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PRESENTATION

Operator

Good morning, everyone, and welcome to Nemak's Fourth Quarter 2018 Earnings Call. Armando Tamez, Nemak's CEO; Alberto Sada, CFO; and Adrian Althoff, Investor Relations Officer, are here this morning to discuss the company's performance and answer any questions that you may have. As a reminder, today's conference is being recorded and will be available on the company's Investor Relations website. I will now turn the call over to Adrian Althoff.

Adrian Althoff - *Nemak, S. A. B. de C. V. - IR Officer*

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 2018 as well as our outlook for 2019. Alberto Sada, our CFO, will then discuss our financial results in more detail. Afterwards, we will open up for 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 Martínez - *Nemak, S. A. B. de C. V. - CEO*

Thank you, Adrian. Hello, everyone, and welcome to Nemak's fourth quarter 2018 conference call. I would like to begin with recent highlights in terms of 2018 results and strategy execution before moving on to 2019 guidance and related considerations going forward.

During 2018, we made important inroads into value creation opportunities across our main business line. We had a good year in our main markets, North America and Europe, successfully capitalizing from new product launches to driving good results. In particular, we benefited from better-than-expected market demand in North America with supported volumes and a range of product mix in Europe, which was driven mainly by high performance applications. Altogether, we surpassed our original guidance by a healthy margin. Regarding structural and electric vehicle components, we leveraged our dedicated organization to exceed customer expectations for quality and performance in product launches, growing revenues and enhancing our competitive position. For the full year, this segment contributed $150 million towards the topline, 50% more than in 2017. We also won contracts award, $280 million in annual revenues bringing the value of our dollar order book of these parts to approximately $600 million annually, up more than 85% on a year-over-year basis.

You may recall, that we announced $50 million in new business in this segment at the Alfa Investor's Day held last November. I'm pleased to share that over the remainder of the period, we added $150 million on top of that amount driven mainly by 3 contracts in e-mobility applications: One, to provide fully assembled battery housing for pure electric vehicles of North American OEM. And the other 2 to use proprietary casting technology to produce highly integrated electric model housings for pure electric applications of 2 premium European OEMs. Meanwhile, our sales and marketing efforts generated an increase in business leads, positioning us to add further gross sales backlog in the weeks and months ahead. Today, we are reporting opportunities in the structural and electric vehicle components worth approximately $1.8 billion in annual revenues, nearly 4 times more than at the start of 2018. Taking into account awarded as well as potential business, this will remain on track to meet our target of capturing $1 billion in annual revenues in this segment by 2022.

Turning to our traditional propulsion business, we also saw a positive trend on the customer relationship side during the year, winning contracts in cylinder heads, engine blocks and traditional housing worth a total of $480 million. The full year total for all product line was $770 million. We were also successful in capturing incremental and replacement business alike in traditional propulsion applications, even though we saw OEM customers putting out (inaudible) in this segment compared to previous years. In part, a reflection of restated interest in relocating investments toward electrification. We continue to retain collaboration with customers at the early stages of product development, building on core technical competencies, including new alloys, casting design, component integration, batteries prototyping, thermal management and crash testing among others to support innovation in lightweighting and electrification. This work enforces our value proposition to customer helping us to strengthen our foundation for long term growth. In summary, last year we broke new ground in tapping into customer demand for higher value added solutions across proportion and vehicle structure applications, which we have seen going hand in hand with our efforts to make mobility more energy efficient, while meeting growing consumer demand for electrified offerings. I will now like to shift our focus to the present year where we expect the strategy execution to continue along the line I just described. However, at the same time, we see a more challenging operating environment putting a temporary damper on our results. As you may have seen in our guidance announcement issue, early this morning, we expect reductions in volume and revenues as well as EBITDA. I would like to begin by providing additional context on the factors affecting this metric. In 2019, we expect weaker performance in North America as industry conditions may continue to hinder our growth in Europe and China. Regarding North America, we see headwinds associated with a slowing industry cycle as well as customer market share and product mix. In Europe, we see continue effect from first, the facing of a new emission testing regime known as WLTP. Second, lower sales of diesel vehicles versus gasoline. Third, Brexit. And fourth, trade disputes. We expect that the convergence of these factors will neutralize the upside potential we have been seeing from planning product launches in the region in 2019.

