

2Q15 Rotoplas Conference Call

Operator:

Good morning and welcome to the Grupo Rotoplas second quarter 2015 results conference call.

Please be advised that today's call is being recorded and all participants are in a listen-only mode to prevent background noise. Later we will conduct a question and answer session. I would now like to turn the call over to your host for today, Ms. Nayelli Corro, Grupo Rotoplas' Head of Investor Relations. Please go ahead.

Nayelli Corro:

Thank you and welcome to our conference call. By now you should have received a copy of our earnings release. If not, both the press release and corresponding presentation are available on our Investor website at Rotoplas.com.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it and as such, does include risk and uncertainty. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially.

With us today on the call are Mr. Carlos Rojas, Rotoplas' Chief Executive Officer, and Mr. Mario Romero, the Company's Chief Financial Officer. Mr. Rojas will begin by providing a summary of the quarter. He will share some color on the current market conditions and will update you on Rotoplas' results this quarter. Mr. Romero will then discuss our second quarter financial results in more detail. Mr. Rojas will summarize, and we will then open the call up to your questions.

I'd now like to turn the call to Mr. Carlos Rojas. Mr. Rojas, please go ahead.

Carlos Rojas Mota Velasco:

Thank you, Nayelli and good morning everyone. We appreciate you taking the time to join our call today.

Our second quarter results were consistent with our outlook, as Net Sales decreased by 13.3% year due to the fact that the Brazilian economy continues to falter. This again resulted in a delay in government spending and the implementation of the contracts signed with Rotoplas by the Brazilian government.

2Q 2015 Conference Call

However, while decreased sales negatively impacted our top line, it is important to note that we were nevertheless able to continue to expand our margins this quarter due to strong performance and improving costs in the countries in which we operate other than Brazil. Rotoplas' second quarter EBITDA reached 155 million pesos with a margin of 11.3%; a 220 basis point year on year improvement.

In light of the current situation in Brazil, we have been actively taking steps to mitigate the further impact on Rotoplas' operations and are focused on improving profitability by aggressively reducing fixed costs in this country. This quarter we have therefore been consolidating our production facilities and migrating machinery to other plants in the region that will be available and flexible should volume in Brazil again recover while successfully maintaining our current installed capacity. At the same speed we close factories we can reopen them.

But as our non-Brazil related results demonstrated, the fundamentals of our business are strong, and second quarter numbers were further evidence that our scale, global footprint and broad base of innovative offerings are driving our strong core performance despite these headwinds, and that there is considerable demand for our diverse range of water solution products.

As I mentioned, during the quarter we benefitted from strong sales of both Integrated and Individual solutions in all other countries in which we operate, particularly in Mexico where we benefit from our extensive distribution network and strong relationships with customers- this is an important competitive advantage in the Mexican market. Sales to the Mexico market increased by 31% this quarter compared to the same quarter in 2014.

Moving ahead we remain focused on our strategy, with the goal of doubling our business over the next five years. First, we will continue to leverage our strong presence in Mexico and the Americas to increase sales in both the retail and government channels and to take advantage of important opportunities to cross sell in these markets. Second, we plan to increase our integrated products market share, as this offering represents better prices and higher margins. We also remain focused on expanding in the US, which is a priority for Rotoplas.

To update on our US strategy, our goal is to open the new plant in Dallas, Texas by October 2015 and in Atlanta, Georgia by the end of this year. We also continue to review potential acquisition targets that are focused on water-related industries and may good strategic fit for our Company, with benefit of our strong balance sheet. While

2Q 2015 Conference Call

we are still in the initial stages of our US expansion, we do expect the US to make a more meaningful contribution as soon as next year.

Finally, we continue to direct our efforts and resources towards streamlining our operations and improving efficiency wherever possible, which has clearly resonated in our 11.3% EBITDA margin this quarter. In the second quarter we continued to reassess and analyze the location of our production facilities, both within Brazil and in other countries, relocating where appropriate based on cost benefit. Last week we also announced that Rotoplas has upgraded its technological platform and has migrated to SAP S/4Hana, the next-generation business suite from SAP, which will further improve our data modeling, decision making and business processes. As we commented, we are running SAP S/4HANA throughout Rotoplas' global organization.

