GIS Reports 2Q21 Results

GIS expands capacity at Draxton based on a strong Order Book and a better Industry Outlook

Saltillo Coahuila, Mexico, July 22, 2021 -- Grupo Industrial Saltillo, S.A.B. de C.V. (BMV: GISSA) ("GIS" or the "Company"), a Mexican multinational company focused on the automotive, construction and housewares markets, today announced its results for the second quarter of 2021 ("2Q21").

Financial Highlights

Millions of US$

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Sales	**250**	**98**	**156**	**499**	**306**	**63**
Draxton	177	57	211	352	205	72
Vitromex	48	29	68	98	71	38
Cinsa	26	11	129	50	29	75
EBITDA	**35**	**(11)**	**NA**	**76**	**20**	**278**
Draxton	30	(6)	NA	64	26	147
Vitromex	5	(2)	NA	12	(1)	NA
Cinsa	2	(1)	NA	5	(0)	NA
EBITDA Margin (%)	14%	-11%		15%	7%	
Net Debt				**192**	**221**	
Net Debt / EBITDA				**1.2x**	**2.9x**	

- The pace of production and sales in the automotive industry was much higher than second quarter of 2020 level, nevertheless the shortage of semiconductors limited vehicle production hitting the supply chain during the quarter. Low vehicle inventory and strong demand presents a better forecast for the coming quarters.

- At Vitromex and Cinsa we saw sales levels that were just as dynamic as they were in the previous quarter, as the companies capitalized on their flexible operations and provided timely, quality service.

- Consistent profitable performance and the solid financial position of GIS enabled the Company to refinance the Evercast loan at the end of the second quarter, improving the debt maturity profile and reducing cost.

Manuel Rivera, CEO of GIS, highlighted: "The higher regional content mandated by the USMCA have increased the demand for iron components. This trend, in addition to a better outlook of the automotive industry, has favored our Order Book. Based on this, we are pleased to announce an investment to expand the capacity of Draxton Mexico."

Highlights during the Quarter

Draxton

- **US $30M investment** was announced to expand capacity in San Luis Potosi, Mexico for manufacturing parts, mainly for brakes
- **Strong demand in North America,** nonetheless vehicle sales limited by low inventory
- **Automotive production impacted** in 2Q21 due to semiconductor shortage
- Scrap iron prices saw **additional increases, although at a slower pace. They will be indexed in prices during 3Q21**
- **Gradual recovery in vehicle production levels in the coming months,** and additional volume in 2022 to replenish inventory
- **During the year, Draxton has won new programs for 80,000 tons,** mainly for braking systems that are fully compatible with hybrid and electric vehicles

Vitromex

- **Market demand remained dynamic, similar to 1Q21,** although it is expected to moderate for the rest of the year
- **EBITDA to Sales remained in the double digits (11%),** with Ps. 104 million during the quarter
- **Last twelve months EBITDA of Ps. 417 million,** with additional improvement upside
- In order to meet expected demand, **actions were taken to boost installed capacity by 10%** by upgrading certain manufacturing processes; however, production volume and sales during the quarter were impacted, but will translate into better volumes during the rest of the year

Cinsa

- Strong growth in sales over 1Q21, 9% in the domestic market and 11% in exports
- Higher **volume, better product mix, and productivity and efficiency efforts offset the majority of higher steel prices**

GIS

- **Revenues of US $250M** confirm sustained growth
- In a quarter with significant challenges in the automotive industry and higher raw materials prices, GISSA reports **solid performance, reflected in its EBITDA of US $35M**
- **Last twelve months EBITDA was US $153M**
- **GIS has no more debt payments for the rest of 2021 and all of 2022 after refinancing the Evercast loan,** reducing the rate and improving the maturity profile, in addition to making **early payments** on the syndicated loan on July 15
- Consistent performance improves financial position, reducing debt level to **1.2x Net Debt/EBITDA**, with plenty of room to pursue opportunities for growth and value creation

Message from the Chief Executive Officer

I hope that you and all your family members are doing well and are in good health. In the second quarter of the year, the rapid recovery of the economies in the United States and China continued to pressure supply chains, causing increases in the prices of various commodities. For GIS, the principal impact has been the higher cost of scrap iron, whose indexation formula in price has a two to three months delay. Supply prices are expected to normalize in the second half of the year.

During 2Q21, the shortage of semiconductors worsened and caused a significant disruption in the operations of the entire automotive supply chain. The level of vehicle production is expected to recover over the next few months. The impacted vehicle production in the first part of the year will lead to additional production in the second half, and in the first months of 2022, to satisfy demand and replenish inventory levels.

