

# Grupo Rotoplas

## 1Q22 Earnings 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.

- **[DISCLAIMER]**

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.

- **[PRESENTERS]**

Today's call will be hosted by Mr. 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 Aboumrad:**

Good morning everybody. Thank you very much for joining our call today.

- **[WATER DEMAND]**

After a strong close in the last quarter of 2021, we have observed a very challenging beginning of the year as January and February products sales volumes, that are still the core business and the cash flow generating side of the business, were affected by various effects:

- We have seen that people made most home repairs and renewals during the social distancing phase of the pandemic.
- Also, government subsidies to the population have been eliminated or reduced in some geographies, diminishing the disposable income, while families are prioritizing differently their spending, for example kids going back to school, traveling, eating out, etc.
- Additionally, in some countries and categories, when we announced December price increases, distributors decided to anticipate purchases and build up inventories, boosting last quarter sales and creating a hang over for the first quarter demand.

The positive note is that March was in line with our budget and we have seen an improvement in demand during April. During the quarter we saw a strong performance of our operations in the United States of America driven by the e-commerce platform and in Argentina, where we have been able to protect margins with an agile pricing strategy.

As for the service platform, is still affected by zero revenue in the water fountains business due to the impasse in Mexico's schools and a slow recovery in Sytesa's water treatment and recycling plants sales after new industrial and commercial projects were halted because of the pandemic uncertainties in Mexico, while in Brazil a promising pipeline is developing given the recent changes in water legislation. Finally, bebbia maintains an accelerated growth rate, adding 8 thousand new subscribers in the last 3 months, but given that it is a developing business, it does not offset the low revenues from other divisions.

- [RESULTS]

2021 was an inflationary year and our price increase strategy played well to gain market share, however as you can see this quarter, gross margin is just 110 basis points below the first quarter of last year, which was mainly impacted by lower fixed cost absorption related to the weakness in sales volumes and not necessary price levels.

The expansion of our e-commerce platform and the septic business in the US and the accelerated growth pace in bebbia undertook significant investments and affected our margins but will contribute to growth and profitability in the medium term.

We need to keep close eye on expenses, as they grew more than sales during the quarter, affecting the EBITDA margin that stood below guidance. It is my priority to correct and adjust as necessary to recover the margins for the coming quarters, and for that, it is going to be crucial:

- To control travel expenses and expenses related to face-to-face activities that had been suspended during the pandemic.
- To monitor spending allocated to developing businesses such as Acuantia in the United States, Sytesa Brazil, as well as bebbia in Mexico.
- And to continue to track our market share, in addition to raw material & logistics cost behavior, in order to maintain a consistent pricing strategy and achieve a healthy balance between growth and profitability.

We will also have to do our best to meet the demand and fulfill our purpose in regions with high water stress such as Nuevo León in Mexico.

- [WATER SCARCITY]

For example, in March we have moved machinery to the Monterrey plant in order to increase production capacity.

Droughts is a major issue going forward. In Mexico, it is estimated that over 50% of the country is currently experiencing a drought. Because of “La Niña” meteorological phenomenon, there are fewer clouds, heatwaves and the seasonal rains are delayed. Monterrey, one of the country’s biggest urban centers, is heading towards water rationing, as two of the three dams that supply the city have run dry and the metropolitan area has less than 60 days left of available water. Also, Mexico City may have less than 2 years of water availability. In fact, according to the World Resources Institute, water available per capita across the country has fallen to a half of what it was 40 years ago to four thousand cubic meters, which is considered low availability.

Thus, thinking about the outlook for the coming years facing climate change effects in Latam and the US, and the fact that water is linked to priority issues for mankind such as: energy, food security, health and hygiene, we continue to expand on the vision of water digitalization.

- **[WATER DIGITALIZATION]**

Specifically, water digitalization for Rotoplas means innovating to incorporate data analytics in our products and services to bring about smarter and more efficient solutions for our customers.

