

Company Name: Rotoplas
Company Ticker: AGUA* MM
Date: 2018-02-14
Event Description: Y 2017 Earnings Call

Market Cap: 12,860.91
Current PX: 26.45
YTD Change(\$): -3.76
YTD Change(%): -12.446

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: N.A.
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: N.A.

Y 2017 Earnings Call

Company Participants

- Ofelia Lopez Aranda, Head of Investor Relations
- Carlos Rojas, Chief Executive Officer
- Mario Romero Orozco, Chief Financial Officer

Other Participants

- Unidentified Participant
- Liliana De Leon Meza, Analyst

Presentation

Operator

Good morning and welcome to the Grupo Rotoplas Fourth Quarter 2017 Results Conference Call. Please note that today's call is being recorded and all participants are currently in a listen-only mode to prevent background noise. The host will open the floor for questions later.

I will now turn the call over to your host, Ms. Ofelia Lopez Aranda, Grupo Rotoplas Head of Investor Relations. Please go ahead, Ms. Lopez Aranda.

Ofelia Lopez Aranda, Head of Investor Relations

Thank you, Tracy. Good morning, everyone, and thank you all for joining us today. We issued our earnings press release yesterday after market close. It can be found in the Investor section of our website. We have also provided slides to supplement our discussion, which can also be found in the Investor section.

Please allow me to remind you that today's discussion contains forward-looking statements. These statements are based on the environment as we currently see it and as such, there might be certain risk and uncertainty associated with such statements. Please refer to our press release for more information on these specific risk factors that could cause actual results to differ materially. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, further events, or otherwise.

We are joined today by Mr. Carlos Rojas, Rotoplas Chairman and Chief Executive Officer; and Mr. Mario Romero, our Chief Financial Officer. We'll begin our call with their remarks and we'll then open the floor to your questions.

I would now like to turn the call over to Mr. Carlos Rojas. Mr. Rojas, please go ahead.

Carlos Rojas, Chief Executive Officer

Thank you, Ofelia. Thank you all for joining us this morning. We appreciate your interest in our Company. Let me start-off by saying that this is the fourth consecutive quarter of double-digit growth in our sales, which speaks to our strategy of strengthening our quarter as service business model and to the successful integration of our recent acquisitions, particularly, during the fourth quarter, we integrated our e-commerce platform in the US, which is not only an ongoing and profitable business, but also creates new and interesting growth opportunities to make us market

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profitable [ph].

In addition, Sytesa, the water treatment and recycling plants businesses complemented our integrated solutions platform being the main driver for doubling our integration solution sales for 2017. With this, over the last two years, we have focused in strengthening our presence in water treatment and recycling plants, water fountains for schools, residential and corporate purified water service, an additional water retail products such as storage, flow and treatment, which are sold over 10,000 points of sales in the Americas. And perhaps, more important, we at least show by reaching new current customers, thus keeping our exposure to government spending well within our established parameters. In fact, our Water as a Service platform now encompasses nearly 7,000 points of water treatment and purification in our 1,000 (inaudible) Mexico breaking all the market (inaudible).

At the same time, we have continued to invest on innovation with our R&D and product [ph] development efforts, which amongst other things we have brought above [ph] new products in water flow, such as the project line water pipes with the water purification during our new (inaudible) line Grupa [ph] investment. We have made good progress in our innovation center in Canada, which will -- they will also focus on expanding the brand and added value of our product portfolio for the fastest-growing traditional market (inaudible).

As I mentioned in our last call in 2018, we will continue to leverage our strengths, our brand, customer service, distribution network, water service platform and coastal innovation (inaudible) grow. Moreover, we will continue to innovate inorganic growth opportunities, and capitalize on the synergies created by its successful integrations where we are (inaudible) ones. We are confident that we are on the right strategic path with good execution capabilities, which will continue to lead us for a better, more profitable and overall stable product and service mix for the coming years.

I would now like to turn over the call to Mario, who will guide you through the financial results. Thank you for listening and I look forward for your questions.

Mario Romero Orozco, Chief Financial Officer

Thank you, Carlos. Good morning, everyone. Thank you for participating. I will now discuss some of the highlights for the fourth quarter and the full-year 2017. As Carlos said, sales grew 12.8% year-over-year this quarter, due to strong consumer demand in Mexico and Peru and integration of the e-commerce platform in the United States. EBITDA decreased 7.4% this quarter. Government sales amounted to less than 4% of total sales during the quarter, which is well within our established parameters of this sales channel.

It is important to note that there were a few one-time events that had an impact on our margins and financial performance during this quarter. These events included the occurrence of Hurricane Harvey, which as you know, caused significant damage to the American petrochemical industry and increased our resin cost in the fourth quarter by MXN23 million when compared to last year. There was also a one-time expense non-cash item related to our acquisition of Talsar in Argentina amounting to MXN19 million, which were adjusted in the purchase price.

And lastly, as you may know, there was a big effort to donate MXN27 million towards supporting earthquake victims in five states of Mexico and Mexico City with water access solutions such as water storage tanks, water purifiers and septic assistance through the PAZA program that the Company established in October last year. And these effects pressured operating and EBITDA margins by 350 and 280 basis points, respectively. Adjusting for these one-time events, EBITDA should have reached MXN249 million with a quarterly growth of 11.1% when compared to 2016.

