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Business Update Call

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PRESENTATION

Operator

Good morning, and welcome to ALFA's business update conference call.

(Operator Instructions) As a reminder, today's conference is being recorded. Now I would like to turn the call over to Mr. Hernan Lozano, Vice President of Investor Relations. Thank you. You may begin.

Hernan F. Lozano - *Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications*

Thank you, Laura. Good morning, everyone, and thank you for joining us on short notice for a discussion of ALFA's proposed spin-off of Nemark. Additional details can be found in our press release which was distributed on Friday, together with a summarized presentation, both are available on our website in the Investor Relations section.

Making presentations today will be ALFA's President, Alvaro Fernandez; and Nemark's CEO, Armando Tamez; Eduardo Escalante, ALFA's CFO; Carlos Jimenez, ALFA's Senior Vice President of Legal and Corporate Affairs; and Alberto Sada, Nemark's CFO, will also participate in today's call.

During this call, we will share forward-looking information and statements, which are based on variables and assumptions that are uncertain at this time.

I will now turn the call over to Alvaro.



Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

Thank you, Hernan. Good morning, everyone, and thank you for joining us today. Let me begin by saying that I hope everyone is staying healthy and safe. This year has certainly turned out to be a very challenging one. We took early decisive action and have made some difficult but proactive adjustments to adapt quickly to the COVID environment. I have been in press and inspired by how everyone at ALFA and our companies around the world have come together and responded to this crisis. I would like to thank each and every one of our more than 80,000 team members, whose hard work and dedication have been the key drivers behind ALFA's good results during this unprecedented times. In addition to our COVID-related efforts, focus on safety and business continuity, we have kept a sight of our long-term strategic priorities, including unlocking the unrecognized value of ALFA and its individual business units. Our recent announcement about the proposed spin-off of Nemark is a transformational and a game changer for ALFA. Over the years, we have assembled, nurtured and grown a portfolio of diverse companies that are now leaders in their respective industries. Unfortunately though, in spite of the strong fundamentals, ALFA's valuation has generally been penalized with a significant conglomerate discount. In recent years, the disconnect between ALFA's share price and the underlying value of its business has grown to unacceptable levels. In order to unlock ALFA's high-value potential, we believe it is in our shareholders' best interest to begin a gradual shift towards wholly independent business manager as opposed to the current conglomerate structure. The proposed spin-off is the first step in this direction. Looking back, we executed Nemark's IPO in 2015, maintaining approximately 75% ownership at ALFA. Since then, Nemark has consolidated its position as a leading provider of light-weighting solutions to the global automotive industry. Nemark is a mature business, in the sense that the company has demonstrated its ability to operate fully separate from the parent. Nemark holds a leading industry position and attractive growth prospects as it builds upon its world-class capabilities to serve its customers growing sustainable mobility needs, including electric vehicle components. You will hear more about Nemark's strong financial and business position from Armando later in this call. The proposal is to spin-off ALFA's shareholders -- to ALFA's shareholders, our 75% ownership of Nemark, into a new publicly traded entity that I will refer to as Nemark Holding. ALFA's shareholders will receive 1 share of Nemark Holding for each of their ALFA shares. By doing this, we're effectively transferring full operational and autonomy to ALFA's shareholders. In addition to unlocking value at the ALFA level, we believe this is also an attractive means for maximizing value for their subsidiaries as a standalone entities. As a fully independent business, Nemark should be valued on its own merits and growth opportunities. We are planning a gradual and orderly transition process on the proposed spin-off, Nemark's board of directors and management would remain the same, and the company will continue getting all our support to ensure a smooth transition. We are committed to maintaining the highest corporate governance and financial standards across the business.

A few comments on the timing of the proposed spin-off. The announcement of extraordinary shareholder meeting went out on Friday. The meeting is scheduled for August 17. Upon shareholder approval, we would expect the spin-off to occur within a 60-day timeframe. Once the spin-off is affected, also we no longer have an equity ownership in Nemark. The spin-off is subject to the usual and customary approvals.

I will now turn the call over to Armando Tamez, Nemark's CEO, to elaborate on the company's prospects as a fully independent business. Thank you.

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

Thank you, Alvaro. Hello, everyone, and thank you for joining us for today's call. I would like to begin by reinforcing what Alvaro just mentioned. In terms of Nemark business and strategy, upon approval of this transaction, the composition of our management team will remain unchanged. We will remain committed to holding higher standards of corporate governance, and we will maintain our unwavering efforts to leverage our technological capabilities in vehicle light-weighting and electrification to drive sustainable long-term value creation for Nemark stakeholders. Thanks to the contributions of our extraordinary talented workforce, we continue to strengthen our leading industry position. But at the same time, making progress towards a further diversification of our product portfolio, particularly to the ramp-up of our structural and electric vehicle component. Over the years, the values and culture of ALFA have served as a guiding light, supporting the growth and transformation of Nemark, and we will proudly carry this heritage with us into the future. Nemark operates as a standalone business, both operationally and financially. As you may already know, it funds investment with its own cash flow, and it does not rely on corporate loans or guarantees from ALFA. Additionally, it has paid approximately \$710 million in dividends to shareholders since 2014. I will also highlight that being a publicly traded company has helped facilitate direct access to diversified sources of funding. The public listing of the remainder of Nemark shares will represent a new milestone in this regard, potentially supporting the stock liquidity and valuation, while helping us to reach an even broader community of investors. The proposed spin-off will also complement our continuous pursuit of efficiency in our operations. We expect that the more streamlined -- streamline corporate