In summary, we continue to be in a unique position to provide individual and integrated water solutions that address a clear and increasingly more important needs as the global water supply crisis deepens. We remain confident that we will see a very strong 3rd quarter results with an EBITDA generation about what we did for the first half of the year, given the renewal of integrated water solution sales in Mexico and strong performance from the individual front in all Countries where we operate except Brazil, where business environment is still deteriorating. For the 4th quarter, while we expect very good performance in Mexico and the rest of the countries, we do not have much visibility on the outcome, given the prevailing situation in Brazil.

Let me now turn the call over to Mario who will discuss our financial details in more details.

Mario Romero Orozco:

Thank you Carlos and good morning, everyone.

I am now going to take you through the financials for the second quarter in more detail and close with some figures for the first half of the year.

Our sales were in line with the first quarter of this year while we improved our margins compared to the second quarter of 2014.

Total sales declined 13.3% this quarter compared to the same quarter last year. Individual solutions accounted for 82.1% of sales; a 10% decrease while integrated solutions contributed 17.9% of sales, a 25.4% decrease from the same period last year. The continued effect of Brazil's economic and political crisis again delayed government

2Q 2015 Conference Call

spending in the second quarter which, as Carlos discussed, impacted results as we had predicted.

However, as stated, we are confident in our ability to react to the challenges that the market presents. Sales from the non-government channels continue to grow at a strong pace and we expect this will continue throughout the second half of the year.

When looking at sales by country, we saw a 31% increase in both Mexico and Others when compared to the second quarter of 2014. We continue to monitor Brazil while making the necessary changes needed to adapt to the situation in Brazil. Our financial results in Mexico continue to be in line with our expectations while other countries Rotoplas serves outperformed our expectations.

Though we saw a 2.5% decrease in gross profit, we ended the quarter with a gross profit margin of 40.6%; a 440 basis point increase from the second quarter of last year. This improvement was driven by strong performance in our individual and integrated solutions in Mexico, Argentina and Peru as well as a reduction in cost of goods sold as a percentage of sales due to an improved sales mix and lower raw materials costs. We also again benefited from our zero based budget program and cost cutting measures, as well as savings that resulted from plant consolidation and relocation of plants in Brazil. Operating expenses in the quarter represented 31.2% of sales; a 170 basis point increase, due to expenses incurred in the relocation of three plants in Brazil as well as startup costs associated with our US expansion strategy. However, operating income rose 22.6% and margin increased 270 basis points compared to the same period of last year.

EBITDA improved to 155 million pesos from 145 million in the second quarter of last year; a 7.4% increase. We also saw our margins increase to 11.3% from 9.1%, and taking out the one-timers from Brazil and the US, the EBITDA margin was 13.3%.

Now taking a look at our performance for first six months of 2015, sales reached 2.7 billion pesos, a 16.7% decrease year on year which was due to the delay of the previously discussed programs in Brazil and in Mexico.

We saw a 16.2% decrease in gross profit to 1.0 billion pesos as compared to the same period in 2014. This was due to the decrease on sales volume, however, we maintained stable margins of 38.7%, a 30 basis point improvement as compared to the first half of 2014.

2Q 2015 Conference Call

Financing costs for the first half of the year reached 29 million pesos as compared to the 32 million pesos in the same period of last year. The appreciation of the US dollar against local currencies in countries in which we operate resulted in a cumulative exchange rate loss of 11 million pesos.

When looking at CAPEX, capital investments came to 108 million pesos, as we continue to increase our capacity in the regions in which we operate as well as the initial investments associated with the new facilities in the US.

To conclude, we have increased our inventory in preparation for the stronger demand that we expect to see in the second half of this year. We have taken the appropriate measures needed to ensure value creation despite a difficult operating environment. We adjusted the location of production where we saw necessary, optimized processes and registered a 10.3% EBTIDA margin for the first half of the year.

Operator, I will now turn the call over for the question and answer session.

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 disengaged to allow your signal to reach our equipment. Once again, that is star, one to signal for a question, and we'll pause for just a moment to assemble the queue.

We'll go first to Evelyn Chow of Goldman Sachs.

Evelyn Chow:

Good morning, guys I'm Evelyn dialing in on behalf of Joe Ritchie. Maybe just starting at a high level, I know previously your 2015 guide had been for flat sales and about a billion dollars, or a billion pesos in EBITDA. Can you provide an update on your expectations for the year?

