Grupo Rotoplas
3Q21 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.

[DISCLAIMER]

Today's discussion contains forward-looking statements. These statements are based on the environment as we currently see it and as such there may be certain risk and uncertainty associated with such statements. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, further events or otherwise.

Please allow me to remind you that the company issued its earnings press release yesterday after market close. It can be found in the investor's section of its website. Also, the presentation for the call and the webcast link are in the investor's section.

[PRESENTERS]

Today's call will be hosted by Mr. Carlos Rojas Aboumrad, Chief Executive Officer and Mr. Mario Romero, Chief Financial Officer.

I will now turn the call over to Mr. Carlos Rojas.

[Sustainable growth]

Carlos Rojas Aboumrad:

Good morning. Thank you all for being here with us today. We really appreciate the opportunity to discuss our latest results with you. I'm really pleased with the work of our team and the results we have achieved this quarter considering the adverse conditions we have faced, including some significant challenges that will nevertheless allow us to continue building our vision for the future, ensuring our Sustainable Growth Story.

We again registered record sales for a quarter, with double digit growth driven by external factors that continue to increase the demand for our solutions, and most importantly, by the work done within the company

As we have discussed in previous calls, we have been able to leverage the demand created by the scarcity of water across our markets. Some of this scarcity is due to natural phenomena, such as hurricanes and droughts, some is due to the lack of adequate infrastructure in the region, but also due to the new normal in our societies: relocation due to the prevalence of remote work, increased need for water efficiency in agricultural production and, of course, changes in hygiene and consumption habits that are here to stay. In this context, the demand for domestic, industrial, and agricultural decentralized water solutions that we have identified continues unabated.

These are all positive trends for our sector in general, but we think our company has been able to leverage them with greater efficiency than the competition due to the improved capabilities of our team. In fact, in the first nine months we have grown much faster than the markets, therefore significantly increasing our market share. For example, we estimate that the overall volume of storage solutions in Mexico grew close to 8% in the first three quarters, whereas our sales of these kinds of solutions grew twice as much. And our piping sales grew three times as fast as the total market, also in terms of volume.

We have been able to achieve this growth by continuing to rely on our internal growth drivers. Our transformation process, Flow, is ongoing and we continue to generate and implement new initiatives that enable us to provide the most innovative solutions for our clients. As a matter of fact, 227 out of more than 1,000 initiatives pertaining to Flow have reached operating maturity level and their impact is reflected in the P&L. We continuously rethink our processes in order to design new initiatives and keep the ongoing cycle of Flow.

This quarter, it is worth highlighting the development of new and optimized sales channels that reduce friction and improve their overall experience; the strengthening our value proposition in different regions by bringing 11 new solutions to market and the improvement in our sales efficiency, cross-selling among regions,

Rotoplas aims to have an innovative and top-quality solutions for each and every need, helping our customers make the most efficient use of water. We are, in other words, continuing to invest in building the Rotoplas of the future, ensuring that we strengthen our leadership position by responding with agility to our customer's needs, now and in the future, while continuing to improve our operational efficiency. In fact, as Mario will discuss in further detail, we have directed our capex to introducing technological improvements in our manufacturing plants and digitalization projects in some of our business units, increasing our production capacity and our customer outreach.

This internal evolution has enabled us to make the most of our sector's growth drivers, allowing us to increase our market share and cement our leadership position. And most importantly, we continue to do so while pursuing our Sustainable Growth Story as I outlined in our previous call, developing a path not just of growth but of sustainable growth.

[ROIC > WACC]

And a key component of our Sustainable Growth Story is, as we have discussed, creating value for our investors. And in this vein, it is worth noting that we continue to register a return on invested capital greater than our cost of capital, in line with our 2021-2025 strategy.

[Challenges]

Now, it is necessary to discuss the challenges we faced as well. Supply chain disruption remains a significant issue across all industries, including ours. We continue to face increased costs in raw materials and logistics, even though we were able to offset them to some extent through our use of working capital, increased efficiencies, and our pricing strategy. In fact, we increased the use of recycled resin by 20 percent in the first nine months of the year, compared to the same period of 2020, furthering both our production efficiency and ESG objectives.

