Grupo Rotoplas

4Q24 Conference Call

Operator

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

Today's discussion contains forward-looking statements. These statements are based on the environment as we currently see it and as such there may be certain risk and uncertainty associated with such statements. Please refer to our press release for more information on the 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.

Please allow me to remind you that the company issued its earnings press release yesterday after market close. It can be found in the investor's section of its website. Also, the presentation for the call and the webcast link are in the investor's section.

Today's call will be hosted by Mr. Carlos Rojas Aboumrad, Chief Executive Officer and Mr. Andres Pliego, Chief Financial Officer. I will now turn the call over to the speakers.

Carlos Rojas Aboumrad:

Good morning to everyone, and good afternoon to those joining us from other time zones. We greatly value your support and interest in Grupo Rotoplas. Today, we'll reflect on the challenges and accomplishments of 2024, and share how we're positioning ourselves for the coming times.

We have just closed a particularly challenging year, largely due to the deep recession in Argentina, which placed significant pressure on our top line and profitability. Although these headwinds tested our resilience, they also underscored the importance of continuing to invest strategically in the future of our company.

As many of you know, we had two major projects underway—both of which demanded substantial capital and organizational commitment. The first was our project in Mexico focused on upgrading our manufacturing of storage solutions. The second was a broad technology revamp across the entire Group. Together, these initiatives represent the culmination of a multi-year investment cycle designed to strengthen our foundation for the next phase of growth.

Starting with the SMART project, we installed new machinery and equipment to modernize the production process for our legacy product, the tinaco. This upgrade enables a more efficient, faster, and cleaner manufacturing process, ultimately improving the quality of the product and the user experience across fabrication, logistics, sales, installation, and maintenance.

Our second major initiative has several facets. At the Group level, we migrated all our data to Google Cloud, unlocking advanced digital, analytics, and AI tools. On the commercial side, we introduced new data-driven and IoT functionalities, giving end-users better insights into water consumption and quality. We also launched our B2B and B2B2C e-commerce platforms in Mexico—an entirely new channel for Rotoplas—allowing us to work more closely with distributors and end-users alike.

Despite the difficulties encountered this year, we are proud to have achieved the highest Net Promoter Score (NPS) in Grupo Rotoplas's history. Through dedicated UX Committees and active customer listening, we continually refined our processes and improved every interaction with our clients and consumers. Additionally, our bebbia service continues on a strong growth trajectory, adding subscribers at a healthy pace and receiving excellent feedback for bebbia SMART.

Now that these two major projects are operational, our immediate focus—consistent with what we shared on *Agua Day*—is to optimize expenses and investments over the coming quarters.

Specifically, we are:

1. **Capitalizing on Omnichannel and Digital Capabilities -** We will leverage the *bebbia 3.0* platform and our new e-commerce channels to better serve existing customers and attract new ones.
2. **Reversing the Decline in EBITDA -** We are taking decisive steps to reduce expenses. In November, we undertook a difficult but necessary restructuring that reduced our overall headcount by 4%. This measure helps streamline operations and positions us to be more agile and competitive.
3. **Focusing on Free Cash Flow Generation -** We aim to boost operating profit through disciplined working capital management and strict capital expenditure control, thereby ensuring a stronger cash flow position to drive strategic initiatives.

Looking ahead to 2025, we remain guided by our four strategic pillars:

1. Sustainable growth of our products
2. Ongoing development of services
3. Continued digitalization
4. Generating value for all our stakeholders

Every year brings its own challenges, and 2025 will likely be no exception—whether due to macroeconomic variables or political uncertainties in multiple geographies. However, we will continue to adapt and remain as agile as water itself, always seeking new ways to bring sustainable water solutions to millions of people.

We have also made significant strides in our environmental, social, and governance commitments, which have positively impacted our stakeholders. Through the upgrades in our manufacturing process for storage and our transition to renewable energy in Mexico, we have reduced Scope 1 and 2 emissions by approximately 12%, aligning our efforts with the objectives of the Paris Agreement. Additionally, we published our Sustainable Development Impact Disclosure (SDID) Report in collaboration with JP Morgan, becoming the first company in Latin America—and only the second worldwide—to disclose how our strategy aligns with the United Nations Sustainable Development Goals at this level of detail. We invite you to read this report, which is available on our Investor Relations website.