structure will help us to reduce our fixed cost and expenses, reinforcing our already extensive efforts to make our operations leaner and more agile, amid the pandemic. Moreover, being fully independent, will give us increased flexibility to use cash flow to fund growth initiatives. As Alvaro mentioned, we see becoming a fully independent company as an opportunity to unlock value for Nemak's shareholders. Given our human talent, our customer relationships, and our global footprint, I am confident that we have everything we need to emerge stronger from this extraordinary period and capitalize on industry recovery, while at the same time, building an even more robust foundation for tapping into long-term growth opportunities across powertrain, structural and electric mobility applications.

With this, I conclude my remarks. And we'll now hand the call to Hernan.

Hernan F. Lozano - Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications

Thank you, Armando. Operator, please instruct participants to queue for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Vanessa Quiroga with CREDIT SUISSE.

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

Hello, can you hear me?

Hernan F. Lozano - Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications

Yes, Vanessa.

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

My question is regarding the timing for the full plan to be unfolded, including Alpek's full spin-off? And how crucial do you think that complete sale of Axtel is to unfold?

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

Thank you. Let me take that. This is Alvaro. Thank you, Vanessa. I guess it's a multiple-answer question. Well, first, as you know, we have the Axtel process going on as we speak, and we expect to conclude it by the end of the year, hopefully, beginning of next year at the latest. So in a sense, we are having 2 processes at the same time: One is this that we're talking about, Nemak; and the other one is the sale of Axtel. With regards to Alpek, I think we need to do these 2 processes first, get the proceeds from Axtel into the holding. And then we can do the next one, let's say, the final move, which would be to make Alpek independent. We do not have necessarily a timing already, but it's definitely a move we will make at some point in the future.

Operator

Our next question comes from the line of Nikolaj Lippmann with Morgan Stanley.



Nikolaj Lippmann - *Morgan Stanley, Research Division - Equity Analyst*

Very interesting move, and thanks, Álvaro for clarifying. It's certainly going to make it easier, I think, for us to write about it. Now my question is, what do you think would be an adequate level of debt at the Sigma? If we think about the level where you would potentially collapse the holding into Sigma? How much of the holding company debt do you think that Sigma potentially could or should hold? That's one.

And number two, could you talk a little bit about the importance of fiscal planning in relationship with all of this? Also, if that you see any fiscal risks to the number of different transactions that you're doing. We've seen several Mexican companies being involved with different fiscal things this year. Is this something that have played into the decision to spin-off first Nemak and potentially, later Alpek. And again, congratulations.

Álvaro Fernández Garza - *Alfa, S. A. B. de C. V. - President & Director*

Thank you, Nikolaj. I think 2 very good questions. I think Sigma, in my opinion, can take a lot of debt, much more than as now because it has an ability to produce cash flow -- a steady cash flow every year. So it's relatively very predictable to have it that way. But at the same time, it's a company that we want to grow. So as we have seen in the past, we bought Bar-S, and we took the leverage ratio much higher than 3.5%. I don't remember exactly, and then it came down again, and then we bought Campofrío, and it has been a little bit the story. So going back to your question, we don't really like to -- we think we can handle a lot more to bring it back to 2.5%. It has always been our target, and we will continue to strive for that. But it's very difficult to predict as of now, especially with the COVID environment, what's going to happen. We have seen that Sigma is doing much, much better than we thought, except for the Foodservice division. But other than that, and even throughout the different geographies, it has done a lot better. So we expect leverage to come down slowly but surely within the next quarters.

Regarding the fiscal, let's say, as you said, some other companies have been involved in many strange things that have to come, really from the past administration that has concluded at this time. We don't expect any problems regarding that. I think the price of Nemak, it's public, it's right there. And the book value, it's right there. So we don't expect any issues on that, any reactions from the authorities. I don't know, Carlos or Eduardo, if you want to add anything to that. But it's very -- for us, it's a very transparent operation. Again, the price is public, and the book value, it's very straightforward. So we don't see any issues with that.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

This is Eduardo. Good morning to you all. And just to complement what Álvaro is saying, let me mention that the spin-off is the most effective mechanism to do this from several points of view, from the cost point of view, timing, transparency, and the merge optionality of Nemak Holding and Nemak in the future. So we think this is the most effective mechanism. I would also like to point out that there is no tax impact from Nemak in this transaction. ALFA will be subject to income tax based on the spin-off price, but there is no tax impact for Nemak. Carlos, would you like to add something?

Carlos Jiménez Barrera - *Alfa, S. A. B. de C. V. - Senior VP of Legal, Audit & Corporate Affairs and Secretary of the Board*

This is Carlos Jiménez. If I understood the question that was asked to us, there is one part of the question that I believe we have not addressed. That is the fact that there is no trigger based on fiscal considerations that we are doing this spin-off. I believe that you made a reference to some of the other cases that have going on in Mexico that have resulted in the deconsolidation of some subsidiaries. We don't have any of those triggers base towards explaining our transaction.

