Transcript Rotoplas' Earnings Call 1Q25

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. Andres Pliego, Chief Financial Officer. I will now turn the call over to the speakers.

Carlos Rojas:

Good morning, everyone, and thank you for joining us today.

This quarter, while challenging, we remained focused on executing our four strategic priorities. Although the external environment continues to be complex, we're beginning to see positive sequential trends in our results—an encouraging sign that reflects the strength of our strategy and the discipline of our execution.

We've moved into a more comfortable position, thanks to consistent efforts in expense control, cash and debt management, and overall operational discipline. These will remain key areas of focus in the quarters ahead.

In Mexico, we continued to evolve our product portfolio with the launch of the vertical tinaco and an IoT-enabled water level meter. These innovations strengthen our offering and are already gaining positive traction in the market. Our e-commerce platform also gained traction this quarter, supported by enhanced customer service using AI-based tools.

In the United States, we made further headway, with double-digit year-over-year revenue growth and a fourth consecutive quarter of EBITDA margin improvement. These gains reflect stronger execution and improved commercial discipline.

Our service platform, particularly bebbia and RSA, delivered strong performance this quarter. bebbia surpassed 143,000 active subscribers and continues to scale efficiently, driven by an improvement in unit economics.

These results validate the long-term vision behind our expansion into value-added water services.

We advanced our digital journey with the continued rollout of e-commerce, IoT-enabled solutions, and AI pilots:

- Our B2B/B2B2C e-commerce platforms are scaling up.
- We implemented a national logistics control tower in Mexico, improving operational coordination and visibility.
- Our AI-driven predictive sales pilots are helping us test new approaches to customer engagement and planning.

These capabilities are strengthening our foundation for scalable, tech-enabled growth.

In terms of business sustainability, we achieved a sequential improvement in EBITDA and EBITDA margin, reflecting the impact of strict cost control. Combined with prudent management of cash, CapEx, and debt, this allowed us to strengthen our net debt position.

Operating cash flow improved year over year, and we closed the quarter with stronger liquidity, giving us greater flexibility to navigate ongoing challenges while continuing to invest selectively in growth opportunities.

Tomorrow, we will hold our Annual Shareholders Meeting, during which the following proposals will be presented:

- The appointment of Bill Russo as an independent board member. Bill brings over 30 years of global experience in strategy, operations, and transformation. He previously led McKinsey’s Transformation Practices in Mexico and Africa, and also served as Chief Nuclear Engineer for the U.S. Department of Defense.
- If approved, our Board will be composed of 14 members, with 50% independence.
- The designation of members to the Audit, Corporate Practices, and Compensation Committees.
- And the approval of the audited 2024 financial statements, which include adjustments related to IFRS 29 hyperinflation accounting in Argentina. We’ll provide additional context on this shortly.

At this time, no dividend will be declared, as we are prioritizing cash preservation. However, we do not rule out the possibility of a future distribution later in the year, as we gain more clarity on our main markets.

Finally, this has been a quarter of steady improvement compared to the previous periods, and we will continue focusing on what’s within our control—tight cost management and driving operational efficiency.

We're confident that the combination of better operational execution and the maturity of our strategic investments will allow us to continue creating long-term value.

Thank you. I'll now turn the call over to Andrés.

Andrés Pliego:

Thank you, Charlie, and good morning everyone.

As Charly already highlighted some key figures of the quarter, I'll take this opportunity to expand on a few points from a financial perspective.

Since Agua Day, we've been clear about our two financial priorities: expense control and disciplined cash management. While we recognize we are not yet where we want to be, the teams' efforts are starting to reflect positively in our numbers.

We faced a tough comparison base, coming off one of the most profitable quarters in our history—Q1 of 2024—which benefited from momentum tied to the electoral cycle and the first signs of drought in Central Mexico.

In contrast, the current quarter unfolded in a highly uncertain political and economic environment, marked by exchange rate volatility and a "wait and see" sentiment pending clarity around potential tariffs. This context contributed to a slight decline in total sales, primarily driven by a slower start in our core product business in Mexico.

That said, all other geographies — including Argentina — posted growth, ranging from modest to double-digit increases.