*Acuantia* in the US and *bebbia* in Mexico, businesses in which we have heavily invested in the past 2 years, showcase the potential impact of digitalization for improving user experience. For instance, by merging our e-commerce operations with our septic business, we have been able to reach a broader customer base in the US and in *bebbia* we have introduced online maintenance scheduling and instant messaging to communicate more quickly and accurately with customers.

Although we have faced a tough quarter, March results showed us that expansion expenses related to developing businesses can be absorbed by the other divisions when the expected level of sales is reached, keeping EBITDA margins above 16%.

We continue to be on track towards our goal of doubling sales by 2025 and to create value by obtaining returns on invested capital greater than our cost of capital. We are working to ensure that our solutions and our operations are actually addressing the needs of our customers, our people, and our communities.

Flow, which started as a transformational program and has now become the way we conduct our day-to-day business is going to be key for achieving our goals. We have launched more than 18 hundred initiatives, one hundred and sixty during this quarter. Moreover, by embracing this new way of doing things, our team has been able to overcome the severe disruptions that have occurred. We continue to invest; find the technology we need and develop the necessary capabilities to build the Rotoplas of the future.

I am confident that with the execution discipline and the alignment we have reached we can overcome difficult situations.

- **[ANNUAL REPORT]**

As a water company that is committed to the best ESG principles and practices, we have both, the ability and the responsibility to play a major role in helping to address the water crisis. Part of that is the innovation in water solutions that I just mentioned, and the other part is ensuring that we do everything we can for our stakeholders and to that end, we have continued to make significant progress in the adoption of key ESG frameworks, as detailed in our Annual Report, which will be published next week. I invite you to read it to learn more about our performance and hope you find it interesting and informative.

Thank you very much for your time. I'll now turn the call to Mario so that he can go over our results in further detail. I look forward to your questions.

- **[FINANCIAL HIGHLIGHTS]**

**Mario Romero Orozco:**

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

Our quarterly result in some way reflects new changes that all of us are experiencing now that the COVID pandemic is behind and a new normal is emerging. This was certainly a challenging quarter, but we believe that we have a clear path forward and we maintain a firm commitment to contributing to value generation and the well-being of our stakeholders.

- **[COVID | Operations Status]**

A brief note about COVID and our operations status: this quarter we carried on operating without interruption. We continue to comply with the strictest safety and hygiene protocols in our manufacturing operations and in the field.

- **[Financial Highlights]**

As to our financials. Quarterly sales increased 9% year-over-year driven by double digit growth in the United States and Argentina and a 3% increase in Mexico, which compensated for the sales decrease in the “other” segment that comprises Peru, Central America and Brazil.

Sales of products grew 11% year-over-year. The first quarter of 2021 was a relative high watermark due to the effects of the pandemic which were no longer present this quarter, such as a relatively higher rate of home repairs and renewals as well as subsidies and transfers to the population in some of our markets. Nevertheless, we registered growth across all three categories, storage, water flow, and treatment, driven by the pricing strategy we have been executing for the past few months and the droughts and heat waves in different regions in Latam.

Products, which are still our core business and represent 97% of our total sales, continue to compensate for the lack of revenue in the water fountains business and the absence of traction in Sytesa’s water treatment plants business, both as a result of the pandemic as new industrial and commercial projects are delayed or temporarily suspended and schools do not reactivate some programs yet. As Charlie pointed out we expect that the accelerated growth rate of bebbia, our drinking water business, and the

growth of our e-commerce and septic business in the United States will increase its contribution to our growth in the medium term.

Our gross margin decreased by 110 basis points, as lower sales volumes in some markets resulted in a lower fixed cost absorption rate, in addition to the fact that we continued to face cost increases in raw materials and logistics.

Our operating income decreased 27% year-over-year. This is partly related to the development of the e-commerce platform and the pre-operating expenses of the septic business in the US, as well as to higher expenses related to new users of Bebbia in Mexico. Travel reactivation, on-site events, and certain marketing strategies that were paused during the pandemic also contributed to the increase in expenses.

Our operating expenses grew 21%, while sales grew 9%. This resulted in a 12% EBITDA margin. It is important to note that we are no longer adjusting EBITDA to account for the expenses associated with the implementation of Flow.

