

CORPORATE PARTICIPANTS

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CARLOS ROJAS ABOUMRAD

Good morning, everyone. Thank you for joining our fourth quarter conference call today.

I would like to start by sharing with you the latest developments in Flow, the transformational program I announced in our last conference call. As you may recall, Flow is a major effort by our team to realize the full potential of our company, creating value for our shareholders through optimal capital allocation and increased growth and profitability, while continuing to uphold the highest ESG standards throughout our operations. Flow focuses on optimizing our operations and increasing our sales across our markets, but also on our key innovation drivers, including, most notably, our water-as-a-service platform. It is, in short, a vision and roadmap for an optimal and sustainable growth strategy, helping us to fulfil our mission to bring “more and better water” to our customers throughout the Americas and improve profitability.

FLOW

As I mentioned in our last call, we hope to achieve Flow’s ROIC objective by the end of this year. However, it pleases me to report that we have recently reached two significant milestones. First, we increased our return on invested capital as of the fourth quarter by 250 basis points, 9.8% compared to 7.3% in the fourth quarter of 2018. This confirms that we are on track to ensure that we reach our goal of having a ROIC equal or above our cost of capital by the end of 2020.

We are fully committed to creating value for our investors through optimal value creation strategies that allow us to take full advantage of present and future growth and innovation opportunities. We are also committed, through a disciplined approach to capital allocation, to ensuring that there are no operations that detract from EBITDA, however minor. In fact, as I already mentioned in our last call, last year we undertook the divestment of our manufacturing assets in the United States to focus on the growth of our e-commerce platform in that country. We will continue to develop and strengthen the platform as well as our call center and our physical stores, as we are convinced that this multi-channel sales strategy will allow us to continue to increase our share of that very important market. Moreover, as we continue to look for further avenues for growth, we will increase our investment in two key components of our water-as-a-service platform: Bebbia, our drinking-water platform, which doubled its sales and user base last year; and our water treatment plants business, which as Mario will describe in further detail, realized very significant gains as projects got underway during the second semester of 2019 and has a very attractive deal pipeline this year, featuring even larger projects and clients.

SUSTAINABLE BOND

We will undertake these investments maintaining strong balance sheet and focusing, as I said before, on reaching our value-creation goals. In this respect, it pleases me to announce we will reopen our pioneer sustainable bond AGUA 17-2X for the second time by the end of this month. As you may recall, AGUA was the first sustainable bond in Latin America and it has allowed us to make investments in line with the United Nations' Sustainable Development Goals, as evaluated by the leading firm Sustainalytics and achieving several awards and certifications. The reopening of the bond will help us to strengthen our balance sheet while undertaking the projected expansion of our water-as-a-service platform, benefiting our shareholders, our customers and the communities that we serve.

WORKING CAPITAL

The second milestone related to Flow that I wanted to mention is the fact that we have and shortened our cash conversion cycle by 14 days as of the end of 2019. We have been optimizing our working capital; we have done so by negotiating better terms with our clients and suppliers and increasing the efficiency our inventory management. This is a very significant development that attests to the work our team is doing to streamline and optimize our operations while continuing to provide a superior experience to our customers, and it signals the way ahead.

GUIDANCE 2019

As you are aware, we faced significant macroeconomic and political challenges in some of our major markets throughout 2019: economic stagnation, hyperinflation, and decreased spending. However, our strategy has proved resilient and we have been able to adjust to these conditions, as shown by the fact that our results for 2019 were in line with our expectations and the guidance we provided, as we grew 4% which is in large part due to the growth of our services platform and focalized efficiency and marketing efforts. Furthermore, our EBITDA margin was 17.5%, growing 70 basis points, and our net debt to EBITDA ratio was less than 1x, exceeding our guidance on both counts.

