



## Grupo Rotoplas First Quarter 2016 Conference Call

**Operator:**

Good morning and welcome to the Grupo Rotoplas first quarter 2016 results conference call.

Please note 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. Ms. Corro Please go ahead.

**Nayelli Corro:**

Thanks Shannon, good morning everyone and thanks for joining us today. Yesterday we issued our earnings press release after market close. The release can be found on the IR section of Rotoplas' web site. As usual, we've provided slides to supplement our discussion. These slides can be also accessed on our website under investor information.

I'm joined today by Mr. Carlos Rojas, Rotoplas' Chief Executive Officer, and Mr. Mario Romero, Chief Financial Officer. We'll begin our call with prepared comments and then turn to Q&A.

Before we start, 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. 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.

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

**Carlos Rojas Mota Velasco:**

Thank you, Nayelli. Good morning everyone and thank you for joining our call today. We're pleased with our business execution in the first quarter and believe we're off to an encouraging start for the year. Demand for our products and solutions remained strong, and we were able to strengthen our profitability with benefit of lower raw material costs and close control of operating expenses in line with Rotoplas' zero based budget practice.

Despite a successful first quarter, we faced some difficult year on year comparisons. Last year at this time Brazil was one of Rotoplas' largest markets, driven by particularly strong first quarter 2015 individual solutions sales due to extreme drought in the Sao Paulo region. But as you're aware, the



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situation has changed dramatically, resulting in a 73% decrease in sales as compared to the same quarter of last year.

As I have commented, we anticipated economic weakening in Brazil and made quick decisions early in 2015 to reduce our footprint in that country. During the last quarter's results call I let you know that our goal was to continue to reduce our Brazil exposure, from 40% of sales to no more than 10%. This quarter we successfully decreased our Brazil sales down to 9% of total sales. We intend to maintain a limited presence in Brazil until the situation eventually improves and demand returns. In the meantime, we're monitoring the situation closely and have improved our collection on accounts receivable.

Rotoplas' market share in all countries in which we operate increased in the first quarter 2016, while Brazil has not changed despite the current situation. To give you a better sense of sales by country, Mexico represented 64% of first quarter 2016 sales, followed by Other Countries with 27% and Brazil now accounting for only 9%.

Let me now provide you with some updates on the geographies in which we operate.

Starting with Mexico, first quarter sales remained in line compared to last year. However, results were negatively impacted by a decrease in sales of integrated solutions excluding water fountains to our government clients. Due to government program budget delays, these sales have been deferred to the second quarter. However, sales through other channels remain strong. Excluding sales through the government channel, sales in Mexico increased by 10%.

To update you on our success related to Mexico's government-backed school water purifying fountain project, this remains one of Rotoplas' core growth opportunities. In the first quarter 2016, Rotoplas won its first contract bid for the installation of 808 water fountain systems for the amount of Ps. M\$82.4. Bidding opportunities planned for May and June 2016 should represent an even more significant opportunity, and would be reflected in Rotoplas' second half results. In 2015, the government earmarked more than 1 billion pesos to install more than 11,000 water fountains in schools throughout Mexico in the first half of 2016. To date, less than 4% of the water fountains have been offered as part of the bidding process for these government contracts, to be completed by 2018 based on a multiyear nationwide program.

Our US plants in California, Georgia and Texas are now up and running, and we again expanded our client base in this geography, we expect to continue to broaden our footprint in the southern US Sunbelt, which remains an exciting opportunity.

Results from our Latin America markets, excluding Brazil, also again performed well this quarter. In Peru, El Niño's effect resulted in severe droughts in many parts of the country, increasing demand for Rotoplas' individual water storage solutions.

Finally, this quarter we successfully completed our acquisition of Talsar, the leading water heater company in Argentina. We expect Talsar's performance to further strengthen once we have fully



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implemented our “Rotoplas Way” to this business, encouraging additional margin expansion and commercial synergies for our individual water solutions. The transaction closed at a multiple of 5.2x 2015 EBITDA and was fully financed through Grupo Rotoplas’ internal resources.

To conclude, our team again executed well despite certain conditions and situations that were out of our control, and we're pleased with our start to 2016. We continue to make meaningful progress related to our core growth opportunities: expanding our reach in the U.S. market, identifying new opportunities related to integrated water treatment and sanitation solutions and successfully executing on Mexico’s government-backed school water fountain project.