In the realm of community social action, our “Escuelas con Agua” program stands out. Conducted in partnership with the Coca-Cola Foundation, eight bottlers of the Mexican Coca-Cola industry, and Isla Urbana, the program successfully closed 2024 with the installation of 300 IoT-enabled rainwater harvesting systems in schools across Mexico. This initiative directly benefits students and teachers, improving their access to water and raising awareness about responsible water usage.

Finally, before handing it over to Andrés, I want to express my gratitude to our employees, partners, distributors, and especially our shareholders for their trust and support throughout this challenging year. We remain committed to our vision of providing innovative and sustainable water solutions, and we look forward to seizing the opportunities ahead.

Thank you again. Now, I will turn the call over to Andrés.

Andrés Pliego:

Thank you, Charlie, and good day to everyone.

I’d like to begin by highlighting the most significant factors that shaped our quarterly and full-year performance.

As you know, the challenging economic conditions in Argentina had the greatest impact on our overall results. If we exclude Argentina, our quarterly sales would have grown by 7.5% and our full-year sales by 7.8%.

Unfortunately, lower sales in Argentina—combined with our planned investments in digital initiatives—affected our margins, ultimately limiting our full-year results and contributing to a 46% decline in net income for the year.

As we mentioned during the “Agua Day,” and as Charlie briefly recapped, we have two main financial priorities I’d like to elaborate on.

The first is reversing the EBITDA trend through cost and expense reductions. In this regard, we have already taken several measures, including a workforce restructuring that unfortunately led to the departure of some employees—reducing our headcount from three thousand six hundred and forty to three thousand five hundred and two — resulting in severance payments of 54 million pesos in the fourth quarter.

Excluding these severance costs, our full-year EBITDA margin would have been 13.8%. Moreover, if we remove these costs from the fourth-quarter expenses, we see an 8% reduction compared to the previous quarter, showing a sequential improvement. We will continue adjusting our costs and expenses according to market conditions in the countries where we operate.

Our second priority is increasing free cash flow generation by optimizing working capital and exercising strict control over capital expenditures.

We have drawn up plans to further reduce inventories—particularly in Argentina—and to continue improving our accounts receivable management in Mexico, leveraging technology to streamline our processes.

Regarding CapEx, we are prioritizing maintenance investments that support our existing product lines, while discretionary spending requires monthly approval under more stringent criteria.

In our services division, we have adopted a pay-as-you-grow strategy to ensure that the highest-return projects receive investment first. We believe these actions will positively impact our return on invested capital going forward.

Moving on to regional performance, Mexico posted a 10% annual increase in sales, driven by growth in both services and products. In products, we saw solid expansion in the first half of the year, followed by a slower pace in the second half, with fourth-quarter sales ending in line with the same period in 2023.

Services, on the other hand, continued to post steady double-digit growth. EBITDA margins in Mexico contracted due to higher digital expenses and softer products sales in the latter part of the year. In addition, the increased weight of services—where we have not yet reached profitability—further pressured EBITDA.

In Argentina, net sales declined by 41%, reflecting the country's recessionary environment, which eroded both demand and pricing power.

Conditions worsened each quarter, resulting in a negative EBITDA margin in the quarter; however, the full-year EBITDA margin remained positive. Although several indicators—such as slowing inflation, improving fiscal accounts, increased credit availability, and some positive consumption signals—point to a potential recovery, we have yet to observe a rebound in the construction sector, which is typically one of the last segments to recover. We remain cautiously optimistic about Argentina in 2025, yet the timing of any meaningful improvement in demand remains uncertain.

In the United States, net sales declined by 6% in 2024, largely because there were no drought conditions and the agricultural sector contracted, reducing demand for tanks. Despite the negative EBITDA, our cost-control measures are helping to improve margins.

Meanwhile, net sales in other countries grew by 12% for the year, with the strongest increase occurring in the fourth quarter, driven by growth in Peru, Central America, and Brazil.