Carlos Rojas:

Hello Evelyn, good morning. As you may already know, the election has passed in Mexico and the electoral ban is therefore over. With this, Rotoplas has considerable integrated water solutions backlog for the rest of the year. Separately, individual solutions sales in Mexico and other countries should offset Brazil. However, while we expect strong performance in Mexico and the rest of the countries in which we operate, it's still too early to have reliable visibility into four-quarter performance due to the

2Q 2015 Conference Call

uncertainty in Brazil, where the economy and political crisis is getting more and more difficulties.

Besides this, our market share remains intact. No one else is selling these solutions, as we know it's difficult to have the visibility with the Brazil situation for the fourth quarter.

Evelyn Chow:

Got it. That's helpful, and I guess maybe just drilling down into Brazil a little more, sales are down 61% year-over-year this quarter. I know you've mentioned previously that you had about 700 million real approved on contracts as of April. What is kind of your line of sight into when you think you can start shipping on those contracts?

Mario Romero:

There's big uncertainty in Brazil right now. You are probably aware of that last week political turmoil deepened out, and they are not getting into their fiscal primary surplus as planned, they are thinking of making more budget adjustments. So, as Carlos mentioned, we don't have any visibility right now in Brazil. Things are changing every week, so we are just expecting to see further out in the year to see how the outcome will look like.

Evelyn Chow:

Okay, understood. Maybe just one more, drilling into the margin line. It was a nice raw materials benefit you got in 2Q. Is it your expectation that as we go into 3Q and potentially the back half of the year, you actually start to see sequentially a greater raw material tailwind as you work through your existing resin inventories?

Mario Romero:

Raw material prices are still stable, or decreasing a little bit. The only effect that now we are assessing is the volatility, of which, that's what we're going to present on the FX market. As you might know, the Mexican peso has climbed from 15 to 16, and also the currencies in the Latin American market has been affected from this situation. So, we are assessing on that, and we'll comment on that further on, on the year.

Evelyn Chow:

Okay. I appreciate it, guys.

Operator:

We'll go next to Daniel Rojas at Bank of America Merrill Lynch.

2Q 2015 Conference Call

Eric Neguelouart:

Hello guys, this is Eric from Merrill Lynch - I work with Daniel. I have two questions. (Inaudible).

Carlos Rojas:

Daniel, we are losing you. We are losing the signal. Could you please start again the questions? Daniel, are you there? Operator, can you hear Daniel?

Operator:

We'll go next to Fernando Perez of GBM.

Fernando Perez:

Good morning, Carlos and Mario. I have one question regarding your expectation for the third quarter of the year, and as well if you can give us a little bit more color regarding the fourth quarter. Thank you.

Carlos Rojas:

Fernando, as we mentioned earlier to Evelyn, we had a very strong performance in Mexico and the rest of the countries, in operations for the full quarter. The thing is that in Brazil, as we have been mentioning, is completely no visibility in what is going to happen with our commitments to the government. We know for sure that there is no one else taking our market share, and we know that they do have the need, but they are completely closed today to any operations. Personally, in the recent past days I was in Brazil with the government principals and our customers, and they know they need the water solutions. They are interested in the water solutions, but today they don't have any money allocated for continuing the progress.

Of course, we see in Brazil a long term customer, so we believe that today the best thing we have to do is to wait and to be patient, so I cannot tell you for the fourth quarter the total results. We know the third quarter is going to be very strong, as I mentioned. We know that the third quarter, our results are going to be about the same that we had in the first half of the year, so that's what I could tell you about the visibility for the rest of the year.

Mario Romero:

Just to add on to Carlos' comments, Fernando, as we have mentioned in our previous calls, the electoral ban in Mexico has finished, and now we have a secure backlog for integrated water solutions in Mexico for the remainder of the year. So, all in all, we see a good performance in individual solutions in all countries. We have already reinitiated integrated water solutions in Mexico, and that gives us a lot of confidence going into

2Q 2015 Conference Call

third quarter. Fourth quarter, as Carlos has been explaining throughout the call, there is still a lack in visibility in Brazil.

Fernando Perez:

Okay. Did you have any sales of integrated solutions in Brazil during this quarter, or not any?

