

Grupo Rotoplas

1Q24 Conference 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.

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 Aboumrad, Chief Executive Officer and Mr. Mario Romero, Chief Financial Officer. I will now turn the call over to the speakers.

Carlos Rojas Aboumrad

Good morning, everyone. Thank you for being with us today. Before we review this quarter's results, I would like to introduce Atlanova, our AI expert in the water industry, who will discuss the water situation in the regions where we operate.

Atlanova the floor is yours.

Good morning, everyone. Thank you for joining us today.

It is a pleasure to stand before you today to discuss the beginning of 2024, a year that has started with many challenges on various fronts, bringing with it opportunities to continue pursuing our mission. So before handing the call over to Charlie I want to share some things with you. At Rotoplas, we are deeply connected to our environment, especially to the resource that defines our

existence: water. The global water situation is reaching a critical point, and the data is alarming.

As you may know, less than 1% of our planet's water is suitable for human consumption. Over the last half-century, our freshwater resources have been halved. In Mexico, where our operations play a crucial role, there is acute water scarcity, especially in the northern and central regions, exacerbated by overexploitation of aquifers and inadequate management that affects both urban and rural communities. In Argentina, we face an uneven water distribution, made worse by industrial pollution and agricultural challenges that intensify the already critical scarcity in arid zones. In the United States, we are confronted with century-old infrastructure nearing the end of its lifespan, adding to the challenges of sustainable water management in a context of over-demand and contamination.

Additionally, the water crisis in Peru mainly arises from an uneven geographical distribution of water resources, with plenty available in the Amazon but scarce supplies in coastal and Andean areas. This issue is worsened by pollution from mining activities and inadequate wastewater management in populated regions. In Central America, challenges include both water scarcity in some areas and excess in others, further complicated by pollution due to poor waste management. Finally, Brazil faces regional water scarcity in the Northeast and widespread pollution concerns in urban areas, despite its abundant resources in the Amazon.

The fight against water scarcity is an urgency we cannot overlook. For every degree celsius increase in global climate, there is a 20% decrease in the availability of renewable water. At least 69% of the impact of climate change is expressed through the water cycle, and we are already witnessing the effects of this phenomenon on our operations and communities. Given this, our mission is more important than ever, and we are committed not just to continuing, but to intensifying our efforts to ensure a sustainable future.

Thank you for your attention. Over to you Charlie.

Thank you Atlanova. Now, after discussing this pressing issue, let's dive into our quarterly performance. In the first quarter of 2024, we saw solid progress across various segments of our operations.

Service sales increased significantly by 56%, driven by the strategic expansion of our service platform such as bebbia and a strong organic and inorganic growth in both RSA and rieggio.

In Mexico and Central America, our response to ongoing drought conditions led to a performance improvement. By adjusting production and the supply chain, we were able to meet the increased demand for water management solutions, primarily in Central Mexico and parts of Guatemala and El Salvador.

Our operational efficiency has remained strong despite various challenges.

We achieved a record high gross margin and also a record high EBITDA margin demonstrating the effectiveness of our business strategies. Net income returned to more normalized and healthy levels as it is no longer heavily affected by financial expenses related to exchange rate hedges, as was the case in 2023.

Our ROIC was 14%, maintaining a strong position 290 basis points above the cost of capital, while our financial leverage stayed well-managed, below two times.

However, the first quarter also presented some challenges. Our net sales decreased by 3% to Ps. 2.7 billion, compared to the previous year. This decline is partly attributed to the exceptional performance of the first quarter of 2023, which was a record quarter that benefited from drought conditions in Northeast Mexico and higher selling prices.

Product sales were particularly impacted, decreasing by 6% due to weak demand and adverse currency fluctuations, mainly in Argentina, the US, and Peru. Additionally, in Mexico, this quarter's prices were approximately 8% lower than in the first quarter of 2023.

Focusing on Argentina, the macroeconomic environment has been tough.

The substantial devaluation of the Argentine Peso following the implementation of the new government's stabilization program in December, coupled with fiscal tightening, has led to a recession affecting all sectors, particularly construction, which saw a 32% decline year-over-year.

The year-over-year devaluation of the Argentine Peso relative to the Mexican Peso has drastically altered the exchange rate by 383%, intensifying the recession's impact and leading to a significant drop in sales measured in Mexican Pesos.