However, higher logistics and distribution costs, coupled with increased investments in our water treatment plant operations in Brazil, exerted pressure on margins in these regions.

Regarding our segment performance, services now represent 8% of total revenue, supported by the continued success of bebbia, which recently surpassed 133 thousand subscribers.

Notably, “Bebbia Smart” accounts for over 70% of new contracts, indicating that customers value having more detailed information about their water usage.

Other services—such as water treatment and irrigation—continued to expand their client base. The EBITDA margin in the services segment remains in negative territory, but it is improving as we move forward.

Meanwhile, as previously mentioned, our product segment has experienced a decline, primarily due to the economic situation in Argentina, which has significantly impacted sales volume, pricing, and margins.

Turning to our cash position, we ended the year with seven hundred and thirty two million pesos in cash and cash equivalents.

Our Net Debt to EBITDA ratio stands at 2.6 times. We view this as a temporary situation and expect it to return to below 2 times.

Total financial debt amounts to 4.7 billion pesos, with 684 million pesos in short-term obligations mostly tied to working capital, and 4 billion pesos in long-term debt from our fixed-rate sustainable bond.

The blended cost of debt is currently 9%.

With respect to capital allocation, our total CapEx equated to 5% of sales, a 7% decrease compared to 2023, with 93% of these funds deployed in Mexico.

The primary investments included new technology for manufacturing storage solutions, which aligns with our long-term commitment to sustainability, as well as 101 million pesos for the construction of our Ixtapaluca plant, 121 million for bebbia, and 56 million for water treatment plants.

Our Return on Invested Capital (ROIC) stood at 7.8%, which is 440 basis points below our cost of capital.

If we exclude severance payments, the ROIC increases to 8.3%. Moving forward, we intend to focus on improving NOPAT to restore a positive spread between ROIC and WACC, thereby enhancing profitability and delivering lasting value to our shareholders.

On ESG, and in addition to what Charlie mentioned about our overall performance in this area, I'd like to focus on specific goals.

We successfully achieved five out of our six public ESG targets. The only shortfall was our gender goal; however, we did see an improvement in female representation, moving from 23.7% to 25.1% of our total workforce between 2023 and 2024.

We remain committed to more inclusive hiring practices, as well as the retention and development of female talent throughout the organization.

Looking ahead, we will continue working to generate a positive impact on both people and the planet, ensuring the long-term viability of our business model.

Thank you once again for your time and your interest in our company. We remain committed to delivering strong results while keeping a long-term perspective. We believe we are in the right industry, as water will continue to grow in importance globally.

Moving forward, we will concentrate on the levers within our control to enhance profitability and strengthen our operations. With that, we can now begin the Q&A session.

Operator: Thank you, Andrés. We will now begin the Q&A session. Please type your question in the Q&A section, including your name and the name of your company or fund. We have the first question from Carlos Alcaraz, Apalache Research. Hello, and thank you very much for the call and for taking my questions. So there are three questions, but I'm going to read first just one and then go back to the rest. So first, in terms of international expansion, do you see opportunities for bebbia in markets outside of Mexico?

Carlos Rojas Aboumrad (CEO): Hello, Carlos. Thank you for joining the call. There is definitely opportunities in other markets. I think that what we have designed for bebbia as an offer is very novel and has very strong capabilities, but we have decided to focus on Mexico, for the moment being. We think that Mexico offers a very, very large opportunity. We continue to validate the hypothesis. It's a market where point-of-use water purification offers tremendous benefit and value for our customers. The experience of bebbia is unmatched, and customers enjoy that experience very much. And so we think we can grow significantly by focusing on

Mexico. We will continue to consider other markets in the future. But for the moment, we will focus on Mexico. Thank you. Carlos.

Operator: We have the second question from Carlos Alcaraz, and it's about CapEx. What proportion of these, it means CapEx for 2025, will be for maintenance, and what proportion for growth?

Andrés Pliego (CFO): Thank you. Carlos. First, as we mentioned, we will be very strict with CapEx in general. We will obviously prioritize maintenance CapEx, which we expect to be low, and then the rest of the CapEx for new projects will be on a case by case basis. What we can say is that CapEx will be lower than this year, than last year, sorry. We had lower CapEx in 2024 than in 2023. So we expect that to continue, and in terms of the proportion, I mean, at this point, I would say, most of it will be maintenance, but as we see improvement in results, and as we see projects with high return on invested capital, we will start investing a little bit more in CapEx. So we don't have the proportion, to the end of the year. But that's what we can say at this point.