Moving on to China, we may continue to be affected by production reductions at Ford and Jaguar Land Rover, which are in the process of refreshing the vehicle offering in the country. Given the time, it is taking for this dynamics to play out in the market, we have adopted a more conservative outlook on our China business for 2019. I would like to emphasize that we are taking actions to better position our organization to meet this temporary volume effect, expanding initiatives and driving agility, cost reduction efficiencies and CapEx optimization. I also want you to know that we remain confident in our ability to execute on our medium and long-term plans, which position us to capitalize on range of secular opportunities to deliver progressively stronger growth in subsequent years. Based in pipe -- on our pipeline of the scale of product launches over the next 12, 18 months, we see good profits for a partial recovery in consolidated volumes by 2020. Moreover, as we have explained in previous communications, we expect that the ramp-up of our structural and electric vehicle component business will kick into a higher gear within a similar time frame particular from 2021 onwards. With this I conclude my remarks and I will hand off the call to Alberto.

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

Thank you, Armando, and good morning, everyone. I will share some additional information on our performance during 2018 and expand on what Armando said regarding guidance for 2019. During the fourth quarter, we saw divergence in industry trends in the regions where we operate. In North America, higher sales of SUVs and trucks nearly offset a reduction in passenger cars, but our Nemak customer production held steady. We saw similar dynamics in the full year for both light-vehicle sales SAAR and Nemak's customer vehicle production finished in line with previous year's figures. In contrast, regarding Europe, we saw 10% and 5% reduction in light vehicle SAAR and Nemak customer production, respectively. Mainly due to the impact of bottlenecks associated with implementation of the WLTP initial stepping standards which were extended to all new vehicle purchasers in the region's largest economies effective September 1. For the full year, a strong first half almost compensated for the impact of the second half headwinds that I just described. In terms of vehicle mix, diesel share went from 42% to 35% during the year with most of the decrease coming in the first half. The combination of diesel and WLTP related effect accounted for most of the impact in Nemak volumes for the full year. Nemak total sales volume in 2018 was 15 million equivalent unit, basically equal to that of previous year as increased volumes in North America offset a decrease in Europe and Rest of the World. Consolidated volumes finished down the fourth quarter, mainly due to the effects I just described in Europe together with lower production from Ford in China. In turn, lower volumes caused revenues to decrease 1.5% in the period. However, for the full year, revenues finished up 5% supported by aluminum prices as well as better product mix.

During the fourth quarter, we reported a consolidated operating income of $94 million, it was 42% higher than the year ago. This increase was mainly explained by reductions in depreciation and SG&A versus fourth quarter '17. Additionally, commercial settlements, efficiencies and the capitalization of structure and EV components expenses contributed to the results which more than offset lower volumes and higher energy prices. For the full year, operating income was 9.7% higher than 2017 supported by the product mix because of factors I just mentioned, which were specific for the fourth quarter. In turn, our EBITDA finished at $171 million, 3% above that of fourth quarter '17 reflecting higher operating income that I just described. EBITDA per equivalent unit was $14.9 compared to $13.8 a year ago. For the full year, EBITDA amounted to $734 million, an increase of 2.7% versus 2017, basically due to the operating income result that I just described. Regarding CapEx we invested $403 million for the full year. We continue to focus on our efforts in optimizing our CapEx and fulfilling customer requirements for new product launches. We maintain a strong financial condition marking our 21st quarter in a row with a net-debt-to-EBITDA ratio to be below the 2.0x mark. This was supported by a health free cash flow generation that allowed us to pay $170 million dollars in dividend while slightly reducing our net debt.

Moving on to 2019, I would like to provide additional color on the assumptions behind our guidance. As Armando mentioned, most of the gap is explained by industry conditions which are effecting our volume outlook in our main markets. Regarding North America, we expect live vehicle sales to finish at 16.6 million units in 2019 which will represent a 4% decrease over last year.