Operator

Our next question comes from the line of Eric Neguelouart with Bank of America.



Eric Neguelouart - *BofA Merrill Lynch, Research Division - Research Analyst*

[Following Jimenez] a little bit more clarity. So I have 2 questions on my side. First one is, as you decompose ALFA's structure going forward, but services several subsidiaries, have you estimated what the impact on your cost base will be or on your margins for each subsidiary?

And my second question is for Nemak shares. I would want to do the spin-off. Will the holding share 5% voting rights over the existing Nemak shares or what will be the case?

Álvaro Fernández Garza - *Alfa, S. A. B. de C. V. - President & Director*

(foreign language)

Carlos Jiménez Barrera - *Alfa, S. A. B. de C. V. - Senior VP of Legal, Audit & Corporate Affairs and Secretary of the Board*

We'll take that question. Give us one minute please. The spin-off company, which is going to be a newly created company, will have 100% of its shares with full voting rights. There will be no difference between one share and the others that are going to be issued by that company.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

And thank you, Eric, this is Eduardo. Regarding your first question, we understood that you wanted to have the estimated impact on margins on the subsidiaries?

Eric Neguelouart - *BofA Merrill Lynch, Research Division - Research Analyst*

Correct. As you roll down the cost structure from ALFA.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Sure. Sure. We do not expect any significant impact on the margins of the subsidiaries. We think the subsidiaries are already a very, very independent business by themselves even today. There are a few services that are provided by the holding company, but those are really nothing, I would say, significant in terms of costs. But in the future, we expect the subsidiaries to have them by themselves. And let me turn this to Armando Tamez, so he can give you his view on how he expects the costs to move into the future, given this transaction and the margin expectations that he had from Nemak.

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

Thank you, Eduardo. As we were commenting on my presentation, certainly, we received today some support from -- basically from the financial area from ALFA as well as also the legal side. As Álvaro indicated, we will have a smooth transition in which we are planning to continue receiving these services for a short period of time. And then we will, on our own initiatives, look how we can support these services that we are getting now from ALFA. We expect that we will have some cost reduction by moving into this direction. And certainly, as Eduardo is indicating, the cost of those services is not that high. However, we are always looking for opportunities to further reduce our cost structure.

Álvaro Fernández Garza - *Alfa, S. A. B. de C. V. - President & Director*

Eric, if I may, I saw what you wrote, I think, was some days ago. Are you concerned of the -- when you say margins, are you concerned with the cost structure that these companies will need to keep growing by themselves? Is that what you're saying?

Eric Neguelouart - *BofA Merrill Lynch, Research Division - Research Analyst*

Yes. Correct.

Álvaro Fernández Garza - *Alfa, S. A. B. de C. V. - President & Director*

Okay. Now, in that sense, I think the answer has been already answered, I think. These companies are really quite independent by themselves. The idea is to make them -- even Sigma and Alpek to make them as independent as possible from the holding, and the idea of all this is to reduce the conglomerate discount. So in the end, it is more to have a holding company, not a conglomerate. And yes, of course, as Armando just said, some of these services will have to be now paid or by themselves. But we don't expect any significant increase in that structure. Otherwise, it will be sort of defeating the purpose of doing this.

Operator

Our next question comes from the line of Greg Magnuson with Neuberger Berman.

Greg Magnuson

I was hoping, Hernan, that you might just speak briefly to the credit implications of the proposed transaction and perhaps, any ongoing conversations with the ratings agencies. Obviously, S&P looks to be the most at risk, and I wonder how you think about potential downgrades to the complex and particularly, Alpek, which you'd de-risking falling to BB+. If you could speak about that, I'd appreciate it.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Thank you, Greg. This is Eduardo. Thanks for the question. We have been in touch with the rating agencies to explain this transaction. The first step, the Nemak spin-off as well as the whole plan since late last week. We agreed with the 3 agencies to sit down in the next following days with them to review the details and the financial projections for each one of the companies, again, within the next following days. So I will wait until we have those meetings to see what their final position -- their final position is. And let me mention how we see these transactions from the point of view of credit risk for our companies. We do think that maintaining Alpek and Sigma within ALFA, and of course, these 2 companies are the -- by far, the largest providers of dividends to the holding company between both of them is around 80%, close to 80% of the dividend. So we don't see an increased credit risk at this time for ALFA. As you know, both Alpek and Sigma have been through this pandemia with a very resilient results. Demand for the volume of their products is quite strong, and we expect them to continue having a very solid results. In addition to that, the strategic alternative is that we are looking at in the case of Axtel, we think we'll be able to close the transaction to sell either the infrastructure business unit of Axtel or the whole company very soon. And by very soon, I mean, within 12 months. And if you look at the expected value for Axtel sales, the employed value for ALFA is larger than the total Nemak dividends that we have received in ALFA in the last 10 years. So we are confident that with this transaction, plus the support of Alpek and Sigma, we will be in very good shape.

