



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

Operator: Good day everyone, and welcome to GIS fourth Quarter 2022 earnings conference call. Joining us today is GIS Chief Executive Officer, Mr. Jorge Rada, GIS Chief Financial Officer, Mr. Saul Castañeda and GIS Investor Relations Manager, Mr. Arturo Morales. Please be advised that this call is for investors and analysts only.

During this call, they will be discussing GIS performance as per the earnings release issued on Thursday. If you did not receive the report, it is available at www.gis.com.mx in the Investor Relations section. We encourage you to follow along with the onscreen presentation.

All lines have been placed on mute to prevent any background noise. There will be a question-and-answer session after the speakers opening remarks and instructions will be given at that time.

Let me remind you that forward-looking statements may be made during this conference call. These are based on information that is currently available and subject to change due to a variety of factors. For more detail and a complete disclaimer, please refer to the earnings release. Also, all figures discussed are in U.S. dollars, unless otherwise stated.

It is now my pleasure to introduce the GIS team. Mr. Jorge Rada will lead off the call.

Jorge Rada: Good morning and thank you all for joining us today. We closed 2022 with strong results, achieving double digit revenue growth and consolidating uninterrupted sequential EBITDA growth, despite persistent economic headwinds and supply chain constraints. This performance was largely attributed to Draxton's steady pace in successfully launching major production programs, improving Vitromex's product mix by incorporating large size items and implementing initiatives to protect margins.

On the last point, our commercial strategy alongside a tighter cost control and greater operational efficiencies helped to mitigate the negative impacts of rising energy costs, particularly in Europe, and raw material prices.

The advancing global vehicle production, supported by the gradual normalization of semiconductor supply and the production ramp up of newly secured programs, allowed DRAXTON to reach records annual volumes of over 430,000 tons.



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

The foregoing is driven by our competitive standing and the capital deployment oriented to the expansion of our installed capacity, alongside the incorporation of higher value-added processes.

In this regard, our strategic growth projects will continue as planned over 2023, highlighting the operational kickoff of our new casting, machining, and plating facilities, which are part of the strategic investments of over \$140 million dollars initiated in 2021.

New contracts were won in 2022, equivalent to approximately \$180 million dollars of annual revenue, within a more positive auto industry outlook for 2023 that we expect will help to maintain our growth and profitability.

As our investments in capacity expansion bear fruit, we also anticipate to further capitalize on the nearshoring trend in North America and improving industry dynamics with increasing vehicle production forecasts. The latter considering that inventories are still low, and that pent up demand is yet to be met.

On another positive development, the antitrust authorities approved the sale of Vitromex to Mohawk Industries, expected to be concluded as soon as the remaining customary closing conditions are fulfilled. This transaction will allow us to channel resources and efforts to our auto parts business, which has shown a solid profitability and encouraging growth perspectives.

In conclusion, our year end results and investments progress underscore GIS's resilience, the talent of our team, as well as the soundness of our strategic approach and capacity of execution at the midst of what continues to be a challenging environment.

Throughout 2023, we will continue to work diligently on optimizing Cinsa's product portfolio and bringing Draxton's asset investments into operation to service new programs won and develop further value-added processes, with a view to effectively and timely meet the changing needs of the markets we serve.

I will now hand the presentation over to Saul.

Saul Castañeda: Thank you, Jorge, and good morning, everyone. The company's financial results maintained their upward trend, mainly driven by record volumes achieved at



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

Draxton, given the production ramp up of new programs and enhanced vehicle production from customers across all regions, alongside the effect of raw material and energy costs inflation on sale prices.

Revenue for the fourth quarter totaled \$301 million dollars, up 20% year-over-year, mostly driven by Draxton's strong volume, higher raw material and energy costs reflected on prices and a greater contribution from the improved product mix at Vitromex. For the full year revenue increased 21% to beat the \$1.2 billion dollars' mark.

EBITDA for the fourth quarter climbed 93% year-over-year amounting to \$40 million dollars and marking a full year of uninterrupted sequential growth. This performance was supported by higher volumes, in combination with the adoption of cost control initiatives and greater operating efficiencies, to protect our margins, which went from 8% in fourth quarter 2021 to 13% this period.

