THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NEMAKA.MX - Q2 2016 Nemak SAB De CV Earnings Call

EVENT DATE/TIME: JULY 19, 2016 / 3:30PM GMT

CORPORATE PARTICIPANTS

Maximilian Zimmermann *Nemak, S.A.B. de C.V. - IR Manager*

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

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

CONFERENCE CALL PARTICIPANTS

Dave Tamberrino *Goldman Sachs - Analyst*

Vanessa Quiroga *Credit Suisse - Analyst*

Augusto Ensiki *HSBC Global Research - Analyst*

Andrew De Luca *Barclays Capital - Analyst*

Jose Vazquez *GBM - Analyst*

Omar Rodriguez *Credit Suisse - Analyst*

Valentin Mendoza *Banorte-IXE - Analyst*

PRESENTATION

Operator

Good morning, everyone, and welcome to Nemak's second-quarter 2016 earnings call. Armando Tamez, Nemak's CEO; Alberto Sada, CFO; and Maximilian Zimmermann, Investor Relations, are here this morning to discuss the Company's performance and answer any questions 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 Maximilian Zimmermann.

Maximilian Zimmermann - *Nemak, S.A.B. de C.V. - 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 second-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. 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.

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

Thank you, Max; hello, everyone, and welcome to Nemak's second-quarter 2016 results conference call. The quarter was marked by solid profitability, with improvements in sales mix and operational efficiencies driving consolidated EBITDA to $221 million, an 8% increase year-over-year. Our European operations led the way, delivering double-digit increases in EBITDA, revenues, and volumes.

Consolidated revenues were down 4% mainly due to the decrease in aluminum price. As a reminder, please note that we have pass-through clauses in all our contracts, which offset most of the impact of aluminum price movements on our bottom line.

We are pleased with the performance in North America, our largest region. In spite of temporary volume effects, we achieved a 5% increase in profitability this quarter due to a better product mix, efficiencies, and currency effects.

I would now like to provide some more color on our outlook in Europe, a region where we continue to see unique growth opportunities in the coming years. One of our main focuses in Europe has been to develop technological innovations that enable us to capitalize on the accelerating lightweighting trend.

Increasingly, the stringent emissions and fuel economy regulations have been pushing the automotive industry towards more efficient engines and lighter vehicles, which in turn have been producing a tailwind for our business. As one of the heaviest automotive components, engine blocks represent an especially attractive target for lightweighting, and this quarter's presolds in Europe are a clear sign that we're effectively seizing this opportunity to drive growth.

Our customers continue to favor our high-performance engine blocks for gasoline and diesel applications, which we produce using our proprietary technology. The main benefits of this technology include a unique combination of high-volume flexibility and advanced mechanical properties.

Since we developed the technology, we have mainly focused on deploying it in new engine blocks programs for the European and North American markets. As these programs move into the production phase, they have been increasing our top and bottom lines and will continue to do so over the short and medium term.

Taking a step back, we continue to see automakers moving towards more sophisticated and powerful engines for new vehicles. These engines in turn require more advanced and therefore higher value-added casting solutions.

In recent years, our expertise and track record in developing and manufacturing complex cylinder heads with advanced mechanical properties has been key to our efforts to capitalize on this opportunity. And in Europe, a region where we have a strong position in the market for cylinder heads for high-performance engines, our programs to produce these components have been making a significant contribution to bottom-line growth as new engine platforms come to market.

Complementing our solid prospects in heads and blocks, we expect that components of the body and structure of the vehicle, which we refer to as the structural components, will come to have a significant positive impact on our results over the medium to long term. Automakers have been drawn to the weight savings. The structure and components made out of aluminum are around 50% lighter than those made out of steel, which have traditionally been the material of choice, and industry analysts estimate that the market for aluminum in structural components will reach a total size of approximately $15 billion by 2030.