Operator: Moving to the third question, on the migration of data to the Google cloud that you mentioned. Will this allow margins to improve during 2025?

Carlos Aboumrad (CEO): Definitely. I think our AI capabilities will enable our talent to increase efficiency. We do expect for new businesses to continue to grow. They have been growing steadily. And so rather than needing more resources to service that growth, I think we'll be able to do it with current resources, with current talent, and so that should improve margins. Not only should the efficiency grow or improve, this should also enable businesses to grow more rapidly. So we do expect margins to improve as a consequence of adopting AI capabilities. Thank you for your question again, Carlos.

Operator: Thank you, Charly. So we are moving to another question from Martin Lara, Miranda Global Research, and it's about Mexico. Mexico sales have been a little bit slow in the last two quarters. What can we expect going forward, especially taking into account the opening of the Ixtapaluca plant? Do you expect margins of the Mexican operations to return to the mid 20s?

Carlos Aboumrad (CEO): We do expect to have stronger demand. I mean, after the first semester of last year, which was very high demand. Then we had a period of much lower demand as a consequence of that first semester high demand. Eventually, demand should recover. The Ixtapaluca plant and the rest of the other plants with the new blow model manufacturing, does allows us to improve slightly market shares, as it’s a product that has been adopted by the market very positively. So we do think that can also improve volumes to some extent. Now the margins should improve, but, more so because the new manufacturing process is much more efficient. This efficiency generates benefits in terms of margins and also sustainable in terms of sustainability. It consumes much less energy to produce a water tank. So we do see an improvement in margins. Thank you for your question, Martin, and thank you for joining.

Operator: Moving on to another question, Emilio Antor from GBM is asking; with the ongoing cost reduction strategy, what should we expect in terms of dividends for this year?

Carlos Aboumrad (CEO): We have been having a very consistent practice of giving out dividends. We need to make sure that we prioritize the health of our financials. So, we will first prioritize going forward on the recuperation of our cash position and the Net Debt to EBITDA ratio. We do think that we will be in a reasonable shape to be able to have a dividend at some point in the year. It might have to be at a different timing as the previous years, but again, if we have the healthy financials we're looking for, we should continue with our dividend practice. Andrés, anything else that you would like to add regarding dividends and the relationship to our financial health?

Andrés Pliego (CFO): No, no. Well, probably just sort of what I mentioned on the CapEx, we will, at this point, nothing is for certain, so as we move along in the year and as we improve our results, we will take more capital allocation decisions. But, other than that, nothing more to add.

Carlos Aboumrad (CEO): Thank you for your question, Emilio, and thank you for joining.

Operator: Now we have a question from Felipe Barragan, BTG Pactual, and it is, can we expect further workforce restructuring for the coming year, or do you guys feel in a good place?

Carlos Aboumrad (CEO): Well, I think we have rightsized the company. We have further opportunities to improve our EBITDA through lower expenses, not by reducing workforce, but, a lot of the ongoing projects that we were culminating last year, they're actually coming to an end, where we can have a lower expense, and an expense as a percentage of sales that is trending more to our traditional levels. So I think, we will be focusing more on those expenses and on harvesting what we have been investing for so many years, and I don't think we will need to make any other workforce adjustments. But obviously, this is considering our market expectations do meet, or the market's performance do meet our expectations. The volatility environment in our main markets is pretty high at the moment.

Operator: Thank you, Charly. Now we have a question from Sofia Martin GBM. And what EBITDA margins should we expect for this year? Thank you.

Carlos Aboumrad (CEO): Go ahead Andrés.

Andrés Pliego (CFO): Yeah. As we mentioned in our AGUA Day, we are removing any guidance for 2025 at this point. So it's uncertain at this point Sofia, we cannot give any guidance at this moment. We think, as Charly mentioned in the previous question, we think we have rightsized the company and we have invested in the last five years, to continue our long-term margin expansion, our sustainable profitability, but nothing specific for 2025. Thank you.