On profitability, gross margin was impacted by lower cost absorption and currency volatility, particularly with a weaker peso. While operating expenses as a percentage of sales showed sequential improvement versus the past two quarters, they still grew above the rate of revenue, which led to a double-digit decline in EBITDA.

However, I'd like to emphasize two important points:

- First, we're seeing a positive shift in EBITDA margin, which improved compared to the previous two quarters — a sign that our efforts are starting to take hold.

- Second, the quarter included one-off severance payments associated with the closure of our Anáhuac plant and the transition to our new facility in Ixtapaluca — a non-recurring expense that won't impact future quarters.

Lastly, net income was also impacted by an increase in financial expenses.

Return on invested capital closed the quarter at 5.1%, mainly impacted by the trailing 12-month period of NOPAT. We expect this metric to gradually improve in the coming quarters, supported by better operating performance and continued financial discipline.

Let me now walk you through the performance by region.

As previously discussed, in Mexico, the product segment had a slow start to the year, while services — particularly bebbia and RSA — remained the main drivers of growth.

In Argentina, after a very challenging 2024 with double-digit declines in Mexican peso terms, we saw a slight recovery this quarter. While we're not yet seeing a broad-based rebound in construction, there was an improvement in volumes — led by water flow solutions, followed by storage, while heaters remained the most affected. This is also partly seasonal, as the colder months are just starting.

Before moving on to our U.S. operations, I'd like to address the adjustments Charly mentioned earlier regarding our 2024 audited financial statements. Following the audit, certain figures were modified—mainly, an increase in cost of goods sold, due to an adjustment to beginning inventory in connection with hyperinflation accounting, partially offset by a benefit in the comprehensive financial result.

The changes stem from the restatement of figures in Argentina. It's important to highlight that these are non-cash adjustments and have no tax impact. For any further details, the audited financial statements will be available on our website, and please feel free to reach out to our Investor Relations team.

Turning to our US operations, we delivered growth in local currency and even stronger growth in Mexican pesos. Our lean operations strategy and sharpened focus are starting to pay off, reflected in continued sequential improvement in EBITDA margin — still negative, but trending in the right direction for the fourth consecutive quarter.

Finally, our "Other" geographies — which include three markets (Perú, Central America and Brazil) — posted double-digit growth with healthy profitability across the board.

Turning to segment performance.

Services, which represented 10% of quarterly sales, posted double-digit growth. bebbia added ten thousand active subscribers during the quarter, while water treatment plants in both Mexico and Brazil continued to show solid momentum.

Product sales grew across all international markets.

On profitability, the product segment was impacted by the weaker performance in Mexico. Services continue to improve — while still negative, EBITDA losses are narrowing, driven by increased scale and improved unit economics, particularly in bebbia.

Regarding our cash position, we increased cash and cash equivalents by 5% during the quarter, and net debt decreased 1% quarter-over-quarter, reflecting our continued efforts to manage both cash and debt responsibly.

Due to a lower trailing twelve-month EBITDA, our Financial Net Debt-to-EBITDA ratio stood at 3.1x. We view this as a temporary situation and expect the ratio to return below 2.0x in the coming quarters.

Total debt stands at 4.6 billion pesos, down 1% versus December. This includes 635 million pesos in short-term obligations, primarily related to working capital, and 4 billion pesos in long-term debt, which includes our fixed-rate sustainable bond. The blended cost of debt remains stable at 8.8%.

Regarding capital allocation, total CapEx represented 3.7% of sales, in line with the level recorded in 1Q24. 86% of these funds were allocated to services in Mexico and Brazil, primarily for the construction of wastewater treatment plants and the acquisition of bebbia purification systems.

Aligned with our cash management strategy, CapEx is focused on essential maintenance for our core business, while most of the investments in services are tied to projects with secured revenue streams — meaning we only allocate capital once a contract is signed or a client is confirmed. This ensures greater predictability and a clear return on investment.

In terms of ESG progress, we invite you to explore our 2024 Integrated Annual Report, which will be published in the next couple of days. It will be available on our website in both Spanish and English, and it offers a comprehensive view of our most important achievements.

Some of the top ESG and operational milestones from 2024 that reflect our commitment to sustainable value creation include:

- We made strong progress in water efficiency, achieving a 17% reduction in water intensity across our operations.

- 12% reduction in Scope 1 & 2 CO_2e emissions intensity per ton of processed resin and metal, aligned with our decarbonization roadmap.

