Transcript 2Q25 - 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. 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.

We continue to operate in a volatile environment, and each quarter we are proving that our strategy is working and that we can deliver sequential improvements despite external headwinds.

For this quarter in particular, we knew we were facing a challenging comparison base—mainly for two reasons. In 2Q24, we had record storage sales in Mexico due to the severe water scarcity in central regions. Also, while Argentina was already under macroeconomic pressure in the first two quarters of last year, the worst came in the second half. This explains the year-over-year sales decline in both Mexico and Argentina.

That said, I want to emphasize the solid performance across the rest of the business. We saw growth and improved profitability in the U.S., Brazil, Central America, and Peru. Our services platform also continued its expected trajectory, reducing its losses quarter over quarter.

I want to highlight the performance in the U.S., where we not only delivered revenue growth but also achieved positive EBITDA for the quarter — a key milestone that reflects the progress of our "Keep it Simple" strategy, which focuses on streamlining our structure and enhancing operational efficiency across e-commerce, commercial teams, and branch operations.

At the consolidated level, Group sales declined only 0.9% year over year. However, sequentially, net sales grew 12% compared to the first quarter of this year, reflecting good momentum despite the tough year-over-year comparison.

While we are not yet where we want to be, this marks our third consecutive quarter of EBITDA margin improvement. In a context of soft demand, this result reflects our efforts to reduce expenses and focus on cash discipline—two areas within our control, unlike the broader economy or weather conditions.

We've made meaningful progress optimizing working capital—particularly inventory levels in Mexico and Argentina—and have taken a very selective approach to CapEx. We've also been active in managing our debt, on which Andrés will provide more detail shortly. These will remain core priorities going forward.

Looking ahead to the second half of the year, we expect a softer comparison base. Still, we remain cautious and will continue to manage the business with discipline, especially given ongoing uncertainty around consumer demand in some of our key markets.

Let me now walk you through the progress on our strategic pillars:

In Mexico, during the semester, we continued evolving our product offering with the launch of the vertical *tinaco* and an IoT-enabled water level sensor. Both have been well received in the market. E-commerce also gained traction, supported by improved customer service through AI-based tools.

In the U.S., we delivered double-digit year-over-year revenue growth, and this quarter marked an important milestone: after five consecutive quarters of margin improvement, we reached positive EBITDA, clear evidence that our disciplined execution and commercial focus are paying off.

Our service platform, especially *bebbia* and RSA, delivered strong results. *bebbia* surpassed 155,000 active subscribers and continues to scale efficiently thanks to improved unit economics.

Service revenues grew nearly 17% this quarter and while we're not at breakeven yet, we're getting closer, and the sequential improvement in service margins confirms that our strategy is working, transforming Rotoplas into a more resilient business with recurring revenues, better visibility, and stronger, longer-lasting relationships with our customers.

We continued advancing our digital agenda, including:

- Scaling our B2B and B2B2C e-commerce platforms
- Launching a national logistics control tower in Mexico for better coordination and visibility
- Piloting AI-driven predictive sales tools to enhance customer engagement and planning

These investments are laying the groundwork for tech-enabled, scalable growth.

Beyond financial discipline, we remain deeply committed to making a positive impact in the communities where we operate.

In Peru, we partnered with SUNASS—the national sanitation regulator—to donate water storage solutions that benefited over eleven thousand people across schools and shelters. In Mexico, we collaborated with Heineken to deliver rainwater harvesting systems to community centers, positively impacting 35 schools in Nuevo León.

These initiatives reflect our core purpose and reinforce the importance of cross-sector collaboration in addressing water access challenges.

Before closing, I'd like to share that yesterday, the Board of Directors approved calling an Extraordinary Shareholders' Meeting to propose a capital reimbursement of 25 cents per share in cash. As you might recall this is half of what we have been distributing the last few years, which goes in line with our cautious view going forward.

To conclude, this quarter represents another important step forward. We're building a more balanced and resilient business model, delivering sequential improvements in profitability and cash flow, while investing in technology and services that will fuel sustainable growth. We're making progress, and we'll stay focused on the things we can control to keep moving in the right direction.