One additional comment. You have to realize that the Axtel transaction, we expect the value also to be larger than all the previous monetizations, all the monetizations we did in 2019 in ALFA, including the Cogen assets at Alpek. So again, it's going to be a very, very significant for ALFA. And in addition to that, we will continue maintaining the financial discipline and strong corporate governance not only in ALFA, but also in each one of the company. So we are confident that there is no significant increase in risk in terms of the creditworthiness of ALFA and its companies.

Greg Magnuson

Okay. And just to clarify, though, there have been no concrete commitments from the agencies to wait and see through to the Axtel transaction? Or is the expectation that there'll be patient and wait to see that divestiture happen?



Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Again, what we asked them was for the opportunity to sit down with them, and we agreed to do so in the next following days to explain them the details of the transaction, and what we -- what are our plans going forward. We did share with them the general overview so -- as we are doing today during this call, but we will be reviewing the transaction later in the week.

Operator

Our next question comes from the line of Gilberto Garcia with Barclays.

Gilberto Garcia - *Barclays Bank PLC, Research Division - Assistant VP & Equity Research Analyst*

Alvaro, you have, in the past, talked about the many different options that the holding had to invest in its various businesses. With this transaction, are you basically saying goodbye to that option? What is the end state of the holding? You mentioned that you will shift from a conglomerate to a holding. So what is that holding going to look like?

And then, on the structure of having this Nemark holding entity. What is the reason for this? Why not just give shareholders a share? Or give out direct shares of Nemark? And then will you, at some point, merge the Nemark Holding in the operating subsidiary?

Álvaro Fernández Garza - *Alfa, S. A. B. de C. V. - President & Director*

Yes. Thank you. The end state is, yes, to have all of them -- I mean, look, not too long ago, if you bought ALFA, you were buying petrochemicals, you were buying energy, you were buying food, you were buying other parts, you were buying a lot of things. So it's difficult not to say we weren't a conglomerate, even though we saw a lot of attributes and value to that. But in the end, what we have is really through the 3 strong by now, I would say, very independent companies. So it's Alpek, it's Sigma and it's Nemark. So yes, in the end, we will have the 3 independent companies. And if you have a percentage of ALFA, you will end up having a percentage of each of the 3 companies. In the end, what you will have is really a collapse between ALFA Holding and Sigma. So immediately, it will be public, Sigma by doing that. Mainly some little businesses will remain, some businesses a give share services, some real estate too, but the main asset at the holding would be Sigma. To your point, at the end -- the end state. With regards to the 2 Nemark's, yes, there would be some point that they will be merged, and it will only be one stock.

Carlos, I don't know if you care to develop on that.

Carlos Jiménez Barrera - *Alfa, S. A. B. de C. V. - Senior VP of Legal, Audit & Corporate Affairs and Secretary of the Board*

Yes. Let me also address one part of the question that asked, whether we did analyze a different structure of the transaction by delivering shares of the existing legal entity of Nemark. And the answer is, yes. We review that, but we found that it was most effective to do it through a spin-off, (foreign language) as it is called in Mexico. So we found out that this is the most effective way, and we are handling the transaction in such a manner. The consolidation of this newly created company, the company that is going to be spin-off and to which ALFA will be transferring its equity participation in Nemark. It's something that we have contemplated, and it's something that will take place in the future. We have not decided exactly when, but at the end of the day, the 2 companies will be consolidated into one.

Gilberto Garcia - *Barclays Bank PLC, Research Division - Assistant VP & Equity Research Analyst*

Okay. Understood. And a follow-up, if I may. Then is it fair to assume that there will not be an IPO of Sigma eventually? Would there be a follow-on or something of the like later on?



Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

Well, I mean, in the end, when you spin-off Alpek, you truly have, as I said, the only asset in ALFA with be Sigma, and it would be public by itself. So I just -- I guess you could do a follow-on, but not an IPO because it would be -- if you have the only main asset at the ALFA level is Sigma, then by itself is public. And that's the reason we're doing it because then you untap the value of Sigma, you can only value ALFA as a food company.

Operator

Our next question comes from the line of Ivan Fernandez with Pictet.

Ivan Fernandez - Pictet Asset Management Limited - Analyst

And most of my questions have been answered. Just one quick follow-up on the timing for this venture spin-off of Alpek and the merger of Sigma with Alpek itself. I know you said earlier, you don't have a definitive timeline yet, but can you just give us some sense? Are we talking about something in the next 6 to 18 months? Are we talking about something in the next 5 years? Just a rough timeframe or even how you're thinking about that timeframe would be quite helpful for us.

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

It's really a very difficult question to answer, to be totally honest. We have not, Ivan, given much thought about it. I know it's not a great answer, but it's as fast as possible, but definitely not within the next 6 months. I think we have 2 huge things to be doing now, which is Nemak and then the sale of Axtel. So -- and again, we will have to see what the proceeds from Axtel would be to the holding. And then there was an earlier question regarding what the leverage is, and we need to analyze all that. Perhaps, by the beginning of next year, we can give you more clarity and more just a reasonable expectation on time, but I don't know. That's -- I don't know, Eduardo or Carlos, if you care to add anything to that, but it's very difficult to answer that, Ivan, as we speak.

