

Company Name: Grupo Rotoplas SAB de CV
Company Ticker: AGUA* MM
Date: 2015-02-18
Event Description: Y 2014 Earnings Call

Market Cap: 16,026.30
Current PX: 32.96
YTD Change(\$): +2.82
YTD Change(%): +9.356

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 1.540
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 7667.500

Y 2014 Earnings Call

Company Participants

- Carlos Rojas Mota Velasco, Chief Executive Officer
- Mario Romero Orozco, Chief Financial Officer

Other Participants

- Unidentified Participant
- Evelyn Chow, Analyst
- Fernando Morales, Analyst
- Rafael Buerba, Analyst
- Carlos Peyrelongue, Analyst
- Mauricio Santos, Analyst

Presentation

Operator

Good morning. Welcome to the Grupo Rotoplas Conference Call on the Results of the Fourth Quarter 2014. Today we have here with us Mr. Carlos Rojas, Rotoplas Chief Executive Officer and Mr. Mario Romero Orozco, Chief Financial Officer. We inform you that this presentation is being recorded and all participants will be in a listen-only mode during the company's presentation, then we shall initiate a Q&A session.

Before proceeding, let mention that this conference call will be related to financial information that has been prepared under the International Financial Reporting Standards, that these financial informations is unaudited. This presentation may contain announcements that company's forward looking statements which are not guarantees of future performances and involve risks and uncertainties, and that certain results may differ materially from those in the forward looking statements as a result of various factors. We invite you to read the complete disclaimer included in the presentation, which you find on our website.

Now I'd like turn the conference over to Mr. Carlos Rojas. Please go ahead, sir.

Carlos Rojas Mota Velasco, Chief Executive Officer

Thank you, good morning everybody. We are pleased to welcome you to our first conference call in which we will present Rotoplas 2014 financial result. Over the last year, we had several opportunities to talk to you and tell about Rotoplas. Today, I will begin in my review with Investment Case and then Mario will present the financial review of the quarter and full year 2014. And finally, we'll be offering the line for questions and answer session.

As many of you learned from the IPO road show, we are committed to provide wireless solutions by offering innovative and value added water solutions aim at improving the quality of life of people. We have positioned ourselves, as either in innovating water storage, water flow and water treatment solutions in Mexico, Brazil, Peru, Central America and Argentina. Besides our good and high service and quality standards, added value to our customers operational efficiency and innovative products have been key factors for us in winning high competitive public bid and this awarded government contracts.

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For example, in last quarter we won a contract in Mexico for water storage in public schools, although it's a small contract but it is starting an opportunity. The starting side of market demand, we benefit from our strategic distribution network and innovative state-of-the-art production facility.

As of December 31, we have 24 plants. At the end of December, we successfully relocated activity of one plant in Brazil in order to increase logistic efficiency in our process. We are well established and institutional company with world-class corporate governance and processes with an experienced entrepreneurial management, team with extensive knowledge in the water industry. All of these allow us to meet the demand of the 12 countries where we operate and to have a strong brand sheet for its growth.

And Mario is going to give us some highlights on the IPO and so Mario -- fourth quarter and annual results of the plants.

Mario Romero Orozco, Chief Financial Officer

Thank you, Carlos. Good morning to everyone. As you all aware of this year, we conducted our Initial Public Offerings on December 10th, under the ticker AGUA as part of our go to strategy. And I would like to take the chance to thanks to all the financial community for your trust and support on this process.

The IPO raised MXN4.2 million by providing more than 144 million shares that represent the growth of 29.7%. All offering was 100% primary to foster our future growth. Just some statistics, for the first 60 days, 47 million shares reserves were traded and volume weighted average price was 29.97 and liquidity as measured by the BOLSA is medium.

Now we can start with the fourth quarter results. First, as you know, when the fourth quarter of 2014 was characterized by significant foreign exchange volatility throughout the world alongside increase the speculations of interest rate hike this year by the fact and lower oil and commodity prices. Emerging market currency suffered against the US dollar, which rose 12.6% in the quarter against the Mexican pesos and 13.4% against Brazilian reais.

Now going to Rotoplas fourth quarter sales were up 4.2% compared to the same period in 2013. This was mainly driven by the sales of individual and integrated solutions in Brazil. Nevertheless, as -- consequence of the increase in the cost of resin because of FX volatility, our EBITDA margin fell 200 basis points.

Now its worth to explain the third quarter strategy. In Brazil, in the quarter we changed our mix from individual solutions to integrated solutions, in order to provide a more robust solutions for the water scarcity problem they are facing in the northeast. Because of leakage individual solutions remain flat versus the same quarter of last year. While the integrated solutions grew 19%.

