INVESTOR NEWSLETTER

Martinrea's Approach to Capital Allocation

October 2024

martinrea.com

In any business, how the company allocates its capital is among the most important decisions management has to make. Capital allocation is equally as important as operational decision-making and execution, and we have to be effective at both to ensure our organization prospers or even survives over the long run. Profitable businesses with strong operating track records can be derailed by a poor capital allocation strategy. Therefore, it is critical that we get this part of the corporate strategy right.

At Martinrea, we spend a lot of time thinking about capital allocation. Our overarching priority is quite simple – to generate long-term positive returns for our shareholders. Generating market competitive returns is part of our mission. In that sense, we are no different than an investment manager running a mutual fund, pension plan, or endowment fund, or an individual investor managing their own portfolio. We invest where the return potential makes the most sense, while taking risk into consideration.

Our management team is committed to the long-term sustainability of our company, in line with our vision, mission and principles. We are all owners, with minimum shareholding requirements and a robust equity share ownership program.

Taking a closer look, our capital allocation framework is as follows:

CAPITAL ALLOCATION FRAMEWORK

Invest to Maintain and Grow Our Business

- Organic opportunities
- Invest in R&D and new products
- Acquisitions that fit product strategy
- Priorities dictated by strict ROIC/IRR focus

Maintain Strong Balance Sheet

- Targeted Net Debt/Adjusted EBITDA ratio of ~1.5x or better
- Maintain flexibility to invest for growth

Return Capital to Shareholders

- Repurchase shares with excess liquidity (at the appropriate times)
- Maintain dividend

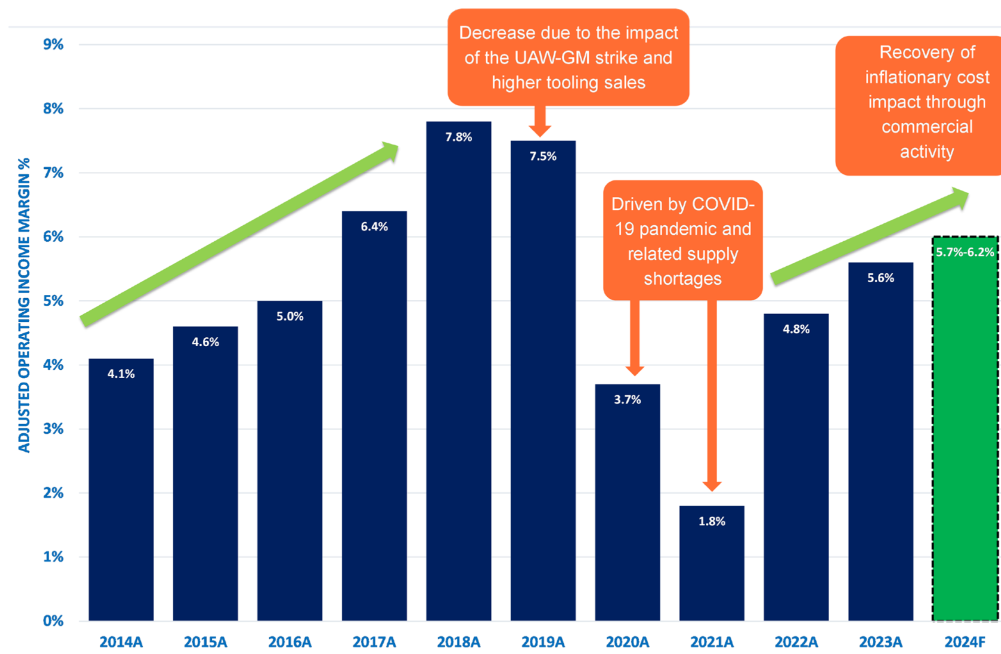
Investing to Maintain and Grow Our Business

While maintaining a strong balance sheet, we seek to invest in growth opportunities that have the potential to generate strong returns for our shareholders. This can take the form of organic capital investments and research and development initiatives, as well as acquisitions that make strategic and financial sense. These priorities are driven by a disciplined internal rate of return (IRR)/return on invested capital (ROIC) framework – i.e., we choose the options that have the highest expected returns over the long term.