Operator: Thank you, Andrés. Now we have Maria de la Madrid from GBM asking, how do you foresee Argentina's development through the year?

Carlos Aboumrad (CEO): I'd love to have that crystal ball. You know, construction, is an industry that affects us very much in Argentina, and construction last year never recovered in Argentina. A lot of different sectors did recover, in Argentina, but construction was one that didn't. I mean, it's expected to be one of the highest recovering sectors in this year, but, we are waiting to see when that recovery starts to then, really go after growth in Argentina. We will wait till that moment to take action. I think anticipating when that will happen is difficult to be assertive on, and so we do not have a particular expectation of how quickly the construction sector will recover in Argentina. It is the most lagged and it is the one that's expected to recover the most, but we will make decisions until it happens. Andrés anything else?

Andrés Pliego (CFO): Not really Charly. I think I agree with your response.

Carlos Aboumrad (CEO): Thank you Maria.

Operator: Now we have a question from Rodrigo Salazar, AM Advisors. Hello, could you please give me more color on services? I would like to understand why sales fell quarter over quarter in the third quarter and then increased quarter over quarter in the fourth quarter, as we understand, services should be more stable. It seems the strong movements are in water treatment plants. So if you could please elaborate on these and if you expect these variations to continue.

Andrés Pliego (CFO): Thank you Rodrigo. We had a one-off capital sale in Brazil in the second quarter. So that's why you saw the change in the quarter over quarter from the second to the third quarter. The fourth quarter had no one-offs. So we just saw the regular trend of the business. So I guess that was what made noise in the first half of the year.

Operator: Now we have a question from Michael from Zenon Investments, and it's about the working capital. Can you explain the reasons behind the strong increase in accounts receivables and even stronger in inventories tying up cash. Is there a risk for write offs and how do you want to drive in with inventories and receivables down?

Andrés Pliego (CFO): Thank you Michael. We saw an increase in receivables, and well in working capital in general in the fourth quarter. In inventory, we had a one-off, that we registered the inventory that was in transit. We used to not have that in the inventories, we now have it in the fourth quarter. So during the 2025 you will continue to see that, so it's going to be more normalized. Also driving inventories is Argentina. Argentina given the slowdown in the demand, inventories have increased, so the plan for this year is to reduce inventories as we plan to produce less, and the demand improves hopefully in the coming months, and we will see inventories going down. In receivables, nothing in particular. The plan here is to continue to implement technology and AI, and improving our communication with our main clients and having a stronger receivable department. But I would say that nothing out of the ordinary there.

Operator: So, for the next question, there are some different analysts and investors, asking again about Argentina and what we are expecting. So as there are like 2 or 3 questions, something else to add? Or we just move to the other questions. Charly, Andrés, something else to add? It's about what we are foreseeing, what we are expecting for the coming year? Maybe for the first half or the second half?

Carlos Aboumrad (CEO): Yes. One thing for sure is that, I think Argentina took measures that will be transformative for the country. We are expecting a change in trend for the country, as a mega-trend, something that had been a dynamic for Argentina for multiple decades, we think it might change, and so we're very excited to see that. It was a very challenging year. The measures that were implemented did slowed the economy down. It put it in a very very aggressive recession. And, we do see that recovery will happen, and that Argentina, as a market, the whole profile of the country will change in a very positive way in the longer term. We're very excited to see what will happen in Argentina. Today is not a moment to be investing heavily in Argentina, as it is very difficult to be accurate on the timing of the recuperation of the country. But we will be very attentive to see when this starts and how to make sure we're serving the market appropriately, and hopefully a very long-term bet that we have made in Rotoplas in Argentina will be a good one in the longer term. Andrés, anything else?

Andrés Pliego (CFO): I guess only, we see it as a timing issue, more than a structural issue. I think the structural changes have happened. We are seeing recovery in consumer, in energy, in electro domestics. We are seeing improvements in many sectors. Construction, not yet. And our products are very linked to that. So we are, again, cautiously optimistic about the recovery. I think the question is on when that will happen. Hopefully it's sooner than later, but we're optimistic and we have a great team. We have great capabilities over there. So it's we're ready for when the time comes.