Also, in terms of circular economy and particularly in Mexico, we have managed to increase the percentage of recycled resin that is incorporated into storage products, such as tanks and cisterns. In 2020 we had a content of 17% recycled material and that figure has increased to 26% this year.

Moreover, I think it's worth noting that as we mentioned in our last call, we were able to leverage our commercial and financial strength to take the opportunity to increase our market share and are now implementing a more aggressive pricing strategy in the third and fourth quarter, as Mario will discuss in further detail.

We will adjust our approach as necessary. Nevertheless, we believe the strategy we implemented will have significant benefits in the medium and long term, both in terms of our growth and our profitability. We remain committed to the overarching objectives of our sustainable growth strategy 2021-2025 and to our triple focus on people, planet and profits. And particularly in the very short term we are focused in achieving the annual EBITDA target, that is to say $1.8 billion Mexican pesos, which is line with our initial EBITDA guidance in absolute terms.

[People, Planet, Profits]

Our triple focus on people, planet and profits means that we remain committed to the best ESG practices and to providing best, leading solutions across our markets, ensuring that we create value for our investors as well as to other stakeholders. And we do so by boosting our team's talents and capabilities to increase the quality of life of our customers and last, but not least, we aim to have a positive impact on the environment, both by reducing our own footprint and by empowering our clients to use water in an efficient and sustainable fashion, thus reducing their own footprint.

This triple focus at the core of our sustainability strategy, ensures that our results are not only beneficial for our investors and our customers, but ultimately for our societies and the environment as well. That is our way forward and our reason for being.

I will now turn the call to Mario so that he can discuss our results in further detail. We look forward to your questions. Thanks for being with us today.

[FINANCAL HIGHLIGHTS]

Mario Romero Orozco:

Thank you, Charlie. Thank you all for being with us here today. We certainly had a strong but challenging quarter. We believe it highlights our ability to leverage the trends across our markets, but most importantly, it demonstrates the capabilities created by our team and our transformation program to harness internal growth drivers to ensure that we continue to create value for our investors while having a positive impact on our communities.

Our quarterly sales registered a historical record growth for the company, as was the case of the previous quarters. The boost in sales was predominantly driven by the creation of internal capabilities and tools as well as differentiated strategies by country. This comprises the launch of new products and services and new sales channels, cross-selling among regions, as well as changes in our sales team's remuneration schemes.

On the other hand, this growth was also driven by the demand for our solutions in the context of the trends Charlie highlighted before: water stress, natural phenomena and the new consumption habits brought about by the pandemic. This means we have been successful in addressing our customers' needs and continue to grow in a sustainable fashion.

[COVID | Operations Status]

About COVID and our operations status: this quarter we carried on operating without interruption. We continue to comply with the strictest safety and hygiene protocols in our manufacturing operations and in the field. Furthermore, our administrative staff continues to work remotely.

[Financial Highlights | P&L]

As to our financials. Net sales increased 21% in the quarter, reflecting our increased market-share and also driven by the launch of new solutions and our pricing strategy. As mentioned in the previous call, after keeping competitive prices in order to further strengthen our market share during the first semester of the year, we started to increase prices in the third quarter in order to offset hikes in raw materials. Our price management office is continuously balancing prices with the price elasticity demand model.

Sales also grew 31% year-over-year during the first three quarters.

Sales of products grew 24% during the quarter and 35% during the first nine months of the year. The sales of solutions launched during the last twelve months accounted for 1.6% of YTD products' sales.

The continuing strength of products compensated for the effects of the pandemic on services sales. As we mentioned in July's call, the contraction in services is mostly attributable to the fact that school closures affected the drinking water fountains business. On the other hand, our treatment and recycling plants business continues to recover, albeit still slowly; and our drinking water platform, *bebbia*, continues to grow at a rapid pace, reaching record sales and expanding its subscriber base, as a result of the investments we have made in marketing and towards improving the user experience. As a matter of fact, if we were to exclude the drinking water fountain business, sales of services would have grown 4% this quarter.