Moving back to the bright topics of the quarter let's talk about our Programmatic M&A strategy. We reinforce our commitment to sustainable growth, by making Programmatic M&A part of our core competencies, which is expected to contribute an additional 4 to 5% growth in the coming years. Our recent acquisitions, including a majority stake in IrriVan and the operational treatment plant in Puebla, are milestones that enhance our capacity to manage water efficiently throughout the cycle.

These transactions are not mere expansions; they are strategic integrations that provide us with new capabilities and reinforce our existing competencies, especially in critical areas facing water scarcity.

The purpose of these acquisitions extends beyond growth; they embed resilience and agility into our business model, enabling us to navigate market complexities

with confidence. By leveraging these synergies, we reinforce our presence along the water cycle.

Our investors should view these strategic moves not as high-stake gambles but as calculated, prudent steps that fortify Rotoplas' position and ensure our enduring strength and leadership in the water industry. We will continue to inform you the progress within this strategy and the actions we take to continue with our commitment to a future where water scarcity is not a threat but a challenge we are fully equipped to meet.

Now, before turning the call over to Mario, let me highlight our most significant progress in ESG matters during the quarter. Firstly, Rotoplas has conducted a high-level assessment of risks and opportunities related to climate change and water security. This proactive strategy is guiding us in developing detailed roadmaps to effectively tackle environmental challenges that affect both our business and the communities we serve.

Furthermore, for the fourteenth consecutive year, Rotoplas has received the distinction of being a "Socially Responsible Company" in Mexico.

And lastly, we have engaged in various activities to promote an inclusive culture within our organization. As part of the commemoration of International Women's Day in March, we hosted a series of initiatives across all countries. These included educational webinars, the creation of both internal and external communication materials designed to celebrate and empower women within and beyond our corporate boundaries and a special broadcast on Rotoplas TV, our internal communication platform. This platform uses an engaging and entertaining format to deliver key messages, fostering a sense of community and connection. These efforts reflect our dedication to fostering an inclusive environment that respects and values diversity in all its forms.

Thank you again for your trust and support as we continue to build on our vision for a sustainable and water-secure future. Now, I will turn the call over to Mario to provide you with a more detailed perspective of our financial results.

Mario Romero Orozco:

Thank you, Charlie, and good morning to everyone joining us today.

As we reflect on the first quarter of 2024, we remain dedicated to our mission of delivering decentralized water solutions and enhancing access to water across our operating regions. Despite facing some headwinds, as Charly just mentioned, in terms of demand, FX impact, and climatic conditions in certain markets, our strategic operational and financial initiatives continue to drive value for our stakeholders.

Regarding our financial highlights, I'd like to delve deeper into three key areas: Gross Margin, EBITDA Margin, and Net Income as I will discuss our top-line performance later on.

Starting with the Gross Margin, our pricing strategy, combined with a decrease in raw material prices and a boost in sales of Tinaco Plus+, has been instrumental. Tinaco Plus+ not only has a lower average production cost but also benefits from high productivity levels at our facilities in Mexico. These factors contributed to achieving a Gross Margin exceeding 50%.

Moving on to operational expenses, which have somewhat constrained our operating profit. The most significant expenses were in Mexico, due to increased freight costs associated with distributing Tinaco Plus+ to new regions within the country, as well as expenditures on digitalization and e-commerce initiatives, including cybersecurity. Additionally, we incurred costs in marketing bebbia. Despite these expenses, we managed to expand our EBITDA Margin by 70 basis points. It's important to note that these are primarily strategic expenses aimed at building capabilities for future revenue growth.

Finally, as Charly mentioned, our Net Income saw a substantial increase, reaching Ps. 304 million, an 8 fold increase compared to the first quarter of 2023. Recall that last year we experienced an impact of nearly 250 million pesos due to the valuation effects of currency exchange hedges.

Transitioning to regional performance, in Mexico, net sales grew by 13% driven by increases in both the product and service sectors. The growth in services was particularly fueled by the expansion of Bebbia and both organic and inorganic growth within our RSA and Rieggo operations.

In the product segment, significant sales volumes in storage solutions, primarily tinacos and cisterns, were a highlight. Regarding profitability, an increase in expenses contributed to a reduction in the EBITDA margin to 28%.

Argentina faced a net sales decrease of 31% in Mexican pesos but saw a significant rise of 231% in local currency due to severe currency devaluation. Despite market contraction, improvements in cost management resulted in a stronger EBITDA margin of 16%.