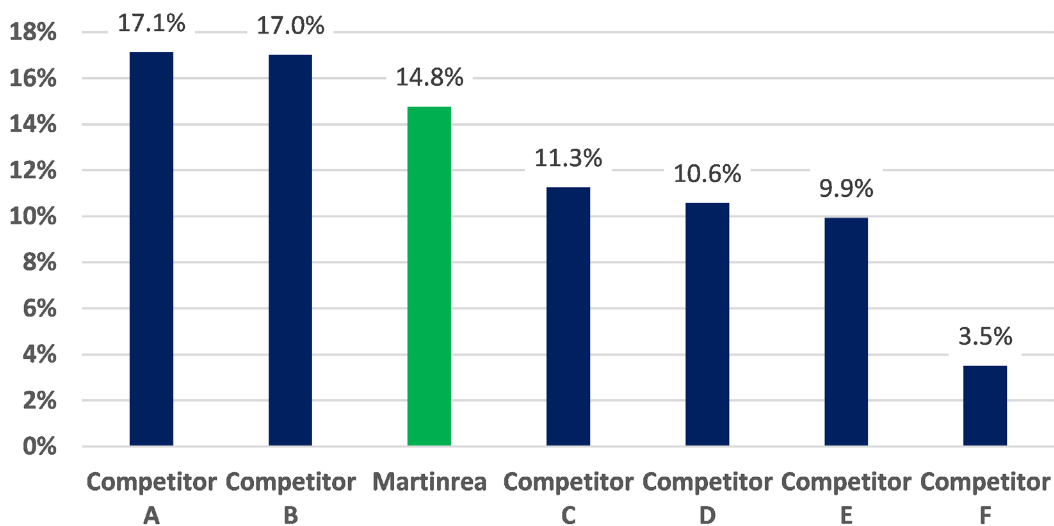
We Generate Strong Returns on Our Investments

In late 2014, Pat D'Eramo joined Martinrea as President and CEO, and we embarked on our Lean transformation journey, a period we refer to as "Martinrea 2.0." Over the next five years, Adjusted Operating Income Margin[1] nearly doubled to 7.5% in 2019 (over 8% excluding the impact of the 2019 UAW-GM strike), putting us among the top in our peer group (see chart below).

ADJUSTED OPERATING INCOME MARGIN (%)



We achieved this through a combination of plant-level operating improvements under our Martinrea Operating System (MOS), and a more disciplined go-to-market approach, adhering to a strict IRR hurdle rate in quoting new business. This resulted in a strong ROIC, which was in the mid-teens in 2019 (see chart below).

