



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

Second Quarter 2021 Earnings Webcast

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PRESENTATION

Operator

Good morning, everyone, and welcome to Nemak's Second Quarter 2021 Earnings Webcast.

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

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

I will now turn the call over to Adrian Althoff. Thank you, sir, you may begin.

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'll 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 2021 Earnings Webcast.

As you may already be aware, we saw a substantial improvement in global industry conditions in the second quarter compared to the same period last year, which in turn provided support to customer light-vehicle production and, therefore, our results on a year-on-year basis. Moreover, if you look beyond these favorable comparison effects, our underlying business and financial performance continued to show resilience and strength, notwithstanding effects of the global semiconductor shortage. In particular, we benefited from a richer product mix, supported by our involvement in new electric vehicles of our customers, along with operational efficiencies which we have maintained thanks mainly to ongoing cost reduction initiatives.

Taken together, these factors enabled us to deliver an EBITDA per equivalent unit of \$16.70, our second-best figure for any second quarter in our history. The ramp-up of our e-mobility and structural applications business remained a key driver of our results, particularly in Europe and North America. The main highlights in this regard included the continued contributions of battery housings for plug-in hybrids, as well as full-electric vehicles of European and U.S.-based OEMs.

I would also like to emphasize that the recovery we are seeing in our business has been made possible thanks to our efforts to protect the health and safety of our people. In this spirit, we continue to promote and facilitate employee access to COVID-19 vaccines. We are committed to doing our part to address effects of the pandemic, with a focus on providing support for vaccination and maintaining robust health protocols at our facilities.

Moving on to our sales and marketing activities, for the second quarter, we won new contracts worth a total of approximately \$240 million annually, comprised primarily of business to supply cylinder heads and engine blocks, as well as parts for e-mobility and structural applications in Europe and North America. Approximately 80% of this amount represented replacement business.

I am also pleased to share that, for the 17th time in the history of this award, Nemak has been recognized as a Supplier of the Year by General Motors. This award is granted to global suppliers that distinguish themselves by exceeding GM's requirements. Also, we received the Overdrive Award from General Motors in recognition of our implementation of what they described as "focused initiatives and cutting-edge culture." We would like to reiterate our gratitude and appreciation to our entire team for making it possible to earn these awards, through ongoing efforts to improve our operations, to drive innovation and to strengthen customer ties.

I would now like to move on to several corporate developments over the last quarter that we would like to present to you in greater detail.

As you may already know, we successfully placed two sustainability-linked bonds in recent weeks in the international markets. The first offering was a \$500 million issuance of 10-year senior notes, at a coupon of 3.625%. We are using the proceeds from this issuance to redeem our 4.75% 2025 notes.

The second offering consisted of an issuance of €500 million, seven-year senior notes with a coupon of 2.25%. We have allocated the proceeds to refinance our 3.25% 2024 notes, whose outstanding balance is also €500 million. These back-to-back issuances have helped us decrease our cost of financing and extend our debt maturity under a standard investment-grade structure. We estimate that these issuances will enable us to reduce our financing cost by a total of around \$11 million annually, putting us in an even better position to create value in our business.

These transactions also underscore our commitment to contribute to efforts to address climate change in the automotive industry, as they are linked to Nemak achieving certain sustainability targets. Under the terms of these notes, we will seek to reduce Scope 1 and Scope 2 greenhouse gas emissions by 18% by 2026 relative to a 2019 baseline. This target is aligned with our plans to achieve a 28% reduction by 2030, which were approved by the Science Based Targets initiative in March 2021.

I would also like to highlight our upcoming General Extraordinary Shareholders' Meetings, which we will be holding on July 29. We would like to encourage Nemak and Controladora Nemak shareholders to exercise their right to vote on the matters we will be discussing, particularly the proposal to merge Controladora Nemak into Nemak. We believe that this proposed transaction represents a key step towards enhancing our profile as a publicly-traded Company and potentially improving our share liquidity and performance.