Additionally, we see several markets risk; first, continued reduction in our customers market share in North America in particular Ford's passenger car segment; second, engine downsizing causing a dip in demand for some of our components and third, a reduction in exports to China, where one of our customers is localizing production that were supplying from our operations in North America. Furthermore, our short-term growth outlook in Europe and China has been reduced in recent months mainly due to a combination of the industry factors I already mentioned together with recent market share loss among our customers Ford and Jaguar Land Rover. Taking into account one-time benefit in the fourth quarter was $14 million, we are looking at the $100 million reduction in EBITDA for the full year, around 80% of which is related to volumes. The remainder breakdown just about equally between incremental costs associated with our structural and electric vehicle component business and higher energy prices, mainly in Europe. We are committed to forward-implementing initiatives, focus on cost reductions and efficiencies with the aim of narrowing this gap. I want to emphasize that we are committed to exercise discipline in our capital allocation, reducing our investments by $80 million versus last year. We are targeting to maintain our net debt at the same levels of 2018 and to finish the year with a net debt-to-EBITDA ratio between 1.9x and 2.0x. And as a result, we expect that our shareholders will agree on a dividend payment commensurate with our free cash flow generation in the year. In terms of our results, I would like to emphasize that we see this year as a dip followed by mid-single digit volume recovery in 2020 on the back of planned product launches across our main business lines. And then driven mainly by a combination of one and potential business in structural and heavy components in subsequent years. We are tapping into new growth opportunities in the business, focusing on investments that will help us to achieve our long-term goals. And with that, I conclude my comments. I will now open the call for Q&A. Operator, please instruct the participants on how to place their questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Christian Landi with Scotiabank.

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

I wanted to ask regarding the number that you mentioned, Armando, about the structural components on electric vehicles. You said that the contracts signed were $600 million plus $150 million in additional contracts, if I understood correctly, bringing it to $750 million. Is it appropriate to consider that this will turn into annual revenues sales by 2020? Considering that there's some development time that the impacts need to be considered into -- taken into account?

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

Just to clarify that the total amount that we've already contracted with customers is about $600 million. We are still positive in terms of reaching our target of $1 billion by 2022, certainly (inaudible) in my presentation. We are seeing a significant number of opportunities worth approximately $1.8 billion. We're looking at those categories which is divided between 50% electric and 50% structural parts, and looking to the most attractive and also looking to make business with the most reliable OEMs that -- and certainly as we've indicated before, Christian, we're targeting a little bit better profitability at least 2 percentage points higher than our current market. That is what we're targeting and as I indicated we are confident that we will reach this billion by 2022.

Operator

(Operator Instructions) Our next question comes from the line of Jorge Contreras with Zurich.

Jorge Contreras

Can you explain me this EBITDA -- your EBITDA was impacted for 2 events -- 2 one-off events. So can you explain me how much will be the EBITDA if we take out this event?

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

Yes, as we highlighted in the quarter, we had certain positive and negative effects. In particular, we had 2 positive effects associated with a claim that we had received from few customers in one particular region. And we had another which had to do with the capitalization of vehicle structure expenses that we had expensed during the year, a portion of which were capitalized on the fourth quarter. So those 2 accounted roughly about $40 million and those were, let's say, positive effects reflected in the fourth quarter of 2018.

Jorge Contreras

Okay, I have another question. In rest of the world volumes, you say the volume was down because you had some impact from China and you say the present volume in Brazil was not enough to compensate it, so can you tell me how relevant is China in your rest of the world?

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

Sure. The rest of the world is essentially half China and half South America. Little bit up and down depending on how the volumes develop, but it's about half and half.

Jorge Contreras

Okay, and one more. These new contracts are coming from electric vehicles declined, from what country is this decline? I mean, with China client, the recent clients?

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

Jose, the contracts -- especially the last 3 that we really received both are coming one for a full electric assemble battery housing that is going to be for introduction of a customer in North America, a customer that we have a very good relationship with, and they are planning to introduce pure electric vehicles in the next few years. And the other two, we're very proud to say that we reached agreement with top German OEMs that have a very solid reputation and they're planning to introduce this electric housings, which, by the way -- we're using our proprietary technology and basically reduce -- we're planning to reduce existing assets because those are very complicated parts. But in the past, we were using assets to produce engine blocks and now using open capacity, we will take advantage of that and make the sophisticated, highly complex electric housings for new electric vehicles for 2 premium German OEMs.

Jorge Contreras

Okay, and last one. Could you just give me guidance about how much it will be the EBITDA margin for this year?

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

Yes, one second.

Jorge Contreras

I mean, I want to know if the margin will be stable or probably you have some impact related with some costs or things like that.

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

Yes, the margins maybe slightly effected because of this additional expenses in structure components in EV that I discussed as well as a little bit more energy prices. It is expected to be in the range of 14% to 15% in terms of EBITDA to sales.