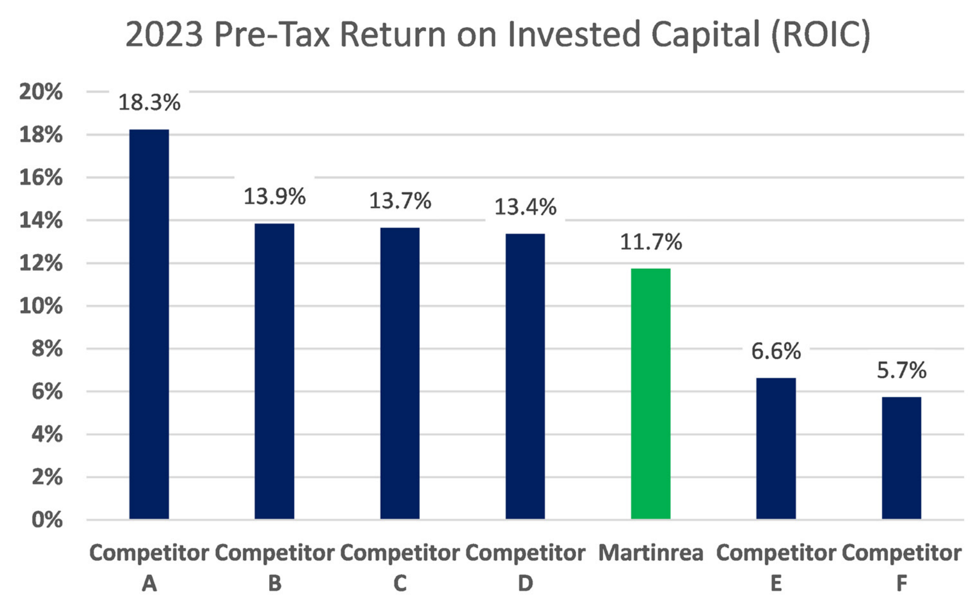


[1] As defined and described in our most recent MD&A available on www.sedarplus.ca.

Our ROIC has declined since then, as margins have been impacted by the disruptions related to the COVID-19 pandemic, including supply chain bottlenecks and inflation in material and labour costs. We also invested a substantial amount of capital in the business between 2020 and 2022, in support of new business wins worth more than $1 billion in annualized sales at mature volumes. Notwithstanding, over the last three years, our margins have consistently improved as pandemic era disruptions have eased, and our capital spending has normalized, resulting in an improving trend in our ROIC.

In the moment, margins continue to be held back by lower-than-planned volumes on certain programs, particularly electric vehicle programs, as EV adoption has been slower than many in the industry expected. In addition, while we have made great progress in recovering a fair share of the inflationary cost burden and compensation for EV volume shortfalls through commercial negotiations with our customers, the reality is we are not recovering 100% of the inflationary cost burden. These are industry-wide issues, so we are not alone in that regard.

In 2023, our pre-tax ROIC was 11.7%, which is within the range of most of our closest peers (see chart below). We expect our margins and ROIC to return to their historical levels over time, as volumes on EV programs ramp up, and as business on next generation programs is repriced to reflect current market prices of input costs.



Free Cash Flow[1] – Playing the Long Game

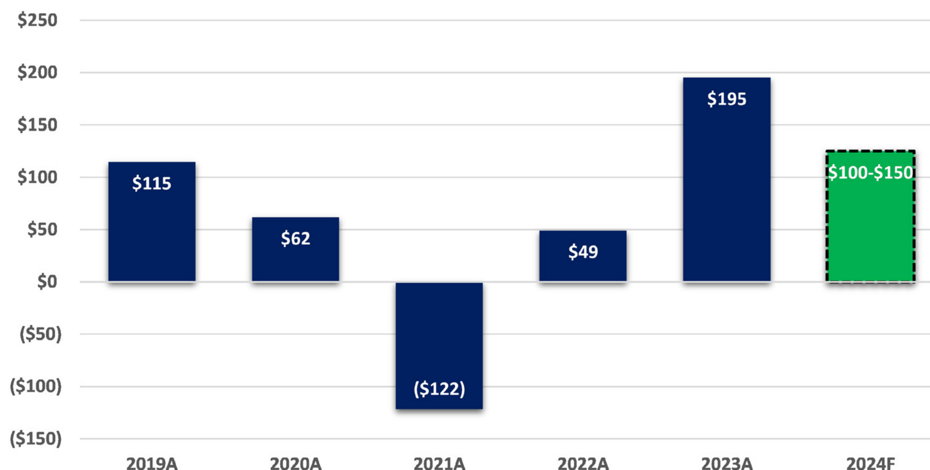
Free Cash Flow[1] is an important metric in assessing the merits of any investment. It is a key element for many investors, and ultimately a key driver of valuation – the value of an investment is equal to the present value of its future cash flows, discounted at the appropriate cost of capital.

Importantly, the cash generating potential of a business must be looked at through a long-term lens. A company may have options to invest capital in high-return organic growth opportunities that will provide a steady stream of free cash flow in future years. However, those investments reduce free cash flow initially. Working capital flows can also be unpredictable over shorter time periods, skewing the true cash flow picture. When allocating capital, it is incumbent on us to play the long game and not be distracted by near-term ebbs and flows. Ultimately, companies that generate a strong ROIC tend to generate strong free cash flow over time.