Revenues at GIS in 2Q21 were US $250M, confirming the trend towards one billion dollars in annual sales. EBITDA was US $35M, or 14% to sales, which is a reasonable level considering the temporary challenges caused by the shortage of semiconductors, high commodities prices, and the effect of actions on the manufacturing process at Vitromex to increase capacity. With this result, EBITDA for the last twelve months (to June 2021) surpassed US $150M, and EBITDA to sales was 16%, confirming that the strategies to increase profitability have been successful and sustainable. In the second half we expect a gradual return to normal production in the automotive industry, higher exports from Vitromex to the United States, and price stabilization in raw materials, which will increase cash flow generation and margin expansion.

Today we announced a capacity expansion project for the Draxton plant in San Luis Potosi. We will invest US $30M in a new casting line, mainly to manufacture brackets and calipers, which will allow us to continue increasing our volume in components for braking systems that are fully compatible with hybrid and electric vehicles. The start of operations is planned for the last quarter of 2022, aligning our capacity to the contracts recently awarded. This decision allows us to consolidate our position in an industry with solid fundamentals and a positive recovery outlook.

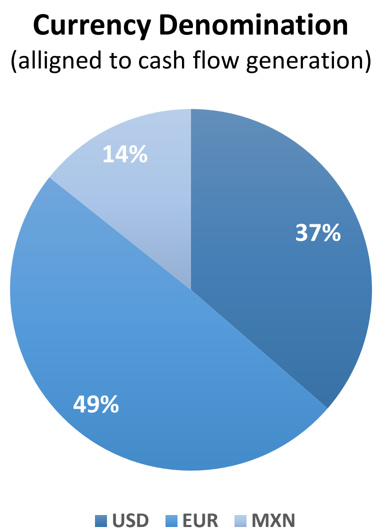
Evercast (the joint venture with ZF) refinanced its loan with better terms. This, in addition to early payments on GIS' syndicated loan, eliminates debt payments for 2021 and 2022.

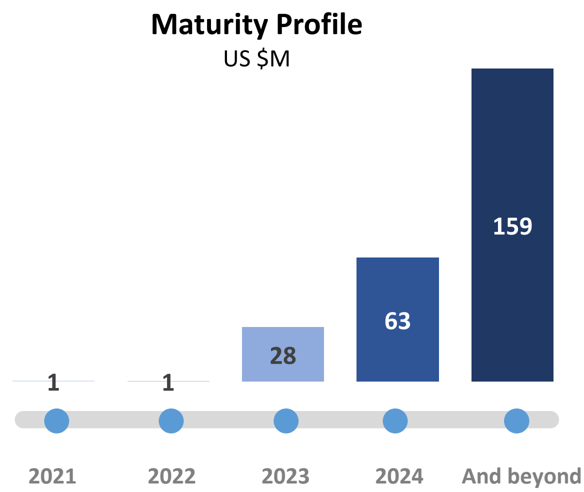
Net leverage of 1.2x (Net Debt / EBITDA) and consistent recovery in profitability at Vitromex and Cinsa, provide GIS with greater flexibility to focus its efforts on identifying strategic opportunities that will create value for our shareholders.