- Our shift toward renewable energy gained momentum, increasing from 2 to 28% of total consumption. By the end of 2024, four of our plants operated entirely on renewable sources—and as of now, that number has grown to five.

- We invested $17 million in high-impact social initiatives, reaching more than 290 thousand people in Mexico, Peru, and Argentina.

These are just a few of the ways we're turning strategy into action and purpose into measurable outcomes.

Thank you once again for joining us and for your continued interest in our company.

Looking ahead, we'll continue to prioritize the areas where we can make the most impact to improve profitability, with a focus on sequential improvement. While we still face a tough comparison base for the next quarter, cost discipline and cash flow management will remain key priorities at the Group level.

With that, we’re now ready to open the floor for your questions.

Q&A Session

Operator: Thank you. We'll now open the floor for questions. Our first question comes from Félix García from Apalache Research. “Thank you very much for the call and congratulations on the results. Additionally, I would like to inquire about the revenue growth expectations for Mexico and how you anticipate margins will evolve throughout this year”.

Carlos Rojas Aboumrad (CEO): Hello, Félix. Thank you very much for joining. Well, Mexico includes our services business of wastewater treatment plants and bebbia, which are doing really well. Bebbia continues to grow very well, and the growth of bebbia and water treatment plants improves not only the revenues but also the margins, so that looks very positive.

On the other hand, construction in Mexico has been very slow. And I think it’s pretty unclear how it's going to evolve going forward. We do think, that, sequentially, comparing to third and fourth quarter of last year, which were the quarters where we had very heavy rains of last year, might be a comparison, a benchmark where we can do better going forward, so we have some mixed feelings between macroeconomic uncertainty and very positive on what has been doing really well in the last quarters and particularly the last quarter. Andrés is there anything else that you'd like to share?

Andrés Pliego Rivero Borrell (CFO): Probably reinforce what you mentioned, Charlie, I think the second quarter will still be a tough comparison, but the third and the fourth will be an easy comp, so hopefully as we’ve been seeing, hopefully we continue to see sequential improvement in all the businesses, including Mexico. Thanks for your question, Félix.

Operator: Thank you, guys. So, the next question is from Emilio Antor, GBM, and his question is regarding the migration from the Anáhuac plant to Ixtapaluca. “Could you provide more details on the timing, rationale and operational implications of this transition?”

Carlos Rojas Aboumrad (CEO): Thank you very much for joining Emilio and for your question. The timing and rationale was, in this plant, the Anáhuac plant was the first asset Rotoplas had, and when we started to manufacture water tanks in Anáhuac, this was an area of Mexico City where it was surrounded by other industrial and agricultural facilities, so it was an adequate spot, but today it's a spot surrounded by residential and very difficult to grow in. For the blow molding, we couldn't do it at that facility because it didn't have the space to receive much larger machines, such as the blow molding machines compared to the rotational molding machines, so we had to build a new manufacturing plant, this one is at the edge of Mexico City, for those who are not familiar with Ixtapaluca, on the exit to Puebla, which is very well located for logistical purposes. But building that new facility, it obviously took us longer to implement blow molding versus implementing it in the other facilities, where we could still make adequations in those facilities. So, this was the last one to be part of our market in Mexico to be able to convert it to blow molding. That's the reason of the timing, it has already been fully transferred from Anáhuac to the rest of the manufacturing of other products, such as the larger tanks, which are rotationally molded from Anáhuac to Ixtapaluca, so, that's pretty much done. We did have some big expenses on that in the first quarter, because we had a little bit of double running in the first quarter and on some of the severances for employees, which were also some of the oldest employees in the company, but that is basically done. I hope this answers your question, Emilio.

Operator: Thank you. Charlie. We'll take another question from Emilio Antor. So, “seeing the continuous bebbia growth and the strong performance in the water treatment plants in Mexico, could we expect the EBITDA break-even sooner than expected in the service division?”