For the full year, EBITDA was \$145 million dollars, 22% higher than 2021, with margins remaining at 12%.

As of December 31, 2022, net debt was \$254 million dollars and net leverage ratio stood at 1.8 times, remaining flat versus the last quarter, and reflecting a stronger EBITDA generation in the last 12 months, as well as suitable liquidity that would improve significantly with the resources from Vitromex divestiture.

It is worth noting that the Company's net debt would stand below one time once this transaction is completed.

Moving to CAPEX, the company deployed several capacity expansion projects, including the two casting lines at our San Luis Potosi plant, tripling machining capacity in North America, and the development of plating processes; machining capacity in Europe will also increase significantly. These projects will allow us to further capture major production programs and capitalize on the ongoing recovery of the industry.

Draxton will focus on the start of operation of these expansions, alongside the development of value-added processes and materials that will enhance Draxton's positioning, particularly in the electro-mobility segment.



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

I will now hand the presentation back over to Jorge.

Jorge Rada: Thank you, Saul. Regarding the automotive industry developments, in North America, vehicle production and sales for the quarter increased 7.8% and 9.1% year-over-year, respectively, reflecting the recovery of inventories and easing of semiconductor supply constraints. For the full year, vehicle production climbed 9.7% year-over-year in the midst of semiconductor and labor shortages, and leading inventory levels to rebound. In this context, 2022 vehicle sales were down 7.2% year-over-year, due to the limited availability of new vehicles and surging inflation.

As for Europe, vehicle production and sales for the quarter increased 3.9% and 4.3% on an annual basis, respectively, making its best period since the onset of the semiconductor crisis, thanks to the improving of supply chain conditions. 2022 vehicle sales contracted 11.2% year-over-year, due to a softer economic environment and reduced availability of new vehicles, from the semiconductor shortage. Full-year vehicle production decreased 1.3% year-over-year, as advancing production in the region was not enough to offset the lower production in Russia and limitations brought by the semiconductor shortages.

In China, quarterly vehicle production and sales dropped 6.2% and 7.1% year-over-year, largely explained by the prolonged lockdown of manufacturing activities at major cities with the implementation of the zero COVID policy, which was lifted last December. 2022 Vehicle production and sales rose 1% and 6.1% year-over-year, respectively, despite the implementation of extreme measures to contain the surge of COVID-19.

Moving on to Draxton's performance. Draxton's casting and machining volumes for the quarter increased 18% and 38% year-over-year, respectively, achieving uninterrupted sequential growth through the year and outpacing the industry. Full year casting and machining volumes rose 10% and 24% year-over-year, respectively, reaching all-time highs on the back of a faster pace in securing new contracts.

By region, in North America, fourth quarter last year and 2022 volumes benefited from the ongoing incorporation of value-added processes. Meanwhile, in Europe and Asia, quarterly and full year volume growth was driven by the new contracts won to supply components of commercial vehicles.



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

It is relevant to emphasize that the completion of the strategic investments announced in 2021 and 2022, expected to be operational in this year, will grant Draxton an additional casting and machining installed capacity, to keep up with the pace of new programs and tap into the ongoing recovery of the light and commercial vehicle industries.

Draxton's revenues for the quarter and full-year increased 25% and 26% year-over-year, respectively, to reach \$210 million, and \$868 million dollars, boosted by volume contribution from new programs launched and the effects on prices of higher raw materials and energy costs.

EBITDA for the quarter was \$33 million dollars, compared to \$14 million dollars in the fourth quarter 2021, driven by the incremental volume, incorporation of value-added processes and initiatives to soften the impact of rising raw material and energy prices. 2022 EBITDA increased 25% year-over-year to reach \$121 million dollars.

During the quarter, Draxton captured programs worth approximately \$27 million dollars in annual revenue, bringing the full-year figure to \$180 million dollars, out of which around 85% are compatible with hybrid platforms and all-electric vehicles.

