contract this quarter to produce 100% of the battery housing for a new hybrid vehicle platform for BMW for the North American market.

At the global level this quarter we won new contracts to produce cylinder heads, engine blocks and electric vehicle components for a total of $200 million in annual revenue, approximately half of which represents incremental business. For the last nine months we have won new contracts across our business lines worth a total of $650 million in annual revenues with half of that total representing incremental deals.

I would now like to highlight our efforts to develop and leverage technological innovations. I am pleased to share that this past September we were recognized by BMW as one of its most innovative global suppliers. The automaker cited Nemak's use of proprietary Rotacast and Sand Package technologies to drive waste reduction and efficiency improvements in vehicles.

To conclude, I want to share that last week the rating agency Moody's raised our outlook from a stable to positive citing our strong credit metrics and high profitability among other factors. Our rating was affirmed at Ba1 which is one notch below investment grade.

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

Alberto Sada - *Nemak SAB De CV - CFO*

Thank you, Armando. Good morning, everyone. Let me start by sharing relevant industry data that sheds light on our results. During the third quarter of 2016, the seasonally adjusted annual rate for vehicle sales in the US decreased 1% from a strong third quarter of 2015. Meanwhile North America vehicle production and Nemak customer's vehicle production were flat. Nemak customers continued benefiting from consumers preference for large pickups and SUVs.

In Europe, vehicle sales SAAR in third-quarter 2016 was up 2% compared to the third quarter of last year as higher volumes in Western Europe compensated for lower volumes in Eastern Europe. In contrast, vehicle production in Europe decreased 2% from third quarter 2015 and Nemak's customers production decreased 3% in the region. The decrease in production was mainly due to the slowdown of some of our customer platforms, mainly [geared] to exports.

Now let me move on to discuss our results. Volume in the quarter was 12.2 million equivalent units, a 2% decrease from the same quarter of last year mainly due to the lower volumes experienced in North America which were partly offset by higher volumes in Europe and the rest of the world.

I will now turn on to our financials. Revenues were $1.1 billion, 3% below the same quarter of last year primarily due to lower aluminum prices combined with lower volumes. Aluminum prices decreased 6% in this period translating into a negative revenue effect of approximately $19 million. It is important to highlight that as Armando mentioned, we have a passthrough of aluminum prices in all our contracts with our customers which protects our bottom-line from the effects of any year-over-year changes in aluminum.

Gross profit decreased 11% to $171 million. This decrease was driven by negative metal price lag in third quarter of 2016 combined with a positive effect of one-offs such as positive metal price lag in third quarter of 2015 making this quarter a tough comparable. This quarter the SG&A line shows reduction compared to the same period of last year due to a reclassification of certain salary expenses to cost of goods sold. This reclassification has no effect on our results.

Now let me continue down our P&L. Income from operations was $103 million, a 14.9% decrease from the same quarter of 2015 driven by lower gross profit. EBITDA for the period was $182 million, a 6% decrease compared to the third quarter of last year. This decrease was due to the decline in income from operations which I just described. EBITDA per equivalent unit decreased 5% from the same period to $14.90 per unit.

Net income was $59 million, a decrease of 27% driven by higher income taxes and a lower income from operations which were partly compensated by lower financing expenses. Please keep in mind that last year we had a positive effect in income taxes due to foreign exchange movements.

In terms of our balance sheet as of the end of September, we had a net debt position of $1.3 billion, $128 million higher than the same time last year. Cash and cash equivalents were $108 million.

Now allow me to give you some details on our regional results. Our volume in North America decreased 5% mainly due to the production down scale of FCA's midsized sedan line combined with a phase out of an export program whose replacement was produced by operations in Europe. Revenues decreased 6% mainly due to lower aluminum prices combined with the volume effect previously mentioned.

As indicated before, aluminum prices are a passthrough under the contracts we have with our customers. EBITDA in North America decreased 15% compared to third quarter of 2015 mainly driven by lower volumes and negative metal price lag combined with a soft comparable figure in third quarter of 2015 which included one-offs such as positive metal price lag.

Additionally, this quarter we incurred restructuring costs in North America related to the phase out of the production line at our Alabama plant whose volumes have been relocated to Europe, operations used in a different casting technology and another portion to our Kentucky facility in the US.