[1] As defined and described in our most recent MD&A available on www.sedarplus.ca.

Our Martinrea 2.0 journey has also included substantial capital investment for new program capital, as well as investments in our steel metal forming operations to make our production lines more flexible, and capacity investments to support growth in our aluminum casting business. Notwithstanding, we hit an inflection point in 2019 where we generated over $100 million in Free Cash Flow[1]. While the disruptions related to the COVID-19 pandemic and its aftermath impacted our progress between 2020-2022, we generated a record level of Free Cash Flow[1] in 2023, as our margins continued to recover and as capex normalized (see chart below).

FREE CASH FLOW (IN MILLIONS OF DOLLARS)



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We expect to generate Free Cash Flow[1] of approximately $100 to $150 million in 2024. This reflects our sales and margin expectations as well as projected capex of approximately $340 million, which is expected to be generally in line with depreciation and amortization expense for the year. Albeit lower than what we generated last year given timing of capex and working capital flows, this represents a very healthy level of Free Cash Flow[1] for our business.

Our Acquisition Strategy is Disciplined and has Served us Well Over Time

Historically, our acquisition strategy has revolved around acquiring businesses that broadened our product offering, technology, footprint, or customer base. They helped us grow rapidly from a start-up to a company with $5 billion in revenues, a true growth story. Primarily, these were distressed assets requiring investment and resources to turn around. We were able to acquire these companies cheaply and restructure the operations, thereby putting them on a more sustainable path. We have proven our effectiveness at turning around struggling businesses. We are prudent and disciplined buyers, and this is a big part of how we built our organization.

Our acquisition strategy has evolved over the years, but valuation remains a key component. Great companies can end up being bad acquisitions if you pay too much. As such, we are selective and prudent in our approach. Basically, we look for companies that can help us achieve some combination of: (1) advancing our lightweighting strategy, (2) enhancing our product and technical capabilities, and (3) diversifying our customer base. And we look to acquire these companies at reasonable to attractive valuations.

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We made several strategic investments since our Martinrea 2.0 journey began that have yielded tangible and intangible benefits, most notably the acquisition of the Structural Components for Passenger Cars division of Metalsa S.A. de C.V. (the "Metalsa Acquisition") completed in early 2020. The purchase price was $19.5 million, inclusive of working capital and on a debt-free basis, representing an EV/EBITDA multiple of less than 1.0x. In addition to adding approximately $300 million plus in expected sales at normalized volumes, the acquisition carried several strategic benefits:

1. It helped diversify our customer base, adding significant revenues with Mercedes-Benz, Audi, and BMW.
2. It established a metallics footprint in Europe, transforming our steel metalforming group from a North American player to a global player. This helped to advance our Project BreakThrough commercial strategy.
3. It added strong, reputable engineering capabilities in the heart of Germany to support both European and North American customers.
4. It established capacity in needed areas.

In addition, we made several investments in NanoXplore since 2017. The carrying value of our investment in NanoXplore is approximately $53.7 million, and the market value of our 22.7% equity stake in the company currently sits at $93.9 million (as of the closing price on August 1, 2024). Our strategic relationship with NanoXplore also enabled us to develop, design and manufacture a new graphene-enhanced brake line product (brake lines with GrapheneGuard™), which won us a 2022 *Automotive News* PACE Award. The use of graphene in our products, as well as our recognized technological leadership in this area, has brought significant and profitable commercial opportunities in the many millions of dollars.