Moving on to Vitromex. Quarterly revenue increased 13% year-over-year to reach \$1,252 million pesos, as the improved product mix from large size items more than offset the softer consumption dynamics. For the full-year, revenue increased 15% to reach \$4,780 million pesos.

Fourth quarter 2022 EBITDA amounted to \$205 million pesos, up 23% year-over-year, driven by the enhanced product mix and operational kick off of capacity expansions. 2022 EBITDA was \$596 million pesos, 14% higher than 2021.

Now regarding Cinsa. Fourth quarter 2022 revenue decreased 9% year-over-year to \$537 million pesos, given the slowdown of domestic consumption, especially household goods. For the year Cinsa reached \$2,023 million pesos.

Quarterly EBITDA was \$46 million pesos, 3% lower year-over-year. This performance was supported by the adoption of a pricing strategy better adjusted to current market and economic trends, the development of new products and enhanced customer service, which



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

more than offset the dampened household spending and increased raw material prices. 2022 EBITDA was up 6% year-over-year, reaching \$184 million pesos.

For 2023, we will move forward with Cinsa's geographic diversification by accelerating its market penetration to other countries, primarily the United States with proprietary brands and Granite Ware, hand in hand with the marketing and promotion of innovative products, while continue gaining participation in our current markets.

At the same time, efforts to consolidate the e-commerce platform will continue to bolster volume and capitalize on the major digital trends brought by COVID-19.

With this I conclude my remarks for today. Thank you all for your attention. Now we can start with the Q&A session.

Operator: Thank you. At this time, we will open the floor for your questions. Ladies and gentlemen, if you have a question, please use the raise hand function on your zoom tool. Please make sure that the microphone is turned on.

Again, to ask a question, please use the raise hand function on your zoom tool. Please make sure that the microphone is turned on. Our first question comes from Alex Azar. Please Sir, go ahead.

Alex Azar: Hi, guys. Good morning, Saul, Jorge, Arturo. Quick ones, first Saul, when you see some of the EBITDA of the companies and then subtract the consolidated results or the eliminations, there's a 15 million impact during the year, it seems a little bit high. Could you just tell us what you guys saw? If this is a figure that we should see going forward? or what are you guys seeing in the upcoming years when you take out Vitromex?

And for you Jorge, you mentioned nearshoring and we've seen GISSA grow capacity, grow volumes, and EBITDA is close to record levels but, my question is more on the strategic side. The company only has footprint in Mexico, when you think strategic or maybe cost wise, does it make sense to have capacity in the United States? Or do you see GISSA continuing to be a Mexican public company that exports probably 99% of its products. Thank you, guys.

Saul Castañeda: Thank you, Alex, excellent question. I would say that the difference between GIS consolidated EBITDA and the sum of the parts or each segment it's



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

related to central or headquarter expenses, and it is important to mention as you already mentioned that this is an extraordinary amount, I would say it's higher than average yearly amount. And more importantly, we are moving forward to optimize that amount, that figure. During the year we had some projects and some extraordinary events that increased that amount, but definitely, we are moving forward to decrease and optimize that figure especially with the divestiture of Vitromex.

Jorge Rada: Regarding the strategic vision of Draxton in this case; in terms of North American footprint, well, the nearshoring is definitely benefiting Mexico in this case, because we see a lot of investments coming to the country and a lot of our customers are increasing their capacity in Mexico.

Our products normally don't travel much. It means that if we want to deliver products from, for example, San Luis Potosí all the way to the Midwest in the US, it's not so easy because it would be difficult to compete with companies that are located directly there, in the Midwest. So, we need to pay attention to what are the opportunities of Draxton in the US, we cannot discard that possibility.

At the moment we are very focused on growing in Mexico because our capacity is, let's say, growing based on our customers capacity in Mexico. However, we cannot say that the US is not an option.

Okay, so to answer in summary your questions; at the moment we don't have any plan, any firm plan to go to the US and add capacity, but we cannot discard that possibility.

Alex Azar: And one more if I may Jorge and Saul. You guys reached at least in the second-half of the year, the EBITDA per ton above \$300 dollars that you were targeting, but you are investing in new value added processes. So, what is a range that we should expect going forward in terms of EBITDA per ton, I don't know, \$300-\$350, could you share a bit more color on that?