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

Andrés Pliego:

Thank you, Charlie, and good morning everyone.

I will now walk you through the financial performance in more detail.

Since the Agua Day, we've been clear about our two key financial priorities: controlling expenses and managing cash with discipline. While we still have room to improve, I'm pleased to report that we are seeing encouraging signs for the second consecutive quarter.

Despite the slight year-on-year sales decline previously discussed, our expense discipline is yielding results. SG&A decreased by 7%, and as a percentage of sales, improved from 36 percent to 34 percent year-over-year. This efficiency supported continued sequential EBITDA margin expansion, even amid lower fixed-cost absorption in Mexico and Argentina due to softer volumes.

Net income was also influenced by lower operating performance but showed a notable improvement quarter-over-quarter.

Looking at sequential progress: compared to the first quarter, consolidated sales increased 12%, EBITDA rose 23%, the margin improved by 110 basis points, and net income jumped 77%. Additionally, we reduced net financial debt by 3% and shortened the cash conversion cycle by 12 days.

Overall, while the year-over-year comparison was challenging, our quarter-over-quarter progress confirms we are heading in the right direction.

Regionally, as mentioned earlier, Mexico's product segment faced a high comparison base due to last year's exceptional results. However, services continued to expand, with *bebbia* and RSA leading the way.

In Argentina, sales remained relatively stable, and while broad-based recovery hasn't materialized, we did see some improvement in volumes.

In the U.S., we achieved growth in both local currency and Mexican pesos. More importantly, our streamlined operations and focus allowed us to reach an 8% EBITDA margin, marking another quarter of progress.

In our "Other" markets, Peru, Central America, and Brazil, we posted double-digit growth and healthy margins, highlighting the strength of our diversified portfolio.

Looking at segment performance:

Services represented 10% of quarterly sales and continued to grow at a double-digit rate. *bebbia* added over 11 thousand new active subscribers during the quarter, and our water treatment operations in Mexico and Brazil maintained strong momentum. Although still negative, EBITDA losses are narrowing thanks to greater scale, stronger expense control and better unit economics, particularly at *bebbia*.

In products, sales grew in all regions except Mexico and Argentina, as previously mentioned. Profitability was affected by lower fixed-cost absorption in these two countries, despite a year-over-year reduction in expenses.

As Charly mentioned, disciplined cash use and debt management remain key priorities, supported by active working capital management and a focused approach to strategic CapEx. Operating cash flow increased 28% year-over-year.

Regarding liquidity, our cash balance remained stable, and we reduced net financial debt quarter-over-quarter. This reflects our consistent focus on maintaining a healthy financial position.

Our Net Financial Debt-to-EBITDA ratio stood at 3.2x, primarily due to lower trailing EBITDA. We see this as temporary and expect to reduce the ratio below 2.0x as EBITDA improves.

Total debt stands at 4.5 billion pesos—down 2% versus December. This includes five hundred and fifteen million pesos in short-term debt, mostly for working capital, and 4 billion pesos in long-term debt, our fixed-rate sustainability bond. Our blended cost of debt remains stable at 8.7%.

CapEx in the quarter represented 4% of sales, 11% lower than the previous year. Most of the investments went to services in Mexico and Brazil—mainly for building water treatment plants and purchasing *bebbia* systems.

As part of our disciplined approach, we're prioritizing essential CapEx for our core business. In services, most investments are tied to revenue-secured projects—meaning we deploy capital only after contracts are signed or clients are confirmed. This ensures better visibility and a clear return on investment.

On the ESG front, we were proud to be recognized by CDP in their 2025 Supplier Engagement Assessment. Rotoplas received the highest global rating, reflecting our leadership in carbon measurement, emissions targets, and supplier collaboration. We were one of only two Mexican companies recognized.

We also completed our first biodiversity analysis for Mexico. This marks an important step in understanding our broader environmental impact beyond climate. The study assessed risks, opportunities, and dependencies across our operations and supply chain, aligned with international frameworks such as TNFD.

Before going to the closing remarks I'd like to share with you some of the quotes of the people whose lives have been transformed through access to water. You'll find them at the bottom of the slide. This impact is only possible thanks to the dedication of our team and the continued trust of our stakeholders. Together we're not just delivering solutions, we're improving health, dignity and opportunities for thousands.