In the coming months we will focus on the recovery of our margins by paying attention to these key aspects of the business:

- Volume growth, both in legacy and new products
- Expenses control
- And to keep a close eye on raw materials and logistics costs to manage pricing.

Now, moving forward to our geographic breakdown.

- **[Sales per Country | MX AR US]**

Sales in Mexico grew 3%. Products grew single digit as we continued to adjust our pricing strategy and due to the droughts in the northern states of the country that we mentioned earlier offsetting services slow recovery.

We remain focused on investing in our manufacturing technology in the country to ensure the sustainability of our operations and bring about the next generation of our solutions and keep Rotoplas leadership in innovation.

Sales in Argentina grew 34% as we continue to execute an efficient pricing and commercial strategy that resulted in double digit growth across all three product categories: storage, waterflow and water heaters. We also completed the migration of our water heater production to a bigger and more modern facility.

Sales in the United States grew 30%, as we continue to expand our e-commerce and septic business there. It is worth noting that we opened a new store in North Carolina and now have 15 units in the country. We have also increased our partnerships with hardware stores and service providers, which has increased our customer reach and our ability to provide a comprehensive service.

- **[Sales per Country | Others]**

Sales in Central America decreased slightly, partly because some distributors built up inventories ahead of the December price increases.

Sales in Peru decreased as the government stopped the pandemic subsidies to families, affecting the population's purchasing power. Furthermore, spending priorities shifted as schools reopened.

Finally, the water treatment business pipeline in Brazil continues to look very attractive and we expect a significant positive effect from the new water regulatory framework in the country.

- **[Sales | Products & Services Mix]**

In terms of our portfolio mix, sales of products were 97% of total sales, growing 11% year-to-year. Sales of services decreased 18% despite the accelerated growth of Bebbia, because of the factors that we have already described.



- **[Cash Position]**

Our cash conversion cycle increased by 26 days due to a raise in inventory to maintain operational stability as we continue to address supply chain disruptions, as well as a decrease in accounts payable days due to a change in the purchasing mix.

Our net debt to EBITDA ratio is 1.6x. It is worth noting that our debt position considers the sustainable bond AGUA 17-2x, which as we have discussed in the previous quarters, netted 4 billion pesos, has a maturity date of June 2027 and was issued at an 8.65% fixed rate.

- **[Discipline in Capital Allocation]**

Moving to the next slide. CAPEX was 5% of total sales, amounting to \$129 million pesos. This is in line with our 5-year business plan. The CAPEX was directed towards improving our production and customer outreach, we are focused on investing to create the Rotoplas of the future. It is worth highlighting that the investment for new technology in Mexico is to ensure the sustainability of our manufacturing operations, reducing our energy and raw-materials use, as well as that of our next generation of products. It is also focused on increasing and improving our production capacity. Our CAPEX also includes investments in the digitalization of operations, including those that directly impact our customer reach and our users' experience.

- **[ROIC vs Cost of Capital]**

Our ROIC reached 13.1% at the end of March, 100 basis points above the cost of capital, which increased 160 basis points in the past 12 months. Nevertheless, the creation of sustainable economic value is carried on in order to maintain a positive impact in our stakeholders.

- **[ESG Initiatives & Progress]**

Charlie has already mentioned our progress in the adoption of the key ESG frameworks and the Annual Report we will be publishing next week. As you can see in the heatmap, we are now in compliance with almost all of the major frameworks and methodologies and are working towards ensuring our alignment with science-based targets. This is a significant milestone for us, as it helps us ensure that our operations contribute to the wellbeing of our stakeholders. With these frameworks we can communicate our performance in an effective and comparable way to all our stakeholders.

Additionally, it is also worth mentioning that during the quarter we launched a pilot water, energy and sanitation project with Acciona, installing 25 water collection systems in an extreme poverty community in Oaxaca. We also installed 20 hand-washing stations in the largest market of Mexico City in alliance with the Red Cross. We held the first of 3 Diversity and Inclusion sessions with the leadership team and the entire company focused on tolerance, inclusion and gender equality. And finally, we defined the ESG evaluation framework for our suppliers.