FLOW – OBJECTIVE AND PILLARS

I would like to make a quick recap of Flow, the transformational process that we announced the past quarter, and which provides the framework for all of our team's efforts. As some of you may recall, the main objective of flow is to ensure that we create value for our shareholders and bondholders in a sustainable way, achieving a return on invested capital equal to our cost of capital before the end of this year while continuing to pursue new opportunities for growth.

Flow has three pillars. The first one is increasing the profitability of our current portfolio, optimizing our production, procurement and billing processes as well as our pricing strategies. The second pillar entails optimizing our capital allocation strategies as well as improving the quality and execution of our growth initiatives, particularly those associated with our water-as-a-service platform, the strengthening of our e-commerce platform in the United States and our new cross-sales strategy. Finally, the third pillar is concerned with improving the organizational health of our company through change management, diligent project execution and accountability and a review of the organizational climate, in order to identify potential areas for improvement.

Flow has been a major effort for our team. We have looked deeply into our operations and continue to do so, all the while bringing new ideas and perspectives from all areas of our company. However, we are already seeing its impact on our recent results and we are confident that we'll reach the objectives we have set out for it.

I am optimistic that, as we move forward with the implementation of Flow and build on the strength of our team, our brand and our products and services, we will achieve the goals we have set for 2020. I am also confident that we will continue to create value and grow in a sustainable fashion, having a positive impact on our societies.

I will now turn the call to Mario so that he can go over some of the financial highlights. Thank you again for listening. I look forward to your questions.

MARIO ROMERO OROZCO

Thank you, Charlie. Good morning. Thank you again for being with us today. I will now go over some of the key financial aspects of the fourth quarter and of 2019.

SALES PER COUNTRY AND REGION

MEXICO

Mexico experienced an economic deceleration and a steep fall in the construction sector during 2019 which, combined with a slowdown in government spending, nevertheless due to the resilience of our business model and products and services portfolio sales decreased 1% for the year.

However, fourth quarter sales increased 5% year-to-year, with a major contribution from our water-as-a-service platform, which grew 45%. It is worth noting that our treatment plant business grew double digit as we began to realize the income from the plants that were built in the previous quarters, and, as Charlie already mentioned, we have an attractive pipeline this year, with even larger projects and clients.

WWTP

At year end we had close to 600 treatment plants and the value of the current portfolio is around \$2,295 million.

As Charlie mentioned, we will reopen our sustainable bond AGUA 17-2X for the second time by the end of this month and we will issue \$1 Bn in additional debt. Use of proceeds will be aligned with the sustainable framework mainly for treatment, recycling and purification of water.

As we have diversified our clients' base in the treatment plants business, we have found different needs and grater scale projects that require higher initial investment. That is the case for example of mining companies, paper mills or touristic developments in regions facing water scarcity. For those clients we have also integrated to our solutions desalination plants and rainwater harvesting systems.

We estimate that the maintenance and growth CAPEX for business-as-usual operations should stand somewhere close to 4% of total sales. However, for the design, construction, financing, and operation of larger scale water treatment plants the company will need additional resources.

Now, moving from treatment and recycling to the drinking water purification platform

BEBBIA

Bebbia, doubled its sales during 2019 and registered a significant increase in installed units. We added more than 10,000 units to move from close to 85 hundred in 2018 to 18 thousand December last year.

During the 4Q we launched a marketing campaign that follows a multichannel strategy. We have a TV commercial, an online campaign through social media (Instagram, Facebook, etc), we also have some influencers.

We are still investing in the service platform, growing the sales force, training our in-house team and third parties that participate in the service offering, as the plumbers that install the purification units or provide periodic maintenance.

In addition, we are expanding the outreach of “Ojo the agua” to other cities in Mexico as we are starting to track water quality in new zip codes.

ARGENTINA

In Argentina, we continue to observe a positive quarterly trend in sales in local currency as we continue to gain market-share in the flow and water-heater segments. This growth was driven by our pricing strategy, which allows us to outstep inflation, and to our product segmentation strategy, which has enabled us to penetrate different population segments. Furthermore, the depreciation of the Argentinean Peso strengthened our export platform, which contributed to the increase in sales. Foreign commerce represented 7% of total sales and should represent more for the upcoming years. During the fourth quarter we also introduced a cross-selling strategy that will enable to increase our per-client sales. As for the year, sales grew 22% in Mexican pesos in 2019.