Eduardo Alberto Escalante Castillo - Alfa, S. A. B. de C. V. - CFO

Yes, this is Eduardo. And thanks, Ivan. Yes, for the whole process, the future steps is very difficult to give you a timeline, as Álvaro mentioned. In the case of Nemak's spin-off, there is going to be an extraordinary shareholders meeting for ALFA as it was published on August 17. And as Alvaro mentioned previously, we expect to do Nemak's spin-off within a 60-day window following that shareholders' meeting.

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

And Ivan, if I may add to that, the -- what we are definitely doing now is making sure that Alpek and Sigma start to work fully independent. So we are preparing them to be completely ready, let's say, in 6 to 8 months. So when we trigger the next step, there wouldn't be any issues, and they would be very easy to do the transaction.

Ivan Fernandez - Pictet Asset Management Limited - Analyst

Okay. Just one very quick follow-up as well. You mentioned that the expected proceeds from Axtel are greater than all of the dividend Nemak has ever paid to ALFA. Can you just give us -- just for me to save the work over and look for that number. How much more or less has Nemak paid in total to ALFA over the last 10 years?



Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Yes. This is Eduardo again. Over the last 10 years, ALFA has received dividends from Nematik around \$600 million. Just one clarification. That is only for the portion that ALFA has received, not full dividends, of course, where we have to include the whole universe of Nematik's shareholders.

Álvaro Fernández Garza - *Alfa, S. A. B. de C. V. - President & Director*

Yes. Just to add on that, Eduardo, thank you. We have paid already, since 2014, to the shareholders of Nematik, \$710 million so far.

Operator

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

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

I have 3 questions. The first one is, this is what investors have been waiting for a long time. My question is, why right now? What made the Board change its mind? Could you give us more color on the Board discussions, Álvaro?

The second one is, if you could give us -- since there is a lot of questions about your debt. If you have an estimate of the land bank you have or the corporate offices of ALFA?

And the last one is related to your corporate expenses. If you have a guidance after the spin-off of Nematik, what should we see thinking that currently, they are around \$50 million?

Álvaro Fernández Garza - *Alfa, S. A. B. de C. V. - President & Director*

Yes. Thank you, Alejandro. Here's a few things there. Yes, the corporate expenses are \$50 million, but they have been \$50 million for the past 10 years. So -- and ALFA has probably doubled in size and tall in EBITDA in the past 10 years, perhaps not including this year for extraordinary reasons. But the the expenses have not really increased much in the past, again, 10 years. But yes, of course, doing this would definitely mean a big reduction in corporate expenses. Slowly but surely as, again, each company becomes more independent. I wouldn't really want to give you a number right now because I don't have it. But in the end, we are in the middle of the process of talking to all the companies, not only in Nematik, but Alpek and Sigma as well. To -- we're having these discussions to say what services you need, what services you all need. And in the end, have a quite large reduction in corporate expenses because then these services would not be required as a central service.

Regarding, why now, there are many answers there, but I would say, we have been thinking about this for the past 10 years. It was just very, very difficult to do because each company has been growing at fast steps. I think now there -- especially Nematik has been very independent, and they have a strategic path to go to. And I would say, the other thing was that we realized that we could go ahead with the Axtel sale or process, and we thought that it was a very good timing. With the price of Nematik's shares, it makes it also very, let's say, easier to do that in this level.

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

And one more, if I may, Álvaro. Would you say dividends at the ALFA level will now be canceled as that there is no reason to maintain them? Or what can you comment on that?



Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

Well, you will now have dividends from, let's say, in next year. You would have dividends from ALFA coming from Sigma and Alpek, and you will have dividends from Nemak, if you stay with your position of Nemak. So in the end, there shouldn't be any huge difference. If any, if the companies keep doing well, you might even receive more dividends from the 3 separate companies. So yes, it would depend really on -- as any other company would depend on the cash flow that you are generating each year. I think this year has been tough, but we don't expect any significant reduction on the dividends as an individual shareholder.

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

But I mean at the holding level, at ALFA, why would you continue paying dividends if you want to get to Sigma, and you still have debt at the holding level?

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

I'm not sure I understanding you Alejandro. I think we are a public company and all the companies are expected to pay dividends, and I think it's only a discipline that we keep paying dividends. And at the same time, making sure that you honor your debt payments and all that. So it's just, I guess, a part of doing business is to share some of the profits with the shareholders, but maybe I'm not understanding you.

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

It's okay, Álvaro. Thank you again for...

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

No, no, no, Alejandro. If I'm not making -- if I'm answering, please, go ahead. Eduardo, I don't know if you care to pitch in.

Eduardo Alberto Escalante Castillo - Alfa, S. A. B. de C. V. - CFO

Yes. Thank you, Álvaro, and thanks, Alejandro, for the question. I think it's very important to remember that a key element for the reduction of the debt at the holding company is going to be the sale of Axtel, either the infrastructure or the whole company. So that's going to be key again, and we do expect that transaction to close within the next 12 months.

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

And Alejandro, the other bond is due in 44. So I think we have a lot more time to figure that one out. The other one is in 24. We cannot even prepare it now. So I think with time, we are confident that we are able to pull ahead and pay all the debt at the holding level. Sorry, I didn't understand before.