Jorge Rada: Well, it depends. We will have to go case by case because it depends if it is just machining, or if it is machining and plating that can go as high as \$400 for example.



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

Alex Azar: But I mean consolidated.

Jorge Rada: Consolidated is going to be difficult to give you a figure, but you try to make an average of something between \$350 and \$400, something like that, but you will see that number increase starting next year when we have fully operational the additional capacity in machining and additional capacity in plating in Mexico. And also, we will improve or add more capacity, we are adding more capacity in Europe, so you will start to see those numbers grow definitely next year.

Saul Castañeda: Agreed, there is an upside there, Alex, absolutely.

Alex Azar: Okay, thank you. Thank you, Jorge, Saul, and Arturo.

Jorge Rada: Thank you, Alex.

Operator: Our next question comes from Carlos Alcaraz. Please Sir, go ahead.

Carlos Alcaraz: Morning Jorge, Saul, Arturo, thank you very much for taking my questions, I have two of them. The first one is about the expected growth given the investments in Europe and North America. What is your estimate of growth in revenue and EBITDA for 2023? And the second one is about the cash coming from the sale of Vitromex. Will you look for an acquisition with the cash available? Or will you keep it in cash given the highest interest rates?

Saul Castañeda: Thank you, Carlos, for your question. I will start with your second one and I will remind our audience that transaction has been valued at \$293 million dollars and as you know amount is subject to customary adjustment for this type of transaction.

And we also released last year that would be estimated net proceeds will amount approximately \$260 million, and it is important to highlight, as we mentioned our previous quarter that, regardless of current GIS healthy leverage ratio, we foresee deleverage the company with a portion of the net proceeds as some of our debt will require some payments. In addition, we will allocate resources into our growth strategies, as you know, we need to fund our relevant CAPEX program, but also to be prepared to pursue M&A opportunities. So,



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

summarizing, I will say we want to deleverage, funding our ongoing CAPEX programs, and also to be prepared to pursue any M&A opportunity.

I don't know if you would like to add something... Okay, and regarding the first question, probably I can give you some ideas, as you know Carlos we don't provide a guidance, but we can give you some reference probably as you know we are adding 60,000 metric tons of capacity. Our volume sold during 2022 reached...

Jorge Rada: 438,000 tons.

Saul Castañeda: Around 440,000. Thank you Jorge, and probably you can have like a reference of I would say a 15% of growth will be a reasonable or a fair reference. I don't know if you agree Jorge.

Jorge Rada: Yes, however, it's very important to mention that 2023, and the question from Carlos is for this year, for 2023, but this capacity is being launched as we speak. It means now we are starting to launch the line #6 and line #7, we call it 6 because it's the six one in San Luis Potosi, and the line #7 in San Luis Potosi is going to be launched in the second semester of this year. So, you will not see the full results of this additional capacity in 2023. What you will see is the start of production of these lines. Additionally, you will see the start of production of machining and planting in Irapuato, and then the full numbers, you will start to see a big change or a big jump in EBITDA next year. That's what in our earnings report, we are saying that this year is a transition year for us, for two reasons: One is because we are, let's say, divesting Vitromex and we are going to concentrate on the growth of Draxton. So, this year is a transition year and next year you will see a relatively high jump in the volume and EBITDA of Draxton.

Saul Castañeda: Thank you, Jorge, for the remarks, it's going to be in the 2024 results Carlos.

Carlos Alcaraz: Okay, I understand now. Thank you very much, Arturo, Jorge, Saul. Congratulations and have a nice day.

Jorge Rada: Thank you, Carlos.

Operator: Our next question coming from Laisha Zaack, please go ahead.



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

Laisha Zaack: Hi Saul. Hi Jorge, how are you? Thanks for taking my question. My question is related to the Metal lag.

Last quarter you mentioned that there might have been a normalization of commodity prices, but it seems like they have kept it upward trend. Can you give us more color in that if there was any impact during the last part of the year and how do you see the behavior of these commodities going forward? Thank you very much.