- **[Guidance 2022 | GSM | AGUA\*]**

Now, as to our guidance. While we had a challenging first quarter, we believe that the discipline and agility we have achieved with the Flow program will allow us to stay close to our annual goals. Therefore, we continue to expect revenue growth to come greater or equal to 15%. However, we'll be adjusting our spread of return on invested capital over our cost of capital and EBITDA margin by 100bps in both cases, leaving the ROIC minus WACC at a positive 100bps spread and the EBITDA margin at a range of 15.5% to 16.5% while keeping our net debt to EBITDA ratio below 2x times. We also remain on track and focused on achieving our 2025 objectives.

There will be a shareholders' meeting on April 29<sup>th</sup>, where we will propose a capital reimbursement in cash of 45 cents per share and the ratification or appointment of the members of the Board and the Audit, Corporate Practices and Compensation Committees. All details are on our website.

Finally, before we get to your questions, we would like to share with you that Apalache Analysis started coverage of AGUA\* this past March, with a target price of \$39 pesos and 40 cents and a buy recommendation.

[Q+A]

That's all for me for now. Thank you very much for your time and attention. We look forward to your questions.

Operator:

You can submit a question by pressing the "Q&A" button.

Please include:

\*Name

\*Fund or Company

Operator: The first question is from Liliana de León, GBM. Good morning, thank you for the call, and I have three questions. I will only read the first one and then I'll go back: Volumes recovered by the end of the quarter given current water stress and heat waves, do you think that volumes recovery will be enough to offset profitability pressures?

Carlos Rojas Aboumrad (CEO): Hello, Liliana. Thank you for joining, and thanks for your question. It is part of the thesis of Rotoplas that water stress is going to be a driver for Rotoplas going forward. It's not the first time we see water stress driving results for Rotoplas and we imagine it will continue to be the case, and not only in Mexico but in other countries. We're seeing water stress situations in other relevant markets such as Brazil and even the U.S. It's not something that's only happening to developing countries with very undeveloped infrastructure, but also to countries that are leading many practices such as the U.S. We do think that the rest of the year demand will be much stronger. Fortunately for this call, we were able to see that recovery in March and in April, and April's demand is growing even further. So we're comfortable to think that it will offset a big part of the gap we generated in January and February. Now, we do foresee some other surprises, macroeconomic surprises, potentially happening this year. So hopefully that does not affect demand, but we will keep a close eye to see how markets are affected by other

potentially surprising events in the year. Mario, anything that you'd like to add?

Mario Romero Orozco (CFO): No. I think you have said, I would just probably add on that, we have recently had some access to some research and a lot of infrastructure problems, lack of investment in infrastructure in the water space, will create a further stress in the coming months and years.

Carlos Rojas Aboumrad (CEO): Just, by the way, in some of our bigger markets, such as Mexico, we have not seen significant spending infrastructure to make sure that this water stress will be corrected. We continue to see that the participation of individual homes and businesses will have to take responsibility, making sure that they have enough of this resource. So, that really plays in advantage to the decentralized water approach. Thank you.

Operator: Thank you. I'm going to read the next question: SG&A grew well below sales, could you give us more color on what categories are growing faster and if this trend is temporal or related to specific projects?

Carlos Rojas Aboumrad (CEO): Do you want to go ahead, Mario?

Mario Romero Orozco (CFO): Sure. I think the question was 'well above', because it grew above sales, not below. The idea is below, but it is tied mainly to three projects, which are very clear. One is bebbia, as you all recall, adding up or acquiring customer in bebbia has a cost of around \$200 dollars and all that is flow into a P&L. As a business it's expanding and we added 8,000 new subscribers, that's a big component of the increase of SG&A. The second one is the septic business in the U.S. You might recall, the opportunity in the U.S. for the septics is huge. We started to get some traction, we are hiring a new team and we're very happy about the promising future of that business. But obviously there are some pre-op expenses that we have to do early on to achieve that opportunity. So that's the second component to it. And the third one is inflation. Logistics, which is recorded at the SG&A level in Rotoplas has experienced inflation from different fronts, energy prices and freights are affecting, or are being highly affected by inflation, as well as others. Those three things, one, it's

a macro thing that we are managing with the pricing and the other two are very interesting projects that as they start to achieve scale, obviously now the expenses should become lower than the increase in sales. So that's the key three elements of expense expansion. Charlie, do you want to add something else, too?

