

Grupo Rotoplas

1Q19 Conference Call

Operator:

Good morning and welcome to Grupo Rotoplas First Quarter 2019 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, Rotoplas' Executive Chairman of the Board, Carlos Rojas Aboumrad, Chief Executive Officer and Mr. Mario Romero, Chief Financial Officer.

I will now turn the call over to Mr. Carlos Rojas.

Carlos Rojas Mota Velasco:

Thank you all for joining us today. It's always a pleasure to be able to speak to you, but today is a particularly auspicious day to do so, as I have an important announcement to make about the future of our company. First, though, I would like to discuss a couple of key aspects of the quarterly results we reported yesterday.

As it was mentioned in the report, we continue to grow in spite of a challenging macroeconomic environment in both Mexico and Argentina.

IPS, our recent acquisition in Argentina, continues to grow and our portfolio in that country is expanding as we have, for example, mid- and lower-range water-heater solutions, for which there is greater demand in the current economic conditions.

We also registered double-digit growth in Peru and in Guatemala, El Salvador, Costa Rica, Honduras and Nicaragua which are very competitive markets. Furthermore, we continue to take advantage of the synergies between our e-commerce platform and our manufacturing operations in the United States and it pleases me to inform you that we have opened a new store in Oklahoma, further strengthening our retail presence in the largest market in the hemisphere with a total of 7 shops .

Our success in diversifying our markets and products and our ability to leverage the strength of our acquisitions has enabled us to overcome the damaging effects of the depreciation of the Argentine Peso and the reduced growth forecast for Mexico, which negatively impacted demand for our products.

We have strived to build a customer-centric, innovative, geographically diversified company that achieves growth by providing the best solutions and complies with the highest ESG standards.

Furthermore, we continue to seek and find growth even when facing adverse economic conditions. Our latest quarterly results are proof of that and, at the same time, an incentive to continue moving forward.

In that vein, it's with great pride that would like to announce the next stage of our company's evolution. As was approved by our board of directors yesterday, I will continue serving as Executive Chairman of Rotoplas and will be succeeded as CEO by Carlos Rojas Aboumrad, our Vice-President for service solutions.

Carlos studied engineering at the Tec de Monterrey and obtained an MBA from Babson College. He first joined Rotoplas in 2004 as part of our Developing Professionals program and has since been a leader for our innovation and sustainability efforts, working in our operations in Mexico, Brazil and the United States. Since 2014, he's been in charge of innovation and new business ventures. He is also a member of our board of directors.

I believe that Carlos' initiative and work over 12 years have created a lot of value for Rotoplas and I look forward to his leadership as CEO. His experience and vision represent the best our people have to offer and embody our vision for the future of Rotoplas. I thank him for his commitment and would now ask him to address you briefly before turning to Mario for a more in-depth discussion of our quarterly results.

Carlos Rojas Aboumrad

Thank you very much for your kind words, Mr. Chairman. I am honored by your and our board of directors' confidence and I'm humbled to assume this responsibility.

Under your leadership, Rotoplas has experienced extraordinary growth and has greatly expanded its presence across the Americas, building an ever-innovating product portfolio and greatly diversifying its geographical reach. It has been my privilege to contribute to these efforts and to have the opportunity to continue to do so as CEO.

As you already mentioned, our strategy has proven sound and we will continue to execute on it. We will continue to strengthen and diversify our portfolio. We will continue to provide innovative solutions for our growing and changing markets, preserving the leadership position of our brand. And most importantly, we will continue to adhere to the highest ESG standards, not only continuing our growth, but also creating value for our stakeholders and our communities.

Thank you all for participating in this call. I look forward to your questions and I hope you will be able to join us at our Agua Event, which will take place on May 6th at 5:30 PM in our headquarters in Mexico City. It would be a great opportunity to meet in person. In the meantime, I would like to turn over the call to Mario for more in-depth discussion of our quarterly results and other relevant news.

Mario Romero Orozco:

Thank you, Charlie and congratulations on your new appointment. These are great news for the Rotoplas team.

Good morning everybody. Thank you again for joining us today. I will now go over some of the financial highlights of the first quarter and, as Carlos mentioned, I will also discuss other

relevant news concerning our board of directors and other proposals to the General Shareholders' meeting that will take place tomorrow.