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*

If I may have several ones. First one is if you could tell us the magnitude of the impact on the energy prices during the fourth quarter? And how is this going to affect your operations during 2019? And the other one is you mentioned your expectations for the market decline in NAFTA of about 4%, if you can comment the same on Europe and China? And if you could break down the $600 million backlog in structure and electric vehicle components, if you could breakdown that number?

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

Yes, absolutely, Alejandro. Related to your first question on energy, the effect on the fourth quarter was roughly about $5 million and $6 million that was mainly in operations in North America. Our operations in North America, we're expecting to reverse that or recover that effect, so we don't see energy effects in North America, but we'll see potentially energy effects in Europe in a similar magnitude. So it's going to be potentially 1 digit effect for the full year.

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

Let me just move, Alejandro, to your third question with what's related to the market, how do we see? We're seeing -- actually Europe -- in spite of all this turmoil that Europe is facing, at the same size approximately about 20.2 million units and in China also based on the analysis that we're following, we're also expecting that China will have the same size of the vehicle sales for this year at about 27.5 million units. And so to your last question related to the breakdown, out of this $600 million worth of contracts, we have approximately 50-50 between structural and electric vehicle components.

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

And you mentioned that the biddings, the $1.8 billion were the same, right, 50%-50%?

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

Actually it's a little bit higher on the electric side. We're seeing, Alejandro, a significantly more opportunities on the electric side. And I'm proud to say that we've been taking a significant market share in North America and Europe based on our technology and our footprint and the progress that we've been making over the last 4 years. So we are to some extent, optimistic that we will continue gaining new contract and new orders. And I will say about 2/3 are on the electric side and about 1/3 in the structural component business.

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

Okay, wonderful. And one more if I may, Armando. So regarding your expectations on Europe and China, so the main effect on the guidance of 8% decline would be market share loss from Ford and from Land Rover, right? Is that correct?

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

That is correct. That is correct, yes.

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

And another one, if I may.

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

You may.

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

So you still -- you gave a guidance on the Alfa day of $915 million in EBITDA by 2021. Are you still feeling that you can achieve that with the ramp-up of structural and electric vehicle components? Or you'll be revising that number?

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

Alejandro, certainly, we will be reviewing this numbers based on recent changes in the global economy and all the factors that we just mentioned such as Brexit, the change on the diesel, the WLTP and all these economic factors plus trade wars and so on. But we will be updating our numbers, and certainly, we'll be more than willing to share those with you and the rest of the people that are following our company. At a later time, we will announce when we will be able to share this revised numbers.

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

Perfect, and one for Alberto. Your expectations for sales from structural and electric vehicle components in 2019 would be around $200 million, $250 million or versus what amount in 2018?

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

Yes, it will be short to $200 million, but little less than $200 million.

Operator

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

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

I just wanted to clarify, you guys said the structural components in EV segment was about $150 million revenue. Was that right the $140 million revenue for 2018?

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

Yes, yes, for 2018 and roughly 200 for 2019.

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

Could you tell us how much it contributes at the EBITDA level?

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

Well at this point, I mean, it's in the ramp-up phase. So the contribution of it is still not at the level that we will expect when it's in full deployment. Right now, it's about average with the rest of the business minus all these expenses that we're taking care for tasking and building organization. These costs are associated with our ability to gain business and will be fully off-set once we reach the expected levels on this segment. So for now it's around average little bit less.

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

And so when you say, the ramp-up is -- so the ramp-up will accelerate 2020 onwards?

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

Yes.

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

Okay. Could you -- so for 2019, then how much of is -- are the ramp-up costs that are in your EBITDA guidance here?

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

Well, we are assuming similar levels of launching expenses that we've had in this year, but those obviously can be up and down depending on how some of the launches develop and we don't expect any unusual higher launching expenses. But something aligned with what we had experienced this year, potentially less.

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

Okay, and so how much was it total and these launch expenses -- or launch-related expenses in 2018?

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

The launch-related expenses in 2018 should have been less than -- around $20 million, $24 million. Just to clarify, Augusto, that's the expense that we're incurring in the structural and EVs. Is that your question or you want to know...

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

Yes, yes. And so when you are saying there's roughly some amount will carry over into 2019.

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

Yes, structurally these will increase a little bit in 2019 from the $24 million that we had for the sake of gaining the business.