In the United States, net sales fell by 20% primarily because of a lack of drought conditions in key states, affecting pricing and inventory management. The EBITDA margin remained negative due to lower sales impacting cost absorption.

Other countries, including Peru, Central America, and Brazil, saw a collective net sales decrease of 7%. Growth in Central America was offset by sales drops in Peru due to market contraction and in Brazil due to high construction expenses, leading to a reduced EBITDA margin of 16.3%.

Regarding the performance of our product and service revenues, services now represent 8% of our total sales.

Within the services segment:

- Bebbia has significantly expanded its reach, now serving over 115,000 users, which reflects our successful penetration and growth in the consumer water solutions market.
- Rieggo has successfully installed innovative irrigation solutions across more than 55,000 hectares, demonstrating our commitment to enhancing agricultural efficiency.
- RSA has increased its scale and reach, primarily in the hotel and industrial sectors.

Moreover, our strategic acquisitions have bolstered our market presence, enabled us to venture into new sectors, and fostered synergies that propel our growth trajectory. Additionally, our services sector is seeing an improvement in EBITDA as it gains scale and benefits from additive M&A transactions.

Our financial stability is supported by a robust balance sheet with a net debt to EBITDA ratio of 1.7x, well below our 2.0x policy target, reflecting disciplined leverage management. Our total debt stands at Ps. 4.1 billion, structured between short-term and long-term liabilities to optimize financial flexibility:

Short-term debt: Ps. 124 million, primarily for working capital to efficiently manage day-to-day operations.

Long-term debt: Ps. 4 billion, composed of the fixed rate sustainable bond.

We have refined our cash conversion cycle by 56 days, thanks to effective working capital management, even with increases in inventory and accounts receivable due to product growth in Mexico and Central America. Additionally, our interest coverage ratio remains healthy, consistently above 8 times.

In the quarter, we invested Ps. 98 million in CapEx, which represented 3.7% of the quarter's sales. The majority of this investment was directed towards updating our production processes for storage solutions in Mexico, including new technology for the next generation of water tanks.

Additionally, in Mexico, CapEx allocations included Ps. 22 million directed towards Bebbia and Ps. 14 million for RSA treatment plants. In Argentina, our investments were primarily focused on maintaining existing facilities and boosting productive capacity in pipes. This strategic deployment of resources highlights our dedication to upholding operational excellence and supporting our long-term sustainability objectives.

Our Return on Invested Capital (ROIC) for the quarter stood firm at 14.0%, maintaining a significant 290 basis points above our cost of capital. This performance is a testament to our effective capital management, aligning our investments with strategic priorities that yield substantial returns and fortify our long-term financial sustainability.

Tomorrow, at our General Shareholders' Meeting, we will present several key proposals, of which I would like to highlight:

A cash capital reimbursement to shareholders through a reduction in share capital amounting to 50 cents per share.

The ratification of current board members and the appointment of new members. We aim to increase the independence of our board to 53% and improve gender diversity by

raising female representation to 13%. This commitment enhances diversity across gender, age groups, nationalities, and perspectives.

Regina García-Cuéllar, an economist with a PhD from Harvard, recognized for her thesis on trade and the gender gap, has significantly enhanced profitability and market share at Izzi and redefined the customer experience at Citibanamex. She is also a noted advocate for education and gender equity, serving as co-chair of the Mexico chapter of 5050 Women on Boards.

Additionally, Marcos Westphalen brings over 17 years of experience in the digital industry, including significant roles at Google across Latin America, Europe, and globally. Currently leading the Google Customer Solutions organization for Hispanic America, his expertise in digital business has been acknowledged with several leadership awards, and he is also a respected educator in the field.

We are thrilled to welcome these two talented individuals. Their inclusion will broaden our board's expertise in customer experience, service businesses, and technological innovation.

We are excited to announce that our 2023 Annual Integrated Report will be available on our Investor Relations website tomorrow. We invite everyone to view this report and learn more about our ESG performance and initiatives.

Finally, looking ahead, we remain cautiously optimistic about our performance for 2024. We are forecasting sales growth of more than 10% and aiming for an EBITDA margin between 18% and 19%. Our financial discipline will ensure that our net debt to EBITDA ratio stays below 2.0x, aligning with our long-term strategic goals. Finally, we expect to conclude the year with a ROIC that exceeds our cost of capital by at least 200 basis points, reinforcing our focus on value creation and efficient capital utilization.