If we do not consider this change, individual solutions would have increased 18.1% driven primarily by the drought in the state of Sao Paulo and good performance in Mexico. On the other hand, integrated solutions represent 27% of sales and grew 19% in the fourth quarter 2014, driven mainly by higher sales of rainwater harvesting system in northern-east of Brazil.

On annual basis, our top line increased 21% year-over-year, boost by the performance of individual and integrated solutions in Mexico and Brazil. The consolidated EBITDA is 6.6% with a margin decrease of 180 basis points due to the growth in cost of raw materials, higher energy prices and the dollar appreciation against the currencies where we operate. Also we have one-time non-recurring expenses of MXN30 million for the development of integrated water solutions in Mexico such as water fountains and pre-operative expenses in the start-up of United States of America.

Going into revenues by country. Brazil took a more important role over the year due to the retro sales because of the individual and integrated solutions mainly explained by the severe drought in the country, so these are all affecting the north east and our results of '13 in Sao Paulo and Rio de Janeiro region.

Meanwhile Mexico share remain constant due to the overall group performance of our plant. And the rest of the country lost three point of share in our total revenue hike because average lower growth rate when compared to Brazil

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or Mexico.

When tuck-in acquisitions, integrated solutions in 2014 decreased 2.3% mainly due to the change in the sales mix in Brazil that we explain before as we move from individual solutions to integrated solutions. If we do not consider this change, individual solutions of the company would show an increase of 18.4% due to higher sales across all our product lines and in all countries.

The EBITDA of individual solutions contracted 6.3% over the last year and the margin stood at 14.2% mainly due to increase in raw material cost. Integrated solutions in the other hand has doubled 2.5 times over last couple of years and rose against 2013 close to 280%. This increase considers the change in sales mix made in Brazil. Without considering the change year-over-year growth would have been 50.5%. However both years EBITDA margin decreased from 16.2% to 10.1% as the consequence of high of raw material that most impact -- the most impact was happened in Brazil.

Now going to sales mix on an annual basis, here you can see how in 2013, 8% of our sales revenue mix was coming from integrated water solutions when compared to 2014 of 26%. This is all driven by our strategies that we are looking, moving into a more integrated solutions has increased our profit and our competitive position and against all oil players in this part of the world.

Now, when talking about our debt, net debt was MXN2.7 billion which consider the cash collected from the IPO. And as you can see, a maturity profile of debt is still very often and very comfortable for the couple of years, which will allow us to keep the growth rate that we've been experiencing over the last year. We believe that the company's balance sheet and the management team we have were set forth, keep on working on the future implementing our strategy given the water needs that we are seeing in the market where we operate.

Therefore this is our 2015, our full year guidance where sales, we are expecting to grow on a range from 11% to 15%. EBITDA margin will come across a range of 14% to 16%. CapEx as a percentage of sales will be between 4% to 6% that will depend mainly on how the US market and other initiatives will accelerate throughout the year and tax rate between 20% to 30%.

However it is worth to mention, that we expect a slow first quarter of 2015, because we are experiencing some delay of water programs in Brazil because the transfusion of the new cabinet and civil servants taking more time than expected. And also the water fountain business will be gaining traction throughout the year.

I guess with that Paul, now we can open the line for the questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) And we'll take our first phone question from Evelyn Chow with Goldman Sachs.

Evelyn Chow, Analyst

Good morning Carlos and Mario. Congratulations on the IPO and a great quarter. And I guess, I just wanted to start with my first question really of the back of your 2015 guidance and your comment 1Q specifically, can you help me understand how seasonality on sales and EBITDA will differ in 2015 versus what you typically able to achieve historically?

Carlos Rojas Mota Velasco, Chief Executive Officer

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Thank you very much for the question. This is Carlos. We don't see really a stability, seasonality during the year regularly this should be more on extension with a changes of the government in the cabinet of the new government in Brazil, where all the civil servants that they are taking new positions. They are getting acquainted with operation.

So things are being very long, ending that -- the end of December and early January, and January now restate the February and should start taking their -- their role and the evolution that they should have, they had before. They are having a tremendous drought, we are experiencing the growth in all of our operations in the individual solutions in all the countries. So we -- there should not be a stability once the new civil servants they get acquainted with their operation.

Evelyn Chow, Analyst

Okay. Helpful. And I guess, I also wanted to press out further the EBITDA margin, you achieve this quarter. And I know that you highlighted they declined at 200 bps due to higher raw material costs which I presume are primarily resin related. And I think any of the deal, you have been projecting oil at about \$100 and clearly that metric has moved a bit. What will be my expectation on the trajectory of resin prices in 2015 and as a result and instead of drawing that benefit that you should see.