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

Augusto just to complement what Alberto mentioned, as we indicated about 18 months ago, we decided to have dedicated organization focusing on structural and electric digital components and that organization is reporting directly to me, and he has proven already. Yes, so we are investing in this organization while at the same time we had been able to win significant contracts with top OEMs and we are very happy with the results so far that the team is bringing to the company.

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

That's helpful. Just one additional question and sorry if I missed this. Could you give an explanation on what was the rationale for the higher taxes? I mean, the effective rate was quite high in the quarter. Is it something that will be ongoing or looking forward can we assume something closer to 30%?

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

Going forward we should assume on an annual basis to have a similar level that's what we had in 2018. When you see the quarterly tax level, that gets affected by a number of factors. I mean, it could be affected on one side -- deferred taxes can be higher or lower given exchange rate fluctuations and the effect of the function of currency as well as from accruals that we normally do during the year that could be higher or lower than at the end of the year will take. In this particular case, in 2018, it was higher than usual when you compare that also with last year and it was a combination of 2 opposite effects. Last year, we had overaccrued a little bit at the operations in North America for the taxes in earlier quarters, which called for a reduction for the level reported in the fourth quarter in '17. And in '18, it was the other way. It was underestimated during the year and it was then catched up in 2018 with additional provisions for taxes. So -- but all in all, I think, on a yearly basis, we should expect a similar level of taxes, that is what we saw in 2018 going forward.

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

So then an effective rate around 40%?

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

No, no, it should be more in the high 20s for the full year, percent.

Operator

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

Jose Vazquez

I just wanted a quick follow-up on the EBITDA level. We see the 8% EBITDA per unit increase. Is it related only to the commercial settlement and the one-off that you received this quarter? Or are there any -- on the breakdown on between those things and the efficiencies gained that impacted positively the EBITDA per equivalent unit?

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

Jose, you're referring to the quarter or full year?

Jose Vazquez

For the quarter.

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

Yes -- no, it was a combination of several factors. On one side, this extraordinary effect but we also had very good performance in Europe driven by efficiencies and mix. So it was both the combination of business [Turner] effect, it was better performance than expected in Europe and a little bit of FX, but a combination of these factors.

Jose Vazquez

Okay. This good sales mix and the good performance in Europe this quarter is expected to continue through 2019? Or it will be diminishing by the things that you mentioned before?

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

Yes, well, it will be -- Europe will be stable versus last year, given the volume development. But we continue focusing our efforts on performance and we expect some performance improvement as well happening there and a little bit more of a mix benefit as we launch further threshold performance in EVs in the region. Remember that the big portion of this business is focused on Europe, so we expect that to be gradually contributing more as we gain scale on that segment.

Jose Vazquez

Which level would you say would be a good equivalent reference for Europe? It's $16, between $16 and $17 per equivalent unit?

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

Yes, around that. More around the $16.

Operator

Our next question comes from the line of Mauricio Serna with UBS.

Mauricio Serna Vega - *UBS Investment Bank, Research Division - Analyst*

First thing as far as -- you've already mentioned this, but I wanted to know if you could provide maybe a little breakdown on that 8% decline of total volumes expectations for this year? Any particular region that will be experiencing or driving that decline? It will be very helpful to know. Also when you look at the EBITDA per head expectation, it implies a 9% decline year-over-year, if I'm not mistaken. Just wanted to know if that has to do more with a mix effect or is it something particular region going to struggle given the volume outlook this year? And finally, just wanted to make sure, you were mentioning $200 million of sales from the new business plan for this year and assuming then margins relatively similar to the entire business at the moment and out of that you need to also take out the ramp-up cost. So just -- if we turn to estimate how much of an EBITDA contribution these businesses will have to Nemak?

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

Yes, sure Mauricio. Related to your first question on volume, most of the effect that we're seeing for 2019 is associated with performance in North America, volume performance. And there you see a combination, as we described on the call, combination of several factors, one of them is the industry being reduced, our expectation for North America is for that industry to drop from 17.3 million to 16.6 million vehicles. On the other side, we also have a few of our customers, unfortunately, losing share associated with changes or not being able to fulfill the change between passenger cars and SUVs and pickup trucks as well as a relatively high number for one of our customers in 2018 that we don't anticipate repeating in 2019.