As you may recall, Controladora Nemak is the owner of the shares that Alfa previously held in Nemak. Under this proposal, we will merge Controladora Nemak into Nemak, leaving Nemak as the sole listed entity. Controladora Nemak will cease to exist and its shares will be exchanged for an equivalent number of existing Nemak shares. The number of outstanding shares in Nemak will remain unchanged.

With that, I would like to hand the call over to Alberto.

Alberto Sada

Thank you, Armando, and good morning, everyone. I will share additional context on industry trends, as well as drivers of our business and financial performance during the second quarter.

As you're probably aware, this quarter compares on a year-over-year basis against a period characterized by extraordinary COVID-related customer production reductions, which at the time resulted in production stoppages across our global operations, lasting approximately eight consecutive weeks, with the exception of China.

During the second quarter of this year, light-vehicle sales increased substantially year-over-year in all regions as pent-up demand and better market conditions supported continued industry recovery globally. North America and Europe, our main markets, showed improvement in the period due primarily to a combination of better general economic conditions, government stimulus programs and disposable income-driven demand. Annualized light-vehicle sales were 17 million units and 16.9 million units in the U.S. and Europe respectively. It's also worth mentioning that these figures reflect stronger industry fundamentals in the U.S. than we had expected going into the year. To illustrate this point, for the

purpose of our guidance issued this past February, we had assumed full-year 2021 light-vehicle sales of 15.5 million units and 17.2 million units for the U.S. and Europe, respectively.

Light-vehicle production also showed a substantial year-over-year increase in the same regions, reaching 3.3 million units and 4.3 million units in North America and Europe respectively. However, the picture was mixed on a sequential basis, with North America seeing more pronounced effects of the global semiconductor shortage compared to other regions.

As you may already know, semiconductor supply and demand dynamics have been challenging for the automotive industry in recent months, as worldwide demand for semiconductors has accelerated faster than many had expected at the outset of the pandemic. Moreover, based on consultations with industry experts, we understand that certain extraordinary events in the first half of the year, in particular, a fire at a major semiconductor manufacturer in Japan and extreme winter weather in the Southern U.S. had a disproportionate impact on chip supply to U.S.-based OEMs throughout the second quarter. At the same time, we would like to emphasize that historically low light-vehicle inventory levels, combined with positive light-vehicle sales trends in recent months could potentially have positive implications for light-vehicle production in North America in particular going forward.

At the end of the second quarter, light-vehicle inventories in the U.S. stood at an average of 25 days' supply, which compares to 94 days at the end of the first quarter of '20. We expect that the normalization of semiconductor production will allow OEMs to accelerate efforts to rebuild inventories and keep up with end-consumer demand in the region throughout year-end and into 2022.

Moving on to the rest of the world, light-vehicle sales and production remained relatively stable, decreasing 3% and 5% in China compared to the same period last year, when China was practically the only country worldwide with normal auto industry operations. Meanwhile, in Brazil, light-vehicle sales and production reached 2.1 million units and 500,000 units respectively, much higher than the previous year on base effects of a similar magnitude to those experienced in North America and Europe.

Nemak's total volume was nine million equivalent units during the second quarter, moving higher year-on-year on increased overall customer demand, as well as new product launches across our regions, particularly in our e-mobility and structural applications segment. On a year-to-date basis, volume stands at 19.6 million equivalent units, putting us on track to meet the full-year guidance we published in February, notwithstanding the effects we saw of the semiconductor shortage on customer light-vehicle production, and therefore demand for our parts in the second quarter.

On a year-over-year basis, volume, together with aluminum prices and the appreciation of the Euro against the U.S. dollar, drove revenue up to \$955 million in the quarter. At the same time, we maintained a variety of initiatives to control manufacturing and administrative expenses, which helped us to preserve a significant portion of the operating efficiencies we achieved last year.