Moving on, we are very pleased with the financial results achieved in Europe. Volume increased 3% due to the ramp up in production of new engine block contracts while our customers' production volumes slightly declines. Revenues decreased by 3% driven by lower aluminum prices which were partly compensated by higher volumes. EBITDA in Europe increased 14% compared to the same quarter of last year driven by higher volumes, positive mix and efficiencies.

In the rest of the world operations, our volumes increased 9% as higher volumes in Asia more than compensated for lower volumes in South America. Revenues increased 22% driven by higher volumes and a better mix in Asia. EBITDA increased by $5 million due to improved profitability in Asia which more than offset lower volumes in South America.

I would like to close with two updates related to our stock. On September 26, we announced that UBS will be our market maker on the Mexican Stock Exchange which will result in higher liquidity for our stock. And last, we received the good news that Nemak will remain part of Mexico's Benchmark Stock Index, (spoken in Spanish),

for the next annual period which took effect in September and runs through August 2017.

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). Juan Tavarez, Citi.

Juan Tavarez - *Citigroup - Analyst*

Thank you. Good morning, everyone. My first question is just to understand your view of the industry growth in North America and in Europe. I know this year so far you have been growing below the industry trend due to these changes at FCA. I am curious if you were to adjust out those changes from the plant at FCA, how have you been trending so far this year?

And also as we go into next year, how do you see demand growing in North America and in Europe and on your customer base do you think you will trend in line with that industry growth or a bit different?

Also if I can ask on structural components, could you give us an update on kind of how you -- how much contracts are signed year to date for this new segment and how are you seeing the customer appetite in adapting to this new product line? Thanks.

Armando Tamez - *Nemak SAB De CV - CEO*

Thank you, Juan. Certainly nobody in the industry was suspecting that FCA would scale down and exit to some extent the midsized vehicle lines. We were not expecting that. Unfortunately put us in a difficult situation related to some volume in North America. But in general terms, we are expecting that this year the industry will remain strong. I think we have seen already nice volumes in the range of about 17 million, 17.5 million units. And also we are seeing that the automakers in North America have increasing production. In the past they were importing a lot of vehicles from other regions and you have seen already a lot of new capacity being installed in Mexico as well as in the US.

So for next year, I think it is a little bit too early to tell. So far based on the stories made by industry analysts they are expecting that the industry will stay at similar levels as this year but I think we need to watch over the next few months how the economy especially in the US will develop.

Related to your question about the structural components, I think we have already indicated that we have been getting contracts for about $200 million plus in structural components. We are adding also additional revenues on the electric housing for new applications. And I think we are on track again to reach the $1 billion that we are thinking that we will be reaching by the end of the decade.

Again, we see a lot of appetite from different automakers not only in Europe but also in North America. As we speak, we are reporting a lot of new business opportunities and I think we are confident that we will be getting additional orders in the next few months.

Complementing that response related to Europe, we still see the European market also relatively strong especially Western Europe where we are seeing the market continue with a very positive effect that we have seen this year. So we expect that trend to continue. Whereas the Eastern European countries remain relatively flat as we have seen during this year.

Juan Tavarez - *Citigroup - Analyst*

Okay. Thank you. Can you remind us when do you start selling your first batch of structural components?

Armando Tamez - *Nemak SAB De CV - CEO*

We are at this moment starting sending Rotacast to some customers in Europe and also North America and we are expecting to start normal production by next year in the summer of next year, we will be starting production of the structural components for several platforms.

Juan Tavarez - *Citigroup - Analyst*

Okay, thank you.

Operator

David Tamberrino, Goldman Sachs.

David Tamberrino - *Goldman Sachs - Analyst*

Good morning and thank you for taking our question. I have a couple of them. Just to kind of dig back in on the structural components side, it is good to see that you are making incremental progress here.

My question is really what you think your win rate is within the segment for structural and the EV side combined or maybe just structural? Because I think we have seen another competitor announce that they were going to put in incremental aluminum capacity within the North American market I am just kind of wondering the $200 million plus win rate that you have had so far is that 50% of the market, is it 30% of the market? What do you think your at bat rate here is in terms of winning and converting that business opportunity?