We therefore expect to achieve our goal of doubling our business by 2019 by focusing on these core growth opportunities that I have described.

I'll now turn the call over to Mario who will discuss our financial results in more detail.

### **Mario Romero:**

Thank you, Carlos and good morning, everyone. I’d now like to move into a more detailed review of the financials. We will then turn the call over to the question-and-answer period.

As we discussed, we are pleased with our execution in the first quarter in light of some challenges we faced.

Net sales decreased 14.1%, year-over-year due to the fact that retail sales benefited last year from a severe drought in Brazil’s São Paulo region, whereas the economic climate has since declined considerably, translating into a 73.3% decrease in net sales year-over-year. However, sales excluding Brazil increased 9.8% year on year supported by demand from Other Countries, particularly due to droughts in Central and northern South America caused by El Niño increasing demand in countries such as El Salvador, Guatemala, Nicaragua and Peru for our important water storage solutions.

Mexico sales remained flat year on year due to the deferral of integrated solutions to start in the second quarter 2016 as consequence some budgetary adjustments that the federal government implemented in February that caused delays on the start of some social infrastructure programs on public clients, and to the effect of the Holy Week. In 2015, celebrations fell in the second quarter of the year and this year in the first quarter; this represented a 170 basis point negative impact on Mexico’s sales.

As a result of the above, sales of integrated solutions decreased by 74.9% year-on-year while individual solutions, representing 96% of first quarter net sales, decreased 5.5% year-on-year.

We ended the quarter with a gross profit margin of 43%, a 630 basis point increase due to improved sales mix of products with higher margins, a 189 basis point improvement in raw material costs and strong cost controls throughout our organization. We continue to benefit from the positive effect of



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lower oil prices on resin, Rotoplas' primary raw material cost. This again offset any negative foreign exchange impacts in the first quarter 2016 from the exposure to currencies in countries at which we have presence.

We continue improving our company-wide zero-based budget expense containment strategy which has helped mitigate lower sales volume. As a result, and with benefit of lower raw material costs, operating profit as a percentage of sales increased by 320 basis points compared to the same period of last year.

First quarter EBITDA increased by 19.5%, while EBITDA margin increased 360 basis points year-over-year. EBITDA margin for individual solutions increased to 12.9% while EBITDA for integrated solutions expanded to 13.3%, both supported by improved raw material costs.

It is important to note that while we saw a decrease in net sales year-over-year, net income increased this quarter to MXN 91 million from MXN 38 million in the first quarter of 2015. Net income margin increased 490 basis points year-over-year.

In closing, I'd like to reiterate the fact that we are confident that today's results further demonstrate Rotoplas' ability to deliver positive results, overcoming adversity to produce both strengthened profitability and growth in all of our core markets. We remain focused on ensuring value creation through our core growth opportunities, maintaining our cost control processes and demonstrating strong financial discipline throughout the organization.

I would therefore like to confirm our guidance of organic EBITDA of MXN 1 billion for full-year 2016. Based on the good performance of individual water solutions in all regions ex-Brazil, drinking water fountains acceleration throughout the rest of the year, as well as good expectation for rain water harvesting and sanitation solutions in Mexico.

With that, I would now like to turn the call over to the question-and-answer session, which will begin with questions from the teleconference followed by questions received via our website. Operator, please go ahead.

**Operator:**

Thank you. Ladies and gentlemen, if you would like to ask a question, please do so by pressing the star key, followed by the digit one on your touchtone telephone. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, that is star, one for questions. I'm going to pause for just a moment.

Our first question will come from Carlos Peyrelongue of Bank of America.



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### **Carlos Peyrelongue:**

Thank you, Carlos and Mario, for the call. A few questions if I may. With regards to the EBITDA that you mentioned, organic for \$1 billion, can you comment as to what will be the drivers for that growth? So far first quarter, you've done about 14% of that \$1 billion. If you could comment as to the countries and whether it's integrated or Individual Solutions that will drive that stronger growth you're expecting, and is that something you expect for the second half, or do you expect already in the second quarter to see a rebound in Integrated Solutions in Mexico or other lines that I might be missing that will allow you to reach the \$1 billion? That would be the first question, if possible.

### **Mario Romero:**

Hello Carlos. Thanks for your question. Well, let me just first walk you by the Individual Solutions. I'm going to go from north to south.