Overall, even though we have expanded our workforce, our group wide productivity has continued to rise throughout the year. The number of employees increased 5% in the last twelve months and sales per employee increased 21% in the same period.

Our gross margin decreased by 660 basis points during the quarter and 410 basis points in the first nine months of the year, and stood at 13% and 15%, respectively, as we continued to see price increases in raw materials and logistics above what we had forecasted.

Even though we adjusted our pricing strategy across our markets to account for these increases, compensating for about 34% of the increased expenditures, the operating margin and EBITDA were still affected.

We estimate that the volatility in raw materials and logistics prices impacted our EBITDA by about $340 million pesos. Nevertheless, we have continued to adjust our pricing strategy and are closely monitoring the developments in our supply chain, while leveraging the efficiencies and improved execution discipline brought about by Flow, which enabled us to increase our sales faster than our expenses, even in the context of the supply chain disruptions we experienced.

As to our net profit, it is worth remembering that we recognized a one-time gain when we closed our FX coverage position at a significant profit in the first quarter of 2020. Excluding this factor, net profit would have increased 82% in the first nine months of the year.

Now, moving forward to our geographic breakdown.

[Sales per Country | Mexico, Argentina and US]

Sales in Mexico grew 13% during the quarter and 18% year-to-date due to the strong demand for our storage, waterflow and improvement solutions, including the new products we have introduced in the previous months.

During the first semester we maintained competitive prices, nonetheless, in July we started to make generalized price increases.

In previous years we have usually made one price increase during the year, however, due to materials availability and costs hikes in 2021, we have made additional increases. Price adjustments made during the third quarter did not cover inputs increases completely, but we will see full effect in the fourth quarter, and we will keep adjusting prices as needed in the coming months.

Products' growth compensated for the relative weakness in the sales of services that I mentioned earlier, but the gross margin and the EBITDA were affected by the cost's volatility.

Net quarterly sales in Argentina grew 54% and 69% year-to-date, driven by double-digit growth across all three categories; storage, waterflow and water heaters, as well as a pricing strategy that offset the effects of the supply chain disruptions we experienced, driving both growth and profitability in Mexican pesos. It is worth mentioning that Argentina is showing a positive trend of accelerated growth and increased profitability, besides being self-sustainable.

Sales in the United States grew 39% quarterly and 29% year-to-date. We continue to strengthen our septic tank business and our e-commerce operation, improving the user experience and expanding our reach. We were also able to use our purchasing power to acquire inventory before our suppliers increased their prices and we adjusted prices in an agile fashion, ensuring that our margins remained stable during the quarter.

[Sales per Country | Others]

Sales in Central America grew during the quarter and the first nine months of the year, with double digit growth in most of the region's markets. However, EBITDA was affected by the volatility of raw materials and logistics prices, as well as some currency depreciation effects.

Sales in Peru grew as a result of our pricing strategy and the opening of new retail channels. However, the depreciation of the Peruvian Sol led to a contraction in Mexican pesos.

As in Mexico, in Central America and Perú we had additional price increases during the third quarter, and the full impact will be seen in the fourth quarter.

Finally, we continue to focus on strengthening the presence of our water-as-a-service platform in Brazil as our pipeline there grows and we improve our execution and quality of our potential client base, as we see signs of increased demand due to the reopening of the economy.

[Sales | Products & Services Mix]

In terms of our portfolio mix, sales of products during the quarter and the first nine months of the year accounted for 96% and 95% of total sales respectively, growing 24% quarterly and 35% year-to-date. Sales of services on the other hand decreased 18% in the quarter and 14% percent in the first nine months due to the school closures I mentioned before, However, as I mentioned our drinking water platform, bebbia, continued to register record sales and continues to gain subscribers, our treatment and recycling business is recovering and rieggo, our agricultural venture continues to grow, all of which points to a very good outlook for our water-as-a-service platform.