EBITDA in this quarter amounted to \$150 million, which was significantly higher than the same period last year, mainly due to volume effects associated with the continued industry recovery we have experienced since last year's shutdowns, along with a combination of ongoing cost reduction efforts and a more favorable product mix, including in our e-mobility and structural applications segments. This enabled us to deliver a unitary EBITDA of \$16.70, the second-highest such figure we have ever reported in any second quarter.

Nemak's operating income was \$69 million, due mainly to the same factors that benefitted EBITDA.

Net income was \$44 million, which compares to the \$125 million net loss reported in the second quarter of 2020. This result was due mainly to the same factors supporting operating income, along with the positive non-cash currency effects.

We remain on track with our investment plans for the year, recording a Capex of \$72 million for the period. Keep in mind that we expect most of our Capex to be concentrated in the second half of the year, due to our schedule of new product launches. I would also like to reiterate our focus on investment in e-mobility and structural applications. For the full year, we continue to expect to allocate more than half of our Capex related to new product launches, and other strategic initiatives to this business segment.

As of June 30, net debt was \$1.35 billion, about 10% higher than at the close of the first quarter, mainly due to seasonal working capital requirements. We also continued our deleveraging efforts during the quarter, bringing our net debt to EBITDA and interest coverage ratios to 2.1 times and 8.5 times respectively, reaching pre-pandemic levels.

As part of our efforts to strengthen our financial position, and as indicated by Armando earlier, we took important steps towards our financial strategy, placing approximately \$1.1 billion in two sustainability-linked bonds. The oversubscription achieved in both transactions allowed us to price them very competitively under an investment-grade structure. Furthermore, it reaffirms investors' confidence in our business prospects and sustainability goals. The proceeds of the bonds will be used to refinance existing debt, extending our debt maturity profile from 3.95 years at the end of the first quarter of 2021 to 7.34 years, while achieving a significant reduction in interest expense.

As you may already know, Fitch, Moody's and Standard & Poor's have issued announcements confirming that, for the purpose of these issuances, our credit ratings remain at BBB-, Ba1 and BB+ respectively, with a stable outlook. Most important, we have made our financial position more flexible, which will help us to drive our strategic agenda going forward.

Moving on to regional results in the quarter; North America volume amounted to 4.5 million equivalent units. More favorable industry conditions supported volume on a year-over-year basis. At the same time, as mentioned previously, effects of the semiconductor shortage weighed on light-vehicle production, and therefore volume in the region to a greater extent than in the first quarter. In turn, year-over-year revenue reflected higher volume and, to a lesser extent, aluminum prices. EBITDA was \$74 million, supported by volume along with product mix and operational efficiencies. It's worth noting that we delivered a solid performance in North America despite the semiconductor shortfall, finishing with a higher unitary EBITDA than the first quarter of this year.

Europe volume reached 3.4 million units, driven by a combination of market factors, including general economic recovery, pent-up end-consumer demand for light vehicles and increased customer light-vehicle exports to Asia, together with favorable developments in our business, particularly new product launches. Revenue was \$381 million, due mainly to volume and aluminum prices. In turn, EBITDA amounted to \$68 million on a higher volume and richer product mix, supported by the continued ramp-up of our e-mobility and structural applications business, a leaner cost structure, and to a lesser extent, a more favorable Euro exchange rate.

Rest of the world volume was 1.1 million equivalent units, as our sales continued growing on a combination of new product launches and better market conditions. As a result, we recorded \$112 million in revenue, which, combined with operational efficiencies and an improved product mix, resulted in an EBITDA of \$8 million.

With that, I will hand the call back to Armando for closing remarks.

Armando Tamez

Thank you, Alberto.

I would like to conclude our presentation by sharing additional color on our outlook for the rest of the year.

Notwithstanding continued effects of the global semiconductor shortage on customer light-vehicle production, particularly in North America, our results in the first half of the year came in substantially stronger than we would have expected at the time of the publication of our guidance this past February, supported mainly by our ongoing efforts to tap into richer product mix, as well as efficiencies to drive margins higher.