Thank you once again for your continued trust and support. We are committed to navigating these challenging times with resilience and strategic agility. I will now open the floor to any questions you may have.

Q&A

Operator: Thank you. You can submit a question by pressing the Q&A button. And please include your name and the company. Let's start with the first question. It's from Sofia Martin from GBM. Hi, I have two particular questions. The first one, have your expectations of EBITDA breakeven changed given the continuous growth of the services division? Should we expect any guidance updates? Maybe we can start with that. And then, I will read the second question.

Carlos Rojas Aboumrad (CEO): Great. Thank you very much for joining Sofia, and the expectations do not change in terms of breakeven as we are moving on very closely to the strategy that we have foreseen. So, the strategy had included that aggressive growth in, for instance, bebbia, and so, we do expect that the breakeven will happen, and by

the date we had imagined. What's important though is to consider that while it consumes a lot of expenses which affect the EBITDA. If we were not growing at this rate, all of these businesses would be breakeven or would have a positive EBITDA. And so today all losses are attributed to growth. Besides growth, we would be at breakeven or EBITDA positive in all services.

Operator: Thank you, Charlie.

Carlos Rojas Aboumrad (CEO): Mario, would you care to add anything else?

Mario Romero (CFO): No, just... bebbia we are still working to, as we explained last quarter, to breakeven by 2026. Rieggo and RSA, they are going to be already profitable this year.

Operator: Perfect. Thank you, guys. The second question: given the current water scarcity situation in Mexico, do you have any update on the strategy, and will you be working on any specific programs with the government or institutions? Thank you very much.

Carlos Rojas Aboumrad (CEO): So, I think there's tremendous opportunity to change behaviors on how we manage water as individuals, as companies in the private sector, and as a country, considering also what happens, how we manage water in the public sector. I think we have good ideas to contribute, but we will try to promote more sustainable practices in terms of water management within this country and any other regions where we face water scarcity. I think it's very important to always remember that water is very local. And so, it can't be generalized. It has to be approached in a very specific way to the market, to the specific geographical area, to have the right approach considering the conditions of that area. So for instance, in Mexico City and the Metropolitan area where we're having water scarcity today, there's so much rain, it would make sense that we make better use of that rain and to do it in a sustainable way which means it gets captured and it gets treated to levels that it can be used in more applications, such as potable applications and where that happens at a very local level such as a particular building, a particular industrial facility or a particular home. And that water doesn't need to get pumped long distances considering that we already have a benefit that is placed on right where it's likely to be needed if it had a right quality. And so on strategies do change, we do adjust to the situations and hopefully we can contribute in a positive way in the way we manage water as a country and on specific local approaches. In collaborating with the government, it's more around that. Collaborating with the government in terms of programs to sell solutions to the government, that's not an area we have focused on, and it's always a desire to contribute to the well-being of the markets that we participate in, but it's not a focus to sell to government programs. Anything else, Mario?

Mario Romero (CFO): Not on my side, Charlie.

Carlos Rojas Aboumrad (CEO): Do you want to go to the next one, Mariana?

Operator: Sure. Andrea Montiel of Miranda Investor Relations. First, there has been a significant increase in service sales driven mainly by the expansion of bebbia and growth in RSA and rieggo. Could you detail the key strategies you are implementing to sustain and enhance this growth? And do you expect services to continue with this strong growth throughout the year?

Carlos Rojas Aboumrad (CEO): Thank you very much for joining, Andrea. And thank you for your question. So, when we're talking about the water stress, I think that the services approach is the one that best serves that water need and there's two components that drive the growth in services: one is the solutions we're bringing to the market are very noble and they serve an existing need; and the second one is that need is growing as there's more water stress. So, we have plenty of room to grow, these are markets that are much larger than our core business. So, we expect this segment of services to continue to grow very aggressively, not only for the rest of the year, but for future years. And with this not only have the growth but be serving critical applications will really make a difference in terms of how we serve this water scarcity situation. And with these solutions keep in mind that we're impacting the world in terms of the environment in a positive way, with getting access to the amount of water needed and, in the quality needed, with less energy consumption. And with less use of one-time use plastics, for instance, and also with these solutions we serve it in a way where it makes a lot of sense for those who run out of water. It's economically attractive and at the same time it provides the water needed for all of the different applications on to allow for the core activities of any of these centralized locations in a home to be able to shower, in an office space to be able to have water for toilets, in a manufacturing facility to have water for the manufacturing process. So, it serves very critical core activities in all of these locations. And so we see tremendous potential there. Mario.