Since entering the structural components business in 2014, we have won seven programs worth a total of $200 million in revenues to produce these components. And as part of our efforts to further grow this business, we are proactively participating in competitive bid processes for several programs to produce these components for global OEMs. Most of the programs we have won so far have been for the European market, and we will see them start to benefit our results as they launch and ramp up over the next 12 to 24 months.

I would now like to touch on a topic that has been in the news in recent weeks, Brexit. We feel it is still too early to tell what the impact will be for us, but we will continue to monitor the situation closely. Our exposure to the UK market represents less than 5% of our total revenues.

To sum up our outlook in Europe, we are confident that our expertise and track record in powertrain parts and structural components will help us remain well positioned to grow faster than the rate of vehicle production growth in the region for the foreseeable future.

Next, I would like to move on to give you updates on our sales backlog as well as our strategic investments. During the first half of the year, we won new contracts to produce cylinder heads, engine blocks, transmission parts, and structural components worth approximately $450 million in annual revenues, around half of which represented incremental programs. For the quarter, the total was $200 million.

To keep up with expected growth in demand from our customers, we continue executing strategic initiatives to further strengthen our global manufacturing footprint and provide more value-added services. This included investments across our regions to expand production capacity and increase the share of castings we machine in-house. Capital expenditures amounted to $129 million in the quarter.

Last, I would like to share two pieces of good news. First, we were honored by Ford as a top global supplier at the automaker's 18th annual World Excellence Awards, which was held this past May. The award recognizes Nemak's commitment to quality, performance, and technology.

And second, in June the rating agency Standard & Poor's raised our outlook from stable to positive, citing our solid operating performance and our attractive credit profile. The rating was confirmed at BB+, which is one notch below investment grade.

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

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

Thank you, Armando, and good morning, everyone. Let me start by sharing relevant industry data that sheds light on our results.

During the second quarter of 2016, the seasonally adjusted annual rate for vehicle sales in the US was slightly off from second quarter of last year. Meanwhile, both North America vehicle production and Nemak's customers' vehicle production increased 4%. Our customers' vehicle mix continues to shift from cars to pickup trucks and large SUVs.

In Europe, vehicle sales SAAR in second quarter of 2016 was 6% compared to 2Q 2015, as Western Europe continues driving growth which more than offset a decrease in sales from Russia. Vehicle production in Europe increased 7% compared to 2Q 2015, mainly driven by Western Europe. Nemak's customers' production in Europe increased 11%, mainly due to Nemak customers' exports to other regions.

Now let me move on to discuss our results. Volume in the quarter was 13.1 million equivalent units, a 2% increase from the same quarter of last year, mainly due to higher volumes in Europe, more than offsetting lower volumes in North America.

I will now turn on to our financials. Revenues were $1.1 billion, 4% below the same quarter of last year, primarily due to lower aluminum prices. Aluminum prices decreased 15% in the period, translating into a negative revenue effect of approximately $50 million. It is important to highlight that, as Armando mentioned, we have a passthrough of aluminum prices in all our contracts with our customers and, therefore, there is no major impact on our bottom line.

Gross profit increased 2% to $203 million. The increase was mainly driven by an improved sales mix, currency effects, and operational efficiencies.

This quarter, the SG&A line shows a reduction compared to the same period of last year due to reclassification of certain salary expenses to cost of goods sold. This reclassification has no effect on the results.

Now let me move on to our bottom line. Income from operations was $142 million, an 8% increase from the same quarter of 2015, mainly due to an improved mix of higher value-added products, currency effects, and efficiency gains.

EBITDA for the period was $221 million, an 8% increase compared to the second quarter of last year. This increase was due to the growth in income from operations which I just described. EBITDA per equivalent unit increased 7% on the same period to $16.90 per unit.

Net income remained stable compared to the second quarter of last year at $77 million in the period. In terms of our balance sheet, as of the end of June we had a net debt position of $1.3 billion, $137 million higher than December of last year. Cash and cash equivalents were $112 million.