Carlos Aboumrad (CEO): Thanks again for your question, Emilio. We're very excited about getting very close to break-even. It's very, very close. Again, it also depends on the growth rate of bebbia, we've been having a tremendous growth rate and with this growth, the current growth rate, we can be very close to break-even. We also would hope for a higher growth rate and a higher growth rate as we have with bebbia, that break-even of EBITDA would be potentially postponed. We're currently uncertain as we continue to implement very transformational capabilities for the business, which both improve the profitability of the business but also improve the growth rate, so that has a little bit of uncertainty on that aspect. But today, we have tremendous certainty on the future success of these businesses, which we're very excited about, they're contributing to the Company's growth in a now more significant way, which thus moves the needle on versus when they were much smaller. Andrés is there anything else that you'd like to share regarding break-even on bebbia.

Andrés Pliego Rivero Borrell (CFO): No, I think it’s very clear.

Carlos Aboumrad (CEO): Thank you, Emilio.

Operator: So now we have a question from Martín Lara, Miranda Global Research. It's about Argentina. “How do you see Argentina's revenues and EBITDA evolving during the rest of the year?”

Carlos Aboumrad (CEO): Really hopeful. It’s very difficult to also predict the construction rate in Argentina, but we can tell you the construction in evolution of the last year and the last quarter... last year there was a big, big contraction, it was in this first quarter of 2025 that we saw some signs of recuperation, which is something we're very excited about. In Argentina, when we look at the evolution of the country, the transformation of the country, we think it's potentially very positive, we're excited about it, but it's a bit of a roller coaster. I think the news about removing the cepo and the IMF agreement with Argentina, is very promising, but difficult to tell with precision on how it will look for the second half of the year. We do think that it's likely to be better, to be in a trend of growth but to be seen. We are making decisions in Argentina, with a much higher cadence, so we review the performance of the country of the last 15 days, and we make decisions based on the last 15 days, and we do it with that with a very high discipline. Anything else, Andrés?

Andrés Pliego Rivero Borrell (CFO): Yeah, I mean, I guess the trends, as in many of our businesses, the trends in Argentina are also, I would say slightly positive, but still cautiously optimistic, as Charlie mentioned, I think the country has gone through a significant change in the way that the country and the economics were managed and we obviously felt that last year and hopefully this year turns more positive for our business in particular. We know most of the consumption has recovered, credit has recovered as well, so we're hoping that, as Charlie mentioned, construction continues to recover in our favor, and general consumption for us, as well, continues to improve. So, we are we're optimistic about this year for Argentina.

Operator: Thank you. So now moving on from Argentina to the US. Martín Lara is asking: “in the US, do you expect to reach positive EBITDA in 2026?”

Carlos Aboumrad (CEO): Yes, we do think ,in 2026 yes we do think that we should be positive in 2026. In the shorter period I think we should be seeing a positive EBITDA, sooner than 2026. The US has been having continuous sequential improvement on EBITDA, so, we do think that we will accomplish that milestone sooner. Andrés, any comments on your side?

Andrés Pliego (CFO): No, I agree, I think we're very close and hopefully we bring that positive news before 2026.

Carlos Aboumrad (CEO): Thank you very much for your questions, Martín and for joining.

Operator: We have one last question from Martín and it's going a little bit back to Anáhuac and Ixtapaluca. “Do you anticipate additional severance costs related to the Anáhuac plant?”

Carlos Aboumrad (CEO): Andrés.

Andrés Pliego (CFO): Not really, we've done most of the migration from the Anáhuac plant to Ixtapaluca. So, we don't expect any big, I mean, any more severance impacts on that front. So, yeah, I wouldn't anticipate that. Thank you. Martín.

Operator: And moving on. We'll take a question from Rodrigo Salazar, AM Advisors. “Could you provide more color on the strong sequential improvement in profitability within the services segment? First, how much of the improvement is attributable to bebbia versus water treatment plants? And second, given the notable acceleration in bebbia customer additions, do you expect this pace to be the new quarterly run rate going forward?”

Andrés Pliego (CFO): Thank you Rodrigo. As you know, we don't break down services business that much, but both bebbia and RSA have had a strong growth in the last quarter. On bebbia customer additions, I think it's, as Charlie was mentioning before, we are seeing strong acceptance and a very strong product deployment and very strong field services capabilities from our team, so we have, I would say, all the capabilities to continue growing very fast. So yes, I think that the trend should continue in this direction. Hopefully. We do need to invest as we grow and that will impact, obviously, profitability. You know, if we continue growing faster, we will impact profitability probably a little bit more, but the idea is to continue growing at this pace. So yeah, I don't know, Charlie, if you want to add something.