[Strong Cash Position]

We optimized our cash conversion cycle by 26 days, and we continue reviewing our terms with related parties through the weekly cash control tower.

Our net debt to EBITDA ratio is 1.2x, even as we continue to take advantage of the opportunities that are arising. It is worth noting that our debt position considers the sustainable bond AGUA 17-2x, which as we have discussed in the previous quarters, netted 4 billion pesos, has a maturity date of June 2027 and was issued at an 8.65% rate. It also considers the bridge loan in Argentinean pesos for working capital, which as we have said strengthened our balance sheet due to favorable FX effects. In the quarter, we paid off the loan we had in Peru.

[Discipline in Capital Allocation]

CAPEX was 5% of total sales year-to-date, amounting to $378 million pesos. This is in line with our guidance, but it is worth noting that the increase in CAPEX was directed towards improving our production and customer outreach, that is, investing in the Rotoplas of the future:

- In Mexico, we have invested in new technology to produce storage solutions and in machinery to increase production capacity in both storage and conduction.
- In Argentina, investments have been made in the automation of the water heaters plant and improvements in the storage and water flow plants.
- In the United States, resources have been allocated to the digitalization of operations and the development of the septic business under the Acuantia brand.

It is also worth noting that we leveraged our cash position to ensure that we had an adequate level of working capital to sustain our growth and guarantee the availability of raw materials in the context of price volatility.

[ROIC vs Cost of Capital]

As Charlie pointed out, our ROIC reached 15.7% as of September 2021, 4 percentage points higher than our cost of capital. As he also mentioned, we achieved this result by pursuing a range of initiatives and actions within the Flow framework and we will continue to pursue new opportunities and efficiencies to ensure we create value for our investors.

We still have 800 initiatives at different stages of development, but which have not yet reached the stage of maturity where their impact is reflected in the income statement.

[ESG Initiatives & Progress]

Charlie has already explained our triple focus: people, planet and profits and the key aspects of our Sustainability Strategy 2021-2025, which is included in our Annual Report 2020. I would like to invite you to take a look and learn more about the actions we are taking, if you have not done so already.

Additionally, during the quarter we undertook a number of actions and initiatives in the ESG space, of which I would like to highlight the following:

- After receiving over 300 proposals for "A Fluir", an open call to partner with NGO's to provide and install rainwater collection systems in underserved communities, we announced the five initiatives that were selected to be implemented. Rotoplas donated approximately 120 rainwater collection systems in Oaxaca, Chiapas, Estado de México, Querétaro and Veracruz, that will provide close to 730 thousand liters of water.

- We initiated with Diversity and inclusion trainings at Group level, and we also participated in the Global Compact's Target Gender Equality accelerator, which will optimize the establishment of gender balance goals and will help align the Company's policies and processes to exceed best practices at industry level.

- As part of continuous improvement measures, we have developed internal auditors specialized in ISO management systems in the areas of Quality, Environment, Occupational Health and Safety. This will facilitate the achievement of integral certifications, and the identification of deviations.

- Finally, we also obtained the Socially Responsible Enterprise badge in Peru and our Grupo Rotoplas MSCI ESG Rating improved, from BB to BBB.

We are committed to achieving a Sustainable Growth Story, creating value for all our stakeholders while improving the life of our customers and communities and helping them to make the most efficient use of the increasingly scarce water resources. As we may have mentioned in other occasions, we create value for our investors while upholding the best ESG standards and practices and, crucially, becoming an ally for those who work towards the common good.

[Guidance 2021]

Now, I would like to mention that we remain aligned with the updated guidance we provided on our last call. And while our EBITDA margin goals have become more challenging in the context of the volatility I mentioned, the management team and every team member of the Company are still focused on the total value of EBITDA as we said back in February, meaning $1.8 billion Mexican pesos for the full year. Our ROIC and WACC remain in line as well.

It is also interesting to note that the analysts that cover our stock have a current average target price above 40 pesos for this year.

[Capital reimbursement]

Finally, before we turn to your questions, In the session held yesterday, the Board of Directors agreed to call an Extraordinary Shareholders' Meeting in November to propose a capital reimbursement in kind. The company will distribute shares that it already has in treasury.