Starting with top line, sales grew 7% year-over-year this quarter, driven by the integration of the new acquisition in Argentina as well as our growth in Peru and Central America.

EBITDA grew 5% year-over-year, due to an improvement in the gross margin and a larger depreciation component.

Furthermore, our manufacturing margins improved as a result of a decrease in resin prices and the gross margin increased by 100 basis points. However, the 48% depreciation of the Argentine Peso reduced Groups' overall growth by 9 full percentage points.

Likewise, increased interest payments amounting to \$69 million Mexican Pesos, a monetary position loss of \$38 million Mexican Pesos in Argentina, due to hyperinflation and depreciation of local currency, and a loss resulting from our hedges for FX reduced net income by 44%.

Hyperinflation in Argentina impacted net margin in 127 bp; restatement resulted in an increase of Ps.\$2 million in costs & expenses affecting EBIT, Ps. \$18 million in financial expenses which negatively impacted the Comprehensive Financing Result and, consequently, after accounting for taxes, negatively affected net income by \$25 million.

As for our geographic breakdown, sales in Mexico decreased 4% year-over-year in the first quarter, as a result of sluggish growth and the reduced growth forecast that Carlos mentioned earlier, which had a negative impact of the demand for our products. Most of the decrease was centered in sales of drinking water-fountains for schools and water treatment plants.

On the other hand, the drinking water purification platform for commercial and residential customers has tripled in terms of revenue and has doubled in number of units compared to the same quarter last year, reaching more than 10 thousand purification points in 50 cities in the country.

Our operations in Argentina, grew 53%, driven by a 40% growth in IPS and record sales of lower-range water-heaters. However, as I already mentioned, this growth was offset in Mexican Pesos due to the Argentine Peso depreciation. With regards to our other countries category, sales of storage solutions in Peru grew due to water infrastructure failures in the country and there was an increased demand for our solutions in Central America and particularly in Guatemala, El Salvador and Costa Rica as a result of better targeted commercial policies.

Government sales also remained below our internal limit, as they only represent 1.8% of total revenue.

Regarding our product mix, sales of individual solutions or products in the first quarter accounted for 94% of total sales and grew 11% year-over-year boosted by the increase in demand in Argentina, Central America and Peru.

For their part, integrated solutions or services accounted for 6% of total sales and registered a 33% decrease year-over-year which is partly attributable to a slowdown in government spending in the first months of the new Administration, which lowered sales of water fountains.

Likewise, the development cycle of new water-treatment plants translated into lower sales of this kind of solution in the quarter, which was in line with our expectations. Nevertheless, as we mentioned in previous call, we continue to see traction in this business, growing our pipeline and booking 5 new equivalent units while 30 additional contracts were signed in this quarter alone.

As Carlos already pointed out, our acquisitions continue to contribute significantly to our results and we continue to find new venues for organic growth and to expand our water-as-a-service platform. This reaffirms our positive long-term outlook and validates our current growth strategy. Going forward, we will remain committed to ESG principles and continue to focus on the customer, and we will maintain a strong balance sheet and a positive debt outlook, as we ascertained in the previous quarter.

I would also like to reiterate that we are confident that we will keep net debt below 2.0X EBITDA, in line with our current 1.5X EBITDA leverage. And we'll continue to use the balance to finance capital expenses for our water-as-a-service platform.



For 2019, we are confident that we will achieve sales growth greater than 10% and an EBITDA margin above 16%.

As for the other news Carlos mentioned. As you now, the extraordinary experience and breadth of our Board of Directors is one of our greatest strengths. We have Directors who represent three different generations, reflecting our customer base: baby boomers, generation X-ers and millennials. We also have 3 international directors, hailing from the United States, and Brazil, as befits a company of regional reach like our own. It is only fitting then that we continue to strengthen our Board and therefore

I would like to announce that we will be proposing three new independent board members to the shareholder's assembly: Marina Diaz Ibarra, Alberto Esteban Arizu and Jeronimo Marcos Gerard Rivero. If approved by the Assembly, Ms. Diaz Ibarra will be the first female Director of our company and with her appointment as well as those of those of Mr. Arizu and Mr. Gerard.

Independent directors, will continue to preside a 100% of the board's committees and will make up to 53% of its total members. Furthermore, the proposed directors will complement our board's expertise with their experience in Argentina and the rest of our Latin American markets, online sales and real estate.

