Grupo Rotoplas
2Q19 Conference Call

Carlos Rojas Aboumrad:

Thank you very much for joining us today.

Before we begin, I would like to thank our esteemed Executive Chairman, our renewed Board of Directors and our committed team-members for their trust and support as we begin this new stage in the life of our company. It is encouraging that our Board of Directors is now more diverse than ever, with more independent directors, an even broader regional and functional expertise and our first female board member. Our board's leadership and our team's expertise are, I believe, the core of our company.

PILLARS

As you may know, as a CEO I am committed to providing people with "more and better water" through constant evolution, embracing digital technology, permanent product and service innovation and, last but not least, promoting talent development amongst our people. These four pillars will guide my tenure and I hope that, with your support and hard work, they will bring about more value creation.

In many ways, I'm standing on the shoulders of giants, if you will, and I believe our quarterly results show this. Our business model and the strength of our brand have proven to be not only a bulwark against what continues to be a challenging macroeconomic and political environment in some of our larger markets, but they have also enabled us to continue taking a proactive and innovative approach to increasing shareholder value. In spite of a reduction in sales volume, we have been able to continue diversifying our product portfolio, to update our pricing strategy, to continue gaining market share in Argentina and to increase our sales in Central America, which as you know, is a very competitive market.

SERVICES

More importantly, we continue to push forward with our vision for the company. We are strengthening our water-as-a-service platform, adding new customers for our water-treatment and recycling solutions which, it is worth noting, will have a significant impact on our sales during the second semester, as the billing cycle takes effect. And we have doubled the presence of our drinking-water platform, Bebbia, throughout Mexico and we expect it to continue growing at a good pace for the rest of the year.

We are also continuing to focus on streamlining and optimizing our operations, as exemplified by the divestment of our manufacturing assets in the United States, which will not only enable us to focus on growing our market-leading e-commerce platform in that country, but also boosted our return on investment and our balance sheet as Mario will explain in further detail. We are and will remain firmly committed to maximizing value for our shareholders.

SUSTAINABLE IPC / AGUA EVENT

Finally, I would like to highlight two very significant events that took place in May. The first one is that Rotoplas was included in the S&P/BMV IPC Sustainable index, which is designed to measure the performance of Mexico's leading companies in terms of economic, environmental, and social criteria, providing an objective benchmark for managing sustainability investment portfolios. This is a welcome reward for our steadfast commitment to ESG principles and incentivizes us to go even further in the future, adapting to a rapidly evolving and ever more important ESG landscape. The second one is our outreach event Agua 2019, which proved to be a great way for our company to connect directly with our stakeholders.

I will now let Mario discuss the key financial aspects of our quarterly report. Thank you again for your attention and I look forward to your questions.

Mario Romero Orozco:

Thank you, Charlie. And on behalf of the Rotoplas team, thank you for your comments.

Good morning everybody. Thank you for joining us. I will now go over some of the key financial aspects of the second quarter and the first semester, including relevant accords from our latest shareholders assembly.

P&L – RESULTS

Starting with the top line, net sales grew 1.8% year-over-year this quarter, mostly driven by the integration of IPS in Argentina, and 4.1% for the semester, driven by the aforementioned integration and sales growth in Central America and Peru. Gross profit increased 12.2% due to a better price-mix and lower raw material costs.

Operating profit grew 3% due to 380 basis points increase in the gross margin, which mitigated larger operating expenses in this quarter related to the integration of IPS, increased distribution costs due to our growth in Central America and the updating of our e-commerce platform in the United States, which will enable it to maintain its leadership position in that market. The operating margin improved by 10 basis points.

Adjusted EBITDA, excluding one-time donations and acquisition-related expenses, decreased 5.8% year-over-year. However, the adjusted EBITDA margin grew 110 basis points in Mexico and 160 basis points in Argentina.

The adjusted EBITDA for the semester remains in line with that of the first semester of 2018 and the adjusted EBITDA margin stood at 16.1% compared to 16.8% for the first six months of 2018, in line with our guidance for 2019. The margin's contraction can be attributed to a contraction in sales volume that was partially offset by an improved price-mix and lower raw-materials costs.

Net profit during this quarter amounted to $69 million Mexican Pesos. It was affected by increased interest payments, amounting to $65 million Mexican Pesos, due to a larger net debt position, an $18 million Mexican Pesos loss on USD/MXN hedge and a monetary position loss related with hyperinflation and depreciation in Argentina of $24 million Mexican Pesos.

As for the semester, our interest payments amounted to $134 million Mexican Pesos due to our net debt position, we had a $36 million loss on USD/MXN derivatives and a $62 million Mexican Pesos loss in our monetary position in Argentina.

SALES PER COUNTRY

Now, in terms of our geographic breakdown. We registered a quarterly decrease of 9.9% in sales year over year and a 6.9% reduction in the first semester in Mexico. However, our adjusted EBITDA margin grew to 23.1% or 110 basis points year over year this quarter due to the continued reduction in raw materials costs and a better product price-mix.

It seems that Mexico has entered a technical recession in the second quarter and there was a significant drop in government purchases, particularly those of water fountains. In fact, most of our income from that business is now derived from servicing previously installed water fountains. Furthermore, as was already mentioned, the billing time to market of new sales of treatment and recycling solutions will not impact our results until the second semester. Nevertheless, it is worth pointing out that we are optimistic about that business' pipeline and have destined 34% of our CAPEX to it as we prepare to start billing.

In Argentina, sales grew 77.2% this quarter after accounting for the contribution of sales from IPS, which grew due to a better price-mix that offset a contraction in volume and increased the company's market-share. We also registered a 72% organic sales growth in local currency, mostly driven by our pricing strategy, even though it was partially offset by the 48% depreciation of the Argentinean Peso.