For payment in kind the following is proposed:
i. Delivery to each holder of 15 shares of the Company, one share as payment in kind for the reimbursement.
ii. If in any case, the payment in kind with shares results in a fraction of a share, said fraction would be paid in cash to the corresponding shareholder.
iii. Date of payment November 19th.

[Q&A]

Thank you very much for your kind attention. We look forward to your questions.

Operator: You can submit your question by pressing the Q&A button. Please include your name and the name of your fund or company.

Operator: The first question is from an anonymous attendee: When we should see a normalization in the supply chain?

Carlos Rojas (CEO): Thank you. Mario would like to take this one.

Mario Romero (CFO): Yeah, sure. Thanks for your question. You know, from what we've been seeing in the markets and some experts are predicting we think that at least this quarter and the first half of 2022, some volatility will prevail in logistics and raw material costs. However, we've been seeing in the last two months more stability at these raw material price levels flowing into our P&L.

Operator: Thank you, Mario. The next question comes from Martin Lara from Miranda Research: Good morning, Carlos and Mario. I have various questions. What was the total price increase that you implemented in the quarter and what can we expect in the fourth quarter? We can stop there and then we can go back to the second question.

Carlos Rojas (CEO): Yeah, I think it's a good idea going question by question. Mario, would you like to.

Mario Romero (CFO): Yeah, the additional price increase that we implemented in the quarter, well first of all, Martin, thanks for joining us this morning. This quarter we implemented, let me give you the exact number: 4.85% net price increase during the quarter, and we expect to increase another five percent going into the fourth quarter.

Operator: I think that's related to the next question: Do you expect a higher EBITDA margin in the fourth quarter compared to the third quarter?

Mario Romero (CFO): Yes, we are expecting to be in the neighborhood of 18% of EBITDA margin for the fourth quarter.

Operator: And the next one: what was the sales contribution of the *Flow* program in the quarter?

Carlos Rojas (CEO): Well, just a quick comment there, and then I'll let Mario answer in more detail, but, in terms of *Flow*, on the first round of *Flow*, which is the round of *Flow* that's benefiting most, today's numbers really optimized cost and expenditures. So those initiatives, they don't drive as much on revenues and the revenue initiatives that we did implement, such as new products that are being launched, they have a ramp up all the way up to 2024. And so in terms of revenues, we're not seeing a tremendous impact from *Flow*. In the initiatives we're implementing today from the second round of *Flow*, we have much higher level of content in terms of revenue driving initiatives. But again, all revenue driving initiatives will have a ramp up. It takes a little bit of time for new products to be adopted by customers in our industry. Mario, I don't know if you can share more color on this and maybe particularly explaining the impact of *Flow* in EBITDA.

Mario Romero (CFO): Sure, let me circle back to, I was making the math in terms of revenue impacting. *Flow*, in terms of revenue, explains around 8% of growth for the first nine months.

Operator: Thank you and the next question: how do you see the performance of the service business going forward?

Carlos Rojas (CEO): In terms of services, the 'bebederos', drinking water fountains in schools had a big contraction as a consequence of all schools being closed since the pandemic started up till now. So that was service business and that one had tremendous reduction in terms of size, which generated big impact. There was another big impact in wastewater treatment plants and water treatment plants in general during the pandemic. These kinds of projects were postponed during the pandemic, and we did have a big gap in terms of new booking during this period. In terms of what we see for water treatment plants, we have already started to gain tremendous traction in terms of new bookings. We see a very strong fourth quarter in booking of new water treatment plants that we will report in the next meeting. We will see going forward that our business thesis and our capabilities to service in a decentralized way, customers with water treatment plants have tremendous potential. Lastly, *bebbia* has been performing in terms of sales and new customers very well, growing at a very accelerated pace. But *bebbia*, it's a much newer business, and it's of a smaller scale, so *bebbia* was not able to make up for the impact of these two other businesses that I just discussed. Mario anything else that you would like to comment?