This sense of purpose helps to guide our decisions. We remain focused on what we can control: cost efficiency, operational discipline, and building momentum through sequential improvements.

Thank you again for your attention. We are now ready to take your questions.

Q&A session

Operator: All right. Let's get started with the Q&A session. Thank you all for submitting your questions. First question comes from Félix García, Apalache Research. "Hello. Thank you very much for the call and for taking my question. And the first question is related to bebbia and the investment the company is making. Do you estimate that bebbia will break-even within the next 12 months?"

Andrés Pliego (CFO): Thank you, Félix. As you have heard us say, bebbia is in growth mode, right? So, we are investing a lot in bebbia. We're investing a lot internally in IT, in the actual filter systems. So, we continue to grow significantly in the almost 30 to 50% ranges year on year. So, as we continue growing, we expect that, both top-line and profitability to improve. So, we do expect an improvement in profitability as we're seeing, and we do expect to bebbia to reach break-even in the next few quarters for sure.

Operator: Thank you. We have the second question from Félix García, and it's regarding the US. "Do you expect operating profitability to remain steady during the second half of the year?"

Andrés Pliego (CFO): Thank you, Félix, again. We do. As you know, we have invested a lot in the US as well. Within the team, within the systems, within efficiencies. So, we finally see a profitable US business. And we do expect to maintain that. It was not an extraordinary event that happened, it was part of organic growth. And so, we do see that profitability to be maintained. I don't know Charlie, if you want to add anything in these two questions.

Carlos Aboumrad (CEO): Hi. No, nothing else to add. We're very excited about both businesses in their trend. Very happy to see that bebbia is that close to being break-even and happy to see that the US is at the break-even level. And the US is having still some difficulties in the market, in relevant markets such as agriculture.

What other markets demand is improving. There's beginning to be some water stress where we had a lot of rainfall in the past. And the business is performing in a much more efficient way, delivering this break-even. So, yeah, we see this trend going forward and we're very happy about those results.

Operator: Thank you. Let's take a look at our next question. Martín Lara from Miranda Global Research. "Could you please explain the improvement in the cash conversion cycle to 54 days in the second quarter, from 63 days in the first quarter? What can we expect over the rest of the year?"

Andrés Pliego (CFO): Thank you. Martín. So, yes, we have put a lot of emphasis in working capital efficiency as well. Not only on expenses, but also on the balance sheet efficiency. I would say that the main reason for the reduction was inventory reduction in Brazil, in Argentina, sorry. We were coming of very high inventory levels in Argentina and also a more efficient inventory management in Mexico. So, both, Mexico and Argentina, reduced inventory to more optimal levels. We expect this to continue. We're at 15% of working capital as a percentage of revenues. So, we are very close to the target. But we will certainly continue to be very efficient in cash conversion cycle. So, we're also happy about what the team has done in those areas.

Operator: Now moving to the next question. Orlando Alcántara from BTG Pactual. "What was the main driver for positive EBITDA in the US? Can we expect lower EBITDA next year? Same thing that happened in Mexico. First half of last year versus this first half of 2025 comparable base. Or shall we expect this positive trend to continue?"

Carlos Aboumrad (CEO): Hello Orlando. Thanks for joining. Just related to what I had commented, it's the strategy about simplifying the business. It's a business that has been operating in a much more efficient way. Efficiency is probably the biggest driver. It is a business that is doing well in terms of profitability, even in a challenging market. The market has not been very favorable. So, we do expect going forward that this trend will continue and that profitability will continue for the rest of the year and for next year. It is a business where we do want to continue to grow. So, some investments might impact at some point the business. But for the moment, we do see this positive EBITDA trend going on for the future.

Operator: Thank you. Moving on to the next question. Actually, we have three questions, but I'm going to read them separately. The first one is from Roberto Nava, GBM. So, is: "With US sales up 21% year over year and EBITDA positive. Would you be able to give us some more guidance as to the margin and what can we expect for this region in the next few quarters?" I think we already covered on this, but would you like to add something else, Andrés or Charlie?