Armando Tamez - *Nemak SAB De CV - CEO*

I think it is for us difficult to tell exactly what is our winning rate. So this is an industry we are that seeing some customers certainly are moving into different alternatives. It is again an attractive industry and certainly we have position. But I believe that based on [authentic] capabilities as well as our cost structure we will be getting further market share in the next few months. And I think we have the most rated with complex castings such as engine blocks and also aluminum cylinder head castings that we have certainly an edge in terms of technology, quality and costs. And we believe that we will position our Company again as one of the winners in this industry.

David Tamberrino - *Goldman Sachs - Analyst*

Okay, that is fair and maybe we can discuss a little bit later. A couple of other questions from me. It was nice to see the rest of world revenue growth really come back in. Can you talk to the launch of vehicles or launch of programs in China because we did see a return to pretty significant growth there within the rest of world volumes?

Armando Tamez - *Nemak SAB De CV - CEO*

I think to [your first question], David. One of the things that we have indicated in the past is that in China basically for the past few years, the Chinese market was using low complexity engines or powertrains. Now since they are moving and they have a priority to reduce CO2 emissions and improve fuel efficiency as well as Europe and North America, they are moving into more sophisticated powertrains and this is where we are taking a significant step gaining additional market share especially for high complex engine components. And this is where we are starting to see those benefits not only in terms of volumes but also in terms of profitability and we are very focused on continue growing at a very nice pace over the next couple years in that region.

David Tamberrino - *Goldman Sachs - Analyst*

Okay, that is very helpful. Just a last one for me. On the metal pricing lag into the third-quarter obviously a headwind. At the current spot prices that we have for aluminum, should we see a similar headwind from the lag effect in the fourth quarter or should that start to mean revert and it shouldn't be as big of a drag on margins?

Alberto Sada - *Nemak SAB De CV - CFO*

Well, David, it depends obviously on how the prices have developed. I think if they say relatively at this level and they have been swinging up and down, we should probably see a small effect but it should not be that big as we saw this quarter. But again, it will be subject to how the metal prices developed going forward. There is a lag that we have with the prices with our customers that stands in between a month to two months so that is more or less let's say the specificity that we have for those aluminum price fluxuations.

David Tamberrino - *Goldman Sachs - Analyst*

Understood. That is very helpful. Thank you very much for your time this morning.

Operator

Luis Miranda, Santander.

Luis Miranda - *Santander - Analyst*

Thanks for taking the question. Two questions. The first one is Armando, if you could give us some color when we see the declining volumes in North America, how would you describe the quality of the volume that you lost in terms of the first, if it was average in terms of sales mix or it was less profitable than the average?

And second if it is volume that affects your machining, your quality of machining you are doing in-house? The second is related to machining, if there is any material change or evolution from the last quarter two now? I know it is very marginal at most but I would like to know if there is any improvement? Thank you.

Armando Tamez - *Nemak SAB De CV - CEO*

Thank you for the question. The volume that certainly has been affecting us is again as I indicated the reduction on the midsize vehicle (inaudible) of FCA. We are the main producers of FCA especially for cylinder heads and engine blocks and the particular platform unfortunately for us have a high exposure from our side because we were producing for them cylinder heads, engine blocks as well as (inaudible) plates. So it was a combination of three different products on an engine that they are again reducing significantly their demand for this year.

In spite of that again, we are seeing increases in other engine platforms as well emission housings that partially offset (inaudible) volume. What we are again trying to see is if we are able to gain additional market share in North America with customers and use some of the existing capacity that FCA left open for us.

Alberto Sada - *Nemak SAB De CV - CFO*

And related to the machining, we don't see a major effect on the machining on our in-house machining strategy. That volume doesn't have much of an effect. And at the same time to your question related to machining, I think we are progressing in line with our expectations to continue increasing our in-house capacity of especially new engine or new powertrain platforms. So for this quarter there has been no material change other than what Armando indicated, the ramp up and launch of the second machining site in Monterrey.

Armando Tamez - *Nemak SAB De CV - CEO*

I think it is important also to tell you that we are in negotiations with a customer to see further opportunities and again, we have foreseen that we will be compensated with an additional volume, a volume that is coming from a different region but we are in close communications with that customer to help us offset some of the volume decline that we saw over the last few months.