Now allow me to give you some details on our regional results. Our volume in North America decreased 4% mainly due to the production downscale of FCA's mid-size sedan line, combined with the phaseout of an export program whose replacement will be produced by operations in Europe.

Revenues decreased 12% 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.

In contrast, EBITDA in North America increased 5% compared to 2Q 2015, mainly driven by a positive mix shift combined with positive currency effects.

Moving on, we are very pleased with the financial results achieved in Europe. Volumes increased 17%, surpassing our customers' production volume. Both revenues and EBITDA increased 15% compared to the same quarter of last year.

In our Rest of the World operations, our volumes remained stable, as higher volumes in Asia compensated lower volumes in South America. Revenues decreased 7%, mainly due to lower aluminum prices. On the other hand, EBITDA increased by $1 million due to improved profitability in Asia, which offset lower volumes in South America.

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) Patrick Archambault, Goldman Sachs.

Dave Tamberrino - *Goldman Sachs - Analyst*

Hi. Good morning, gentlemen. It's actually Dave Tamberrino on for Pat today. We had a couple of questions on our end; the first one will be on structural components.

You take a look at your life-to-date new business awards, about $200 million run rate revenue, and that should launch over the next 12 to 24 months. How do you think about the quoting activity in relation towards your ultimate target? I believe, that was to achieve about $1 billion of run rate structural components revenue by 2020.

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

Yes, related to that, as we have indicated in the past, certainly we entered into the structural component business in 2014. We were able to capture the seven new programs for the $200 million.

And for a period of time we decided not to take additional orders because they were coming almost at the same time. And we know this industry very well; we wanted to be at the end responsible and deliver what we are committing to our customers.

I think now we are, with a very strong technical team not only in Europe but also in North America, and we are more than ready to take additional contracts. So I think we are in line, and we are confident that we will be achieving and getting new contracts with nice profitability that will help us midterm and long term certainly to improve our financial performance.

Dave Tamberrino - *Goldman Sachs - Analyst*

So reading through that, there is enough quoting activity out there that, say, yourselves and at least one recent competitor that announced they are building a factory, I believe, in North America to satiate some additional aluminum structural components demand -- that again, there's enough business out there that if you were 30% or 40% of that market share win, that you think you'll still be able to hit that $1 billion?

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

Yes, we are still confident that we will be achieving our target of about $1 billion. But certainly more than the revenue, we're looking at bringing to Nemak complex parts that will give us nice profitability. That's the main focus that we are looking at Nemak.

And, yes, the answer is that we are seeing a lot of good opportunities not only in Europe but also in North America to capture additional business.

Dave Tamberrino - *Goldman Sachs - Analyst*

Okay, thank you. That's very helpful. And second one from our end, as we think about the back half of 2016, I think in relation to your guidance that was put out there earlier this year, half a year ago, of about $777 million in EBITDA. It's about a 2.5% increase year-over-year, and so far the first half of the year is tracking at about plus 7%.

Is the way to think about a lack of a guidance update here halfway through the year, after results have been tracking so well, really resulting from the uncertainty coming from the recent UK referendum? Or is there something else that we should be thinking about that might point to a softer 2H 2016 in your results based on launch cadence or new business that's coming on?

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

Well, no; that's a good point. Certainly, I think we have already demonstrated to the industry and to the markets that we are performing better than originally anticipated.

However, we are not a Company that likes to make changes in our guidance. Just remember that our guidance is just a guide of what is our expectation in terms of volume, revenues, and EBITDA. So I think we're in a good track and certainly we will not change our guidance.

Dave Tamberrino - *Goldman Sachs - Analyst*

Okay. Then just lastly -- I know you guys have -- can you maybe unpack the Rest of World for us? Asia down, China up is what it sounds like.

Is China progressing at the growth cadence that you'd expected it to? I think we were expecting it to go from a couple hundred million dollars to $500 million from the 2014/2015 time frame to I think 2017/2018. Are we still on track for that? Or is there some program-specific mix changes that have occurred within the region, given some of the tax incentives and given some of the more shift down from foreign OEMs to local OEMs from the China consumer?

