INVESTOR NEWSLETTER

Martinrea's Approach to Capital Allocation

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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 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 account.

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, increasing our holdings of shares and equity-based instruments over each of the prior five years, with minimum shareholding requirements and a robust equity share ownership program. In 2020 and in 2021 to date, we have met the challenge of the pandemic head on and today we are as strong a company as we have ever been. Because we are owners and behave like owners.

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

Invest to Maintain and Grow Our Business

- Organic opportunities
- Invest in R&D and product offering
- 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
- Maintain flexibility to invest for growth

Return Capital to Shareholders

- Repurchase shares with excess liquidity (at the appropriate times)
- Dividend growth over time

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.

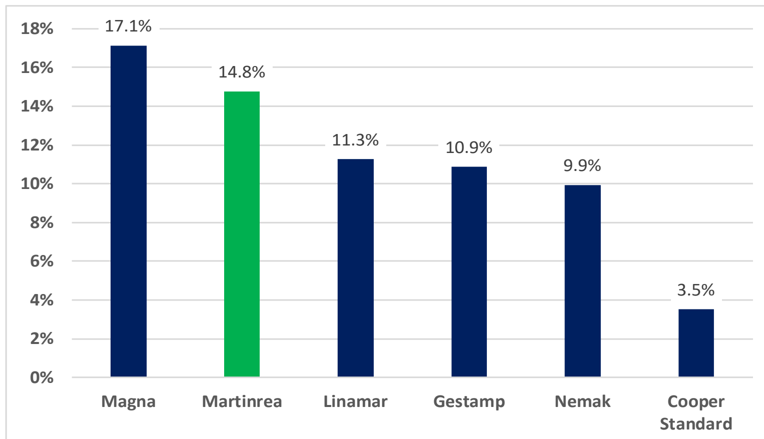
Industry-Leading Returns on Invested Capital Demonstrate That We Are Investing Well

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). We achieved this through a combination of plant-level operating improvements and our LEAN manufacturing practices, and a more disciplined go-to-market approach, adhering to a strict IRR hurdle rate in quoting new business, which has generated ROICs that are among the best in our peer group, demonstrating our effectiveness when it comes to capital allocation (see chart below).

	2019 Adj. Op. Inc./EBIT Margin
Martinrea	7.5%
Magna	7.4%
Linamar*	7.3%
Nemak	6.4%
Gestamp	5.6%
CooperStandard	5.0%

*Note: Transportation Segment

2019 Pre-Tax ROIC (most recent pre-COVID year)



**Pre-tax return on invested capital (ROIC) = EBIT / total invested capital*

Free Cash Flow – Playing the Long Game

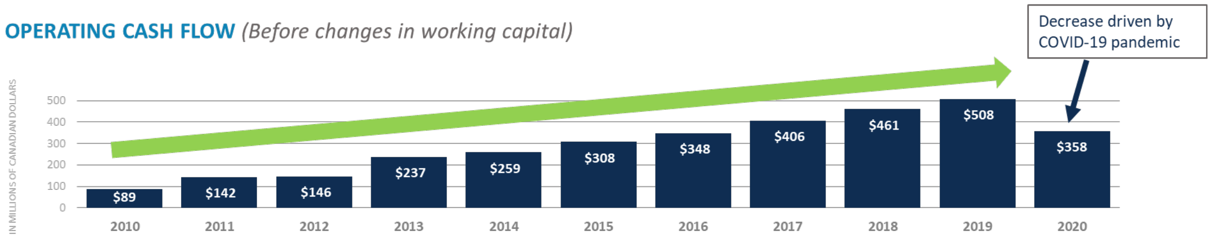
Free cash flow is an important metric in assessing the merits of any investment. It is a key element for many investors, and ultimately a key driver of valuation – the value of an investment is equal to the present value of its future cash flows, discounted at the appropriate cost of capital. Earnings-based multiples such as price-to-earnings and enterprise value-to-EBITDA ratios are simply tools used to estimate value, which is best defined through a discounted cash flow type analysis.

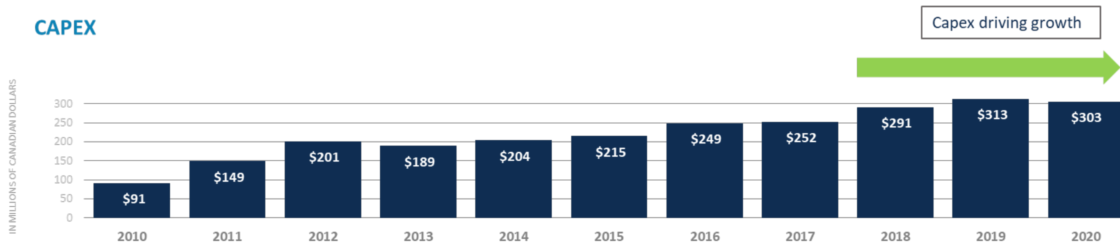
Importantly, the cash generating potential of a business must be looked at through a long-term lens. A company may have options to invest capital in high-return organic growth opportunities that will provide a steady stream of free cash flow in future years. However, those investments reduce free cash 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 strong ROIC tend to generate strong free cash flow over time.

Our Martinrea 2.0 journey has also included substantial capital investment, mostly related to investments in our steel metal forming- operations to make our production lines more flexible as well as long term 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] Although the COVID-19 pandemic has impacted our continued progress in this area, we still managed to generate over $60 million in free cash flow[1] in a COVID disrupted 2020.