Carlos Rojas Aboumrad (CEO): No.

Operator: OK, well, the third question from Liliana was about the guidance. I think you already commented on that, but there are also some other analysts and people asking about the pricing strategy for this year, and is there still more room to increase prices?

Carlos Rojas Aboumrad (CEO): So, we will prioritize gross margins and if needed, we will continue to increase prices. It will depend based on cost increases and inflation, and I think there is lots of variability today in those two factors. So we will be deciding on pricing on a natural way, an agile way. Mario, would you like to comment anything regarding pricing?

Mario Romero Orozco (CFO): Just to complement what you said, as you might recall, last year the strategy was to gain market share, secure raw materials and do that, and we did that. This year is more about creating profitability on what we did last year. So as Charlie mentioned, we are very focused on gross margin targets and that's going to be the name of the game throughout 2022. And then in terms of guidance, just to complement what we just said through our presentation, we adjusted a couple of items. One is the spread. As you all know, interest rates are coming up, the cost of capital is coming up, and we are seeing that in the WACC. And in the other hand, the first quarter was really very challenging as we have presented. So all in all, we believe the spread will still be positive, but now we are reducing that guidance to 100 basis points instead of 200 basis points. And then the EBITDA margin, we reduced it as well by 100 basis points to a range of 15.5 to 16.5, and that's due mainly to the first quarter underperformance that nobody likes. And there was another question around the EBITDA margin, what to expect in the next three quarters? We are targeting a range between 17-18. That's what you're going to be seeing in the coming quarters, and when you add up the 12%

of this quarter and that performance in the next three quarters, that gives you that 15.5-16.5 range that we guided early on.

Operator: Thank you, Mario. We have another question from Carlos Alcaraz, Apalache Análisis. Do you expect a normalization in inventory days during the second quarter?

Mario Romero Orozco (CFO): Thanks, Carlos, for joining us this morning, and this is the first time you join us as a new analyst that is covering the story. And thank you very much for that. Well, we will see that in the second quarter. It might happen in the second half, because I don't know how much you follow the news, I'm sure you do, we're having some struggles in Asia around COVID shutdowns and so on. So we're still seeing some volatility in supply chains. So as you know, our priority is to have products and services delivered, not lose market share and serve our end-customers. So that's our priority. Having said that, we believe that you'll start to see some inventory reduction by the second half if things get better worldwide in terms of supply chains. And that's something that we'll keep you posted on a quarterly basis.

Operator: The second question from Carlos. When do you expect the projects under construction in Brazil to start generating revenues?

Carlos Rojas Aboumrad (CEO): That should start happening very soon, Carlos. Again, it's a very new business, so it will not necessarily offset the results of the first quarter for Mexico, but that should be happening in the next couple of quarters to start seeing the revenues. For Brazil to actually generate an impact in the revenues of the company, it will take a longer period of time, I'd say a few years. We will see the CapEx being deployed because that's the first step of these kind of projects. It's a process that takes about a year, I mean, it takes a little bit longer to get the customer or about a year to get a customer, about a year to build a plant, and then after that, the plant starts generating revenue. Mario, anything else that you'd like to comment?

Mario Romero Orozco (CFO): Well, that's the cycle of the business. But just to complement, as we've been reporting, we have some plants under construction, and on the second quarter you will start to see the first

revenue coming from those projects that we started last year. As we mentioned briefly during our presentation, Brazil, they came out with a new legislation. It's law 14026, which targets that 99% of all the population in Brazil should be served with treated water and 90% of that population need to collect it and treat it. And that's from now, well, from last year to 2033. The estimated investment because, the government, what they did is, everything's going to be done by private. The investment in the next ten years is going to be somewhere around \$100 billion dollars. So that's creating a lot of tailwinds within the Brazilian market. The pipeline we are seeing there, it's being very interesting and there's more pipeline in Brazil as a country than skills to supply that demand that we are seeing. So that tells you what we are seeing in Brazil at the macro-level, and then at the micro-level as a company, we are executing with a lot of energy and focus on the projects we have in hand. You're going to start seeing revenues, some of it coming in the second quarter, and then ramp up throughout the rest of the year.