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

Yes; no, that's a good question. Certainly in China we are in a good track; we are capturing new orders. I think it's important to remember that in China for the last several years they were focusing on -- again, on the powertrain side, especially for engines, they were not using the latest technology. Due to some regulations in that country to reduce again emissions and improve fuel economy, the Chinese government is pushing hard in the automotive industry to again use the latest technology for engines.

And this is where we are coming in with new solutions for more sophisticated cylinder heads, engine blocks, and transmission components. And we are in a good track again to reach our revenues as well as our profitability.

Again, everybody knows that the Chinese had a slowdown. But still I think it's with a nice growth in the range of about 4% to 5%. However, we are growing at a much faster pace due to, again, the complexity of the new products and our position in that market.

Dave Tamberrino - *Goldman Sachs - Analyst*

Thanks. I'll hop back in the queue.

Operator

(Operator Instructions) Vanessa Quiroga, Credit Suisse.

Vanessa Quiroga - *Credit Suisse - Analyst*

Yes, thank you for taking my question. It's regarding the different EBITDA per unit that we can see per region, with very good improvement in North America but Europe actually declining. Can you explain what makes a different trend in the regions in terms of EBITDA per unit? Thank you.

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

Yes, sure, Vanessa; this is Alberto. I think, yes, we're definitely seeing an improvement in North America thanks to the better mix of products that we're seeing and a little bit to the currency effect. So that explains the majority of the improvement in terms of EBITDA per piece.

Whereas in Europe, we're seeing a relatively stable EBITDA per piece, and we're seeing in Europe the growth of EBITDA really driving our profitability. We're seeing more volumes in Europe, and that's essentially driving most of the profitability growth that we're seeing globally.

Vanessa Quiroga - *Credit Suisse - Analyst*

Okay, okay. And can I have another question? The FX losses that we can see on the P&L, can you explain what drove the FX losses? Is that related to the debt being in dollars and reporting in pesos? Is that just non-cash effect? Thanks.

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

Exactly, Vanessa. That's the effect. The majority of our debt is US dollar-denominated, so since we report in pesos you're going to see the currency -- the valuation effect of that US dollar-denominated debt in the income statement. But then, since our functional currency is US dollars, that will be adjusted at the equity side of the balance sheet.

So yes, it's a nonmonetary effect. It's mainly accounting of the financial loans in dollars.

Vanessa Quiroga - *Credit Suisse - Analyst*

I see. Thank you.

Operator

Augusto Ensiki, HSBC.

Augusto Ensiki - *HSBC Global Research - Analyst*

Hi. Good morning, guys. Thank you for taking my call. Just a question -- and I apologize if these have already been answered; I came in a bit late.

But looking at the EBITDA margin growth, is it possible to quantify how much of that is coming from the improved sales mix versus the currency effects and the efficiency gains? And then secondly, if we could go in a little bit more detail into the efficiency gains, how much more can you gain on that front? Thank you.

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

Yes, hi. It was relatively the same share of the effect on the margin improvement. We saw about a third of effect of each of the elements that you just described, both in terms of volume mix, efficiency, and currency. That's pretty much what we saw.

And going forward in the short term, as you know there is seasonality on our results, and the second half of the year tends to be slightly lower than the first half given that the OEMs take production off in July and December for holidays and retooling for new platforms. So overall, we see a slight adjustment as of the end of the year, but associated with the seasonality effect you would normally see every single year.

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

And just to complement what Alberto is mentioning, related to additional opportunities for improvement, absolutely. We're always pushing our entire Company, our entire organization.

We have internally developed some software and tools to help us monitor all the key metrics in every single plant. We're always benchmarking each and every single manufacturing location, and we're always setting very aggressive targets.

So, yes, you will see -- and certainly that's part of our DNA -- that we focus on efficiency. And we will -- which our plan is again to increase the efficiencies and certainly improve our financial results.