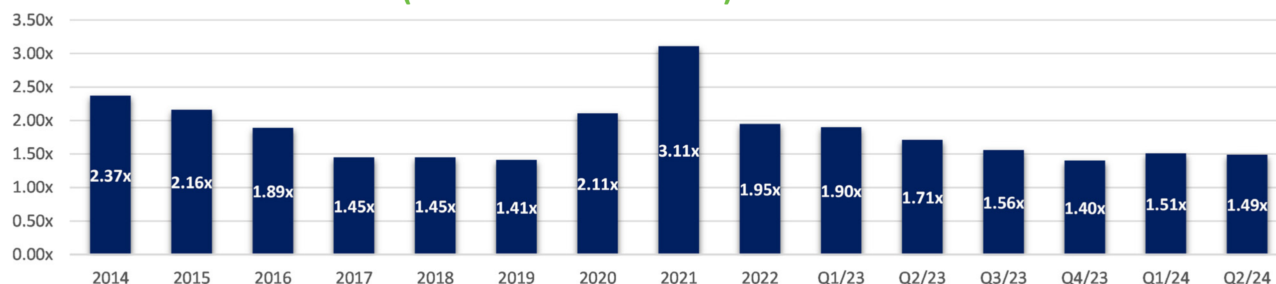
We also made a number of smaller, but highly strategic, investments over the years, including the acquisition of the assets of Effenco Development Inc., and equity investments in AlumaPower and Equispheres. In March 2024, we completed a financing round with Equispheres where we invested US$6 million (C$8.0 million) in equity and entered into an agreement to work together for compensation and a royalty agreement for Martinrea. Apart from the NanoXplore and Metalsa investments, the book value of our strategic investments (Effenco, AlumaPower, Equispheres, and others) at the end of Q2 2024 was just under $14 million. Strategic, but not expensive.

Maintaining a Strong Balance Sheet

A strong balance sheet is paramount, as it gives us the confidence and ability to withstand downturns, if and when they arise, like during the Great Recession of 2008 and 2009 and, more recently, the COVID-19 shutdowns of 2020. Our customers also prefer to deal with suppliers who are financially sound that they know will be around to serve them in the long run, so a strong balance sheet is fundamental to maintaining and growing our business. We believe our targeted Net Debt to Adjusted EBITDA[1] ratio of 1.5x or better is appropriate for our business, as it represents a level that allows us to manage downside risk while maintaining the flexibility to invest for growth.

As the following chart demonstrates, over the five-year period from 2014-2019, we reduced our net debt and leverage ratio significantly, ending 2019 at a Net Debt to Adjusted EBITDA[1] ratio of 1.41x.

NET DEBT TO ADJUSTED EBITDA (EXCL. IFRS-16 IMPACT) - BAR CHART



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Then, in 2020, the COVID-19 pandemic resulted in our industry shutting down production for two and a half months, resulting a sharp drop in Adjusted EBITDA[1] and, in turn, a spike in our leverage ratio. We obtained covenant relief from our banking syndicate during this time. While we saw record results in Q3 and Q4 of 2020 as production resumed, we faced more headwinds in 2021 from parts shortages and other supply chain bottlenecks, as well as inflationary cost pressures across our industry given an uneven ramp-up in industry production volumes coming out of the pandemic. Again, our leverage ratio spiked, and we obtained covenant relief from our lenders.

As these industry headwinds eased, we started to generate better profits (beginning in the back half of 2022), and our leverage ratio improved, gradually each quarter, to the point where at the end of 2023 our Net Debt to Adjusted EBITDA[1] ratio stood at 1.40x, in line with our target of 1.5x or better. As of Q2 2024, the ratio is 1.49x – a slight increase, though still within our target range, despite funding significant share buybacks year to date, as well as our investment in Equispheres. Over this timeframe, our net debt in absolute terms has been reduced by $103.7 million, from its high of $955.9 million in Q1 2023, to $852.1 million at the end of Q2 2024.

This demonstrates our commitment to maintaining a strong balance sheet. We take this commitment very seriously, and we will continue to honour it over the life of the Company.

Returning Capital to Shareholders

The final component of our capital allocation strategy is returning capital to shareholders in the form of share repurchases and dividend growth over time. We now pay approximately $15 million in dividends annually, representing a modest cash outlay. While we are committed to maintaining the dividend at the current level (barring any unforeseen shocks to our business or the broader economy), we believe that share buybacks are a better use of capital given the valuation our stock is trading at.