Andrés Pliego (CFO): Not really. We're not giving any specific guidance at this stage. But we're very optimistic about the future as we have mentioned.

Carlos Aboumrad (CEO): Just, the environment we're operating in is more and more volatile. So, guidance is something that we're not doing at the moment. What we're doing is, we're keeping a very close eye at what's happening in each market, and we're acting in a very agile way. So, we do think that we can have stability in results going forward despite the very volatile markets. And we expect this to be the case for the US as well.

Operator: Thank you. Roberto's second question is about gross margin. "Gross margin fell year over year. What portion of this contraction is structural versus temporary? And are further pricing actions planned?"

Carlos Aboumrad (CEO): One of the biggest challenges in gross margin is that our two main markets, Argentina and Mexico, in the products business, which is the biggest business, demand has been slower. Construction, it has been much lower in these two markets and in Mexico, particularly in the biggest part of the country, which is central part of Mexico, last year we had very heavy rains, and this year was not an exception of that. These last two years, this year 25 and last year 24 have been the years with the most rainfall since we've been recording rainfall in Mexico. I mean, as a country, recording as a country. So, these two challenges impact our ability to have better margins, and we do think it's temporary. Andrés, anything else that you'd like to add?

Andrés Pliego (CFO): Yes, probably. On the structural it's the opposite, right. We're trying to be more efficient in our cost management. So, it's definitely external shocks and hopefully temporary, rather than structural. Structural, I think we're compensating what we're seeing in the market.

Operator: Okay. Moving forward. The next question that we have is: "In Argentina, are you seeing early positive signs in construction? And how competitive is the market regarding pricing power?"

Carlos Aboumrad (CEO): Argentina has improved a little bit, although it is one of the segments in the country that is most behind. There has been a lot more recuperation in the other segments. Construction is the one with the biggest delay. So even though it has recuperated a little bit, it is still under the levels we had seen before the restructuring of Argentina. And we do think that it has a potential to have a much higher cooperation. One of the things that may possibly happen is, mortgages might become more feasible in Argentina, which would increase building in the country very much. Andrés, anything else that you'd like to share?

Andrés Pliego (CFO): No. Thank you, Charlie.

Carlos Aboumrad (CEO): Just regarding pricing, yes, costs have gone up and demand has gone down so that's, you know, the real crunch in Argentina, which makes it difficult for markets.

Operator: Let's take a look at our next question. It's from Gerardo Campos, Signum Research. "Do you expect margins to improve in the second half of the year? What key factors would support or confirm that improvement?" And the second one, that it's also related to the first one, is: "Also, what are your expectations compared with the second half of 2024?"

Carlos Aboumrad (CEO): Hello Gerardo. Thanks for joining. Like we said, it's very volatile and it's been very difficult to be accurate in projections of this kind. For the biggest market in the company, which is Mexico, construction is very slow. We do think that it's going to continue to be slow for the remainder of the year. Water scarcity, which is a big factor for our business. We had the most amount of rainfall in July since the country has ever recorded any data on rainfall. We do not know whether this will continue, it's not necessarily going to continue for the remainder of the rainy season. And that would be a factor that would affect demand. But for our main market in Mexico, we do think that it is slow in terms of demand for the rest of the year. The positive side, all of the emerging businesses are growing regardless of the situation. And we expect to see that to continue. Andrés, anything else?

Andrés Pliego (CFO): Yes, probably just to add. Regardless of the market conditions which Charlie explained, we will continue to be very focused in controlling what we can control, which is mostly expenses, CapEx, investments, working capital, costs as well. So, regardless of the market, we will continue to be very focused on being very disciplined with our financial approach in general.

Operator: Thank you, guys. We have a follow-up question from Orlando Alcántara. "On bebbia, we observed average of 6,000 users added per quarter. Now we are observing a higher trend of adds. What is driving this service's momentum?"