Augusto Ensiki - *HSBC Global Research - Analyst*

Great. Thank you very much for that.

Operator

(Operator Instructions) Andrew De Luca, Barclays.

Andrew De Luca - *Barclays Capital - Analyst*

Hi. Good morning. Thanks for taking my questions. The first one is regarding the industry volumes. They increased nicely in Europe, and you managed to grow your volumes about 17% and that was, you mentioned, on the back of strength in Western Europe.

So I was wondering if you could specifically identify which markets within Western Europe you're seeing that strength, and then also if you could tell us what the contribution of Russia was during the quarter. I'm assuming it wasn't substantial, but it would be helpful to get that color. Thank you.

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

Well, I think that's a very good question. Related to the volume increase in Europe, if you take a look at the overall European market you don't see a huge growth in the industry overall. However, we are well positioned in the industry to gain market share based on our technical capabilities and, of course, our competitive cost position.

I think that has indicated many times that we are growing much faster than the industry based on our position and what we can deliver to our customers. Certainly we pride ourselves for having a better technology than our competitors, and that is recognized by our customers, and that is why we are experiencing this 17% increase when the industry is not growing at that level.

Andrew De Luca - *Barclays Capital - Analyst*

Okay, great. And the contribution from Russia during the quarter? Is that something you can disclose?

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

Well, it's very, very small. At this point it's really for us -- it's almost no exposure.

Andrew De Luca - *Barclays Capital - Analyst*

Perfect. Then another question. You mentioned that in June S&P revised your outlook to positive from stable, so that's -- you're on the cusp of being upgraded to investment grade. And some of the metrics that you cited were that you would have to reduce your gross leverage to below 1.5 times and diversify your revenue to below 50% for three of your top -- for your three top customers.

So I guess the question is: How important is it for Nemak to obtain an investment-grade rating? It would be potentially your first at the entity.

And then secondly, if you do see it as something that's important, what steps are you taking to diversify your revenue base?

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

Yes, well, certainly for us it's important and it's relevant to be recognized as a company that has very strong credit metrics. And investment grade I think would be a nice recognition for our efforts.

I think we're in a very solid position, again, to be leveraging our financial exposure. We are, again, in a good track and we are confident that by the end of the year we will be at the level of about 1.5, 1.6 maximum leverage. And certainly that is some of the requirements that the rating agencies have indicated that it's important for them, to achieve those metrics.

Related to customer diversification, certainly we are also making efforts and we are getting new orders from different customers. Certainly we highly value our Detroit 3 customers and respect them a lot. But we are also diversifying, going with a lot of the European, some of the Asian customers as well.

And I think we are also in a good position to capture new contracts, new orders, that will allow us to have a little bit more diversification. So all in all, I think we are well positioned and hopefully, again, the rating agencies will upgrade us in the near future.

Andrew De Luca - *Barclays Capital - Analyst*

Great. Thanks. So just to confirm, it's 1.5 to 1.6 is what you're expecting for gross leverage by the end of the year?

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

That's correct.

Andrew De Luca - *Barclays Capital - Analyst*

Great. Thank you very much.

Operator

Jose Vazquez, GBM.

Jose Vazquez - *GBM - Analyst*

Hi; good morning. My question is regarding machining. At what rate are you -- do you machine internally, and how far are you from your 30% target? Thanks.

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

Yes, I think as we have indicated, we are moving in the right direction. Today we account approximately for a little bit over 40% of the total products to be that we machine in-house. And we continue with our trend of increasing that by the end of the decade to reach approximately 70%.

We're analyzing on a case-by-case basis, but it has proven that this is a good solution not only for Nemak but also for our customers, in which we add value to them by improving the quality, reducing logistic costs, and also getting significantly more value for us and for our customers. So, the answer is yes; we're moving in that direction.

Jose Vazquez - *GBM - Analyst*

Okay, thanks.

Operator

Omar Rodriguez, Credit Suisse.