CENTRAL AMERICA

In Central America, sales grew double digit in the year, mainly driven by the introduction of country-specific commercial policies, which has enabled us to expand and strengthen our client-base across the region. It is worth noting Honduras growth as a result of an increased demand in storage solutions due to droughts whereas sales in El Salvador grew as a result of our commercial approach to that country.

Sales increased in Peru as a result of an increased demand for storage and the launching of water flow category.

Finally, our e-commerce platform in the United States grew by double digits during the fourth quarter, following our optimization efforts there.

It is important to note, at this point, that government sales as a percentage of total Groups' revenue remain well over our 10% target, amounting to 2.5%.

SALES – PRODUCTS & SERVICES

In terms of our portfolio mix, sales of products during the quarter accounted for 90% of total sales and were in line with the fourth quarter of 2018, while yearly sales grew 5%, in spite of the economic deceleration in Mexico that I mentioned before. Services, on the other hand, grew 45% during the quarter even though they decreased 3% in the year, as a result of the dynamic of the water treatment plants business that I mentioned earlier.

P & L - RESULTS GLOBAL

Starting at the top, quarterly net sales grew 3% year-over-year and 4% in 2019, which shows the resilience of our strategy in the context of sluggish and volatile economic environments. As we have already mentioned, our water-as-a-service platform contributed very significantly to this result, as well as our growth across our markets and our Flow's optimization of our commercial and operational strategies.

Our gross margin increased by 60 and 210 basis points in the fourth quarter and the year, respectively, driven by lower raw material costs and our optimization strategies. As a result, our operating margin increased by 220 basis points in the fourth quarter and 130 basis points during the year. Moreover, our EBITDA margin grew 180 in the quarter and 70 basis points in 2019.

The adjusted EBITDA for the quarter increased 15% and 8% for the year.

Net profits decreased as a result of increased financial expenditures related to net interest payments and the recognition of the hyperinflation and foreign exchange losses in Argentina. Also, financial instruments related to Forex hedging affected the result.

CAPEX AND FCF

We will maintain the capital allocation discipline mandated by our value-creation strategy and, through optimization, will continue to find new venues for growth and to expand our water-as-a-service platform. Our capital investments stood at 4% of total sales as of the end of 2019, which we believe is a very sustainable level for maintenance and business as usual growth.

NET DEBT POSITION

It should be emphasized that we have reduced our leverage to 0.8x Net debt / EBITDA as of December 2019, down from 1.5x in December 2018. Furthermore, Fitch Ratings ratified our AA(Mex) rating and S&P the AA- mx rating given the fact that cash flow generation increased significantly in 2019, we are confident that we will keep net debt below 2x EBITDA.

The divestment from the manufacturing assets in the USA during July 2019 also strengthened our cash position.

ROIC-WACC

As Charlie already mentioned, we are pleased to have increased our return on invested capital to 9.8%, which was partly driven by our optimization of capital allocation in the United States. We expect that we will continue to report a positive trend in the following quarters while we

work towards our goal of achieving an ROIC equal or above our cost of capital towards the end of the year.

ESG – CLIMATE CHANGE STRATEGY

Being a water solutions company, ESG issues are one of our top priorities and we are pleased to be part of the leading sustainability indexes and to have one of the top 10 ESG scores in Mexico, according to Bloomberg. I would now like to share with you that as part of our efforts, we have undertaken an arduous process to identify and understand the risks and opportunities brought about by climate change to our clients, our operations, our investors, our suppliers and to the communities in which we do business.