Carlos Aboumrad (CEO): Maybe just to provide a little bit more color. We’re super excited about how these businesses are doing. I think one notable thing that you could look at is the new e-commerce, which we've launched very recently: the bebbia e-commerce, what we call “bebbia 3.0”. It's an e-commerce that is improving the conversion rate in a very significant way. It offers a much better customer journey, customer experience on the purchase side, and then on the implementation of the solution, the field services side, we've also finished with the implementation of multiple different technological platforms, and the way we're serving customers is much better than before. So today we're doing over 20,000 services per month. And the way we're doing these services, sorry, is per quarter. And the way we're doing these services is with much better punctuality, with much better response time and with much better customer satisfaction, measured by our Net Promoter Score and Net Satisfactory Score and so we've developed capabilities, that enable higher adoption rates of new solutions such as bebbia for our customers and to do it in a way where we can really serve them, in much larger volumes, so today we're serving much more customers with, better service, so that's incredibly positive and exciting for us.

Also on water treatment plants, the way we're being able to serve our customers, the way we're being able to design plans, the way we're implementing them and how we're serving them, leveraging these digital capabilities, and one of them is AI, it's incredible. We're being able to train our staff in ways that are much more efficient, our staff is being able to get support in a much better way and so we're resolving opportunities for our customers with our water treatment plants much more quickly and with higher efficacy. So, we’re very excited about these two businesses.

Operator: Thank you. We have another question from Rodrigo, and it's about CapEx. “What are your expectations for full-year investment levels, should we expect a catch up in spending in the coming quarters, or is this the new shift in your capital deployment strategy?”

Andrés Pliego (CFO): Thank you Rodrigo. Yeah, we've been speaking about this a lot in the last couple of quarters. And we will continue to be very diligent with how we spend money in general in both CapEx and OpEx. In terms of CapEx, we do see a lower level of CapEx this year compared to last year, but we don't have an exact number given that we are approving CapEx on a, I would say on a day by day, or week by week basis, as we want to invest very prudently and very diligently in projects that give us the higher return in the shortest time.

Carlos Aboumrad (CEO): [inaudible].

Andrés Pliego (CFO): Go ahead.

Carlos Aboumrad (CEO): I was just going to comment on what you said earlier on your presentation. Most of the CapEx was for services in the first quarter. No, Andrés? What was the number?

Andrés Pliego (CFO): 97

Carlos Aboumrad (CEO): There's been a big shift of CapEx from the products business to the services business, and so the CapEx going forward is also very much related to services and that's an important change: products CapEx has been coming down significantly.

Andrés Pliego (CFO): And in terms of spending, we will continue to push spending a lot and to be very, again, very prudent and diligent and judicious about spending. So hopefully we will continue to manage these levels and even have improved levels in terms of spending. Thank you, Rodrigo.

Operator: Okay, we have one last question and it's from Gerardo Campos, Punto Casa de Bolsa, and it's about Argentina. “Are there any plans for adjustments or exit in light of the highly adverse macroeconomic environment?”

Carlos Aboumrad (CEO): Hello, Gerardo, thanks for joining and for your question. Like we've said, we said this a few minutes ago, we consistently and as a discipline evaluate on the potential for value creation of all of our businesses. And, based on that potential for value creation and how we're being able to materialize that potential, we make decisions on which businesses we should participate in. We also look at timing and in Argentina, we particularly think that the likelihood of the country for changing a very long-time trend into a trend that is of lower inflation and higher growth is very positive. I think it would be wise to see and to make a decision when there's higher clarity on that. Today, the EBITDA of Argentina is low, and it wouldn't also be a good idea to consider that at the moment, and I do think that we will have better clarity of what is the best path for Argentina in the future. We are looking at it closely and it's obviously something, just as any other business, that we will consistently be considering whether it's the right place to be in or not.

Operator: Okay, so I think that was the last question. Thank you to everyone who asked questions today. And should you have any follow-ups, please feel free to reach out. Anything else to add Charlie or Andres?

Carlos Aboumrad (CEO): Just appreciate everyone's participation. Thank you for joining.

Andrés Pliego (CFO): Thank you everyone.

Operator: Thank you all for joining. You may disconnect now.