Omar Rodriguez - *Credit Suisse - Analyst*

Hello, everyone. Just a quick clarification on the European volumes. I understood that some of the incremental volumes came from some contracts that were migrated from North Americas production to Europe. So I don't know if you could tell us: How much did Nemak grow in Europe excluding those programs that were actually lost in North America? That would be the first question.

And the second is, in terms of the EBITDA per unit increasing Rest of the World, I understand the most of the revenues and costs are denominated in local currencies. So what drove the profitability increase in US dollars?

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

Yes, Omar, certainly. On the volumes side, yes, as we discussed, a portion of the reason of the drop in North America had to do with this volume relocation to Europe. That's relatively small at this point in time; it should be around 100,000 equivalent units. But we are seeing as an adjustment for the quarter.

And related to your second question about the EBITDA per unit on the Rest of the World, was -- you see the size of that region for us is still relatively small. And the reason why we saw this slip in EBITDA versus what you saw in volumes is the effect of China, as China really starts picking up with the volumes that Armando explained initially, where we're seeing increase higher than the market as we fill up our capacity and start ramping up the new programs with higher profitability, versus the negative effect that we saw in South America. So that more than compensated that negative effect.

Omar Rodriguez - *Credit Suisse - Analyst*

All right. Thank you very much. And just the last question. When you mentioned efficiencies, it's basically just in-house machining, or is there anything else we should be aware of?

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

No, no. No, we certainly don't consider, again, the integration of more machining as an efficiency. What we consider the efficiency is improving productivity, improving internal and external quality, as well as reducing our cost on a per-unit basis. So those are more related to operational efficiencies.

Omar Rodriguez - *Credit Suisse - Analyst*

All right, great. Thank you very much.

Operator

Valentin Mendoza, Banorte.

Valentin Mendoza - *Banorte-IXE - Analyst*

Hi. Congratulations on your results. I was wondering if you could give us some color on the sales mix. I mean, would you please break down what amount is coming right now from high technology and value-added products, so that we can assess any potential upgrades in the future coming from, let's say, those products that are right now contributing to your revenues but have lower margins, and we could expect further margin expansions in the future?

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

Yes, well, certainly we consider that in our Company most of our products are high tech. We don't take products that are simple or commodity products. We are very selective in the products that we, again, consider to produce for our customers.

However, I think it's important to tell you that over the last maybe four or five years, the complexity of the new engines and transmission cases and also the structural components side, the customers are again looking on how they can make their engines more powerful and more fuel-efficient. And that certainly is a challenge in terms of the complexity of the new parts.

So I will say that the most sophisticated parts that we make are the ones that we were producing over the last maybe four years, up until now. But we are certainly looking that most of the new engine design and transmission cases are coming at more sophisticated levels than before, and that's excellent news.

On one hand, certainly more complexity represents for us an opportunity to again improve our pricing with our customers, as well as differentiated against our competitors -- that they don't have, in most of the cases, the same technological level that we have. And certainly that allows us to position ourselves as a better solution for our customers.

Certainly, we need to maintain competitive in the market, and that's part of the reason that we have been successful. So all in all, I think I can tell you that new products are coming with better pricing than in the past, and we're expecting that we will be continuing improving our profitability.

Valentin Mendoza - *Banorte-IXE - Analyst*

Thank you very much, Armando. Just one more question if I may. Up to now your expectations for Europe -- I mean in the performance of vehicle production -- remains, let's say, strong with further recovery in the coming future. Or you're expecting some Brexit troubles related -- or let's say an effect on your revenues?

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

No, as we indicated, I think it's too early to tell. We have not seen yet any decline in volumes. Most of our plants in Europe are producing at capacity, and we are, again, not expecting a major change.

As I indicated, we will continue monitoring if anything moves in any direction. But so far we have not seen any effect related to Brexit.

Valentin Mendoza - *Banorte-IXE - Analyst*

Okay. Thank you very much.

Operator

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

Maximilian Zimmermann - *Nemak, S.A.B. de C.V. - 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, and have a great day.