Jorge Rada: We saw in the last quarter of last year a small decrease of the prices of the scrap. However, the prices of the scrap are going up again, so it we don't see a big fluctuation quarter to quarter during the year and the prices, in our opinion, will stay high for relatively longer time. The reason is that the steelmakers are increasing their capacity in North America, for example, and they are adding capacity for electric arc furnaces that requires scrap. So, the demand for scrap is growing in North America, that means that the price of the scrap is going to continue high. So, if it continues in the same levels as today, we will not see fluctuations or issues with the metal lag during the year.

Okay, it's important to mention that our scrap or prices have indexation of the metal 100% in all the customers, in all the volumes and we are working on trying to reduce the lag in terms of, for example, the typical rule in the industry was to adjust prices every three months. Now we are talking to our customers to try to adjust this to one month, I mean to have a shorter lag, so if we can achieve that with the customers and change the industry standards, then the future impacts of metal lag will be less. And this is what we are working on at this moment.

Laisha Zaack: Thank you, very clear, and congratulations on the results.

Jorge Rada: Thank you, Laisha.

Saul Castañeda: Thank you.

Operator: Once again, if you want to make a question, please use the function, raise your hand, in your zoom tool.

Saul Castañeda: Yes, we just realized that we have a question on the chat. Basically, it was related with the Vitromex net proceeds, the use of proceeds. I can summarize



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

just to make it clear; we are analyzing the exactly amounts that we are going to allocate in each of these categories, but I would say it will go, first as a priority to deleverage, then to support and funding our Capex ongoing program and to be prepared and aligned to pursue any M&A opportunity.

And in the question there also asked, this person, I don't have the name, but also asked about dividends. I would say dividends is definitely a subject on the table, but we are analyzing, and we will have a resolution further.

Jorge Rada: One of the questions about the dividends is why we do it in pesos. So, this is something that because the company, traditionally, was a Mexican company operating basically in Mexico. In the past we had more businesses that were peso-based. However, now with basically 90% of the group is going to be Draxton, and Draxton is a dollar-based company, we are considering to change that for next year to start declaring our dividends in dollars.

Saul Castañeda: Exactly, thank you Jorge. Yes, there were two questions. The second one, is that you already mentioned, and yes, it is a subject that we are already taking in a deeper analysis; that we are considering that, moving from pesos to pay dividends in US dollars. I think that are all questions at least on the chat.

I don't know, probably regarding Cinsa, Jorge. We have a question regarding the opportunity that the US market represent to our business. Probably, we can say that we are growing a lot in the US. Probably, you can recall that regarding branding work, brand, and all the e-commerce strategies that we deployed, we have been growing a lot. Definitely we know, and we believe that there is still opportunities down there; but I don't know, Jorge, probably our priorities will stand there, in that.

Jorge Rada: Yeah, there are for example in the enamel steel products. We have a brand that we license, that is Granite Ware and this is a brand that is very well known in the United States. We are producing everything in our plants in Saltillo, Mexico, and we are using different channels. One of those is Amazon, we use marketplace platforms to approach the public or the audiences locally in their homes, right? Because this is for home, also we use supermarkets and local chains.



4Q22 Conference Call Script
Friday, February 24th, 2023 / 9:00 am Mx, 10:00 am ET

So, we think that there is still potential growth.

Inflation has affected and also transportation cost is affecting because we need to consider that the US is a very large country. So, we need to consider all the transportation and logistics costs in our prices and, it's a very competitive market. So definitely yes, Mexico is not the only market we are looking for, we expect that the US can continue growing in our portfolio. And yes, we have plans for Cinsa definitely, we will improve our productivity by investing more in automation, new plants in Saltillo. So definitely, you will see more from Cinsa in the next years.

Saul Castañeda: Great. Thank you, Jorge.

Operator: With no more question in the queue, I would like to return the call to the management.

Saul Castañeda: Thank you. And thank you everyone once again for your interest in GIS. Please don't hesitate to contact us if you have further questions and have a nice day.

Jorge Rada: Thank you.

Operator: You may disconnect. Have a great day.