And last but not least, we're seeing less exports of volumes that we were producing in North America for China, where one particular OEM is phasing out few products and localizing them in China. So the majority of the negative effect comes from North America, given this 3 major factors. And I think it's also important to say that for Europe, we had originally anticipated higher growth as was indicated by Armando, but unfortunately, this external effect that is dampening the growth that we're expecting. And for that reason it's -- we'll be fairly stable, though some risks in Asia as was discussed. And related to your second question on EBITDA, you're seeing a slightly higher EBITDA drop than what is explained by volume and that's associated with the two factors I described. A little bit higher energy prices as well as additional expenses on the structural components and EVs as we are, let's say, fulfilling our organization and our expenses associated with our ability to capture and enter this new business. So having said that, the margin for structural components in EVs for 2019 would not be representative of what we're looking for at the end of the year, at the end of the -- let's say, achieving the full rate of sales. And right now, we're seeing that the margins, absent of the -- let's say, additional expenses for staffing that organization is slightly higher than the average on the powertrain. But you substract obviously the effect of this incremental cost of this new organization, it will be less than average.

Mauricio Serna Vega - *UBS Investment Bank, Research Division - Analyst*

Okay, okay, got it. So I guess we'll be probably seeing per your guidance a double-digit decline in North America volumes this year?

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

Yes -- around -- yes, it's probably very high single digit.

Operator

Our next question comes from the line of Guilherme Mendes with JP Morgan.

Guilherme G. Mendes - *JP Morgan Chase & Co, Research Division - Research Analyst*

It's actually a follow up to your -- regarding capitalization of $6 million related to the EV instrument component segment. Just like to understand if it should be similar trend in the next quarters. Can you provide a little bit more color in terms of the rationale behind this capitalization?

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

Yes, sure. This is capitalization of expenses that took place in the entire year. So it was a one quarter adjustment of expenses that were carried on during the year. So we expect this to remain at the same level. So next year will be $6 million -- probably little $1 million or $1.5 million more, but associated with those expenses that we increase in structural that are associated with development of a specific project that will be amortized in the life of those projects in the future. But this is a full year effect. So next year, we won't see these happening on the last quarter but rather on a quarter by quarter basis. For an amount, which is going to be 1/4 of what you're seeing here on quarterly basis.

Operator

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

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

Armando, just follow questions on the backlog. I just -- what percent -- Armando it seems that finally you're starting to see a ramp-up in the build-up of the backlog with close to $200 million in the fourth quarter. I wanted to understand and considering that the CapEx adjustment you're mentioning for 2019, you might not be requiring any investment in this business line in 2019. Is that correct? And also, can you give us an update on the capacity utilization for North America and Europe?

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

What we're seeing on the electric and structural physical component is that we require less CapEx that on average for heads and blocks for transmission housing. Our estimate, for instance, is if we were to go for a greenfield facility there would be approximately 80% of what we're investing for heads, blocks, transmission housing. So it is less intensive in capital, which I think is good news for us. Having said that, we -- as I indicated previously, we're trying to use open capacity in some of the products that we are today acquiring. That's our main focus to try to reduce existing assets to be more efficient and certainly improve our return on invested capital. And certainly, we expect that we will continue, again, it is investing but not at the same level as we have been over the last few years on the powertrain side. And I think it's important also to mention and to give you a little bit more clarity based on the comments that I made that we're seeing from our customers less request to these powertrain components. They are extending the life, which I think is also positive for both customers and ourselves. We don't need to go continue investing at the same rate that we were over the last few years. And as we have shown and Alberto presented already, we have been able to reduce our CapEx -- remember this couple of years ago, we were at the 500-plus level, now this year we're expecting to be at the 320 level.

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

Perfect, Armando. And just on the capacity utilization rate in North America and Europe, could you give us some color, please?

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

Yes, the capacity -- sorry Luis, the capacity utilization today that we had in North America is at approximately about 80%. So we have still some opportunities to get additional, let's say, business without huge investments. In Europe, it's about 75%. As we indicated, we were planning -- actually, as we expect to have significantly higher volume, we made some investments in Europe. But unfortunately, due to the Brexit, WLTP, some other issues, trade wars and so on, today Europe is growing at about 75%. And we will look how we can fill this open capacity as well as we will continue with some claims that -- we have some outstanding claims that we have with some customers in that region and in addition also North America as well as in Asia for underutilized assets that will significantly be low for contracted volumes.