Operator: Thank you. There's another question from Rodrigo Salazar. Could you give us some color on what do you expect for 2025 in the US?

Carlos Aboumrad (CEO): Well, the US has been a country that, now for a few quarters has not needed any cash from Rotoplas. So that has been great. They have focused on cash flow, and now is starting to get to a better profitability position, to then focus on profitably growing. The market has not helped us very much in the US as well. Two big sectors or two big drivers for the US is both, agriculture, and then the need for water storage because of droughts. And it has not been a cycle that benefited this business. I imagine this will change. The problem of water solution, of water scarcity has not been resolved. I think that the need for these water solutions will continue to grow in the longer term. So we are hoping that the market will begin to shift and also give us some tailwinds here. Now, we have continued to learn about how to better serve different opportunities in the US other than water tanks, which is the biggest business in the US, and one of them being septics. And we have talked a lot about this in the past. We see a tremendous opportunity, but we have not decided yet to invest heavily in this opportunity until we really understand it very well, and we can be sure that it will deliver a high return. We want to make sure that when we make bets in the US, we will be finding very long-term growth opportunities, that will be very profitable. I think it's important for Rotoplas, particularly today, that we make these investments also when we are in a better, stronger financial position. So I think that's what I can share about the US. I don't know, Andrés, if you have anything else that you'd like to add.

Andrés Pliego (CFO): No, nothing at this point, Charly, thank you.

Carlos Aboumrad (CEO): Thank you.

Operator: Thank you, guys. So moving on to the last question. It's from Zuriel Santibañez, and he's saying; bebbia has shown strong growth, surpassing more than 133,000 subscribers. What are the key strategies to further scale its adoption, and how do you envision its role in Rotoplas long-term revenue mix and digital transformation strategy?

Carlos Aboumrad (CEO): Thank you very much for your question and for joining. We're super excited about bebbia. Bebbia is this business that is continuing to grow very aggressively and that is delivering on expectation, more closely, even considering different dynamics in the market, even considering this volatile environment. We continue to see bebbia growing very aggressively. One of the main drivers is customer satisfaction, because these satisfied customers are referring us to new customers. That is the biggest source of new customers. Referrals from satisfied customers, which gives us also tremendous hope in bebbia. Now, for bebbia, it was a very different business for Rotoplas. It was very digitally enabled. So Rotoplas had digital capabilities to operate in manufacturing business, but not to connect with over 100,000 customers and to service them continuously. But we have developed these capabilities very successfully. And proof of that is customers being satisfied and referring us to new customers. So we're very, very proud of what we've accomplished there, and we will continue to develop those capabilities which will benefit bebbia, but not only bebbia, they will continue to benefit our traditional businesses. Like we said, we launched the B2B e-commerce and the B2B2C e-commerce, and we're leveraging these capabilities. So it's very interesting to see what bebbia will do in the future, how it will continue to grow, and even more so how it will support and drive the growth of the rest of the business with these new capabilities that we have developed. In terms of mix, bebbia for sure grows at a much higher rate than the rest of the business. So bebbia will be catching up. We are also expecting the rest of the business to grow, the products business to grow. So hopefully it doesn't catch us up too quickly because we're strongly growing products. But we do see, services catching up with products. And at some point, services being as large as products. Andrés, anything else that you'd like to add?

Andrés Pliego (CFO): Yeah, probably just add that, what we saw last year was one of the bright spots of the year was bebbia. The trends in unit economics in general have been trending positively for the last, I would say couple of years, and what we're seeing for the next couple of years is to continue that trend. So yeah, just to finalize what Charly was finalizing, obviously bebbia will take a larger part of the revenue share in the future. So we're excited about bebbia in general. Thank you.

Operator: There are no more questions. We can conclude the webcast. Something would you like to add? Charly or Andrés?

Carlos Aboumrad (CEO): I would really like to reiterate our appreciation for your support for joining, in this very challenging year that we just had. And looking forward to our next call next quarter.

Operator: Thank you. You may disconnect now.

Carlos Aboumrad (CEO): Bye.