Operator: Thank you.

Mario Romero Orozco (CFO): And probably, Mariana, it can be interesting to share with our investment community, this is this is public information, about the changes in the Brazilian law, so everyone can take a look at what is happening in that market and why we are interested on building a nice business there.

Operator: Sure. We're going to share that and we will post it on our website. And then we have another question that comes from Mauro Mauleon, Operadora de Fondos NAFINSA. Could you share more details about what to expect in terms of cost pressure for the coming months?

Carlos Rojas Aboumrad (CEO): Go ahead, Mario.

Mario Romero Orozco (CFO): Well, we started to see some declines, for example, in freights. Back in January last year, freights were at \$1,400 dollars from Asia to Mexico, then it went all the way up to \$14,000, so that's like a 10x in less than 12 months. And then now they're coming back to \$9,000. So we're starting to see that coming back. In the energy side, raw materials, we are starting to see flats, not that ramp up that we saw

from February to October. But again, you know, there's a lot of macro variables affecting the environment. On one side, you have the Ukraine-Russia story, on the other one, you have the shutdowns in Asia, and so and so. As we mentioned, one of the three key elements is to keep a close eye on what happened to raw materials and freights, and be very agile and proactive on price management, as Charlie explained.

Operator: Thank you. The next question was from Lucila Gómez, Compass Group, but it was also related to COGS and what to expect, so I am going to move to the next question, that is from Liliana de León, GBM. When do you expect...

Carlos Rojas Aboumrad (CEO): Very briefly to clarify. I think it would be just worth going over that question very quickly.

Operator: Sure. I'm going to read it. Do you expect the higher COGS that impacted AGUA's first quarter 2022 results and caused the significant EBITDA decrease and the margin to compress to 12% to continue these following quarters?

Carlos Rojas Aboumrad (CEO): So, Mario mentioned very quickly that we expect much higher margins going forward. But just wanted to clarify, Lucila, and thanks for joining, good morning. The biggest reason was lower volumes in sales for January and February. The margins were impacted more because of the volumes, but we did have aggressive price increases in the second half of last year. So margins, or prices in the first quarter were already at the level we would have wanted them for the level of costs that we were seeing. Mario, I don't know if you want to complement anything else?

Mario Romero Orozco (CFO): No, that's it.

Carlos Rojas Aboumrad (CEO): Thank you, Lucila. Sorry, go ahead, Mariana.

Operator: Thank you, Charlie. So the next question is from Liliana de León, GBM. When do you expect the U.S. branch to be profitable, or when should we expect those expenses to normalize?



Carlos Rojas Aboumrad (CEO): Well, we had already seen that business in a level of being profitable in the last year. We had been investing very heavily in a new business, which is the septic business, where we see tremendous opportunity. But I'd have to say that the retail business is a business that's more mature and that is in healthy profitability levels. So we would expect to see that business be very close to breakeven throughout the year, as we will continue to leverage on the retail business to develop the new business for much higher growth. The retail business is a business that has very interesting potential, but there are much larger opportunities, such as the septic one. And so we want to continue to invest in these bigger opportunities, as the U.S. today is just about 20% of our business today, and we want it to be much larger. So it is a market where we will continue to invest aggressively going forward. Mario, anything else that you'd like to compliment?

Mario Romero Orozco (CFO): Yes. And just to complement what you say, Charlie. By year end, the target that we have today is to post a positive EBIDTA in the United States. Right now what you're seeing is, as Charlie mentioned, the e-commerce retail business that's being profitable, we're heavily investing in pre-op expenses in the septic side, the traction is good, the projects are good and the team in the U.S. expect that throughout the year, the septic business will become breakeven. And in those we'll stay with the retail e-commerce profitable. So by year end you will be seeing a very interesting growth in revenue in the United States with a new business, which is the septic and a positive EBITDA by year end.