Looking at our share buyback program, since 2018, we have bought back approximately 14 million shares, which is approximately 16% of the Company's equity. Given the substantial deleveraging and improvement in our leverage ratio since 2014, as well as our expectation that we would see a period marked by better Free Cash Flow[1] generation, we announced at the time of our Q2 2018 Conference Call (August 29, 2018) that we initiated a normal course issuer bid (NCIB) to repurchase up to 4.3 million shares, or 5% of the Company's outstanding shares. This NCIB was completed in full during Q1 2019.

On August 27, 2019, we announced a renewed NCIB to purchase up to 8 million common shares, or 10% of the public float. However, given the onset of the COVID-19 pandemic and related industry shutdown, we announced on the Q1 2020 call (May 13, 2020) that we had suspended share repurchases under our NCIB until further notice. We note that, at the time, we obtained covenant relief with our lending syndicate, we gave a verbal commitment to our lenders that we would not buy back shares under our NCIB while we were subject to covenant relief. The fact that our lending group did not require this commitment in writing is a testament to the quality of our relationships. In total, we repurchased approximately 2.9 million shares under this NCIB.

As previously mentioned, this period was followed by further industry challenges which precipitated another round of covenant relief beginning in 2021. Ultimately, this had the result of keeping us out of the share repurchase market for over three years in total.

As we entered 2023, industry headwinds from supply chain bottlenecks and cost inflation began to ease, which continued through 2023. As such, we became increasingly comfortable with resuming share buybacks and, on March 31, 2023, we initiated a new NCIB to repurchase up to 5 million shares, or 7% of the public float. We started to actively buy back stock under this NCIB in Q2 2023. Even though we were not yet at our target leverage ratio, we saw a path to get there and, as such, we bought back stock throughout the remainder of 2023 except during blackout periods, and during the UAW strikes late in the year, which we believe was prudent. We bought back

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approximately 1.35 million shares in Q1 2024. In total, we bought back approximately 3.6 million shares under this NCIB.

We entered a new NCIB which was announced on April 29, 2024, and took effect on May 2, 2024. We repurchased approximately 2.0 million shares under this NCIB in Q2 2024, and and another 826,000 shares in Q3 2024. Philosophically, we believe share buybacks are a very good use of capital at current share price levels, as it rewards shareholders by providing them with an increased ownership position without having to write a cheque, and for a price that we believe is much lower than what that increased position is worth.

Our share buyback activity since 2018 is outlined in the table below:

Date	Shares Repurchased	Share Price (Pre-Announcement)	Notes
29-Aug-18	Initiated NCIB	$11.07	Announced NCIB to purchase up to 4,348,479 common shares (approximately 5% of outstanding shares).
08-Nov-18	643,720	$11.45	Announced in Q3/18 earnings release that we repurchased 643,720 shares for $9.0M, and said that we intended to buy more at these levels.
20-Dec-18	1,358,760	$10.47	Announced in a press release that we initiated an automatic share repurchase plan and that since August 31, 2018, we repurchased 2,002,480 shares.
28-Feb-19	147,920	$12.27	Announced in Q4/18 earnings release that for the full year of 2018, we repurchased 2,150,400 shares for $25.5M.
02-May-19	2,198,079	$12.94	Announced in Q1/19 earnings release that we repurchased 2,198,079 shares for $26.3M, and that our NCIB was completed.
	4,348,479	**<-- Total shares repurchased**	
06-Aug-19	n.a.	$10.26	Indicated in the Q2/19 earnings release that we intend to renew our NCIB when the current one expires.
27-Aug-19	Initiated NCIB	$9.54	Announced NCIB to purchase up to 8,000,000 common shares (approximately 10% of public float).
12-Nov-19	1,057,970	$11.49	Announced in Q3/19 earnings release that we repurchased 1,057,970 shares for $11.9M during the quarter.
05-Mar-20	1,542,055	$10.90	Announced in Q4/19 earnings release that in Q3 and Q4, we repurchased 2,600,025 shares for $31.5M.
13-May-20	300,185	$7.65	Announced in Q1/20 earnings release that we repurchased 300,185 shares for $3.4M, and that in ligt of the COVID-related shutdown, we suspended repurchases until further notice.
	2,900,210	**<-- Total shares repurchased**	
31-Mar-23	Initiated NCIB	$14.57	Announced NCIB to purchase up to 5,000,000 common shares (approximately 7% of the public float).
04-May-23	n.a.	$14.15	Indicated in the Q1/23 earnings release that we initiated an NCIB and that we expect that we would be buying back some stock at these levels.
09-Aug-23	815,000	$14.41	Indicated in the Q2/23 earnings release that we bought back 815,000 shares for $10.0M, and indicated that we planned to be active with our NCIB once we are out of blackout.
08-Nov-23	804,555	$12.58	Indicated in the Q3/23 earnings release that we repurchased 1,619,555 shares in Q2 and Q3 for $20.8M.
29-Feb-24	651,100	$13.90	Indicated in the Q4/23 earnings release that for the full year of 2023, we repurchased 2,270,655 shares for $29.1M.
02-May-24	1,353,500	$12.16	Indicated in the Q1/24 earnings release that we repurchased 1,353,500 shares for an aggregate purchase price of $15.9M.
	3,624,155	**<-- Total shares repurchased**	
29-Apr-24	Initiated NCIB	$11.56	Announced NCIB to purchase up to 6,435,000 common shares (approximately 10% of the public float).
06-Aug-24	1,999,088		Indicated in the Q2/24 earnings release that we repurchased 1,999,088 shares for an aggregate purchase price of $24.0M.
n.a.	826,004		In Q3/24, we repurchased 826,004 shares for $10.0M.