In addition to these appointments, we will also propose a \$0.38 dividend per share and a stock-repurchase program for 2019.

It is worth noting that our enterprise value over EBITDA in 2018 was 9.1x which is about half of the average for comparable water and water-related companies around the world. At the same time, our P/E was 25.6x, which is mid-range for the same group of companies.

Thank you for your time. We will now answer any questions you may have. We will begin with the participants in the conference call, followed by our website users.

Mariana Fernández

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.

Grupo Rotoplas 1Q19 Conference Call Q&A

Corporate Participants

Carlos Rojas Mota Velasco, *Chairman and Chief Executive Officer*

Mario Romero Orozco, *Chief Financial Officer*

Conference Call Participants

Rodrigo Vervuzeo, *GBM*

José Cebeira, *Actinver*

Presentation

Operator:

Ladies and gentlemen, if you wish to ask a question over the phone, please press star, one on your telephone keypad. Please ensure that your mute function is switched off to allow your signal to reach our equipment, and if you find that your question has already been answered, you may remove yourself from the queue by pressing star, two. Once again, it's star, one on your telephone keypad to ask a question. We will pause for just a moment to allow everyone to signal.

We will now take our first question. It comes from Rodrigo Vervuzeo from GBM.

Rodrigo Vervuzeo:

Hello, good morning. Thank you for the call. Congratulations on the results. I have two questions for you. The first one is regarding the integrated sales portfolio. We were wondering if you have—if you could give us more color on the situation you're seeing in regards security or the clarity in regards to regulation or political stability in terms of your demand growth for the water fountain services or other government-related services? The second question is regarding EBITDA. We were wondering if, for 2019, where should we track the growth in terms of design—I'm sorry, the Built Operate and Transfer Team or the Maintenance Team? Thank you very much.

Mario Romero Orozco:

Hi Rodrigo, and thanks for joining this conference. Regarding your first question, (inaudible). Third one is water fountains. (Inaudible).

Rodrigo Vervuzeo:

I'm very sorry, but I think the line is cutting. I couldn't quite hear that.

Mario Romero Orozco:

Can you hear me better?

Rodrigo Vervuzeo:

Yes, I guess so. Thank you.

Mario Romero Orozco:

So, I was (inaudible).

Rodrigo Vervuzeo:

I'm terribly sorry, Mario, but the line is cutting again and I lose connection, like, when you start speaking. I don't know...

Mario Romero Orozco:

I will change the mic (inaudible)

Rodrigo Vervuzeo:

Thank you. Thank you.

Mario Romero Orozco:

Okay. Going back, there's two components for the (inaudible). One is the (inaudible) we were executing some (inaudible) in the past (inaudible). As you know, (inaudible). But that one component we are (inaudible). In fact, (inaudible) seeing more (inaudible). The only thing is that (inaudible) are coming in (inaudible).

Carlos Rojas Mota Velasco:

To complement Mario's response, I wanted to mention that in the wastewater treatment (inaudible). It is the business model, (inaudible) business model, and thus takes longer. The results will show up in the Adjusted EBITDA numbers. Thus, the response from customers (inaudible) of our offer has been very, very positive.

Mario Romero Orozco:

I hope, Rodrigo, this answers or clarifies your questions. Rodrigo, can you hear?

Operator:

It seems that the participant has disconnected at this time. We will now move on to the next question. It comes from José Cebeira from Actinver. Please go ahead.

José Cebeira:

Hi Carlos and Mario. Just two quick questions. During the first quarter, you faced more than a challenging environment in Mexico, which is uncertainties in the economy and the delaying of some payments. But I just wanted to know that during April have you seen any recovery in Mexico or do you expect stronger figures during the second half of the year? Second question, if I may, is regarding the IFRS 16 (inaudible). I just want to know if you can share with us a little bit more comparable figures, I mean, the amount of EBITDA without this IFRS 16 or the EBITDA margin. Thank you. Hello?

Operator:

Ladies and gentlemen, please stand by, as we're experiencing a temporary interruption on today's call. Thank you for your patience. Please remain on the line.

Please go ahead.

José Cebeira:

Hi Carlos and Mario.

Mario Romero Orozco:

Yes. Can you hear us José?