Carlos Rojas Aboumrad (CEO): Thank you.

Operator: We have another question. It's from Rodrigo Salazar, AM Advisors. Hello, thank you for taking my question. Could you expand on CapEx uses for the year and the impact expected for each investment?

Carlos Rojas Aboumrad (CEO): I imagine 'impact', you're referring to returns on the CapEx? Anyways, I'll first answer and then Mario will complement. One of the biggest projects in which we're allocating CapEx is to evolve the capabilities of our water storage business in Mexico, which is one of our main businesses. And there's great opportunity to innovate in that product, we've been investing in R&D for multiple years in finding which

is the best way to ensure the continuity of this business for the next decade. And we've identified opportunities in improving the product through new equipment, and so most of the CapEx has been allocated to that. We will continue to invest CapEx throughout the year in that project. And then the second biggest opportunity for CapEx going forward is going to be the wastewater treatment plants. In terms of returns, these returns offer for, I would say, continuing to drive our Return on Invested Capital north, north of where we are today at 13.1%, and enough so that we can get to the 2025 goal of 200 basis points of ROIC above Weighted Average Cost of Capital. Mario?

Mario Romero Orozco (CFO): I think you just got it right, Charlie. Nothing to compliment or add on to your explanation.

Carlos Rojas Aboumrad (CEO): Thank you, Rodrigo.

Operator: We have another question from Paulina Pérez, Miranda Partners. Can you give us a little more color on the digitalization of water? What specific services could you offer? And do you have any specific goals for the medium term?

Carlos Rojas Aboumrad (CEO): Let me answer first a little bit conceptual, and then we'll go to a little bit more specific. In general, the approach that Rotoplas offers to solving for water scarcity is a decentralized approach, decentralized meaning that we offer many solutions in terms of volume that are implemented in high quantities, that are of small scale. This is very different to what the world has done in the biggest investments around water, which is centralized infrastructure. And we do this with the intention not of substituting, but of complementing a centralized infrastructure, which today has been proving to be not enough by a wide margin. When you want to do many solutions of small size, and we're talking about millions of units, you can benefit very much from digital technologies. So we're getting to millions of customers today with our products per year. In the manner that we'll leverage digital technologies, we will be able to service more and more users with our solutions, in a platform play where we will be leveraging existing capabilities that are already out there, such as installation or plumbing capabilities or product capabilities. A lot of the products that we're implementing today in our

new services, such as bebbia or Sytesa, are products that we do not manufacture, we're just identifying which are the best solutions around the world, and we're being that platform that connects those solutions with the customer needs. In terms of the digitalization, this platform plays a very relevant role to connect the capabilities with the demand side in the most efficient way, and to be able to do it at scale means millions of transactions per year. One of the things that we're doing more, innovative things such as advanced analytics, is in wastewater treatment and in drinking water to understand better patterns, to advise our customers in a better way. How they can optimize the use of this liquid, so that they can do it in a more sustainable way and in a more economic way, and in a way that's a better experience for these users. So Mario has been playing a very key role in this project, he is very passionate about it. So, Mario, please go ahead.

Mario Romero Orozco (CFO): Well, just to give some color on the examples and that part of what we're trying to achieve. Today, we are (inaudible) bebbia units in homes and we're doing (inaudible) and we service them with some information that we have from the client today. The idea, for example, for bebbia in specific is to put some sensors in the unit, sensors now are very cheap. Part of our investment in Banyan that we did last December, which they are very well advanced on software and coding, is to build up an app. And that app can be, can give very valuable data and analytics information to the end consumer, but also to us. How to serve or how to do preemptive service to the end consumer, he can know how many tons of water he has saved, how much money he has saved, what's the carbon reduction in tons or kilograms per year by drinking bebbia water instead of bottled water and so on. So that's a use case of what we are designing in terms of water digitalization. Another case in point is for our water tanks. As you know, we manufacture a lot of water tanks per year. Probably this information might not be relevant to more mature markets, but it is for Latin American markets. Putting some sensors into the water tanks and tell the end consumer how many liters they have left, if there's a leakage of water or not at home, what price bracket are they consuming the water and so on. That's very valuable information to them. And to us, it's connecting directly with the end consumer and understanding where the water tank is located, what's the water performance and what is happening with the water relationship within