Luis Miranda - *Santander - Analyst*

Thank you very much.

Operator

(Operator Instructions). Vanessa Quiroga, Credit Suisse.

Vanessa Quiroga - *Credit Suisse - Analyst*

Hi, thank you for the call. My question is regarding just a clarification on the metal lag and is there a reason to have a more pronounced effect of the metal lag in the third quarter of every year or is it just purely related to [metal] activity or the size of the movement of prices of aluminum? Thanks.

Alberto Sada - *Nemak SAB De CV - CFO*

Yes, Vanessa. Thanks for the question. I think it is related to your second point. There is no correlation between the aluminum price movement in any given quarter of the year so essentially depending on how pronounced the move is, is you are going to see a more pronounced either positive or negative effect on our results. But at the end, it is totally related to how the aluminum prices move but has nothing to do with any given quarter.

Vanessa Quiroga - *Credit Suisse - Analyst*

Okay. A couple of other questions. On the impact from FCA, can you quantify what the effect was on Nemak volumes and when do you expect that to normalize?

Armando Tamez - *Nemak SAB De CV - CEO*

I think the effect is approximately about between 300,000 to 400,000 units or equivalent units that we lost due to the decision from FCA to some extent downscale the production of the midsize sedan vehicle lines. And again, we are in negotiations with the customer and we have an excellent relationship with them and we are again negotiating the type of compensation in which most likely we will be taking additional volume from other regions to compensate for that loss over the next few months. And there is a potential in the process of closing over the next few weeks that will help us with a significant portion of the volume that we lost.

Vanessa Quiroga - *Credit Suisse - Analyst*

That is great to hear. Finally, on the new contracts that you have been awarded, can you update us on the timing to see the contribution from the new business from those contracts? Thanks.

Alberto Sada - *Nemak SAB De CV - CFO*

What contract, Vanessa, because we have several. Again, in the quarter we are reporting $200 million worth of new contracts. Could you be more specific?

Vanessa Quiroga - *Credit Suisse - Analyst*

For the $650 million that you have signed year to date.

Alberto Sada - *Nemak SAB De CV - CFO*

Okay. Basically once you sign new contracts with customers in this industry, it takes between 18 to 24 months to start production of these components and the ramp up normally takes between 1 to 1.5 years to reach full production.

Vanessa Quiroga - *Credit Suisse - Analyst*

Okay, okay. That is great. Thank you.

Operator

(inaudible), Mizuho Securities.

Unidentified Participant

Thanks. My question is related to the rating actions. Given the positive outlook that you've obtained by Moody's and given the assumption I guess Moody's makes in terms of the next steps for you to get the upgrade in terms of recognizing your rate of revenue diversification, positive free cash flow and leverage kind of approaching 1.5 times the next 18 months, just wondering have you received similar type feedback from the other agencies, S&P and Fitch in terms of potential that your rating or outlook could also be revised? If so, what are some of the main triggers that they are looking for if you could share that with us?

Also, second part of the question is -- is that a strategic goal of the Company given that some of the other subsidiaries of the Alpha group having a investment-grade rating already to achieve that in the near future timeframe? Thank you.

Alberto Sada - *Nemak SAB De CV - CFO*

Thank you. Yes, the short answer is we have received the same type of grade from two rating agencies, Standard & Poor's in the summer increased also again our outlook from a stable to positive. And we are also one notch below investment grade. And last week, as it was already informed, Moody's did the same. They had a review in their meeting and I think they see all a lot of positive trends in the company, they see better solid financial performance as well as our strategic position and I think they are confident that if we continue again as you indicated generating free cash flow, improving again our leverage ratio to levels at about 1.5 or below, and we can sustain that for a reasonable period of time, I think they told us already that they will review again and most likely if we can maintain those again improve the rating to potentially investment-grade.

And yes, as a management team we have indicated clearly that this is an aspiration for the company and we are doing our best effort basically to improve our financials, operational performance to achieve these grades that I think will help us at the end improve how the cost of debt for the Company as well as other benefits that we will be getting by becoming an investment grade company.

Unidentified Participant

Great. Thank you very much.

Operator

Augusto Ensiki, HSBC.