Given the progress we have made to-date in this regard, together with our expectation for a gradual improvement in the overall semiconductor supply situation in our industry for the second half of the year, we believe that we are in a good position to provide an update on our full-year estimates. Our revised 2021 guidance is as follows: volume of 39.5 million equivalent units, revenue of \$3.9 billion, EBITDA of \$600 million dollars and Capex, \$380 million.

With that, we conclude our presentation and I will hand the call back to Adrian.

Adrian Althoff

Thank you, Armando.

We will now move on to open the call for Q&A. Operator, can you please instruct the participants on how to place their questions?

Operator

Our first question comes from the line of Luis Yance with Compass. You may proceed with your question.

Luis Yance

Hi Armando, Alberto, Adrian, congratulations on the great quarter, and more so on updating the guidance. That's quite impressive after a challenging second quarter from the semi shortage we saw.

Just have two questions for you guys. Maybe the first one is, if you could give us a little bit more color on the impact you had from the semi shortage, whether that impact was even throughout the quarter or actually started worse and perhaps even ended up better. Maybe give us some color on how normalized third quarter started so far? That'll be my first question.

Then the second question is on your margins, on your EBITDA per unit. Since the bottom of the second quarter last year, we've seen consistently higher margins in that front, and even in the last two quarters, 16, 16.7 as you said. Is it possible to think that a normalized margin above 16 is sustainable? I understand there's some costs that are coming back as volume ramps up, but then you're going to have more scale and more fixed cost dilution, so just wondering, when we put all that in that equation, whether you're comfortable with this new higher level of profitability? Thanks.

Armando Tamez

Yes, thank you, Luis, this is Armando. I will answer the first part of your question and Alberto will answer the second one.

The impact that we have seen already, related to the semiconductor shortage, has affected our customers globally at approximately 4.5 million vehicles, so far this year. That translates into Nemak losing approximately one million equivalent units over the first two quarters, and the bigger impact was in the second part of the year, mainly in North America. We saw a major effect in North America, a little bit less in Europe, and of course, in China, very little or no effect at all.

We're expecting that the industry will recover gradually, as I indicated. We are not expecting that this problem is already solved. This impact is going to take a few quarters for the industry to fully recover from the shortages. However, some of our customers are already taking some actions to improve. We have positive news; one of the facilities that unfortunately had a fire in Japan last year, is already at almost 90% production recovery. Our customers are expecting that there will be full capacity over the next few months.

In addition to that, some original capacity has already been installed in Europe to support our customers, and certainly, some of the actions that our customers are taking, we are seeing that, step by step, they will solve this issue gradually.

Alberto Sada

Luis, this is Alberto. Related to your EBITDA margin question, I think as you can see, we have been very successful in achieving cost reduction improvements, and also being able to enjoy the benefits of better product mix, which is driving our overall margin improvements that we have seen in recent quarters. Ever since the effect of the pandemic last year, we have consistently been higher than average on our margins.

We expect to continue with that trend going forward. To say if the \$16 per piece that we have achieved, is that sustainable; certainly, that's our aim going forward. We need to also take into consideration that normally we have seasonality in our margins during the year, so certainly the effect is going to be slightly lower for the second half of the year, but certainly, aiming towards improving our overall margin going forward. As we see more, let's say of the new products into our mix, as well as we continue sustaining our cost reduction efficiencies, which will gradually be getting to higher margins than we have had historically.

Luis Yance

Great, thanks a lot, Armando and Alberto for your answers.

My last question if I may, with your leverage ratios back to kind of where you wanted it, two times, around there, the merger between the two entities that should happen not that far in the future, does that mean you're ready to discuss dividends? Can we expect something this year? How does a buyback play into the equation as the combination of the two entities will result in a stock with much higher liquidity? The stock, despite the recent rally, still remains quite cheap. Just wondering, what are your thoughts on capital allocation in that portion?