that family and our product. And that's the kind of things that really keep us very passionate about the future of what it might be, the water digitalization. And given our big scale, we are in 14 different countries, we sell a lot of these products per year, we are accelerating the bebbia units, the amount of data that we might end up having can become very interesting for the future of the business. So that's kind of just a couple of use cases of what the company is thinking and what is what we're trying to achieve with this idea of water digitalization.

Operator: Thank you. We have a question from David Seaman, Alpha Cygni. Thank you for the additional bebbia disclosure. If you are now comfortable accelerating the acquisition of new subscribers, suggesting metrics have stabilized, are you potentially planning more comprehensive disclosure about bebbia metrics?

Carlos Rojas Aboumrad (CEO): Do you want to take a first look at it, Mario?

Mario Romero Orozco (CFO): Well, David, good morning. And probably you might see us, sharing a laugh, and we were precisely discussing this yesterday, we've been discussing this with the board. And Charlie, please tell your view on that.

Carlos Rojas Aboumrad (CEO): Let me be very frank about this. We understand, we appreciate how much this would help you in understanding the potential future value of the business. On one hand, we are one of the first players in this space, for water as a service, a subscription model. And we want to continue to have for the very short-term, confidential information, still confidential to protect that business and having this first player advantage in terms of a competitive environment. On the other hand, I understand how difficult it is to understand this business with the mix of another services business which has not generated bookings and has not driven sales, which is wastewater treatment plants and water fountains or water fountains even decrease in revenues. So I would ask in general the investor community to bear with us. We understand the need that you have for clarity in this information, we want to get to that point, but we also want to make sure that we generate the biggest potential success for this business going forward. Mario?

Mario Romero Orozco (CFO): No, I think you say it perfectly. Nothing to add, really.

Carlos Rojas Aboumrad (CEO): Hello, David, and thank you for your question. I hope we can connect in person, soon.

Operator: Sure. Actually, he just mentioned: thank you both, that is perfectly reasonable. And I think that the last question because of time and I will get back then to Rodrigo Alonso for the M&A strategy, but I can tell you that it hasn't changed from the past quarter, but I'm going to read the last question. It's from Mariana Cruz, BTG Pactual. Good morning, all, thanks for taking my question. I would like to know what are your expectations in terms of volumes and pricing for the Central America and Peru markets for the second half of 2022?

Carlos Rojas Aboumrad (CEO): Hello, Mariana. Thanks for joining us. So in terms of pricing, it's very similar throughout all of our product's markets. Both Peru and Central America are mainly driven by products, and in those businesses, we will be agile in pricing and we will be prioritizing on gross margins. In terms of volumes, it is slightly different, even throughout Central America, each country has their own strategy. Peru was one of the countries where we had support from the government and it has been coming down, so that is affecting volumes. So in terms of what we see for volumes going forward, it's different for Central America and Peru. We saw shrinkage in terms of the demand throughout the first two months, but similarly to the rest of our countries with so much better performance in terms of volume in March and in April, so we expect volumes to become stronger throughout the year. These are other countries where we are also facing water shortages and water stress. Mario, any more specific information to add here?

Mario Romero Orozco (CFO): No, I think that's pretty much the same situation as Mexico, as Charlie commented. And again, we will be very focused on gross margin achievement and that's going to the next of the story going forward.

Carlos Rojas Aboumrad (CEO): Thank you, everyone, for joining.



Operator: Yeah, thank you, guys. And have a nice day. We'll keep you posted until next quarter.

Mario Romero Orozco (CFO): Thank you very much to all and thanks for joining us this morning. Have a great one.