Operator

Our next question comes from the line of Jacob Steinfeld with Ashmore.



Jacob Steinfeld

I had a follow-up question sort of on the debt and sort of the rating implications because it's always been, I believe, important for the company to maintain its investment grade rating at the holding company. But if I understand what you're trying to do here, so first, you'll spin-off Nemak, which is a relevant asset for the holding. And then later, you'll do the same with Alpek, and also sell your 53% stake in ALFA or sell the infrastructure business of ALFA -- I mean Axtel, and then use some of the proceeds to send up to the holding company. But is the plan to use those proceeds from Axtel to repay the 24s, and therefore, you have the 500 million of the 44s remaining, which will effectively become debt of Sigma when you merge those -- the holding and Sigma together. Just trying to understand what this will look like? And how you expect to maintain your IG ratings with spinning off, I guess, 2 of the relevant subsidiaries and selling still more portion of it.

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

Well, you have to remember that both Alpek and Sigma are investment grade. So we don't -- I mean, it's -- as you said, it's a significant division that we are spinning off, but again, those 2 companies are investment grade. And I think there shouldn't be an issue because they will be, hopefully, continue to be investment grade. But I think, Eduardo, you have talked more to the rating agencies in the past days. I don't know if you want to add anything?

Eduardo Alberto Escalante Castillo - Alfa, S. A. B. de C. V. - CFO

Sure, sure. Thanks, Jacob. I think it's very important to realize that we plan to do the Alpek spin-off from ALFA when we have, say, a level of debt, the holding company that is managed just by Sigma, given that at that point in time, Sigma will be the only company within the ALFA structure. So that's something that we will be carefully looking at. How we are going to do it if we are going to pay early or on time the 24 bonds or not, that is something that really depends on the sale of Axtel, but also on the market conditions going forward. So that is not something that we are ready to tell you if we are going to pay, and when we are going to pay those bonds, and we are going to instead reduce some data is at the Sigma level in order to be able to merge those companies. But again, the plan is to do that when Sigma has -- is able to manage that debt. We do -- we are committed to our investment-grade in ALFA, Sigma and Alpek, and we plan to continue being extremely disciplined in terms of financials within ALFA and those companies that remain in ALFA's universe in order to continue with those rating grades.

Jacob Steinfeld

Okay. So you're not -- you will not spin-off Alpek until the Axtel transaction is completed, and therefore, you have enough cash to try to reduce the \$1 billion of bonds you have with the holding company, otherwise Sigma would effectively be assuming 100 -- \$1 billion in debt. Is that a fair statement?

Eduardo Alberto Escalante Castillo - Alfa, S. A. B. de C. V. - CFO

That is correct. It's a fair statement. And that is one of the reasons why we are not doing every one of the spin-offs at this time. If you think about it.

Operator

Our next question comes from the line of Jean Bruny with BBVA.

Jean Baptiste Bruny - BBVA Corporate and Investment Bank, Research Division - Chief Analyst

Most of them have been answered. But actually, I would like to maybe specify the spin-off will have some impact on the capital allocation at Nemak, which is -- it will not be following anymore, the 1.5 to 2.5x net debt EBITDA, for instance? Or have a new view on dividends? Next one will be on

the potential orders to the spin-off or if maybe we need an agreement with Ford? Or what can be the delays in the 60-day timeframe you just been giving to us? And the last one is more qualitative maybe. It's regarding the, let's say, the impact of the spin-off on ALFA. I mean Nemark has been a part of ALFA for 30 or 40 years, have a lot of people at management at that were part of ALFA or the subsidiaries. What is the approach for the company of different companies one to probably moderate the current impact of this spin-off on the different (inaudible) groups.

Hernan F. Lozano - Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications

John, let me ask you, please, to restate question number two and question number three, since we didn't quite get them, please?

Jean Baptiste Bruny - BBVA Corporate and Investment Bank, Research Division - Chief Analyst

Yes, sure. The first one was on the capital allocation. All the subsidiaries of ALFA have been following the 1.5 to 2.5x net debt-to-EBITDA as a target. Just to know if it will change with the spin-off? And the second one was on (inaudible) or the potential hurdles to the spin-off. I don't know if you have seen any, what -- basically what may delay the 60-day timeframe you have set for the spin-off of Nemark.

Hernan F. Lozano - Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications

That's clear. Give me one second, please.

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

This is Armando. Maybe I can answer the first part of the question. Related to the debt, I think Nemark is -- this transaction is approved. Certainly, we will leave ALFA with our own balance sheet, our own debt. We are not taking any debt from ALFA. That's the first point. Related to the capital allocation for Nemark, we will continue with the same discipline that we have characterizes for the last years. Just to remember for everybody's benefit, we have 6.5 years with a leverage ratio of less than 2x, and that's the discipline that we would like to maintain. Certainly, this year has been very tough due to the pandemic, and -- but we will continue as soon as the market starts gradually recovering to go back to these levels in which we will have less than 2x leverage as our policy that we would like to implement at Nemark. For the capital allocation, certainly, we expect that with the cash flow generation that we will create that we will have great opportunities to further invest in more electrification, structural components and certainly continue growing our business.