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

CASH FLOW





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This year, we are expecting capex to increase from 2020 levels, leading to an expected breakeven free cash flow[1] profile in 2021, driven by new business wins, capital required for a number of customer-driven engineering changes, additional capacity to be put in place due to stronger-than-expected volumes, and some spending moving into 2021 from 2020. When evaluating our capital program, it is important to keep in mind that the vast majority of our capital spending is program-related, and we only deploy capital when we win the business (i.e., we do not deploy capital on spec). In addition, our capital investments – be they for new business wins, engineering changes, or capacity additions – are subject to the same IRR hurdle rate. As such, we expect these investments to generate incremental growth (at similar returns) and free cash flow[1] in the future.

Looking forward over the next two to three years, we expect capex to normalize to a range approximating depreciation and amortization as a percentage of sales. A key driver will be our flexible production lines, which will allow us to reduce program-related capital. We also expect capacity investments in our aluminum business to normalize. Assuming industry volumes materialize as expected, and the industry recovers from near-term supply shortages of semiconductors and other inputs, we expect a strong free cash flow[1] profile in 2022 and beyond. Having said that, we will not hesitate to invest in the business if we have opportunities that meet our return expectations.

<u>Our Acquisition Strategy is Disciplined and has Served us Well Over Time</u>

Historically, our acquisition strategy has revolved around acquiring businesses that broadened our product offering, technology, footprint, or our customer base. They helped us grow rapidly from a start-up to a company with $4 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, though valuation remains a key component. Great companies can end up being bad acquisitions if you pay too much. So 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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Our most recent acquisition of the Structural Components for Passenger Cars business of Metalsa S.A. de C.V. (which we refer to as our Martinrea-Metalsa Group) is a great example of an acquisition that ticked all the right boxes for us, as it provided the following benefits:

1. It helped diversify our customer base by adding significant sales with certain key customers – Daimler, BMW and Audi.
2. It transformed our steel metal forming group from a North American player to a global player. This helped us advance our multi-material joining capabilities and commercial strategy (Project Breakthrough) as we are now able to offer European-based customers more complex, value-added assemblies.
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. Specifically, the assets came with an underutilized facility in Tuscaloosa, Alabama. In early 2020, we won a program with Daimler worth over $100 million in annualized revenues on its EVA II electric vehicle platform, which will launch in 2022. We will be able to accommodate this business in the acquired Tuscaloosa facility. Had we not made the acquisition, we would have had to build a new facility in the same region.

The acquisition also came at a very attractive valuation – US$19.9 million in cash (inclusive of working capital and on a debt-free basis) for six manufacturing facilities in Germany, the United States, Mexico, South Africa and China (2), and approximately $400 million in annual sales.

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/adjusted EBITDA[1] ratio of approximately 1.5x 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.

The COVID-19 pandemic highlighted the importance of our strong balance sheet and strong lending relationships. It also showcased our ability to manage through a crisis and a period full of uncertainty. Our strong financial position leading into the COVID-19 downturn, as well as actions we took in the form of cost reductions from temporary layoffs, salary reductions, and capex reductions, as well as liquidity actions to increase credit availability, allowed us to navigate through the crisis in a position of strength. Given our strong relationship with our lending syndicate, we were able to reach an agreement to eliminate Q2 2020 adjusted EBITDA[1] for covenant calculation purposes. As a result, the impact of the COVID-19 related shutdown of the industry, and most of the Company's operations, occurring during the second quarter of 2020, was ignored for the purpose of financial covenant calculations under the Company's lending arrangements. Ultimately, our net-debt-to-adjusted-EBITDA[1] ratio peaked at 2.64x in Q2 2020, and has continued to decline since then, a strong result considering the volatile and uncertain environment. Throughout our history, we have proven our ability to manage our balance sheet through business cycles and keep leverage in check, which provides our shareholders with the confidence that their investment will be protected.

We have recently renewed our credit agreements for three years, with expanded liquidity at very competitive rates, giving us greater financial capacity and flexibility.

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

Return of Capital

The final component of our capital allocation strategy is returning capital to shareholders in the form of share repurchases and dividend growth over time. While our dividend rate is higher than many in our industry, we pay approximately $16 million in dividends annually, representing a modest cash outlay. While we seek to reward our investors with a steady stream of dividend income, our view is that share buybacks represent a more compelling opportunity as we believe our stock is undervalued. As such, return of capital is more likely to be focused on buybacks at this juncture, as they offer better return potential.

We have been active with our share repurchase program in the past. Between 2018 and 2020, we repurchased 8% of the Company's outstanding shares for $86.8 million. When the pandemic hit in 2020, we suspended our normal course issuer bid, a prudent move to preserve cash. However, we did maintain our dividend.

It is now May, 2021. We are still in the midst of the third wave of the pandemic, there are still many closures or lockdowns, including of borders, and the industry is facing many supply shortages, particularly related to semiconductor chips. We are seeing many customer shutdowns and an uncertain outlook for the next several months.

While we continue to invest in our business, maintain our dividend, and keep our balance sheet strong, we are not recommencing our share repurchases this spring, but do anticipate filing for a normal course issuer bid by the fall of 2021. Philosophically, we like buybacks, as we think our shares are attractively valued and represent a great investment opportunity. But we are going to be prudent with our cash in the midst of pandemic uncertainty, while still investing in the future of our Company.

Conclusion

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 to them through dividends and share buybacks. In summary, 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 in the short, medium and long term.

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