Augusto Ensiki - *HSBC Global Research - Analyst*

Good morning, gentlemen. Just a quick question kind of very specific on the balance sheet. I noticed that over the last few quarters the days sales outstanding has kind of crept up to the low 60s now from it used to be in the 50s. Is this kind of where you guys are comfortable? Is there any issue with the receivables or is this kind of the new level for you guys? Thank you.

Alberto Sada - *Nemak SAB De CV - CFO*

I'm sorry, I couldn't follow you with the numbers. You were saying about the (inaudible). Could you repeat your question please?

Augusto Ensiki - *HSBC Global Research - Analyst*

The days sales outstanding, the receivables line how it has increased significantly over the last year. I was wondering if this is a new level or if this is something that you guys want to bring back down or want to have come back down to previous levels?

Alberto Sada - *Nemak SAB De CV - CFO*

You are comparing this with December of last year, right?

Augusto Ensiki - *HSBC Global Research - Analyst*

Yes, or even third quarter of last year.

Alberto Sada - *Nemak SAB De CV - CFO*

This obviously goes up and down depending on the level of sales that we have on each particular quarter. When you do the comparison with December, it is particularly different because as you know the cycle of the industry has an effect where volumes go lower on December and July and August when they customers have these scheduled shutdowns so that takes your receivables to very low levels.

Normally the receivables days should be around depending on the given month should be between the 25, 30 days sales depending on the level of activity that we have. But I think it would be tough comparable to do it with December. It would be better to do it with the same quarter of last year but at the same time we do have some let's say ups and downs depending on the level of activity we have in one given month.

Augusto Ensiki - *HSBC Global Research - Analyst*

Understood. Thank you very much.

Operator

Juan Tavarez, Citi.

Juan Tavarez - *Citigroup - Analyst*

Thank you. Just want to try to follow up on I guess getting an understanding of what your margins could have been if you didn't have this metal lag? And I know you also mentioned in your earlier remarks about some restructuring costs in North America. Could you help us quantify that in terms of how much was this restructuring cost and what margins could have been without or excluding the metal lag?

Armando Tamez - *Nemak SAB De CV - CEO*

Yes, the metal lag has both things I think as we described was we had a positive tailwind last year and we have little negative tailwinds this year. So we will have to take away both of those effects to kind of normalize what would be our margin.

I think if you see our EBITDA per unit for the quarter was around $14.80 per piece and that is slightly lower than what we have for our yearly guidance. I think the margins will gradually improve as we compensate with the fourth-quarter results to come up with the year-end expectations around $14.90 to $15 per piece. And I think that will be an average absolute that we should account for in terms of EBITDA per piece margin.

Juan Tavarez - *Citigroup - Analyst*

And related to the restructuring?

Armando Tamez - *Nemak SAB De CV - CEO*

Sorry for that. On the restructuring side, that was a small effect that happened in North America. As I indicated, we were shutting down one production line that we are moving on to Europe and we had to expand a small portion of the restructuring. That accounted for about $2 million that we expensed in the third quarter for reduction of headcount. Again, that is a line that we shut down and that is the production that we moved to Europe with a different production process.

Juan Tavarez - *Citigroup - Analyst*

Okay, thank you very much. Very helpful.

Operator

[Andreas Alia], GBM.

Andreas Alia - *GBM - Analyst*

Hello, thank you very much for taking my question and my question is regarding the electric housing applications business line. Is this included in the structural components guidance for the next decade? And the other question is what is the type of margin for this type of business, is it similar to structural components?

Alberto Sada - *Nemak SAB De CV - CFO*

Yes, I think it is a good question. The new business that we have got in North America is the business that we got for electrical applications, we have battery housings in Europe as well as battery trays and this one is going to be a very complex and sophisticated housing for the BMW platform for North America. And we are for the time being including those again in the structural component side, similar products as I indicated during my comments.

The technology that we are introducing is similar so we are again for the time being putting them again together since we are introducing the same technology and we see very high potential again in both segments, the structural side or the electrical housings for new electric vehicles.

Andreas Alia - *GBM - Analyst*

Thank you very much.

Operator

There are no further questions in queue. I would like to hand the call back over to Max Zimmermann for closing comments.

Maximilian Zimmermann - *Nemak SAB De CV - IR Manager*

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

Operator

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