Operator

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

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

My question is regarding just -- more detail regarding Europe. So to understand more clearly the outlook for EBITDA. And if I understood correctly, you are expecting stable volumes for Europe. And you said that $16 per unit is reasonable in terms of EBITDA, but then energy costs will mostly effect that region. Is that correct? So exactly what are you expecting in terms of profitability for Europe in 2019 compared to 2018?

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

Yes -- I mean if you see the development of our EBITDA per unit in Europe, it has been going up consistently ever single year, Vanessa. And back in '17, Europe was at about $14.5 per equivalent unit. This year, we had this extraordinary effect of this incremental gain out of the claims that we received from some customers as well as we also got a little bit of tailwind from FX, the transactional effect of euro versus the dollar. In 2019, we see, let's say, absence of these extraordinary effects and depending on how the exchange rate would look, we'll see around the $16 per piece or a little bit higher. So that's about the run rate we're seeing net of all the effects of energy cost as well as incremental structure on the vehicle cost that we are heavily doing in Europe as well as the relatively stable volume perspective that we're seeing for full year.

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

Okay, understood, understood. And so just to clarify then on the consolidated guidance of EBITDA, it includes about $18 million of positive effect from capitalization, correct? That were -- did not happen in 2018?

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

No. In 2018, we had $18 million worth of extraordinary effects. The 2 were the capitalization of expenses as well as this commercial settlement that we described. So that's -- let's say, it doesn't -- on recurrence we are not accounted for those things. The only one that will be carryover will be the vehicle structure capitalization that we expect to be in the same level in 2019. It's slightly little bit higher but all in all it's a high single-digit.

Operator

Our next call -- our next question comes from the line of Rodolfo Ramos with Bradesco BBI.

Rodolfo Ramos

My question is a follow-up on your expectations or declines in volume in North America and more specifically into the portion of, obviously, not so much to the loss -- or customer's loss of market share. I mean, how are your conversations or your feeling? Armando, can you give us more color as to how is the industry looking at the fact that industry is operating under very low levels of inventories compared to sales back in 2011 and 2012. I don't know how are your conversations with regards to this factor and if you can tie up to that expectation of lower volumes sales?

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

Yes, certainly, Rodolfo. I just want to clarify how we build up our numbers going forward. I mean the basic industry assumption is our calculation of what we see ourselves individual colors, the platforms for vehicles, for the customer. So our numbers incorporate what our customers are forecasting to be, they're taking it. And they take into consideration when they forecast their engine productions, their needs of either increasing or decreasing inventory plus any potential shift in products or in this case as we're seeing unfortunately some of them losing share or reducing the volumes versus '19 -- versus '18, sorry. So it's a mix of all that and that -- those are ongoing discussions. Whenever we see that there's issues in particular platforms where volumes are not performing, as Armnado highlighted, we come closer to them to understand if this is permanent or temporary effect and look for corresponding adjustments either pricing or settlement. So -- but all in all, the expectations that we get from our customers are incorporated in this guidance and it includes all those effects of inventories as well as their production schedules in general.

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

Let me just add to Alberto's comment, Rodolfo, that over the last 5 years, we made an analysis about our projection of short term volumes. And that -- by short term, I mean, 1 year. We have a deviation over the last 5 years of less than 1% in total. So I think our team -- our planning team is very accurate in predicting, to some extent, following what Alberto's mentioning some of the analysts that were following as well as close relationship with customers to understand the need for volumes.

Rodolfo Ramos

That's very helpful. So for 2020, we could expect more changes in the that direction just based on what has happened in the past?

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

Yes, as I indicated, Rodolfo, we're expecting some recovery in 2020 because we're seeing some effects today, especially in Europe where we're expecting that the volume will increase over the next 18 months. They have a lot of issues -- we're facing a lot of issues today in Europe. And certainly, taking advantage of open capacity, we're looking for additional opportunities in North America, how we can fill with profitable products some of our plants that we have, let's say, with open capacity.

Operator

Our next question is a follow-up from Augusto Ensiki with HSBC Global Asset Management.

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

I am sorry, actually my question has been answered.

Operator

There are no further questions at this time. And I'd like to turn the conference back over to Mr. Althoff for any additional or concluding remarks, sir?

Adrian Althoff - *Nemak, S. A. B. de C. V. - IR Officer*

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

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