As a result of this process, we have launched our Climate Change Strategy, which aims to mitigate these risks and help our stakeholders to adapt and reduce their vulnerability. In line with this strategy we carried out an analysis to identify how our current portfolio of products and services help our clients to increase their resilience to droughts, flooding and/or lack of access to clean water among other events.

We will continue to develop and execute different initiatives aligned to this strategy as we truly believe that climate change is a big concern for our generations and the generations to come.

GUIDANCE

Regarding guidance, we expect that some of the economic and political factors that affected our performance during 2019 will remain at play this year. However, as for 2020, we expect:

- * net sales growth equal or above to 10%
- * EBITDA margin equal or above 18%.
- * Net debt to EBITDA ratio below 2x.
- * Return on invested capital above or equal to cost of capital.

ROIC \geq WACC.

THANK YOU

Thank you for your time today. As usual, we will now answer any questions you may have.

Q&A

OPERATOR

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. Once again, that is star, one to ask a question.

We'll take our first question from Regina Carrillo with GBM.

REGINA CARRILLO

Hi, good morning, and thank you for your time. We saw that you had a great year in 2019 regarding raw materials. I just want to know what you are thinking for 2020.

MARIO ROMERO OROZCO

Hi Regina. Good morning. For 2020 we're expecting pretty much the same trend that we saw in raw materials for 2019. So, that's how we plan for the year. For the first weeks of the year, that's been the case. So that's pretty much it.

REGINA CARRILLO

Great. Thank you. May I ask another question?

MARIO ROMERO OROZCO

Sure.

REGINA CARRILLO

After the U.S. sale, are you thinking about another divestment right now?

MARIO ROMERO OROZCO

We are analyzing all the portfolio of products and services that the Company has in all the different countries where we operate. Regarding the underperforming assets that did not comply with the minimum request of our cost of capital, we are analyzing alternatives to divest from those assets.

So, the short answer is, yes, and some of that will be happening in 2020.

REGINA CARRILLO

Great. Thank you so much.

OPERATOR

Our next question comes from José Cebeira with Actinver.

JOSÉ CEBEIRA

Hello Charlie and Mario. Congrats on the results and ROIC improvement. My first question has already been answered, but my second question is about the services business line. As you know you recorded a significant increase in sales, but I just want to know how can we forecast this division for the coming five years? I believe that this division could increase between 15% to 20%, but I just want to know how can I forecast this division for the Company? Thank you.

MARIO ROMERO OROZCO

Yes. José, thanks for joining the call. A good approach to model these service business units is to do it by unit economics. As we've been telling the market, we have equivalent water treatment plants, which as you know some of them are larger, some of them are smaller. We expect to have a good increase on equivalent units, and the reason is, as mentioned throughout the call, that larger water treatment plants are being needed by the market, so that will mean that an increase above 10% in unit economics should be achieved for the coming years, and that in 10 years, as we have mentioned previously to the market, we should have 5,000 equivalent units.

As for Bebbia, which is the water drinking platform, it works with the same unit economics, where we have around 20,000 equivalent units, and we believe that about a million users should be reached like in 10 years as well. The way we think around that is the following: there's 32 million families in Mexico, from that 32 million families, by 2030, a third of those are going to be the new generation of millennials, and from those 10 million families or so we believe that at least a third of them will have the possibility of hiring such a service. From that, 3 million families we want to have a third of them.

So that's more or less how we're building our economic model around Bebbia, and obviously, as years pass that will be either confirmed or revised through time. And for the water fountain for schools, this program started to gain some traction. Now we have about 6,000 schools to be served. There's a universe of 120,000 schools in Mexico, private and public, and I think that business will grow probably single-digit. But it's a good business to have and we're making our best efforts to be in that marketplace as well.

CARLOS ROJAS ABOUMRAD

Just to add to the water fountains in schools, there's two additional purposes for this business; one is the service of children in schools to fight obesity and diabetes; and the second one is to start generating brand recognition on that market for the future.

JOSÉ CEBEIRA

Great. Thank you, Charlie and Mario. Congrats on the results again.