Manuel Rivera
Chief Executive Officer

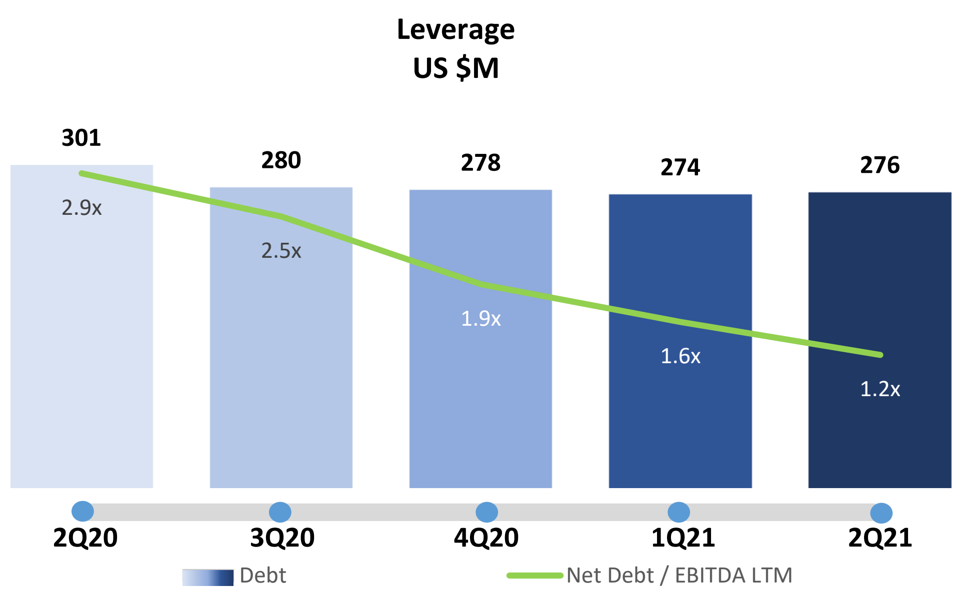
Debt Profile

On June 30, 2021, interest-bearing liabilities including leasing, were US $276M. The cash generation allowed GIS to close the quarter with Net Debt of US $192M.





Note: US $14M from early payments on the syndicated loan on July 15 are excluded



Euro/dollar exchange rate: 1.1944
Leasing amount under IFRS 16 rose to US$ 11M

DRAXTON

Industry Data (Thousands of Vehicles)

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Vehicle Production	**19.0**	**12.6**	**50.2**	**39.5**	**30.5**	**29.7**
North America	3.3	1.4	138.3	6.9	5.2	33.3
Europe	4.5	2.3	97.7	9.2	7.0	32.0
China	5.8	6.1	(4.9)	11.6	9.3	24.6
Vehicle Sales	**20.9**	**15.4**	**35.8**	**41.6**	**32.4**	**28.2**
North America	5.0	3.4	48.1	9.6	7.5	27.1
Europe	4.8	2.8	68.6	9.1	6.9	30.8
China	6.0	6.2	(2.2)	12.0	9.7	24.2

- **North America**
  Vehicle demand is approaching pre-pandemic levels, backed by an improved economic outlook, optimism surrounding the distribution of vaccines, government stimulus packages, and higher employment levels. Seasonally adjusted annual sales (SAAR) in the USA during the quarter averaged 17 million units (the last time this level was attained was in 3Q19), showing a solid pace in demand. The production of vehicles in North America was limited by the global shortage of semiconductors. This has caused pent-up demand due to the low level of inventory at dealers. Therefore, it is expected that OEMs will focus on increasing their production in the second half to meet demand and recover inventory levels. This growing level of production will continue for a good part of 2022.

- **Europe**
  The region saw a significant increase in sales (30.8%) in the first half, compared to the low base level of the first half of 2020. The market is expected to continue recovering in the second half of 2021 due to progress in vaccination against COVID-19, and fewer restrictions on mobility. The incentive programs remain in force in important markets in the region, such as Germany, Italy, France and Spain, focused mainly on electric vehicles. The semiconductor shortage has also limited vehicle production, but a gradual recovery in the second half of the year is expected.

- **China**
  Demand and production of vehicles in the first half remained strong, growing at a pace of 24%. The sale of light commercial vehicles helps to offset interruption in the supply chain for passenger vehicles. With the levels of foreign trade, government subsidies, and the solid economic outlook, a good level of demand for vehicles is projected for the second half of 2021.

Business Results (Millions of US$)

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Foundry Volume[1]	**100,571**	**36,966**	**172**	**206,230**	**131,581**	**57**
North America	52,732	16,962	211	108,115	67,665	60
Europe / Asia	47,839	20,004	139	98,115	63,916	54
Machining Volume[2]	**1,826**	**806**	**127**	**3,864**	**3,122**	**24**
North America	782	344	127	1,740	1,550	12
Europe / Asia	1,044	462	126	2,124	1,572	35
Sales	**177**	**57**	**211**	**352**	**205**	**72**
North America	85	24	247	169	97	73
Europe / Asia	91	32	181	183	108	69
EBITDA	**30**	**(6)**	**NA**	**64**	**26**	**147**
Margen	**17%**	**(11%)**		**18%**	**13%**	

1. **Volume of iron casting (tons)**
2. **Iron and aluminum machining (thousands of parts)**

Volume

Foundry volume in 2Q21 was 172% higher year over year, due to the general shutdown the automotive industry experienced in 2Q20 by the pandemic.