Since March 2023, we have spent $79.5 million on share buybacks.

In Closing

We believe that we have followed the priorities laid out in our capital allocation framework and have done what we said we would do. We invested in the business, maintained a strong balance sheet, and returned substantial capital to shareholders through share buybacks and dividends. We believe our capital allocation strategy provides the right mix between investing in the future of our Company, while putting it in a strong financial position through prudent balance sheet management. It also seeks to reward our shareholders for their continued support in the form of returning capital through dividends and share buybacks. Our capital allocation framework is core to our overall corporate strategy and should enable us to drive meaningful and sustainable growth in revenues, earnings, and Free Cash Flow[1] over the life of the Company.

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[1] As defined and described in our most recent MD&A available on www.sedarplus.ca.

FORWARD LOOKING STATEMENT DISCLAIMER

This newsletter contains forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"), including, but not limited to, statements relating to the expectations of or belief in the Company's business strategy, capital allocation decisions and strategy, 2024 guidance for free cash flow, including expectations for sales and margins, and capital expenditure (capex) levels, statements on free cash flow, return on investments, benefit of investments, strength of the balance sheet and net debt to adjusted EBITDA ratios, statements on returns of capital to shareholders and the use of normal course issuer bids, as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by Martinrea in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that Martinrea believes are appropriate in the circumstances, such as expected sales and industry production estimates, current foreign exchange rates (FX), timing of product launches and operational improvements during the period and current Board approved budgets. These forward-looking statements are subject to risks, uncertainties and assumptions that may cause actual results, performance or achievements to differ materially from those expected or implied by the forward-looking statements. Factors that may cause such differences include, but are not limited to the factors discussed under the headings "Industry Highlights" and "Trends and Risks and Uncertainties" in Martinrea's most recent Management Discussion and Analysis and Annual Information Form filed with applicable securities commissions, as well as other risk factors identified therein, and other filed documents available at www.sedarplus.ca, and the documents incorporated by reference into such documents. These factors should be considered carefully, and readers should not place undue reliance on Martinrea's forward-looking statements. If any of such risks actually occur, they could materially adversely affect our business, financial condition or results of operations. In that case, the trading price of our common shares could decline, perhaps materially. We provide forward-looking statements solely for the purpose of providing information about management's current expectations and plans relating to the future. You are cautioned that such information may not be appropriate for other purposes. Except as required by law, we do not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or any change in events, conditions, assumptions or circumstances on which any such statement is based.