Mario Romero (CFO): No, I think you got it all. I was just making the numbers around *Flow* EBITDA contribution YTD. 20% of the EBITA reported comes from *Flow* initiatives.

Carlos Rojas (CEO): Thank you Mario.

Operator: Thank you both. Next question in line is from Liliana de Leon from GBM: Good morning, could you share any other strategies to mitigate higher (inaudible) prices?

Carlos Rojas (CEO): So I did comment on the use of recycled materials, I think that will help in a relevant way. We're doing this not only for optimizing costs, we're doing it because it offers, in my opinion, a better product in terms of the sustainability strategy. It's a product that performs just as well, but it's a product that offers the reuse of one time use plastics for a purpose of a product that will last for a lifetime. So in this way, we're taking product plastics that were just used once and really using the attributes of plastics for producing products that will last a lifetime. So for this reason, we're being very aggressive in the strategy to develop much better capabilities in reusing plastics. Now as a consequence, we'll also see on a much more stable and more resilient model in terms of costs for Rotoplas, as one of our big raw materials are plastics. Mario, anything else that you would like to comment?

Mario Romero (CFO): Yes, we are now very focused Liliana, and thanks for joining us this morning, on price management. As you know, I mentioned during the last calls, our best strategy for compensate or offset price increases in our raw materials or our leading brands. We are certain that the increasing market share has been very good, Charlie was mentioning how fast we are growing when compared to the rest of the market. We've consolidating that market share gain from the second quarter and third quarter, and now the focus is going to be on bringing back profitability into the business because it's not only resins, really, we're having effects in everything from cardboard, resins, metals, freights. You know, a year ago, for a 40-foot container we were paying roughly 12 hundred dollars. Now we're paying 14 thousand dollars, it's more than 10 times. So we are being really affected with the general inflation phenomena all across the board in all the countries, but we feel confident that we have the tools and the skills to bring back profitability and the leading brand position, as mentioned it was a good advantage to make that happen and bring back profitability to the levels that the company is well aware of are the targets.

Carlos Rojas (CEO): Now also to compliment, there's obviously lessons learned from the experience, and one of them is that the agility that a business has today really contributes in a tremendous way to the resilience of a business in today's highly volatile situation. We were able to be very agile in Argentina, for instance, and also in the United States. The results in both of these operations were really outstanding. We're very, very happy with the results we were able to generate in these two countries. In Argentina, one of the cases is we're very used to these kinds of scenarios and we have great practices that we've learned from and which we're adopting to improve this margin recovery and the pace for that. But in general terms, I think that with *Flow* starting 2019, partly to strengthen Rotoplas' resilience really gives us this ability to be identifying opportunities and through initiatives, initiatives that we designed for a particular purpose, making changes in the company in profound and quick ways. So we have very clear on what are the opportunities to be satisfied and serviced, and we are very clear on the initiatives to be executed to make the most of it. So in that sense, I think that *Flow* and the different practices we have throughout the company show us the way forward to have a much better performance in terms of margins. Thank you, Liliana.

Operator: Thank you, Charlie. Next in line is Rodrigo Salazar from AM Advisors: Thank you for the call and congratulations on the results. I have some questions that are all related. Could you expand on your pricing strategy? When do you expect margins to normalize and how are clients absorbing these price increases? And lastly of the market share you have gained, how much do you expect to remain? Thank you.

Carlos Rojas (CEO): Mario, I think you've covered a little bit of this, but maybe you can.