Armando Tamez

Yes, thank you, Luis, for the question.

Definitely, our priority after the pandemic was to deleverage the Company. We've made a significant effort on cost reduction as well as repaying some of the line of credit that we took last year. Once we reach stability in the Company and we see, let's say volumes more stable, absolutely, we will come back and make a proposal to our Board of Directors for a potential dividend. Of course, that would need to be

approved by our shareholders. We believe that once we merge the two entities into Nemak, we will be in a better position. If things continue at the same pace that we are seeing, we estimate that eventually, we will propose to our Board and also our shareholders, a dividend.

Luis Yance

How about a buyback? Does that come later, or you're still concerned about the liquidity?

Armando Tamez

As we indicated, I think our first priority was to deleverage the Company, to reach levels in the range of pre-crisis. Remember that we were more than six years below two times leverage, and we would like to reach that level. We are not that far, and we believe that pretty soon, we will be in a better position to make a decision, and certainly propose that to our Board of Directors and then move that to our shareholders.

Luis Yance

Great, thanks a lot again, Armando and Alberto. Congrats on the great quarter.

Armando Tamez

Thank you, Luis.

Operator

Our next question comes from the line of Alejandro Azar with GBM. You may proceed with your question.

Alejandro Azar

Hello, Armando, Alberto, Adrian, good morning, congratulations on the results.

I have two quick ones. The first is on, you mentioned working capital needs. We've seen strong investments on inventory. Do you see recovering those outflows seen in the first half or the second half, Alberto? How should we think about the working capital account for the full year? Should we see it as an outflow?

The second one is on your order book of \$900 million for e-mobility applications. You just mentioned \$25 million in replacements. Would you be kind to share with us how much of those contracts have you replaced?

Alberto Sada

Alex, yes, this is Alberto. Answering the first question that you ask relating to working capital; for sure, this has increased on this quarter, and that's particularly because of two reasons. On one side, we have the traditional seasonality that normally we see on the working capital cycle as production increases at the OEM's factories. We also are seeing, on the inventory side, a little bit of an effect of the aluminum prices. As you may be aware, aluminum has been increasing in the last—ever since the pandemic took effect last year. That has an effect on the valuation of the inventory.

Last but not least, we have the—let's say, we build up a little bit more inventory, particularly to be prepared for the recovery of the industry, of the production of the OEMs that we're expecting to happen

on the second half. Ultimately, we'll see that inventory amounts reduce going forward as we're going to be using part of that inventory to supply our customers' production schedules. Ultimately we'll see a more stable working capital for the end of the year.

There's probably, at the end of the year, a little bit of an outflow on a net basis versus last year, as the business overall has been increasing in volume.

Armando Tamez

Alejandro, related to your question about EV and structural components, we have today, as we had indicated before, \$900 million of new business on these electric type, as well as structural components. A portion that we indicated in this report was replacement business on the same product line, and I'm happy to tell you that we have been very successful to replace, 100%, what we have already gained. That's a statement that we can make, that our customers really trust us and they can go order those (phon) 100% replacements.

As we speak, we have a little bit more than \$1 billion worth of potential original business that we see very attractive, and we are confident that, during the second half of the year, we will have good news that we will report later on, on new products that we will be winning, contracts, especially on the EV side. As we speak today, we have a lot of opportunities and we are working very closely with some European, as well as North American OEMs, that we believe that will bring a lot of good potential to our Company.

Alejandro Azar

Thank you, Armando and Alberto, and congratulations again on the results.

Armando Tamez

Yes. Thank you.

Operator

Our next question comes from the line of Alejandra Obregon with Morgan Stanley. You may proceed with your question.

Alejandra Obregon

Hi, good morning, Nemak team. Thank you for taking my questions, I have actually two.