We are seeing through the penetration in the US market that has continued to drive growth in the other countries' segment. Mexico retail is doing well. Also polarized sales in Individual Solutions for government clients is starting to pick up. As I mentioned earlier, the first quarter was a little bit low with government purchases because there were a lot of readjustments of the budgets for 2016 that make some agencies to preplan for the year. Central America is doing very well. Also Peru and Argentina are doing well in Individual Solutions.

As for Integrated Solutions, the water fountain program in Mexico is starting to pick up. We expect for May/June to have 11,000 more water fountains bidding processes come and be placed. Also, the rain water harvesting and auto-composting bathrooms, we are anticipating good demand probably by the last month of second quarter 2016, but more strongly on the second half of 2016. So Mexico, you have a strong second quarter for water fountains and a strong second half for rain water harvesting and auto-composting bathrooms. That will be how the year playing into Rotoplas numbers.

### **Carlos Peyrelongue:**

Mario, would it be possible to have some idea of what you can expect from US in terms of sales or EBITDA for the full-year, just to get an idea of what type of ramp up we should expect? Also, for acquisitions, would it also be possible to get an idea of what are you expecting in terms of sales or EBITDA for the acquisitions?

### **Mario Romero:**

Well, first on the US, we do not disclose the information on sales and growth. What we have said to our investors and the financial community is that we are having a good market penetration within the regions we are working. We are implementing a very important piece of client base, and we're increasing month after month in sales.



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As for inorganic growth, as Carlos mentioned, we completed a transaction for Talsar. Sales for Talsar for 2016 should be in the range of 400 million pesos with an EBITDA level of about 125 million pesos. As for the other transactions that we've been announcing before, they're pretty well advanced into the water treatment plants for water treatment and recycling.

Also, we are looking at some other opportunities in the US, Mexico and Brazilian markets.

**Carlos Peyrelongue:**

Great. Thank you.

**Operator:**

And we'll take our next question from Adan Rodriguez of GBM.

**Adan Rodriguez:**

Hello and thank you for taking my call. I would like to start with the Talsar acquisition. Can you explain the rationale behind it, and if you have any further guidance respecting cross-selling opportunities and synergies?

**Carlos Rojas Mota Velasco:**

Yes. Talsar produced water heaters. The water heaters are sold in the same retailers that are most of our Individual Solutions. The people we train, the plumbers and the sales force of our customers are the same for the water heaters and our Individual Solutions. We found that their retailers are different in some cases than ours. Also, they have a leading brand which is significant for us. We believe that we will be able to find some synergies, specifically in the commercial area. The possibility of taking technologies to other countries, we will be analyzing that. Today through this year, our goal is to operate the plan to quickly and absorb the operation with our Rotoplas's style. Also, this could open also channels for our water purification systems, so we believe there's good synergies there.

**Adan Rodriguez:**

Okay. An additional question. The 125 million peso inorganic EBITDA growth, does that include any possible cross-selling of your products in the Talsar distribution channel?

**Mario Romero:**

This is Mario, Adan no. This is only as a standalone. We are not considering any cost or commercial synergy to that number.



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**Adan Rodriguez:**

Okay, thank you. As a final question, could you explain to us a little bit further why break-even EBITDA was not achieved in Brazil during the quarter?

**Mario Romero:**

Yes. Let me explain you, as we continue to see how Brazil has been developing over the last few months, we decided to go deeper on cost-cutting initiatives. We unfortunately had to fire an additional 10% of our working force and that create most of the one-time expenses which didn't help us achieve a break-even.

**Adan Rodriguez:**

Okay, thank you. Just one more question, please. So, your outlook for government contracts, if I understood it, on the second quarter you expect a ramp up of the drinking fountains, and then from the second half going forward, you expect auto-composting bathrooms and water harvesting. Is that correct?

**Carlos Rojas Mota Velasco:**

Yes Adan, that is correct. This is how we are anticipating the market in Mexico this year. Some good opportunities on the water fountains are coming into May and June and we have a good visibility that the rain water harvesting and auto-composting bathrooms will start happening on the very early part of the second half of this year.

**Mario Romero:**

And just complementing on Talsar, as Carlos was mentioning, this acquisition, first of all, strengthened our footprint in Argentina. Second, they give us access to some new channels where water purification systems could be allowed. On top of that all, that is a leading brand and we strengthen our distribution strength in that country.

**Adan Rodriguez:**

Okay. Thank you for your insight, gentlemen, and Nayelli. Thank you.