José Cebeira:

Yes. I have two questions. The first one is regarding Mexico. I know that during the first quarter you faced more than a challenging environment and some delays in the payments. But I just want to

(inaudible) give more color about the performance in April or if you think that the figures for the domestic operations are going to improve the second half of the year? Second question is regarding the IFRS 16 effects. Could you give us a little bit more details about what should be the EBITDA without these effects?

Mario Romero Orozco:

Yes. First, (inaudible). Regarding the second question, the Company's (inaudible) the EBITDA is between (inaudible). The first one, you mentioned (inaudible), the challenging environment (inaudible). (Inaudible). The Company (inaudible) revenues, EBITDA, but (inaudible)

Do you hear me, José?

José Cebeira:

I'm really sorry, but I can't understand what have you said. I believe that there are some huge problems in the mic. I'm really sorry but I can't understand what you have said.

Mario Romero Orozco:

José, can you hear me now?

José Cebeira:

Yes, I can hear you.

Mario Romero Orozco:

We're going to try to reconnect to another line. (Inaudible)

José Cebeira:

All right.

Mario Romero Orozco:

(Inaudible)

Operator:

Ladies and gentlemen, please stand by, as we're experiencing a temporary interruption in today's conference. Thank you for your patience, and please remain on the line.

Please go ahead.

Mario Romero Orozco:

José, can you hear me now?

José Cebeira:

Yes, loud and clear.

Mario Romero Orozco:

Thank you very much for your patience. We have a terrible problem with the mic. But now we are — we're in better shape now.

So regarding your two questions, I'm going to start with IFRS. The EBITDA report is going to be the same because the Company adopted IFRS 16 in January 2018, so there's no changes there.

José Cebeira:

Okay.

Mario Romero Orozco:

And then, with regards to Mexico, as we mentioned through our conference, we are seeing a more challenging environment going forward. Therefore, we are being more conservative in our capital expenditures, as well as starting to implement some cost cutting initiatives across the Company.

José Cebeira:

All right.

Mario Romero Orozco:

It's also worth to mention that we have some tailwinds coming from lower resin prices. As you may know, new polyethylene capacity is coming to the market and that is helping us in the cost of raw materials, which translates into an offset to the declining or more conservative revenue growth for Mexico.

José Cebeira:

Okay. Thank you very much.

Mario Romero Orozco:

Again, sorry for this technical inconvenience...

José Cebeira:

Don't worry about that.

Mario Romero Orozco:

... with all these mic problems.

José Cebeira:

Okay, don't worry. Thank you very much for the answer.

Operator:

Thank you. Once again, as a reminder, ladies and gentlemen, it's star, one if you wish to ask a question over the phone.

There are no further questions over the phone at this time. I would like to hand it back over to the speakers.

Carlos Rojas Mota Velasco:

We have a couple of questions posted on the website. Maria (phon), do you want to read it?

Maria:

Sure. We have a question from Liliana De León from GBM. Could you please give us more detail on (inaudible) growth and profitability for the year?

Mario Romero Orozco:

Hi Liliana. Thanks for joining us. (Inaudible) we explained before. The pipeline and the booked water treatment plants is going according to plan. Our plan for the year is intact in terms of target of revenue and profitability. As explained before, we have experienced some delays on the beginning

of invoicing the service, given that there are more complex water treatment plants being built, as well as a new set of clients that their processes are different to what we were used to. We expect to continue increasing the pipeline and the bookings for the remainder of the year and invoicing should be resolved during the second quarter of this year.

Maria:

We have another question from Liliana De León. How volume in Mexico are performing in April? The slowdown in Mexico is something that could (inaudible) more questions regarding growth and profitability going forward.

Mario Romero Orozco:

Again, Liliana, this question, as explained to José, obviously the environment as we also think is being more challenging. I think the good partway is that raw material prices are going down and that is helping out the profitability of the Company for 2019. We are very focused on executing well our plans and hope to have a good year in Mexico despite of the economic situation we are all facing.

Maria:

We have no further questions on the website. Could you please open the line again, Christian, for questions?

Operator:

Of course. There are no questions in the phone queue at this time. Once again, ladies and gentlemen, it's star, one if you wish to ask a question over the phone.

There are no further questions in the phone queue at this time.

Maria:

Thank you Christian. Well, thank you very much for your time, patience 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:

This will conclude today's conference. Thank you all for your participation. You may now disconnect.