Carlos Aboumrad (CEO): It's a disruptive model for Mexico, bebbia. I didn't get a chance to greet you, Orlando. Hello, welcome. Thanks for your question. So bebbia it's a disruptive offering for Mexico compared to the traditional way of consuming, drinking water. And so, as it gets more awareness in the market, it continues to grow because it offers significant benefits versus the traditional model of drinking water. And so, awareness is increasing and that increases demand, just as any disruptive solution we're going from, you know, innovators to early adopters and now probably more into early maturity. So, the model is being validated in a very successful way. And that's why we're very positive about bebbia. The other thing is that our capacity to serve customers is improving. It's a very digital business. That was our strategy. And we've been developing digital capabilities. And, as these digital capabilities continue to be deployed, we're able to serve more customers in a better way, offering a better experience to these customers. So, I think it's both between the awareness and our capabilities that, our ability to onboard new customers has been growing and will continue to grow.

Operator: Thank you. We have another question from Rodrigo Salazar, AM Advisors. “Could you detail how much CapEx is being allocated to the product segment? Why it's lower than the previous year and where the main cuts are?”

Andrés Pliego (CFO): Thank you. Rodrigo. Nice to read you. So, most CapEx has, as I briefly said in my remarks, most of the CapEx has been coming from services. I would say about 80% of the CapEx deployed in the first half of the year was in services, mostly bebbia, water treatment plants in Mexico and water treatment plants in Brazil. The rest of the CapEx is on maintenance CapEx, which is a regular CapEx program. Remember that we have done significant investments in our technology in blow molding. So, we are coming off a high investment period in the last couple of years. So, there is no major needs for CapEx for the products business at this point. So, everything that we've been investing is more on the services growth part of the business.

Operator: Thank you, Andrés. There's another question from Rodrigo, and it's about the treatment plants. "Could you update us on the water treatment plants pipeline and outlook?"

Carlos Aboumrad (CEO): Can you repeat the question? Sorry, Mariana.

Operator: Sure. It's about the treatment plants. "Could you update us on the water treatment plants pipeline and outlook?"

Carlos Aboumrad (CEO): Hello, Rodrigo. Welcome. Water treatment plants in Mexico is facing some slow customer conversions as there is some uncertainty in the country, particularly in the tariff situation between the US and the world, some decisions tend to be postponed. Still some companies really need to implement solutions, so that's working positively for us. But in Brazil, which is also part of the water treatment business we're seeing very strong demand. And so that continues to improve our water treatment plant business. So, in Brazil, as there's been privatization of water services, these companies require a lot more services. There's a lot more discipline in enforcing the rules. And so, demand for our kind of solutions continues to increase. Booking is something that improved in a big way last year, and this year, we expect it to continue to improve.

Operator: Thank you. Charlie, we have a follow-up question from Roberto Nava. "With the rise in net debt to EBITDA to 3.2 times. Can you share what would be your comfort zone under current macro conditions? Is a reduction achievable in this year 2025?"

Andrés Pliego (CFO): Thank you, Roberto. That's probably the most important indicator, that and ROIC, are probably the two most important indicators that we're following. We're definitely not happy with the 3.2. We expect this to be reduced in the following quarters. Right now, the net debt, so, the numerator is actually not that bad, we continue to control and continue to expect to lower that as we move forward. The trailing twelve months EBITDA is what is impacting the indicator the most. We would feel obviously comfortable below 2.5, below 2 times as we used to be in the history of the company. So, we do expect to continue following that closely and expect to continue to bring that indicator lower, for sure.

Carlos Aboumrad (CEO): And if I may add on. Thank you, Roberto, for the question. In the last twelve months, as we can remember, third quarter and fourth quarter of 2024 and then the first quarter of 2025 were very low quarters in terms of EBITDA, revenues and EBITDA. So, we have three quarters of that EBITDA component, the trailing last twelve months that affected in a negative way. If we were to use the last quarter, second quarter of 2025 which was a much better quarter. That 3.2 times of net debt to EBITDA would be much lower, it would be closer to 2.5. So, we do expect that results will continue in a more stable way at these levels. And if that's the case, yes, we're positive that this metric will improve.

Operator: Thank you, Charlie. So that was our last question. Thanks again for participating. We appreciate your questions. Please don't hesitate to reach out if anything else comes up. Would you like to say something else? Andrés or Charlie?

Carlos Aboumrad (CEO): No. Just grateful for your participation. And see you next time.

Andrés Pliego (CFO): Thank you. See you next quarter.