**Operator:**

Our next question will come from Ulises Argote of Santander.



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**Ulises Argote:**

Hi Carlos, Mario, and Nayelli. Thank you very much for the call. Just one quick question. You announced that you will propose a dividend payment in your next Shareholder's meeting. Can you elaborate a bit what rationale is behind this payment? Are you still continuing to pursue further M&A, or do you see a more limited pipeline in this sense and that's why you are deciding to hand out a dividend? Thanks.

**Mario Romero:**

Hello Ulises. Good morning. No, we're seeing still a bunch of different opportunities in the water market space. We are very aggressively pursuing M&A activity and we have a very active pipeline. The rationale behind giving a small dividend was deliver value to our shareholders short-term and long-term without undermining the future growth nest. That was the rationale for the dividend.

**Ulises Argote:**

Thank you, Mario. So, does this mean that you are proposing like a proper dividend policy, or is this just a one-time thing, or is this kind of the extent to what the dividend payments we can expect for the further years?

**Mario Romero:**

No, this is just a one-time thing and this is how the Company has been shaped over the last 10 years. We do not have a dividend policy. On time to time, we discuss, analyze at the Board level to the convenience of paying or not paying dividends and then that's the way we decide it.

**Ulises Argote:**

Okay. Thank you very much.

**Mario Romero:**

Okay. Thanks Ulises.

**Operator:**

Another reminder, that is star, one if you'd like to ask a question or if you do have a follow-up question.

Our next question will come from Fernando Perez of Grupo Bursatil Mexicano.





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### **Fernando Perez:**

Hi. Good morning Carlos and Mario. I have just one follow-up question regarding your guidance. You think that Integrated Solutions is expected to pick up during the second of half of the year, but do you have already, like, any contacts signed because there's a huge concern about government sales, and I was wondering if you have already something in concrete? Just an additional question, do you have already any plans regarding the deployment of water sanitation system or do you know how do you expect to apply it on your technology? Thank you.

### **Carlos Rojas Mota Velasco:**

Fernando, good morning. This is Carlos. We don't have anything concrete with Integrated Solutions, otherwise we would be announcing it. But, we continuously talk with the different programs to fill their needs and we feel confident that they are interested in doing it, so that's why we think this is going to take place for the second half.

In the other hand, the water fountains—drinking water fountains—the government has been insisting that this year they are going to do 11,000 schools. They have already resourced the resources, so that's something that they have already been announcing.

With the Plasma, this is a technology that we have to work with them in order to develop and commercialized it in volume. Today would be very soon to have something to talk about, but we're confident that this technology in the mid-term will be to be something of importance for our water solutions to purify water.

### **Mario Romero:**

I don't know if the rest of the people is aware of, but Plasma is a unique technology, the only that we know that purifies the water up to a level of 100% sure, and the leverage is that, for example, water fountains would benefit from this technology of water purifiers. We have a bunch of different product that we are currently selling that if we put this technology into our products, make a unique product with unique competitive advantages in the markets where we are. So, we are very enthusiastic about this new technology that we are in the process of closing it and to use it in our product portfolio going forward.

### **Fernando Perez:**

Okay, thank you very much.

### **Operator:**

Ladies and gentlemen, as a final reminder, if you'd like to ask a question or if you do have a follow-up question, please press star, one at this time. We'll pause for just a moment.



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Our next question will come from Derek Taylor of Goldman Sachs.

**Derek Taylor:**

Hi. Thank you for taking my call. Just a quick question on US expansion. Now that the Texas operation is open, are you pursuing any more facilities or factories going forward?

**Carlos Rojas Mota Velasco:**

At this moment, we don't have a concrete definition, but we are analyzing and we believe there's one or two more areas that we should have a plant as we be in the decision maybe, I would say for the second half of the year so that's when we could talk more about that. But yes, we believe there's commitment to do it.

**Derek Taylor:**

Okay, thank you.

**Operator:**

It does appear we have no further questions at this time. I'll turn the conference back over to Miss Corro for any additional or closing comments.

**Nayelli Corro:**

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

**Operator:**

That does conclude today's teleconference. Thank you all for your participation.

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### Forward Looking Statements

This press release may include certain forward-looking statements relating to Grupo Rotoplas S.A.B. de C.V., it relies on considerations of the Grupo Rotoplas S.A.B. de C.V. management which 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.

### 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 24 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.