Mario Romero Orozco, Chief Financial Officer

(inaudible) this is Mario. We are projecting oil in 2015 at \$60 per volume. And also that will benefit the resin prices. On the other hand, we will also have an effect on FX that goes by hand-in-hand. So we'll have some headwind from the FX market, some tailwinds from the energy.

Evelyn Chow, Analyst

Okay. Thanks, Mario, I guess one last follow-up from me on the FX point actually, I know last time we spoke, you had talked about wanting to put through a mid single-digit type price increase despite ahead of FX devaluation. First is that, so (inaudible) has it already happen and secondly how do I think about quantifying the FX impact in 2015 from the sales in EBITDA perspective?

Mario Romero Orozco, Chief Financial Officer

Well, we have already increased our prices in the last quarter of 2014 in order to be more -- in order to reflect their FX increases. But we are expecting in 2015 FX of MXN14.4 to a US dollar and BRL2.80 to a US dollar. With that we've set our prices to reflect that change, also we are expecting some tailwind on the energy prices. So, all in all we had shift some prices in the countries where we operate.

Evelyn Chow, Analyst

Got it. Thank you, very much for taking my question.

Mario Romero Orozco, Chief Financial Officer

Thanks Evelyn.

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Thank you, Evelyn.

Operator

We'll take our next phone question from Fernando Morales with GMP.

Fernando Morales, Analyst

Hi, good morning, congratulations on the IPO and for your first conference call. I have one question regarding the -- well, your guidance for 2015. How many of the sales are going to come from government entities and what percentage of your sales are recurrent? Thank you.

Carlos Rojas Mota Velasco, Chief Executive Officer

Fernando, thank you very much for your question. We are expecting this year to have about 35% of our sales coming from the government, they should be recurrent. (inaudible) the customers and the government. Some of the sales we have already signed the contract, specifically in Brazil. So this should be about what we are expecting from government and 65% of course from the individual solutions and some integrated solutions that are -- but not government.

Fernando Morales, Analyst

Okay, thank you. Just one more question, how to expect the budget cut in Mexican, which affects your results?

Mario Romero Orozco, Chief Financial Officer

Hi, Fernando. We understand that there would not be effect on the problems in Mexico. The cut was done on the (inaudible) but that is mainly to -- the plants to compensate around 65 years and above and they are cancelling some plants were they set to sold and the local, state complement each other. But they are not touching the cut is the program against hunger and water needs.

So what we have been told is that no cut is going to suffer -- is going to been made in the type of solution that we offer to the government.

Fernando Morales, Analyst

Okay. Thank you very much.

Operator

Our next question is from (inaudible) with Interxion.

Unidentified Participant

Hello, good morning everybody. Thanks for answering my question. I just got two questions. First regarding the implications of the oil and gas prices and your cost structure. Could you give us more color about that. And second one is regarding your expectations from Brazil for 2015, could we see some similar levels on your revenue coming from this country or it will be earlier more for 2015. Thank you.

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Mario Romero Orozco, Chief Financial Officer

Hello, Andreas. Just about your first question, around 60% of our cost of goods sold are linked to resin and this year we have budgeted to have Brazil for that and growth is going to be coming from other countries.

Unidentified Participant

Okay. Thank you

Operator

Our next question from Rafael Buerba with Santander Asset Management.

Rafael Buerba, Analyst

Good morning, Carlos and Mario. Just two follow-up questions and things already -- already discussed. First on the, on the cost and on the, the lower oil price impact. How long is it delayed from low oil prices where reflected in the resin that you buy, and then from that cheap inventory to be reflected in lower cost, should we expect that benefit to be seen by the second quarter or until the second half of the year. That's one question.

And the other one is, is again on the, on the revision or budget cuts to the (inaudible) and the water fountain projects are not included in that -- in that budget.

Carlos Rojas Mota Velasco, Chief Executive Officer

On the resin -- Rafael Good morning. This is Carlos. On the resin side question, usually we get reflected the prices of the resin about two months after following the oil prices and then within one more month you see in order to cut and reflect it in our cost because of the inventory we manage. And so this takes about three months. This means that we will see the reflect in this year mainly more in the second quarter than in the first quarter.

And (inaudible) and water fountains, today government deals with the projection of the problems in both of the projects in (inaudible) and in water fountain. So this all deals with the project as well as the government with the taxes they have collected from the filtering, special tax and we have been meeting with them and they said that they have the allocation and they are on that projects.