Sales in Mexico grew 5% during the fourth quarter, accounting for 63% of our total sales and boosted by an increased demand for individual solutions for water storage and water flow products, which offset partially the deceleration of government programs such as rain harvesting system and water fountains for schools in the second half of 2017.

Sales in Brazil grew 1% year-over-year as a result of a greater contribution from individual water treatment solutions. Brazil accounted for 6% of our total sales, more importantly because of the Company's strategy to regain profitability, new client acquisition, and strict expense control discipline. In 2017, EBITDA improved on the country-wise cash deposit, in spite of Brazil continued economic and political adversity.

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In the other countries division, sales grew almost 35%, which is partly due to increase in demand in Peru, Argentina, and in US, also partially make the inclusion of the results of our e-commerce platform in the United States. Unfortunately, profitability was severely affected by the one-time expenses explained before that for this segment represented MXN32 million, around [ph] MXN42 million in total.

Concerning our product mix, sales of individual solutions in the fourth quarter accounted for 88% of total sales and grew 16.1% year-over-year due to an increase in demand in Mexico, Peru and Brazil. On the other hand, integrated solutions accounted for 12% of total sales and registered a 7% decrease in sales year-over-year, which is mostly due to the aforementioned deacceleration of government spending during the second half of the year in Mexico and Brazil, which resulted in lower fixed cost absorption affecting the EBITDA margin.

With regards to our performance in 2017, it should be noted that total sales were almost MXN6.7 billion [ph], a 24% increase year-over-year, attributable to the strong demand for individual and integrated water solutions. Still, year-end organic growth came in with a strong healthy 15%. Individual solution sales increased by 19% year-over-year, whereas integrated solutions sales double lobbying [ph] the year, totaling MXN762 million.

For the year, gross margin decreased by 270 basis points due to higher depreciation coming from the Water as a Service segment, higher resin costs resulting from the occurrence of natural disasters that I mentioned before. However, our operating expense as a percentage of sales decreased 280 basis points, a positive result of a strict expense discipline across our operations and therefore, our operating margin increased 20 basis points. Furthermore, our EBITDA margin was up 130 basis points year-over-year.

Adjusting for one-time and non-cash events, EBITDA in 2017 have a solid increase close to 46% and net income of plus 35%. Adjusted net income margin came around 1.8%, an increase of 40 basis points when compared to 2016.

Our balance sheet remains healthy, so our net debt ended 2017 at MXN420 million or 0.4 times EBITDA. Neutral [ph] interest expense with a comfortable metric scale [ph] going forward. These results confirm that our strategy shift and emphasis starts to reap good benefits. We will continue to grow both organically and inorganically in the future, maintaining the positive momentum after two years of sales reconfiguration.

As for our guidance for 2018 and given how we have reconfigured our business portfolio in the past three years with more recurrent businesses and less exposure to volatility covenants [ph] of government sales. We feel confident that we will deliver again organic double-digit growth, sales and EBITDA, while net income will come along the same lines.

With this, I will now like to open the floor for your questions. We will begin with the participants in the conference call, followed by our website participants. Please proceed, Tracy.

Questions And Answers

Operator

Thank you. (Operator Instructions) And we'll go to Rodrigo (inaudible) with GBM.

Unidentified Participant

Hi, good morning. Thank you for the call. I have two questions. Could you talk us through please, the acceleration in the integrated solution volumes in this quarter? And the second one is, could you give us your perception of the outlook for your raw material prices going forward. Do you expect margins -- gross margin normalization anytime soon?

Mario Romero Orozco, Chief Financial Officer

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Hello, Rodrigo. Good morning and thanks for your interesting question. I will speak about resins. For resins, we have bump [ph] in October, November, and prices have normalized in December and January. So we anticipate seeing a gross margin normalization for the next launch [ph]. So we don't see, going back to that resin prices which hit us in the fourth quarter, so that -- we shall be fine for the coming quarters.

Regarding integrated solutions, Carlos, will take that question. Thank you, Rodrigo.

Carlos Rojas, Chief Executive Officer

Good morning, Rodrigo. Regarding the integrated solutions, we are finding a good potential for both sanitation and Sytesa and purifier -- some purifiers that are office purifiers. So we feel that this year we would still continue in both areas and we are comfortable that the new technologies we have invested for sanitation will start giving some benefits at the end of this year. So we are working hard both on water services purifier and sanitation. Thank you, Rodrigo. Do you have any other question?

Operator

There are no other questions in the queue at this time. I apologize, we have had one question queue up. We will go to Liliana Leon with GBM.

Liliana De Leon Meza, Analyst

Hi, good morning and thank you for your call. I don't know if you could please share with us an update on Sytesa's organic growth in the year? And looking into the next year in 2018, whether you are considering in terms of CapEx, Mexico's CapEx?

Carlos Rojas, Chief Executive Officer

Sytesa is growing at two digits, but this is what we expect for this year, growth of two digits. And about CapEx, Mario, would you like to explain?

Mario Romero Orozco, Chief Financial Officer

CapEx for 2018 should come along 5% of our revenue and mostly the CapEx is going to be coming for integrated solutions and less for water retail products.

Liliana De Leon Meza, Analyst

Okay. Thank you.

Operator

And there are no other questions at this time.

Ofelia Lopez Aranda, Head of Investor Relations

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I want to thank you for your time and your interest in Grupo Rotoplas. We hope you'll join us again next quarter. Until then, we'll be sure to provide you with important updates. Thank you again.

Operator

This does conclude today's conference. We thank you for your participation. You may now disconnect.

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