Mario Romero:

Yes, we did. First quarter, we were operating at a third of the capacity. Second quarter, we were operating at a fifth of the capacity.

Fernando Perez:

Do you expect it to behave like that for the remainder of the year, or still it's too early to know, or it might even be lower than that?

Carlos Rojas:

We believe it might stay like it was in the second quarter where it was lower. As a matter of fact, it's slowing down these days.

Fernando Perez:

Okay. Thank you.

Operator:

We'll go next to Guillermo Diego of Santander. Mr. Diego, your line is open. Please go ahead.

Guillermo Diego:

Sure. Could you give us an update on expansion plans in the US, please?

Carlos Rojas:

Yes, Guillermo. As we mentioned, our operation in California is having the results that we were expecting and because of this reason, we are anticipating the start-up of two more plants and two more facilities. We are expecting to start operations in Dallas, Texas in October and in the end of the year in Atlanta, Georgia. With these, we don't expect much of the results to show in this year, but we believe that for next year they will start showing good results for us.

Guillermo Diego:

Right, thanks.

2Q 2015 Conference Call

Carlos Rojas:

Thank you Guillermo for your question.

Operator:

Once again, that is star, one to signal for questions.

We'll go next to Ulises Argote of Santander.

Ulises Argote:

Hi all, thanks for the call. Just one quick question. Have you started seeing an acceleration in government spending in Mexico related to social programs, or when are we expecting these deployments to happen? Thanks.

Carlos Rojas:

Thank you for your question, Ulises. Ulises, yes, as we mentioned, this is not precisely an acceleration; rather, it's to continue with the programs they had. This is not a special acceleration, but these programs are for this year and for sure, we expect, for the next year. So, they are just rebuilding the programs they had. These were just delayed, as we mentioned, because of the elections; and due to the ban they have to be out of making any purchase orders.

Ulises Argote:

Yes. Thank you very much. That's helpful.

Carlos Rojas:

Thank you, Ulises.

Operator:

Once again, that is star, one to signal for questions today.

Mario Romero:

I'm going to read some questions that we are getting through the web, from Andres Audiffred of Interacciones. The first one is, "We're concerned about the performance of the company in Brazil, especially because there are no signs for change in the current economic and political status in the short and midterm, so we would like to know what's going to be your strategy further than reducing your fixed cost?"

As I think we have mentioned throughout the call, the first thing we have done is cost containment. We have mainly put all factories at minimum operating expense levels. Secondly, we will be supplying, as we said, the amounts of solutions that could be requested and just work on that situation in a very passive mode. As Carlos mentioned,

2Q 2015 Conference Call

we have no loss of market share. We are being patient about the situation in Brazil, which we really view as not only short term; we are seeing this outlook throughout the next couple of years.

I think on your next two questions, which is the guidance and the US, I think Carlos has already mentioned about that, so I don't know if you would like to have another question from the web. Thank you.

Operator:

There are no questions from the phone lines at this time.

Carlos Rojas:

Well, then, thank you very much to all of you for taking the time to listen to our call and we will see you next quarter.

Mario Romero:

Looking forward to the next quarter.

Nayelli Corro:

And if you have any questions, please do not hesitate to contact us at any time. Thank you very much, and have a nice day.

Operator:

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

----- ### -----

Investor Relations

Nayelli Corro

Tel: +52 (55) 52015000 Ext: 50163

Email: agua@rotoplas.com

Forward Looking Statements

This press release may include certain forward-looking statements relating to Grupo Rotoplas S.A.B. de C.V. that rely on considerations of the Grupo Rotoplas S.A.B. de C.V. management and are based on current and known information; however, the forward-looking statements could vary due to facts, circumstances and events beyond the control of Grupo Rotoplas, S.A.B. de C.V.

2Q 2015 Conference Call

About the Company

Grupo Rotoplas S.A.B. de C.V. is Latin America's leading provider of individual and integrated water solutions for storing, carrying, and treating water. With more than 35 years' experience in the industry and 21 plants throughout the Americas, Rotoplas has a presence in 12 countries and a portfolio that includes 17 product lines. Grupo Rotoplas has been listed on the Mexican Stock Exchange (BMV) under the ticker "AGUA" since December 2014.