- Volume at Draxton North America increased 211% in 2Q21, considering strong demand for vehicles due to recovery in the US market

- Draxton Europe and Asia grew 139%, supported by higher sales to the commercial vehicles segment in Europe, and significant volume in the Chinese market. Aligned with our strategy of growing in the machining business, our facility in Lleida, Spain, which is 100% focused on this process, attained its highest sales during 2Q21, and will continue to grow within the awarded new program's ramp-up

The combination of strong demand and vehicle production limited by the global shortage of semiconductors has led to a vehicle inventory of fewer than 30 days in the US. The situation is expected to normalize during the second half of the year, which confirms our optimistic outlook for the following quarters.

Sales

Draxton recorded sales of US $177M in 2Q21, a 211% increase year over year, due to the increase in volumes, as well as the indexation of our sales price to the prices of scrap iron, which have continued to climb during the first two quarters of the year.

Sales at Draxton North America were US $85M, 247% higher than in 1Q20, while Draxton Europe and Asia reported sales of US $9M, 181% higher than in the same period of the prior year. This was driven by the higher volume, as well as the euro/dollar exchange rate.

EBITDA

EBITDA in the period was US $30M, compared to -US $6M in 2Q20. In 2Q21, the price of scrap continued increasing in all regions, impacting the result by US $4.4M, considering the positive effect of inventory revaluation. However, higher electricity prices were seen, mainly in Europe, which has also pressured margins. Some of these impacts were offset by the efficiency and productivity improvement programs that Draxton has been implementing by several quarters. As scrap iron prices stabilize in the coming months, the impacts on margins will be recovered.

Commercial Performance

During the second quarter of the year, Draxton was awarded with new contracts for 50,000 tons per year. The accumulated new contracts for 2021 amount to 80,000 tons per year, to be launched over the next two years. Among the programs is a control arm that will be assembled in a new electric vehicle for a leading manufacturer. With this new business, the number of new products under development is now 338, which represents around 236,000 tons per year, confirming our leadership position in the regions and products in which we participate.

Growth of Draxton Mexico

Considering the expected growth in the USMCA region and the contracts won mainly for the brakes market, Draxton announced an important project to install a new iron casting line at its plant in San Luis Potosi. This new line will require an investment of nearly US $30M, and it will increase our capacity by 30,000 tons per year. It should be noted that the brake components produced by Draxton are fully compatible with hybrid and electric vehicles, which will continue to present many opportunities in the future.

Recognition by our customer General Motors

In recognition of our good performance in quality and service during 2020, our customer General Motors gave the Supplier Quality Excellence Award to the Draxton Irapuato Plant on June 30 of this year. The Irapuato plant was selected from among 4,200 supplier companies globally for exceeding quality and service criteria, and for having attained BIQS level 5 certification.

Millions of pesos

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Sales	**969**	**666**	**46**	**1,986**	**1,505**	**32**
EBITDA	**104**	**(45)**	**NA**	**232**	**(37)**	**NA**
Margin	*11%*	*-7%*		*12%*	*-2%*	

Millions of US$

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Sales	**48**	**29**	**68**	**98**	**71**	**38**
EBITDA	**5**	**(2)**	**NA**	**12**	**(1)**	**NA**
Margin	*11%*	*-6%*		*12%*	*-2%*	

Sales

Revenues in 2Q21 grew 46%, explained by the restrictions on operations and mobility that were implemented in 2020 due to the pandemic.

In the second quarter of the year, we saw dynamic domestic demand, which led us to obtain a level of revenues quite similar to that of 1Q21. This is associated with the extraordinary demand that continues in the market, mainly due to remodeling, and in which Vitromex has been able to capture benefits by implementing commercial strategies that prioritize customer relationships, optimize service levels, and offer a better product mix.

In the US, we have continued to roll out our commercial strategy, and although revenues are rising as a result of orders from key customers, we continue to pursue even more ambitious objectives. In Central and South America, we continue consolidating our position, where normalization of operations continues to contribute.

EBITDA

In the second quarter of the year, we confirmed the solid trend towards recovery in profitability, as we repeated our double-digit margins. Consistent results have led to EBITDA for the last 12 months of Ps. 417 million, with a wider base of revenues, better average price, while ongoing improvements in operations and costs have allowed us to drive margins. We expect gradual margin improvements over the following quarters.

During the second quarter, we took several steps to improve capacity on some of our production lines. These steps limited production volume and sales during this period, but they will allow us to be more flexible and increase our capacity by approximately 10%, so that we will be able to satisfy the strong demand from both the domestic and the export market.