The first one is a follow-up on your supply chains, but this time, if we put aside the semiconductor issue, I was wondering if you could give us some color on your supply chains. Have they changed; have you seen any capacity constraints in your North America operations, or maybe in the space overall, have you heard anything from OEMs or participants regarding this issue?

Then my second question would be regarding the restructuring. Now that Nemak has been spun out successfully, and particularly given your exposure to the U.S., is a full listing in the U.S., or a U.S. ADR something that you would be thinking about, or you could be considering at some point? These are my questions, thank you.

Armando Tamez

Yes. Thank you, Alejandra.

Related to the supply chains, certainly our team has been working very closely with suppliers, as well as Tier 2, Tier 3 suppliers and making sure that everybody is (inaudible). We have made some changes. Of course, during the pandemic, some of our small suppliers had some issues so we had to find another source. But fortunately, we have not been, so far, creating any issues to our customers. We have been performing at 100% levels, in terms of deliveries and in terms of quality.

We made, as we have indicated before, in our opinion, a great job in reducing our fixed costs during the pandemic, but at the same time, making sure to protect our customers 100% in terms of quality, in terms of deliveries, in terms of performance. I can tell you that people in the purchasing are doing a fantastic job in making sure that our entire supplier base is aligned to support us 100% to our customers' requirements. As I have indicated, we made, on purpose, a little bit more inventory than normal to protect our customers and making sure that once they solve this semiconductor issue, we will be ready to support them at 100% level in terms of requirements.

Alberto Sada

Alejandra, related to your second question on potential listings in the U.S. or ADR, at this point I think we need first to conclude the steps that are pending for the merger between Controladora Nemak and Nemak, as was highlighted on the call, which is scheduled to be presented for approval in our next Shareholder Assembly Meeting at the end of July, the 29th. Once after that, we'll think about potential—it has an opportunity, but for now, we don't have any plans whatsoever for issuing in the U.S. or establishing an ADR program in the U.S.

Alejandra Obregon

Thank you, that's very clear.

Maybe a follow-up if I may, on the first question you mentioned some changes with small suppliers. Could these changes be related to maybe the internal content requirements from USMCA or maybe a relocation of supply chains globally, or any other issue related to U.S. and China trade tensions?

Armando Tamez

No. Basically, those were related to—some of our small suppliers unfortunately didn't make it through the pandemic and we had to find replacement for these suppliers. We have, for certain services and products that we buy, multiple choices that we produce. Of course, our team was following very closely to them, and in some instances, we had to make some relocation of some of the services and things that we are buying. But so far, we have not been affecting any of our customers in terms of delivery of our products.

Alejandra Obregon

Understood, very clearly. This was very helpful, and congratulations on the results.

Armando Tamez

Thank you.

Operator

Our next question comes from the line of Alfonso Salazar with Scotiabank. You may proceed with your question.

Alfonso Salazar

Yes, thank you for taking the questions.

As a follow-on, it has to do with the transition to electric vehicles and the implication of the new emissions rule in Europe, especially for your core business. The first question is if you anticipate these new rules to affect your future development of new combustion engines with your clients and to what extent? We do hear that some OEMs have already decided not to develop new combustion engines.

The second question is, well, over the next (inaudible) to market material from China and the U.S., so do you see accelerating the transition to EV? Concerning that (inaudible) provide us with pace (inaudible) go for the electric vehicle or probably they will decide it is good to consider either hybrid or a combustion engine vehicle (inaudible) technology, maybe (inaudible) pay for the new car and (inaudible) a used car. That would offset new auto sales.

Just wanted to hear your thoughts on how Nemak is stacking all the features and how do you see the market for your core business (inaudible) and growth and transmissions over the next years? If you can give us some points to consider; thank you.

Armando Tamez

Yes, thank you, Alfonso.

Related to your comment or question related to this recent proposal that was established in Europe, it was not a surprise at all for us, because we are following that very, very closely, and we were expecting that eventually the European will make the proposal. This proposal has not been approved yet; it's going to take at least two years, to our knowledge, and that needs to be approved by the 27 countries that are part of the European Union.