Eduardo Alberto Escalante Castillo - Alfa, S. A. B. de C. V. - CFO

This is Eduardo. Jean, let me add to what Armando just mentioned. It is important to consider that Nemark spin-off will be the complete legal entity that you know as Nemark, the public company that you know today, it will not take any additional liabilities from ALFA or any one of the other companies, neither it will leave any liabilities. So Nemark has been, as Armando has mentioned, one in pretty much as an independent company with its own capital allocation process.

And regarding your third question, the delay potential or not delay on 60 days to do the Nemark spin-off, first of all, it has to be approved in the shareholders' assembly. So we need to wait and see what happens. And certainly, it is subject -- the spin-off is subject to market conditions. We need to monitor what is going to happen in the next weeks or months and see what happens in the financial markets as well as in other markets. Carlos?

Carlos Jiménez Barrera - Alfa, S. A. B. de C. V. - Senior VP of Legal, Audit & Corporate Affairs and Secretary of the Board

Jean, are you on the line?

Operator

Our next question comes from Matias Vammalle with Bluebay Asset Management.

Unidentified Analyst

Of course, some of the topics have been touched upon, but I want to follow up a bit on the debt because the financial discipline that so characterizes you as you pointed out, having so many years under 2x net leverage, et cetera, et cetera. Seems like either this was not given a big consideration this time around or someone forgot to ring S&P because whilst you hope that your ratings are going to be maintained, S&P initially, these seems to feel differently. And so whilst it's great that you're going to engage with them after the fact, I wonder what perhaps drove the consideration of not engaging them before the fact. And once the Axtel sale is completed, if you're considering to inject equity or capital in Alpek, potentially to avoid a downgrade, given that that remains a big risk from S&P. Nemak doesn't seem to be at risk. Sigma will be blended into ALFA, and so of course, it's going to benefit from those proceeds directly. But whether -- as I said, whether any potential kind of downstreaming of capital or injection into Alpek if that were needed to avoid a downgrade is a consideration?

Hernan F. Lozano - Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications

Matias, and before we answer your question, let me just state that, unfortunately, Álvaro has a hard stop at 11:00 a.m., but the rest of the team will stay here to answer the rest of the questions. So in this case, I know...

Álvaro Fernández Garza - Alfa, S. A. B. de C. V. - President & Director

I'm in here for a few -- I'll be here for a few more minutes, but I think this question from Matias could be answered by Eduardo has to do with the rating agencies.

Hernan F. Lozano - Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications

Absolutely.

Eduardo Alberto Escalante Castillo - Alfa, S. A. B. de C. V. - CFO

Yes. Matias, this is Eduardo. And again, thanks for the question. Well, as I mentioned earlier, we did engage in communications with S&P to explain to them the transaction and the whole plan, and why we think there's no increased risk, credit risk in the companies, either in Alpek, Sigma or ALFA, in particular, considering the transaction, the potential transaction that we plan to do in Axtel. And again, we'll be talking with them this week, and hopefully, we'll be in a much better position to sit down with you and talk about a detailed answer to your question and concern after we talk to them and see where they stand. Today, I think we first need to sit down with them and talk to them.

Unidentified Analyst

Okay. Just perhaps an afterthought, which has not been highlighted at all, maybe it's not in the cards. But given the separate spin-offs that you're going to be carrying out, is it contemplated at some point in the future? Or is that then potential sales of those shares, whether it's at Nemak or at Alpek could be carried out? Since it's going to be probably just legally, logistically a little bit easier to ultimately sell out of those assets.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

ALFA wouldn't sell-out of those assets. ALFA would effectively transfer its ownership stake in each of those companies to ALFA's shareholders. So really, there is no cash flow for ALFA from the spin-offs themselves.

Unidentified Analyst

Got you. No, no, no, I thought it ultimately, but I understand that it kind of addresses the question, but I never thought -- I never assume there would be any cash flow into ALFA from this transaction. In my previous question, I was referring to cash flow from the Axtel sales. But thank you. That's -- that clarifies it.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

And we'd be happy to follow-up offline.

Operator

Our next question comes from the line of (inaudible) with (inaudible).

Unidentified Analyst

Yes. My question is regarding the tax implications. I mean, I understand that, I mean you spinning off this Nemak holding, which is a new vehicle. Is this going to have any tax consequences? And this is the reason why you are doing a holding instead of spinning out the the Nemak already listed vehicles. And just to understand, if -- should we think of a similar structure when you do outlook? Are you planning to do like an Alpek holding as well?

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Thank you. Let me try to clarify the tax issue. As we have said, there is no tax impact for Nemak. Now on the ALFA side, ALFA will be subject to income tax base on the spin-off price -- the price of Nemak shares versus the shares cost basis that we have in ALFA. There will be no other tax implications -- significant tax implications regarding the transaction. Now in the case of Alpek, the plan is to do an Alpek spin-off. The exact conditions will be defined when we do it, depending on where we stand and the market conditions at the time. I think it's too early to define the details of how -- and again, when we plan to do.