Mario Romero (CFO): Good morning, Rodrigo. Thanks for your question. I think we've been answering different forms what you've been asking, but if everyone is ok, I'll repeat myself. For the first one we already explained about what's the thinking around pricing. We're going to be implementing a couple of price increases in the fourth quarter and we are targeting to have an EBITDA margin in the neighborhood of 18% for the fourth quarter, getting back the company to the 18-19 EBITDA margins that we are targeting for the long term. As for market share, we believe that we have a good chance to secure all the gained market share. You know, one of the priorities and we discussed this in the last call was securing raw materials and being, I would say, very good at fulfilling deliveries to our clients. As mentioned on my script, we delivered a hundred percent of all the purchase orders and service requirements from our clients. That says a lot on how good the company has been to secure materials and to deliver that. That has translated into market share as well. So we want to follow that path going forward. Price increases are in place and we've been seeing a very interesting phenomena, you know, in the value chain, because as Charlie was mentioning, the whole value chain was not used to such a volatile and inflationary environment. So we've been seeing some of our distributors cut on their margins as well, and that speaks too, you know, a little bit of uncertainty in all the different steps of the distribution chain. So we are assessing that, we are seeing and being cautious through the office of Price Management, but the target now is to consolidate that market share gained and to bring margins back to the 19% target. Thanks for your question, we've been thinking a lot around this for the last six months.

Operator: We have another question: Do you expect product sales to continue with strong growth in 2022?

Carlos Rojas (CEO): We do expect very strong growth in revenues going forward all the way to 2025, and 2022 being also part of that. Part of it because, as mentioned, the water stress situation continues to worsen and to be more critical and for that reason, Rotoplas solutions are needed more. Additional to that, we have focused very much on our customers, we have customer centricity at the center of our culture, and so with this purpose of servicing customers and the environment, we're on very aggressively continuing to develop initiatives to satisfy these needs in a better way. So a lot of this, in the pipeline, a lot of it has already been executed and we'll continue to generate also revenue growth going forward.

Mario Romero (CFO): And if I may add up something, Charlie, on top of that, as it is in the press release, 20% of the more than 1000 initiatives that we have on the transformation are now in the money step, so there are still more than 800 to happen in the next three, four years. So in part, as Charlie was explaining, most of those initiatives are revenue linked because really the very first initiatives that we execute are more cost related because they are, to put itself, the low hanging fruit that you execute up immediately. So now we're going to be seeing the revenue type initiatives. So we really expect very good performance, not only in products, but also in services in the next four years.

Operator: We have another question: Hi, Mario and Charlie. Thank you for the call and congratulations on the results. You have mentioned synergies between your operations before. Can you give us more color on these synergies?

Carlos Rojas (CEO): Mario you mentioned the great data point earlier this morning, maybe you can share that one but, I think also to what Mario shared, being able to service all purchase orders in these times is, I think, an example of how we make the most of these operational synergies. So please go ahead Mario.

Mario Romero (CFO): You know, this is internal data, but happy to share. The way we count, we have, as you know, a lot of factories in different parts of America, and so far, YTD we have 5,120 days of factory available dates. Out of those, we have only stopped operations in 39 dates in different factories, not at the same time, but one factory shut down accounts for 1 day, so that's 39 days. So that gives you an internal field rate of 99.23% on manufacturing and servicing. Obviously we have inventory, and that inventory has helped to buffer to the clients. So the clients haven't seen any interruption of products or services deliveries in the first nine months. It's easy to say, but it's been a lot of work to make it happen. Furthermore, on synergies, we are taking our product portfolio in Mexico, which is the most mature into the different marketplaces. We are launching, as explained, the water flow business in Central America, the same in Peru, we're starting to gain more market share in that business that we launched last year, so those are the synergies that we are materializing with different footprint that the company has and different product portfolios that we have. And finally, as you know, you don't need two CFOs to run the whole operation, so we're leveraging all of the platform and share service centers to serve and help all the different countries and business units to perform at their best level.

Carlos Rojas (CEO): Well, additional maybe just an additional comment. We mentioned that we'll continue to find ways to do business in Brazil, and I mentioned that we had seen a lot of traction in the new bookings of wastewater treatment plants. But half of the booking for water treatment plants are coming from Brazil, so we're really being able to leverage tremendous engineering capabilities we have developed in Mexico to be able to service this water needs in Brazil with water treatment plants. That's just another example of what Mario was saying.

Operator: Last question: What are the next specific milestones for *Flow* in 2021 and 2022? Could you talk a bit more about the initiatives you have derived from this transformation process?