Millions of pesos

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Sales	**524**	**263**	**99**	**1,005**	**599**	**68**
EBITDA	**45**	**(30)**	**NA**	**94**	**(16)**	**NA**
Margin	*9%*	*-11%*		*9%*	*-3%*	

Millions of US$

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Sales	**26**	**11**	**129**	**50**	**29**	**75**
EBITDA	**2**	**(1)**	**NA**	**5**	**(0)**	**NA**
Margin	*9%*	*-11%*		*9%*	*-2%*	

Sales

During the second quarter, we saw a significant uptick in our revenues, which grew 9% over 1Q21, and doubled the revenue from the prior year that was affected by the pandemic.

The increase in revenues year-over-year is mainly explained by:

- Exports to the USA and Canada grew 129%, and by 4x to other countries
- Growth of 2x in the traditional channel, and 31% in the modern channel
- Sales to the institutional channel grew 6x and 47% in the catalog channel

EBITDA

The strong EBITDA growth of the quarter was also driven by:

- Better product mix and prices for each market segment
- Rightsizing initiatives made during 2020, which continue in 2021
- Efficiency in plants' operating costs

These actions allowed the Company to almost offset the significant increase in the price of cold rolled steel.

Outlook

	Short Term	Medium to Long Term
Draxton	• Favorable outlook for the automotive industry in 2021 and 2022 • Continue implementing cost reduction and operating efficiency strategies to offset the impact from the price increase in scrap and energy • Focus commercial efforts in the hybrid and electric vehicles market	• Investment in an additional casting line at Draxton SLP in Mexico, to take advantage of growth opportunities from the market, starting up production at the end of 2022 • Growth in machining capitalizing on the outsourcing strategy by OEMs and Tier 1s in all markets • Development of processes and materials that provide us with a competitive advantage in electric vehicles
Vitromex	• Consolidate growth in export volumes to the North American market • Drive reductions in manufacturing costs in all our plants	• Improve market share in Mexico and consolidate leadership in the value segment • Attain regional growth in the North American market
Cinsa	• Focus on growth in sales to the USA and e-commerce • Continue supporting commercial partners in their recovery in traditional, catalog, and institutional channels • Growth in the modern channel via new products	• Accelerate market penetration in the USA with own brands and Graniteware • Drive the innovation initiative • Consolidation of e-commerce • Export to other countries

Estimated CAPEX in 2021 (Millions of Dollars)

	CAPEX
Draxton + JVs	49 – 52
Vitromex	6 – 9
Cinsa	1 – 3
TOTAL	**56 – 64**

Additional Numbers

Millions of US$

	Second Quarter			Six Months		
	2021	2020	Var %	2021	2020	Var %
Net Income	11	(27)	NA	19	(29)	NA
Margin	4%	(28%)		4%	(9%)	
EPS (USS)[1]				0.13	(0.03)	NA
CAPEX	10	10	2	20	19	4
Draxton	9	8	13	18	16	11
Vitromex	1	2	(34)	2	3	(28)
Cinsa	0	0	(60)	0	0	(15)

1) Trailing 12 months

Joint Ventures

GISEderlan, our machining plant in a joint venture with Fagor Ederlan in Mexico, reported improved results in 2Q21, tracking recovery in the automotive industry. The business unit reported revenues of US $12M during the period.

Quarterly Conference Call Information

The conference call to discuss the Company's results will take place on Friday, July 23, at 10:00 AM (Mexico City) / 11:00 a.m. (Eastern). It will be in English and will include a question and answer session.

The conference call will be conducted via Zoom's Webinar platform. In order to gain access, we ask that you please register at this link:

https://us02web.zoom.us/webinar/register/WN_pt5kjlEWQqK2HTMl1lbqPA

Upon registering, you will receive a confirmation e-mail containing the webinar access information codes.

Analyst Coverage

As GIS has securities listed under Section I of the List referred to in provision 4.002.00 of the Mexican Stock Exchange Internal Regulations (shares, and more recently securitized notes), and given the importance of continuing to participate actively in the securities market, in compliance with provision 4.033.10 of that Regulation, the financial entities that provide Analyst Coverage of GIS' securities are the following:

Institution	Analyst
GBM	Alejandro Azar Wabi
Signum Research	Alain Jaimes
BBVA	Montserrat Araujo Nagore
Santander	Rubén López
Actinver	Lilian Ochoa
Apalache (CIBanco/Vector)	Jorge Lagunas

Reporting Basis

Numbers are stated in US dollars (US$) unless otherwise indicated.

Notes to the Financial Statements

We recommend reviewing the notes to the financial statements, which are a part of the quarterly report presented to the Mexican Stock Exchange.