Unidentified Analyst

Okay. But for Nemak, it's -- I mean, so ALFA will have to pay taxes, I mean, based on the book value that those Nemak shares are today and the spin-off value. If that's the case, why are you doing a holding and not just spinning out the list of vehicle in one step? I mean, why do we need to do to 2 steps? First, the holding and then managing both entities.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Doing a spin-off of a new legal entity that owns the 75% shares of Nemak that ALFA owns today is the most efficient way to do it, both for ALFA as well as for the shareholders of ALFA in order to have the best possible transparency and cost and timing to do this transaction. If we had given the shares of Nemak directly to ALFA's shareholders, if we have cost and timing applications that we wanted, and also other implications for ALFA that we wanted to adopt.

Carlos Jiménez Barrera - *Alfa, S. A. B. de C. V. - Senior VP of Legal, Audit & Corporate Affairs and Secretary of the Board*

Let me add -- this is Carlos, let me add just a couple of 2 different issues. Regarding the spin-off, it's not going to be the book value. What we're going to be comparing against the market is going to be tax-adjusted cost, which is a different figure. And secondly, we did analyze other routes, different from the spin-off, and some of the efficiencies that we were referring early on the call is that the other routes were routes in which the actual shareholders will be assessed with certain amounts of income that are going to be deemed by the Mexican tax authorities. So we thought that it was much more efficient to align the tax consequences on ALFA and avoid delivering any tax consequences to our shareholders.

Unidentified Analyst

Congratulations.

Operator

Our next question comes from the line of Michelle Gables with UBS.

Unidentified Analyst

Just a quick follow-up from the credit implication. Is there any risk that this transaction will trigger any change of control triggering events, considering the indenture of Nemark senior notes? And are you expecting to call -- is that the case for any consolidation to holders? Or what are you considering on this topic?

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Michel, this is Eduardo. We do not expect to have any change of control implications since the ultimate direct ownership of the -- of Nemark of the company is substantially the same immediately after the transaction as it was prior to the transaction as it is today. So we'll be sitting down with the major bondholders, both of ALFA and Nemark, in order to explain to them the transaction as well as how the companies look going forward. We will be sitting down with -- actually, some of you and the rest of the main bondholders in the next following days. But now, we do not see any implication.

Operator

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

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

Just a follow-up. There is a lot of interest from international investors, but a lot of uncertainty in the trading side, given the the cap on the (inaudible) Trust. Is there any news regarding the drop? Could you give us a timeline on this?

Carlos Jiménez Barrera - *Alfa, S. A. B. de C. V. - Senior VP of Legal, Audit & Corporate Affairs and Secretary of the Board*

Yes. The news, I believe that remain the same as we had explained before. We are fully aware of the issue. We are working expeditiously to increase the threshold that nowadays is [50%]. We're trying to increase that. We have already started the process. We have already initiated exchanges of documents and information with all the parties involved, and we don't have any specific timing for clearing these processes. We believe that it will take us probably more than the next 2 or 3 weeks, and we expect to be ready with an increased threshold within the next month.

Operator

Our next question comes from the line of Nikolaj Lippmann with Morgan Stanley.

Nikolaj Lippmann - *Morgan Stanley, Research Division - Equity Analyst*

Again, sorry for coming back. So with the kid -- I'm sorry for asking in such an informal way. But with the kids kind of moving out and becoming independent, you guys are going to have a love space on the in ALFA headquarter campus. How should we think about that? Is that something that you could be thinking about monetizing as well? And so that's the question.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Nikolaj, thanks. Yes, as you know, ALFA owns a prime land here in Monterey. And certainly, if in the future, the holding company reduces its size as expected, we'll be in a position to monetize that land. We think is -- as we mentioned, is very valuable.

Operator

Our next question comes from the line of Gilberto Garcia with Barclays.

Gilberto Garcia - *Barclays Bank PLC, Research Division - Assistant VP & Equity Research Analyst*

Can you give us an estimate on the tax that you will incur because of the transaction structure. And I know it's very early, but would it be something similar in proportion once you do the same process with the rest of the subsidiaries.

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

Gilberto, again, this is Eduardo, and thanks again. Yes, the preliminary estimation that we have -- and we included that in the information memorandum that was published recently is a net tax of MXN 600 million, roughly. Again, it will depend on what happens from today until -- within the next few weeks until the date of the spin-off -- the actual spin-off, but that's our initial estimate.

Gilberto Garcia - *Barclays Bank PLC, Research Division - Assistant VP & Equity Research Analyst*

And if you do this process with, say, Alpek, do you have any rough estimate on the potential size of that Alpek?

Eduardo Alberto Escalante Castillo - *Alfa, S. A. B. de C. V. - CFO*

No, not really, Gilberto. We'll have to wait and see where we stand at that time regarding Alpek's shares and market conditions.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back over to Mr. Hernan Lozano for closing remarks.



Hernan F. Lozano - Alfa, S. A. B. de C. V. - VP of IR & Corporate Communications

Thanks to everyone for your interest in ALFA. If you have additional questions, please feel free to reach out to us. We would be pleased to assist you. We also extend our best wishes to you and your families to stay safe and healthy. Thank you for joining us today, and have a very nice day.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.

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