Mario Romero (CFO): Just, probably, complement what you said, Charlie, with the idea that we must remember that we've been investing for a while on developing these businesses, we've been, you know reporting EBITDA losses for a while, because we believe that the thesis of helping different forms of people to solve their water needs is the path to the future. We believe that this water scarcity situation has accelerated this path and now we're seeing how water treatment and recycling is becoming more important to people because some of them are facing long-term shortages that there's no way to solve it unless you have solutions like water treatment and recycling, the same happens with rieggo. Rieggo, for instance, there's a lot of farmers that before they used to have plenty of water. Now they don't, so they need more technology to manage their crops. So all those situations are starting to become relevant, so people are moving there. So I think now, what it's happening is these strategies that we place together, probably 3, 4, 5 years ago, are starting to converge with the market needs that we

anticipate and we believe that going forward the water needs will only be incremental because of climate change, population growth and lack of infrastructure which if you go back five, six years ago to our quarterly calls, we were anticipating that. So, I would just add up to what you said, Charlie, this “coyuntura”, which I don't know how you say that in English, but... it's ah...

Carlos Rojas Aboumrad (CEO): This situation...

Mario Romero (CFO): We believe that's the case and we believe that Rotoplas is well prepared to take advantage of this opportunity.

Operator: Perfect. So now moving to Carlos Alcaraz question from Apalache Research. Good morning. Thank you for taking my questions and he has two questions. I'm gonna read the first one. And it's regarding the water treatment plant in Puebla. How much will this acquisition represent in annual sales?

Mario Romero (CFO): Well, thank you very much for joining us this morning. And you know for the full year is going to be on the neighborhood of 3%. And I just, well, the number is relevant and it is not relevant. But it speaks to the strategy behind programmatic M&A that it's, you know, buying small assets and just bolt them in to our platform. So, thanks for the question, I think it's relevant because it highlights what's programmatic M&A about.

Operator: I'll move to the second question. Considering the situation in Argentina, what do you consider to be the main drivers for the growth in sales reflected in the guidance?

Carlos Rojas Aboumrad (CEO): Thanks for the question, Carlos. So, for the short-term not Argentina. But hopefully we're optimistic that Argentina will have an interesting turn around as a country that will set a new trend for a longer period of time. In Argentina, we've played for a long time and so we've experienced long cycles, where... so there are cycles where there's tremendous benefit and we hope that we're going into one of those and that is rather than just being a cycle in what has been a downward trend that it will be a cycle in an upward trend that the trend will change, but in terms of what will offset that growth, well, Mexico's unfortunate situation is one that will require tremendous focus on our side. It's challenging and we see a lot of people suffering as a consequence of the water shortage and we really are a very purpose driven company. When we look at these opportunities, we don't see it as a pure financial business opportunity. Not at all. We see it as an opportunity to serve our society in a positive way. And so, we've been working tirelessly to be able to put together the capability to serve the needs that we foresee these markets are gonna need... It's not easy to have a leadership position where you have the biggest manufacturing capacity and if that market grows it's really on you to be able to have the additional capacity to serve it. When we had this situation in Monterrey, we had to triple our manufacturing capacity in Monterrey in very short

term. It is one of our core strengths to manufacture these solutions and so we're very good at that and we'll do that as a conviction to serve our markets. And I think then we will have an increase in sales for that reason. Additionally, we do see continued growth in services in all of the main businesses in services: bebbia, RSA and rieggo. And we do see starting to have better dynamics in other markets: Central America, Peru and the US, that hopefully will end up also reflecting growth compared to this quarter in the future quarters. Not Central America because this was a particularly strong quarter, the past was particularly strong, but to continue having that strength, but growth in the other markets. Mario?