Carlos Rojas Aboumrad

Thank you, José.

OPERATOR

As a reminder, to ask a question, please press star, one on your telephone keypad. Again, that's star, one to ask a question.

We'll move on to Mauricio Santos with GBM.

MAURICIO SANTOS

Hi Carlos. Hi Mario. Thanks for the call. I was just wondering - lots of questions - the first one is, you're guiding for 2 times net debt to EBITDA or below 2 times net debt to EBITDA. What are

the CAPEX plans for the year? The second question, I believe that the new government is starting to raise water tariffs to residential areas. Is there any way to tap this opportunity? Thank you.

MARIO ROMERO OROZCO

Hi Mauricio. Good morning. The idea is to be below two times net debt to EBITDA. And the question of the government, we are just analyzing what their projects and ideas are, and as always, we are looking to help them so that we can be a good partner to help granting access to clean water. The company's always there trying to do its best to cover that problem. Nothing specific, just looking at the projects and if we can be of any help, we'll certainly do our best effort.

As for CAPEX requirements for 2020, we think CAPEX will be below 2%, which should sustain business as usual. Where CAPEX can be accelerated is in the water treatment platform. It's a larger water treatment and recycling project that we now have in pipeline and some other expansions in the same space. So that, given the capital intensity, that can trigger the amount of CAPEX for the year. That's the main reason why we are raising these additional Ps. 1 billion in debt.

MAURICIO SANTOS

Okay. So, let's say you close the year with 0.8 times net debt to EBITDA. It will go up now, right?

MARIO ROMERO OROZCO

Yes, but I think that the important part to understand is that every unit of additional debt will be adding up additional EBITDA.

MAURICIO SANTOS

Yes, I understand. This Ps. 1 billion is going to be used for the water treatment business, mostly. I guess.

MARIO ROMERO OROZCO

Yes.

MAURICIO SANTOS

Okay, fair enough. Thank you, Mario. Thank you, Carlos. And congrats for the fourth quarter.

MARIO ROMERO OROZCO

Thank you, Mauricio.

CARLOS ROJAS ABOUMRAD

Thanks.

OPERATOR

As a reminder, please press star, one if you would like to ask a question. Once again, that's star, one to ask a question.

And we currently have no more questions in the queue.

MARIANA FERNANDEZ

Okay, we will read the questions on the website. We have a question from Ricardo. What's the expectations for the Brazilian market going forward?

MARIO ROMERO OROZCO

For Brazil, we started in the business of wastewater treatment. We successfully signed multiple contracts with multiple customers, and the first plant of wastewater treatment has started its operations. So there's a terrific opportunity with wastewater treatment in Brazil as a strategic move for Rotoplas and we know that Brazil is one of the main markets in the American continent. We will continue to do our best effort with our product portfolio to service that market and promoting for everyone to have more and better water.

MARIANA FERNANDEZ

We have another question from Christian Michelle Juarez Arroyo from Santander Asset Management. In the long term looking at your breakdown of revenues, what is the size of both services and revenues versus products?

MARIO ROMERO OROZCO

We are targeting for these services to represent at least 20% of our total revenue in five years. And we say "at least"—because we are finding some opportunity for growth that can accelerate that. So that's the target the Company has, and we hope we can do better than the 20%.

MARIANA FERNANDEZ

Those are all the questions on the website. Orlando, could you please open the line one more time for questions?

Operator

Absolutely. As a reminder to the phone audience, press star, one on your telephone keypad to ask a question. That's star, one on your telephone keypad if you would like to ask a question.

And we have no further questions in the queue at this time.

MARIANA FERNANDEZ

Thanks Orlando. Thank you very much everybody for joining us. We hope you will join us again next quarter. Until then, we'll make sure to keep you updated with any relevant news as they happen. Thank you.

OPERATOR

Ladies and gentlemen, this concludes today's call. We thank you for your participation. You may now disconnect.