

# Grupo Rotoplas

## 1Q18 Conference Call

**Operator:**

Good morning and welcome to the Grupo Rotoplas First Quarter 2018 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.

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

**Ofelia López Aranda:**

Thank-you, [operator name].

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's section of our website. We have also provided slides to supplement our discussion, which can also be found in the investor's 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 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.

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 I will 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 Mota Velasco:**

Thank you, Ofelia. Thank you all for joining us today.

We started 2018 with a robust water solutions portfolio and much less exposure to government sales. As we reported yesterday, we registered a record in both sales and EBITDA and was the fifth consecutive quarter of double-digit sales growth, despite the fact that political uncertainty has decreased consumer confidence in many of our Latin

American markets. Our resilience is evident and, I believe, speaks to the success of both our acquisitions and our portfolio reconfiguration strategies, which have enabled us to continue advancing towards our *Water-as-a-Service* and *Water-Solutions* business models and to leverage the strength of our brands, solutions and platforms. We will continue then to leverage our customer-centricity focus to pursue further growth.

I would like to highlight the innovation and growth taking place in our Mexican operations, where the growing demand for integrated and water-flow solutions helped us achieve double digit-growth in sales as well. Likewise, in recent years our operations in countries such as Argentina and the United States have become significant drivers for growth with great potential for the coming future. Moreover, through the efforts of our innovation and development centers, we brought to market 12 new products during the last year, which complements our solutions portfolio to keep up with a double-digit growth rate. Furthermore, we have reached this quarter 22,600 points-of-sale in the Americas and more than 8,350 points of water treatment and purification service throughout Mexico. This is a 20% increase from last quarter in water treatment and purification points, consolidating us as the market leader and the fastest growing platform in the Americas.

We also reaffirm our commitment to sustainability in all of our operations. As you know, last year we issued the first sustainability bond in Latin America, of which we have already allocated over 90% to drinking-water solutions, waste-water treatment and water recycling. These investments were just reviewed favorably by Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors. We have also completed our first greenhouse gas emissions inventory, following the guidelines of the Greenhouse Gas Protocol in order to better account for our environmental footprint. You will find more information about this and other sustainability efforts we are undertaking in our third Annual Integrated Report. The report will be available on our website on April 30<sup>th</sup> and I think you will find it both comprehensive and interesting.

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

**Mario Romero Orozco:**

Thank you, Carlos. Good morning and thank you for joining us. I will now discuss some of the financial highlights of the first quarter.

As Carlos already mentioned, sales grew 10% year-over-year this quarter, partly driven by increased sales of individual and integrated solutions in the United States and Mexico respectively. As he also pointed out, this is the fifth consecutive quarter of double-digit growth and we registered a quarterly record of both sales and EBITDA,

partly due to the ability of the company to change government sales exposure from 42% to 4% therefore creating a more resilient business model for the future.

It is also worth pointing out that, as detailed in our press release, in this quarter we are reporting an Adjusted EBITDA, which is calculated as EBITDA plus extraordinary non recurrent acquisition expenses amounting to \$11 million pesos, this expenses are related to the purchase of the US E-Commerce Platform. Including this effect, quarterly EBITDA grew 28% year-over-year. Furthermore, the consolidated gross and EBITDA margins grew 110 and 240 basis points respectively, due to greater fixed-cost absorption in our larger volume operations, a better price-mix and a disciplined expense-control strategy.

Net income margin decreased by 50 basis points due to slightly higher net interest expense, income tax and the Argentinean Peso depreciation that affected our EBIT generation for the quarter.

In terms of our geographic breakdown, sales in Mexico grew 11% during the first quarter, accounting for 63% of our total sales and mainly driven by an increased demand for integrated and water-flow solutions. For their part, our operations in Argentina, which as you may recall are now being reported separately on account of their importance to the Company, grew significantly as well: sales increased 37% and EBITDA 39% in local currency. In fact, it should be noted that if not for the depreciation of the Argentinean Peso, which offset this growth, we would have registered an additional 5 percentage points in both total Sales, EBITDA and Net Profit. As to the Other Countries category, we continue to seek new venues for growth and implementing a diverse set of strategies to increase profitability, while continuing to monitor closely the macroeconomic and political trends that currently impact some of those markets. Nevertheless, it is important to point out that EBITDA margins grew in both Mexico and the Other Countries category because of enhanced price-management strategies and disciplined cost- and expense-control through a zero-budget approach.