Mario Romero (CFO): Let me just connect that question because there's another question from Michael. Good morning, Michael. Thanks for joining us this morning. And also, another question from Felipe Barragán from BTG. Thanks, Felipe, again for joining us this morning. Well, both of them ask: ok guys, if you don't change your guidance, you need to grow for the next quarter at a rate of 14%. How's that going to be achieved? I think that connects to what Charlie just answered and I think the way Charlie frames it I think we're convinced that...a couple of things. One is, Argentina was badly hit by December devaluation, and huge demand contraction on the first quarter. We believe that going into the second half of the year, prices are going to be better because as we mentioned last call, we adjust on a monthly basis connected to inflation. And second, we started to see demand coming back on the second quarter, so we believe Argentina will, as it was affected on the first quarter, it will make it up in the remainder of the year. As you might recall, the US, we discussed last quarter that we were assessing how to approach better the septic business. We were adjusting parts of it and refocusing the scope. Joe, which is the new CEO for the US operation has been doing so and all that for the last five months. He believes that, now that the US will be better positioned to start regaining growth despite the climatic situation that explains part of the drop in the sales. And finally, services, as Charlie mentioned, they're very well positioned to keep a good traction. On top of that, we believe that water scarcity in Mexico and Central America will not be solved overnight. So those are the elements that we consider within the management team to maintain our guidance on growth for the remainder of the year.

Operator: Thank you. So, I'm gonna read, Felipe Barragán's second question. We already touched on guidance and Argentina, so on the acquisitions done this quarter any word or any update on how that's performed so far and any way of quantifying? That would be much appreciated. Thank you.

Mario Romero (CFO): Well, both acquisitions are fairly new. You know there we've seen them, one, delivering a couple of months of performance. The other one, one month. We are in the process of integration and so far we have found what you know we felt we were going to find. We are very excited about these two companies that we acquired. We are sure that the growth that we have for both of them will deliver the expected results and I think it's worth to mention that both were accretive to the trading multiple of AGUA.

Carlos Rojas Aboumrad (CEO): And in terms of the growth of how much they contribute to the growth. The organic growth is the biggest growth we will have in services.

Operator: Perfect. I think you just answered the first question of Mauricio Buitrago, so I'm going to read the second one. Do you think Mexico could continue showing those margins?

Carlos Rojas Aboumrad (CEO): No, the margins we've had are extraordinary and it's not, I think it's super optimized, it's not the levels that we can stabilize at. And so, we don't necessarily see the same level of margins to be sustained. They will continue to be very high margins and particularly considering the industry we're playing. I think we have the best practices and deliver the best margins. And we will continue to have that, but this is very high margins. Mario, anything?

Mario Romero (CFO): Yeah. I think at the end what we are trying to balance it out is, as guidance said, you know we are targeting at the group level for an 18, 19% EBITDA margin and that's composed of different parts of the business. Mexico outperformed this quarter, some other places underperformed, the mix is very good. We are above going forward. We believe again, you know, we have some someone's doing better someone's doing not that better, but at the end, we feel that the company should be in the range of 18 to 19%, so I think that's the right way to approach it when conducting your analysis.

Operator: Thank you. So now we have another question from Michael Birkel. The valuation of financial instruments is now recorded as costs. What was the corresponding figure in Q1 of this year? And that's the first question. And the other one is: and what was the first quarter of this year value of FX losses and inflationary effects in Argentina?

Mario Romero (CFO): Well, thanks Michael for your question, and I think it's very, you know, it's what I was thinking when I was reading your question that next quarter we might probably just show some reconciliations on a couple of items. One is the FX that, I think it's worth to see it where it belongs in this transition year. So last year, as you remember, we have two hundred and fifty-two million pesos of FX cost at the financial level, and this year sixty million, which was reported at the cost level. So in order to compare apples to apples what you need to do is just put another two hundred fifty-two million pesos at the cost. There's sixty million pesos for the first quarter. And then, you can see the operating and EBITDA result. In terms of bebbia, which is another question that Mariana didn't mention but I would like to also clarify; first quarter last year we don't have depreciation and amortization for bebbia, so that's an eight million pesos effect for the quarter. So in order to compare apples to apples, you know you have to add that to the EBITDA. So, I think going forward we will put probably just in

this transition year a reconciliations year, so it's going to be easier for you guys to compare those numbers. And as for the effect of Argentina, this quarter we have a benefit of thirty-six million pesos due to the exchange rate and inflation effects when compared to the negative sixty-three from last year. So those three questions which are really important for the performance of the quarter and when we compare for the first quarter were clarified.

Operator: So we have a question from Emilio Antor from GBM. Last quarter you talked about the digital strategy. Would you give us any update on this, on its performance and its costs?