We're expecting that eventually, there will be certain debate, and most likely they will come with a proposal to continue reducing CO2 emissions, that is the trend in Europe. As we have been indicating before, that Nemak is, since several years ago, preparing for this shift in the industry in which more electric vehicles will be part of the new world. What we're expecting is that certainly Europe will take the lead in terms of penetration of electric vehicles over the next maybe 50 years. China, also, I think, will follow that. In North America, our estimates, according to some of the analysts, probably it would be less.

Certainly, we are looking at how we can diversify our product portfolio as quickly as possible, but again looking for projects that are reasonable in terms of our strategy as well as economics. We are seeing already the results of some of the decisions that we have made to take some of these new products on the electric side, as well as structural components.

I think it's very difficult to anticipate how the market will take these, but we are seeing that the penetration of electric vehicles certainly is following regulations. Regulations are playing an important role, if you take a look, and also incentives. Incentives behind that we are seeing, for instance, especially in China, when the government puts incentives on the electric vehicles, immediately sales goes up, and when they withdraw incentives, sales go down dramatically. In Europe, I think it's the same. There are certain incentives that European Union is giving to new owners of electric vehicles, and of course, our customers, in order to comply with the new regulations, are also providing with certain incentives. I think it's a little bit too early to tell how the industry will move in that regard, but as I indicated, we as a Company, our entire Management team is aligned to make this transition. We're confident that eventually, we will be switching

and gradually increase our penetration of electric vehicles as well as interesting structural parts that we're getting.

Alfonso Salazar

Thank you.

Yes, just to clarify, do you see there's (inaudible)—we can—for instance, (inaudible) in which the application of all these rules can be delayed, because if I'm not mistaken, by 2025, the goal is to reduce emissions by 55% by 2025, which looks quite aggressive, quite frankly, so could you really anticipate that?

Second, I don't know if you can give some comments on this idea of more used car sales rather than new car sales over some period of time during this case?

Armando Tamez

Yes. Certainly, our understanding related to the regulations is that these rules apply for 2030, and eventually, they would be, again, putting, of course, more pressure on OEMs to switch a little bit faster. But remember that this needs to be approved by the entire European Union. This is a proposal that came and needs to be go for a debate and then approval by the 27 countries that represent the European Union. I think some of them will be totally in favor; of course there will be some countries that probably, they would be more affected, that potentially they could say that they would like to change that.

Also, I think our customers will play an important role in lobbying for this. I think one of the main concerns that the OEMs will have is that, potentially, the loss of jobs. It has been already stated by CEOs of some of the large German OEMs that eventually, when they switch to more electric vehicles, there will be a lot of jobs that will be lost due to less content on the vehicle. That also, I think, it would be debated in the European Union.

But so far, as I indicated, I think Nemak is preparing itself for the future, and I think we are embracing these. I think as we have demonstrated, the new products that we're getting on the structural, as well as electric vehicles, are coming with better margins. For us, we're embracing this change.

Alfonso Salazar

Thank you very much for your answers, and you can see that (inaudible) more structural and electric vehicles. Thank you.

Armando Tamez

Thank you.

Operator

Our next question comes from the line of Marcelo Motta with JPMorgan. You may proceed with your question.

Marcelo Motta

Hi everyone, thank you for taking the questions here.

The first, regarding the new guidance; I mean, the implied EBITDA margin for the full year is around 15.5%, 15.4% if I'm not mistaken, which represents a contraction compared to what the Company has been reporting which has averaged around 16%. Just wondering, if volumes are improving towards the third quarter and the second half, as the semiconductor shortage should be somehow normalized, why is EBITDA margin trending down with potentially higher volumes? I don't know if we are missing something here.

The second question is regarding the merger between Controladora Nemak and Nemak. I mean, the voting will happen by the end of the month, on the 29th of July. After the voting, if the outcome is positive, if the shareholders allow the merge, how long it should take for the Company to have just one class of shares? Thank you.