With regards to our product mix, sales of individual solutions in the first quarter accounted for 90% of total sales and grew 9% year-over-year, boosted by an increase in demand in Mexico and the United States. Integrated solutions, on the other hand, accounted for 10% of total sales and registered a 19% increase in sales year-over-year, 2x the speed of growth of individual solutions. It is worth noting that the integrated solutions results include sales from water purifying fountain and the EBITDA contribution of waste-water treatment and recycling plants.

Balance Sheet remains strong with a Net Debt to EBITDA ratio of 0.5x well positioned for future growth.

These results confirm that we have successfully integrated our three largest and most recent acquisitions, fully leveraging their strengths; and more importantly, that we continue to consolidate our business strategies of *Water as a Service* and *Water-Solutions*, significantly expanding our reach and strengthening our solutions portfolio.

And we have done so while reaffirming our commitment to customer-centricity and to ESG principles, working continuously on the different components of our ESG evaluation.

Finally, after the first quarter and with greater visibility for the year, we feel confident that water scarcity and sanitation dynamics will guarantee a double-digit growth in Sales, EBITDA and Net Profit for the Company.

I would now like to open the floor for your questions. We will begin with the participants in the conference call, followed by our website users. Please proceed, [Operator name].

**Ofelia López Aranda**

Thank you very much for your time and your interest. We hope you will join us again next quarter. Until then we'll be sure to provide you with important updates.

**Operator:**

Yes, thank you. Ladies and gentlemen, if you do wish to ask a question, please signal by pressing star, one on your telephone keypad. Please also make sure that your mute function is turned off to allow your signal to reach our equipment. Once again, star, one will place you into the queue.

We'll go ahead and take our first caller, Guillermo Diego with Santander.

**Guillermo Diego:**

Sure. Can you give us your outlook in terms of margin, now, for the year?

**Mario Romero:**

Well, we haven't gave any guidance on margins for the year, but we feel confident that the levels reached in the first quarter will repeat over the rest of the year.

**Guillermo Diego:**

Okay, and the levels of the margin achieved in the first quarter, or the expansion that we saw in the first quarter?

**Mario Romero:**

The margins achieved in the first quarter.

**Guillermo Diego:**

Great. Thanks.

**Mario Romero:**

Thank you, Diego.

**Operator:**

Once again, as a reminder, it is star, one to pose a question over the phone at this time. No one has signaled over the phone at this time.

**Liliana León:**

Mine is regarding the same as Guillermo regarding margins, so I guess that's covered, and we have—how much of the cap ex during 1Q '18 was allocated to Sytesa? Two, regarding integrated solutions, considering that government exposure is decreasing, and the water treatment business should increase, which level of EBITDA margin we should expect in 2018?

**Mario Romero:**

Hello, Liliana, good morning. Thanks for your question. Regarding how much cap ex was allocated to Sytesa, that was a third of the total cap ex for the quarter, which accounts for almost 25 million pesos, and that is nearly (phon) focused to put some water treatment plants in place as part of the agreements that we have been completing over this quarter.

Second, regarding the margins on integrated solutions, I think you will see an improvement throughout the year because, on the one side, as mentioned in our press release, we have less operating losses in the integrated solutions coming from Brazil given that now the operation is a very small size, close to break even, and we will now see for the future this water treatment recycling plant's margins on top of water purifying (inaudible).

**Ofelia López Aranda:**

Shannon, do you have something on the line? We have no further questions on the webcast.

**Operator:**

No further questions at this time. I'm sorry, we did have one just queue up. As a reminder, it's star, one. We have Javier Arrigunaga with GBM.

**Javier Arrigunaga:**

Hello, good morning. I was just wondering what will be your sales mix between individual and integrated solutions for 2018? Thank you.

**Mario Romero:**

In the first quarter, we reported 90% individual solutions and 10% integrated solution. I think by the fourth quarter, you will be seeing a mix of 85/15, and so annually will be probably about 87/13. That's what we are estimating for 2018, and thank you very much, Javier, for your question.

**Javier Arrigunaga:**

Thank you, Mario.

**Operator:**

There are no further questions over the phone.

**Ofelia López Aranda:**

Thank you, Shannon. Thank you very much for your time and your interest. We hope you will join us again next quarter. Until then, we'll be sure to provide you with important updates.

**Operator:**

Thank you. Ladies and gentlemen, that does conclude today's conference. We thank you for your participation. You may now disconnect.