Sales during the first six months of the year increased 65.6% versus the first semester of 2018 as a result of our offering new mid- and lower-range products, particularly water-heaters, which have proven successful in the context of a continuing economic downturn and has increased our market-share.

In fact, without the effect of the depreciation of the Argentinean Peso, the group's sales would have increased 11.4% during the quarter and 13.5% during the semester. Furthermore, we expect an improvement in the macroeconomic environment in Argentina during the second semester.

The results of our other countries' category were mostly affected by the reduction in government sales in Brazil, but sales continue to grow at double digits in Central America, driven by increased sales of storage solutions and our sales of water heaters and storage solutions grew in Peru as well. It is also worth noting that we are very optimistic about the prospects of our newly updated e-commerce platform in the United States and our alliance with Tank Holding Corp., which acquired our manufacturing facilities in that country. We will continue looking for new partners to further enhance the platform's offerings and ensure it remains as the market leader.

GOVERNMENT SALES

Government sales remained below our previously established maximum, as they only represent 1.8% of total revenue.

SALES – PRODUCTS & SERVICES

Regarding our portfolio mix, sales of products in the second quarter accounted for 94% of total sales and grew 5.6% year-over-year, driven by the integration of IPS.

Services accounted for 6% of total sales and registered a 49% decrease year-over-year which is attributable to the decrease in government purchases in Mexico and the effects of the time to market cycle that I already mentioned.

Sales of products grew 8.2% during the semester and services decreased 42%.

SYTESA

Nevertheless, as we have mentioned in the past, we continue to see good traction in this business, growing our pipeline and booking new clients. Moreover, we are also exploring how to increase our post-sale reach, offering maintenance services and additional products, taking advantage of our distributor network and the word of mouth of the professionals who install our solutions.

BEBBIA

The drinking water purification platform, "bebbia", doubled the number of purification points, reaching 14 thousand at the end of June. The platform has presence in more than 50 cities in 24 Mexican states, being the only option in the market with purification schemes under subscription and with a solution corresponding to the water quality of each home or institution.

CAPEX

Our results this quarter and for the first six months of the year show that our capital allocation discipline continues to contribute significantly to our results and that we continue to find new venues for organic growth and to expand our water-as-a-service platform. As I already mentioned, 34% of our CAPEX was used to construct water treatment & recycle plants. Moreover, our CAPEX in Argentina is driving projects aimed at increasing the efficiency of our heating and water flow solutions.

NET DEBT – CASH POSITION

I would also like to reiterate that we are confident that we will keep net debt below 2.0X EBITDA, in line with our current 1.7X EBITDA leverage. And we'll continue to use the balance to finance capital expenses for our water-as-a-service platform.

In that vein, as Charlie already mentioned, the divestment of our manufacturing assets in the United States, which netted $771 million pesos, will contribute significantly to our cash holdings and will have a positive impact on our net debt position. Moreover, we expect our return on investment to increase due to our overall effort at streamlining and optimization and, most importantly, our capital allocation discipline, which not only encompasses our acquisitions but also our potential divestments. In fact, we are currently exploring options in the regions in which we operate.

ESG

I believe that our results reaffirm our positive long-term outlook and validates our current growth strategy, which is built on the strength of our brand, our distribution network, our cutting-edge technology and product design and unwavering customer loyalty.

We expect to continue to be able to take advantage of the rapidly increasing demand for water in the hemisphere, which by some estimates is growing 2.5 times faster than the population. Long-term, there will be even more significant growth opportunities in storage, water flow, treatment, recycling, heating and purification. And our company will be the best positioned to take advantage of them, as it is in the present. That's why, going forward, we will continue to focus on the customer, to maintain a strong balance sheet and a positive debt outlook, as we ascertained in the previous quarters.

Just as importantly, we will remain committed to ESG principles and best practices. We are part of The CEO Water Mandate, a network of CEOs of international companies committed to water under the World Pact, the largest sustainability network in the World and we are also participating in the Clean Seas campaign with UN Environment. We have also launched a competition, in alliance with Imagine H2O, a water-based startup accelerator from San Francisco, to implement a pilot project aimed at developing new solutions for water problems.

Likewise, we are honored by the fact that Institutional Investor placed us in first place in ESG amongst capital goods companies in Latin America and that our Integrated Annual Report continues to be recognized in the Vision Awards of the League of American Communications Professionals.

GSM

With regards to the shareholder assembly, I think it's worth noting that it approved the appointment of the three new independent directors, increasing our Board's diversity and geographical and functional expertise as we discussed on our last call and as Charlie mentioned earlier. The assembly also approved the proposed reimbursement of $0.38 per share and the stock repurchase program for 2019 for the direct benefit of our shareholders. And as Charlie already emphasized, we will continue to pursue new strategies to maximize value for shareholders.

GUIDANCE

Finally, as I have mentioned, during the first six months of the year we faced economic slowdowns in Mexico and Argentina and the Argentinean Peso depreciation, which affected our results. However, we expect a better second half of the year due to the following factors:

- Increased revenue recognition from water treatment and recycling plants.
- More comparable figures, as the second semester of 2018 already includes the hyperinflation and currency depreciation in Argentina.
- Stable raw material costs at a lower price-point than the ones from last year.
- A stronger cash position in our balance sheet. due to the $771 million pesos sale that was realized in July 19th, which will improve our net debt position improved and reduce our interest payments.

For the full year, we expect we will register single-digit sales growth and an EBITDA margin above 16.%.

THANK YOU

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

Mariana Fernández

Thank you very much for your time and your interest. We hope you will join us again next quarter. Until then we'll be sure to provide you with important updates.