Alberto Sada

Hi Marcelo, this is Alberto. Well, I think we need to—you need to make sure to follow margin in the right way. Remember that aluminum prices have been increasing recently, so when you see margins based as a percentage of EBITDA versus sales, that doesn't necessarily show you the actual profitability improvement. I think you need to look at it on a per unit basis, and if you see it on a per unit basis, that's where we're reflecting better margins than what we have achieved historically. That's how our margins have been steadily increasing on a quarter-by-quarter basis and our guidance has been to reflect important improvements on an EBITDA per unit basis.

I think if you take away the effect of aluminum fluctuations, which could have either a positive or a negative effect on the percentage calculation, for that reason I think it's better to use EBITDA per unit as a measure of profitability. In that respect, our guidance reflects an improved profitability measurement.

Armando Tamez

Relative to the merger, Marcelo, of Controladora Nemak into Nemak, certainly what we're expecting is, on the 29th, that we will have a Shareholders' Meeting, have this to be approved. Then, it will take just a few weeks to go for the entire process. Certainly, we will need the approval from the CMDDB, and then release the Controladora Nemak shares.

We're expecting, again, if everything goes right, that it will take a few weeks, maybe even four to six weeks to have one single entity. Then as I was already presenting, we see potential benefits for all the shareholders of Nemak and Controladora Nemak once we become a single entity.

Marcelo Motta

That's very clear, thank you very much.

Armando Tamez

Thank you.

Operator

Our next question comes from the line of Luis Yance with Compass. You may proceed with your question.

Luis Yance

Thanks, hi guys, just a follow-up on the previous comment on EV.

Could you share what percentage of your second quarter sales are coming already from EV and structural? My broader question is, at some point can we expect you to start disclosing more granularity in terms of, I don't know, volumes, EBITDA per unit, etc., and if so, is that something that could happen given the growth you've seen so far? Perhaps late this year, early next year; any thought on timing of that?

Armando Tamez

Yes, Luis, thank you for your question.

What we are seeing is that, for the entire year, we are projecting that our total revenue will be between \$350 million to \$370 million on the combined effects of structural plus EV. This is for the entire year.

Once we have a little bit more maturity on these segments, absolutely, we would share it and disclose what is the profitability, volumes and so on.

Luis Yance

Okay, great. Last follow-up on the aluminum side; I know you mentioned the way to look at it is EBITDA per unit, but given the sharp increase, you're comfortable that I guess everything is...

Armando Tamez

We did not hear you, Luis.

Luis Yance

Can you hear me now?

Armando Tamez

(Cross-talking).

Luis Yance

Can you hear me now?

Armando Tamez

You sound too far away, Luis.

Luis Yance

Okay, I'll follow-up with you guys later on. Thanks.

Armando Tamez

Now it's clear. It's clear now.

Luis Yance

Oh, okay, it's clear. Yes, no, just a follow-up on the aluminum question. Are you comfortable that with the contracts you have the past year will work despite the sharp increase we've seen in aluminum prices, or on an EBITDA per unit that should not be a big issue in the front?

Armando Tamez

That is correct, Luis. The formulas we have with our customers to pass the aluminum price fluctuations work fairly well, so we will not see any effect in the EBITDA per unit basis. But it's different when you see EBITDA on a percentage of revenue basis, as there the base of revenue can increase or decrease just for aluminum prices, but that has no meaningful effect on the EBITDA in absolute terms. On an EBITDA per unit basis, no effect due to aluminum price fluctuations.

Luis Yance

Excellent. Thanks a lot again, guys.

Armando Tamez

Thank you, Luis.

Alberto Sada

Thank you.

Operator

Ladies and gentlemen, I would like to turn this call back over to Mr. Adrian Althoff for additional concluding remarks.

Adrian Althoff

Thank you, Operator.

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

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and enjoy the rest of your day.