Disclaimer

This release may contain certain statements and forward-looking information about Grupo Industrial Saltillo S.A.B. de C.V. and its subsidiaries (collectively, the "Company") that are subject to risks and uncertainties that may cause the Company's results to differ materially from management's current expectations. These risks and uncertainties include, but are not limited to: development and marketing of new products; demand and acceptance of the Company's products; competitors' products and prices; economic conditions in the markets and geographic regions where the Company sells its products; changes to the rules of foreign trade or treaties to which Mexico is a signatory, as well as foreign currency fluctuations, among others.

Annex – Consolidated Income Statement
Millions of US$

Grupo Industrial Saltillo, S.A.B. de C.V.
Consolidated Information

	2Q			YTD		
	2021	2020	% Change	2021	2020	% Change
Revenues	**250**	**98**	**156%**	**499**	**306**	**63%**
Draxton	177	57	211%	352	205	72%
Vitromex	48	29	68%	98	71	38%
Cinsa	26	11	129%	50	29	75%
Cost of Sales	202	97	108%	398	259	54%
General Expenses	33	31	10%	66	66	(1%)
Other Expenses (Income), Net	0	0	N/A	0	0	N/A
EBIT	14	(30)	**N/A**	35	(19)	**N/A**
Draxton	13	(19)	N/A	32	1	N/A
Vitromex	2	(4)	N/A	5	(7)	N/A
Cinsa	2	(2)	N/A	3	(2)	N/A
EBITDA	35	(11)	**N/A**	76	20	**278%**
Draxton	30	(6)	N/A	64	26	147%
Vitromex	5	(2)	N/A	12	(1)	N/A
Cinsa	2	(1)	N/A	5	(0)	N/A
CFR	2	2	5%	7	4	76%
Income Tax	(0)	(5)	N/A	7	8	(7%)
Discontinued operations	0	0	N/A	0	0	N/A
Consolidated Profit	12	(27)	N/A	21	(31)	N/A
Profit from non-controlling interest	(2)	0	N/A	(2)	2	N/A
Profit from controlling interest	11	(27)	N/A	19	(29)	N/A

Note 1: Integration of Sales and EBITDA by business includes a corporate line item to reach the consolidated number.

Annex – Consolidated Balance Sheet

Millions of US$

Grupo Industrial Saltillo, S.A.B. de C.V.
Consolidated Information

	jun-21	dic-20
ASSETS		
Current Assets		
Cash and cash equivalents	84	93
Accounts receivable	138	132
Inventories	87	77
Assets classified as held for sale	0	0
Property, plant & equipment, net	**476**	**484**
Investments in associates and JVs	**7**	**6**
Goodwill	210	214
Other assets	230	232
TOTAL ASSETS	**1,232**	**1,238**
LIABILITIES		
Current Liabilities		
Current liabilities at cost	6	7
Trade payables	189	157
Other current liabilities	72	79
Liabilities included in assets classified as held for sale	0	0
Non-current Liabilities		
Non-current liabilities at cost	249	248
Deferred taxes	7	7
Other non-current liabilities	78	91
TOTAL LIABILITIES	**600**	**589**
TOTAL SHAREHOLDERS EQUITY	**632**	**649**
TOTAL LIABILITIES AND EQUITY	**1,232**	**1,238**

Annex – Information on Derivatives and Forwards

Type	For	Contracting Party	Amount	Termination Date	Currency	Line Covered
Forward	Local currency needs	European Brakes and Chassis Component	1,600,000	Aug. 5, 20 21	PLN	Cash Flow
Forward	Local currency needs	Cinsa	5,400,000	Dec. 1, 2021	USD	Cash Flow
Forward	Local currency needs	Vitromex	3,300,000	Dec. 1, 2021	EUR	Cash Flow
Forward	Local currency needs	Vitromex	5,650,000	Dec. 15, 2021	USD	Cash Flow
Forward	Natural gas price	GISSA	590,000	Dec. 13, 2021	MMBTUs	Natural gas price
Cross Currency Swap	Securitized Notes	GISSA	625,000,000 / 29,302,937	Oct. 10, 2024	EUR/MXN	Securitized Notes
Cross Currency Swap	Syndicated Loan	GISSA	95,000,000 / 85,241,284	Sept. 11, 2025	EUR/USD	Syndicated Loan
Interest Rate Swap	Syndicated Loan	GISSA	65,000,000	Sept. 11, 2025	USD	Syndicated Loan

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