Carlos Rojas Aboumrad (CEO): It's, I would Thank you very much for your question, Emilio. Thanks for joining. It's difficult to talk to the benefit like a financial benefit of the Digital Investments because they are really an enabler and they enable us to do the business with new capabilities to serve our customers in new ways, so these investments really generate the growth that we see in businesses such as services businesses where we have tremendous growth. So, it's difficult to do the attribution division that way. In terms of the expenses, the costs, Mario, we've never shared our investment on technology, but I don't know if there's any color we can give.

Mario Romero (CFO): Well the right way to frame it is, as probably, we did a press release regarding the partnership with the SAP and Google Cloud, that, on one side is bringing savings because you know we are consolidating all of our digital platforms into two. So that has an IRR and we have a business case as for that corporate strategy and then, if you want to look at what it's an additional unit of investment digital investment will bring, we have different initiatives going throughout all the company and all of them have a specific business case with a an attached IRR. We are very cautious about how much capital we invest in all the different initiatives that we have, including the digital ones, so it's hard to give you a number because there's too many things going on, but rest assured that, all the business cases have a very good returns on the digital investments that we do.

Operator: Thank you. Now I'm gonna read Martín Lara's questions. He's from Miranda Global Research. And I'm gonna read them both together. The first one is about the pricing strategy, and the second one is about the Cash Conversion cycle. The first one: could you please give us more details about the pricing strategy in Mexico? And the second one, as I said is about the Cash Conversion cycle and what do we expect for the coming quarters in terms of cash?

Carlos Rojas Aboumrad (CEO): A comment before I get over to Mario. Hello, Martin. Thanks for joining and for your question. Regarding the gross margin, we have worked very strongly on developing the innovation in our products that differentiate our

products and our solutions and, also in communicating that Rotoplas is this brand that offers solutions that are long lasting of high quality and that offer value added. And so, this gives us the opportunity to have a premium on the price. So that's one of the reasons we have high gross margins. In terms of going forward as mentioned, we also need to make sure that we continue to have a good differentiation, the regional differentiation with our competition, and that is also the right cost benefit ratio for our customers and so that also keeps pressure on the margins. And I said we do expect to have EBITDA margins as Mario mentioned around the 18 to 19% levels, no? Mario?

Mario Romero (CFO): No. You nail it out perfectly, Charlie.

Operator: So I think that we're running out of time so I'm gonna read the last question. It's from Armando Rodríguez and it's: considering your expenses and the business growth you are foreseeing in the short term, should we expect some changes on your leverage in the following quarters?

Mario Romero (CFO): Yes, the answer is yes. You know, as explained in the press release and throughout this morning, the company set up for higher revenues that were mainly affected by Argentina's underperformance, and we are conducting in the US and all that refocusing we explained. So going forward we expect that we should experience some leverage from our current expenses run rate and that should reflect in a good performance for the company for the coming quarters as sales increase. I forgot to say that last part. I think we can take the last one. Mariana, if you want, we still have two minutes to go.

Operator: Perfect. One more question. This one is: what specific measures are you considering implementing to address the challenges identified in the quarterly report and improve results in regions where we are experiencing significant decreases in sales and margins?

Carlos Rojas Aboumrad (CEO): Thank you very much for your question. Yes, there's markets that don't perform as strongly as the stronger ones. And I think there's important opportunities in all of the markets that we participate in. One of the drivers for growth is focusing in those markets where in the geographical locations where the solutions for the need for our solutions are needed the most and even though for instance in Argentina, there's a contraction in construction, there's places where the need for solutions are critical and so they see more resilience in terms of performance and so focusing those on specific areas helps on to bring stability in terms of growth it's the new products and the new models that offer the opportunity to find growth regardless of the local economic dynamics of that particular market and so this allows us to drive both revenues and increase margins in those markets. Mario, anything else that you'd like to add?

Mario Romero (CFO): No, I think, as you said and as we have explained throughout this morning, we have a very specific plan to propel growth in the US, Argentina we expect a much better second half, services, finally is starting to gain momentum. Mexico, Central America, I think the drought situation will be a good tailwind to have and Peru, which has been affected from different economic and political situations there, we believe that those are not for the long term and that will eventually help the market come out. So, we are very focused on making all the businesses and all the regions to have a good growth rate and we're committed to all of our stakeholders to deliver value at every single moment.

Operator: Thank you. So, we are just in time. And thank you everyone for joining us.

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

Mario Romero (CFO): Have a great day.