Carlos Rojas (CEO): So in terms of the initiatives, again, I mentioned that in the first round of *Flow* in 2020, we were focusing very much on the easiest initiatives to materialize, which were cost and expense related, and we started looking for revenue driving initiatives. 2021 was much more focused on revenue driving initiatives, and that will continue to be the case moving forward, so we will continue to find opportunities to optimize our cost and expenses, but those have a much closer limit. When we think about revenues that has sky's the limit, right? So we continue to focus on our customers understanding their needs, and we continue to focus mainly in the American continent, so we feel that we will find revenue driving initiatives with new products and better commercial practices to penetrate markets with these new products and services and One of the things that we've been working on very aggressively is in capability building, and the two capabilities we've been focusing on is the adoption of agile in terms of development and operations, which will drive the initiatives to be executed in a quicker way, with higher levels of aspirations and with lower levels of cost of learning. The other one is in promoting very much digital and analytics, so, when doing business through decentralized solutions and to really be massive, you need to replicate this millions of times, digital and analytics play a very relevant role, so now this capability is being available to companies like Rotoplas, that is another very relevant topic for Rotoplas. Mario, anything else you would like to share?

Mario Romero (CFO): No, I would just probably add up that now *Flow* and the transformation has become a way of life, and as Charlie mentioned, we are adopting these tools to accelerate initiatives and to execute better at them. We still have 800 to go, but in 2022, February is the time of the year when we do ideation to refill the pipeline. So it's an ongoing thing that we keep on filling up in the pipeline with new initiative business cases and ways to either grow the business or create more profitability within the business. So it's an ongoing program. Now it's been two years, people feel very engaged with the program and I don't know Charlie, I think it might be worth to mention the OHI, the Organizational Health Index results that they just launched because it's not only about performance, but it's also about how the people is feeling towards this new transformation and the culture we're promoting.

Carlos Rojas (CEO): So we do an evaluation of how our own employees feel about the company, our culture and how we're embracing the culture we've designed. We've designed a culture of market shapers and we identified a few practices, five practices that we really wanted to focus on to really drive this market share culture. And so we did an evaluation two years ago of how our staff felt around these practices and how they feel about them today. So we had a very relevant improvement in the last two years, improving four points, which is very good progress in the benchmarks that we make. Where we had the biggest impact, the biggest improvement was in customer centricity, operational discipline, consequence management, talent development, and I'm missing a fifth one, Mario.

Mario Romero (CFO): And leadership, no?

Carlos Rojas (CEO): And a supportive leadership style. Particularly a leadership style that supports all of our staff so that we can leverage all of their capabilities to really transform the business. And what this means is that even though we were working somewhat remotely during the last two years because of the pandemic, we were able to engage our talent with agriculture, which was one of the biggest challenges. It was very easy to improve productivity when working from home, it was very feasible to improve on some aspects of quality of life without having people to be commuting to work, but having a high level of engagement with the culture, was very challenging during these pandemic times, and fortunately, we didn't only just manage to maintain it, we managed to improve it in a very relevant way in the direction that we want to move forward. Thank you, Mario.

Mario Romero (CFO): Thank you (inaudible) and I'm sorry for putting you in this spot with something that just come to my mind, but I think connecting people to performance within a culture, I think it's key within the transformation process.

Carlos Rojas (CEO): Thank you.

Operator: We have one final question for the two minutes that we have left. One more question: what are you expecting on working capital going forward? Do you expect inventories to remain this high?

Mario Romero (CFO): Well Rodrigo, yes. The answer is, I think, at least for the next, well, let me just rephrase it. As long as we need to secure raw materials to deliver on the promise of service to our clients, yes, we will keep inventories high. Once supply chains all around the globe normalize, we will do the adjustments to bring it back to a more normal rate.

Carlos Rojas (CEO): Thank you, Rodrigo.

Operator: Thank you, guys. We have no more questions. So I think that's pretty much all for today. Thank you for joining us and see you next quarter.

Carlos Rojas (CEO): Thank you, everyone.

Mario Romero (CFO): Thanks for joining us today.