So we are talking to them how to proceed that. We had our first contract as I mentioned, that made last year, in one of the north state in Mexico. And the program was very successful.

Rafael Buerba, Analyst

Okay. Thank you, Carlos and congratulations on the success on IPO.

Carlos Rojas Mota Velasco, Chief Executive Officer

Thank you for your question Rafael.

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Our next phone question is from Eduardo Solana with Retail Investment.[ph]

Unidentified Participant

Good morning gentlemen. And thank you for the call and congratulations on the IPO and excellent results of last year. Can you please give us an update on how you are starting the operations in the United States and what are your expectation for sale in our neighbor country?

Carlos Rojas Mota Velasco, Chief Executive Officer

Yes, hello Eduardo. About the US operation, we have already start with our first sale in January, we started to gain some client base but most important our investment that is starting to get the shape that we want. We have had some good releases and our product quality, the service which is one of the key advantages that we want to implement, it's also good. So we are gaining a very good flavor of this market and that is one of the reason, why we have ranged the CapEx for 2015 as we are entering in to the second quarter we may be planning to open the second and third plant this year in the United States.

Unidentified Participant

Thank you and good luck.

Carlos Rojas Mota Velasco, Chief Executive Officer

Thank you, Eduardo.

Operator

Our next question is from (inaudible). Please go ahead.

Unidentified Participant

Hi, Carlos. Hi, Mario. Thank you for the call. And congratulations on the IPO. I have a couple of questions. The first one is how do you expect to deploy the company's net cash position during the year?

Mario Romero Orozco, Chief Financial Officer

We are expecting to use somewhere around 20% to 30% from the IPO, on CapEx during 2015 and this will depend on different viables such as speed of operate in Mexico, Brazil and the US. And also the company is always evaluating possible candidate for acquisition that still did well with our business planning.

So we think performing with around -- on that range could happen in 2015. And we expect to deploy the resources from the IPO as mentioned before within 24 to 36 months.

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Okay, thank you very much. And the next question is, how much from the guidance for 2015 comes from the US?

Mario Romero Orozco, Chief Financial Officer

The US represents just a very small part in 2015. We expect to have a better traction in performance going into 2016.

Unidentified Participant

Okay. And the last question is, if you are seeing a lot of benefits in Brazil from the severe drought -- seen during the year, during 2014.

Carlos Rojas Mota Velasco, Chief Executive Officer

Yes. Andreas we are experienced -- we expect high intensity in the remainder of our solutions in Brazil. The drought is very severe and the tariffs for water at Sao Paulo, the city of Sao Paulo has these days is extremely long. So people is taking care of -- looking for some solutions in order to take currently of the -- water scarcity they are experiencing?

Mario Romero Orozco, Chief Financial Officer

Yes. I want to compliment on Carlos comment Andreas. Well obviously, we already had some water -- rain water harvesting solutions going up in the north east. So they have these problem [ph]. Now we were starting to hear that they want to take these programs into the cities, because they are having a lot of problem (inaudible) which is a water distributor company is making programs to make waters through our product. So all this is happening and I think the company we'll see as Carlos mentioned an intense amount for the type of solutions that we can offer to the market place.

Unidentified Participant

Okay, perfect and thank you very much.

Operator

Our next phone question is from Ian Siemens with Chartered Bank [ph]. Go ahead.

Unidentified Participant

I just have a follow-up on the question on Brazil, you said earlier that you expect the Brazil business to be flat this year. Can you just explain why you expect the flat results in a market with a very high and rising demand?

Mario Romero Orozco, Chief Financial Officer

The thing is we are being conservative on Brazil profile, we understand that they also have some problems with deficit accounts. So we want to be conservative in our approach for Brazil. You know these water issue, which is getting more severe -- could eventually make things -- could give us some tailwind.

And also another reason why we've been conservative is that we know (inaudible) same president always there is some transition in to civil servants. So those two things that's the reason we were conservative on Brazil this year.

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Unidentified Participant

Okay. And one more question, maybe the same answer but at the IPO I was under the impression that if all of your business (inaudible) in the US. The rain water harvesting and outdoor composting they all started to work together, then growth would be much higher than the guidance you just given as 11% to 15% on revenues. So are you seeing a slowdown or a delay in your expectation in any of those growth path?

Mario Romero Orozco, Chief Financial Officer

Not really. The think that there is also some FX volatility against the Mexican pesos and it's also affecting the net revenue in pesos. For example, last quarter FX affect on revenue -- when you go local sales they grew 4% after than when you translate that in to peso. That is one of the reasons we are in peso denominated, more conservative in our 2015 guidance.

Unidentified Participant

Okay, thank you.

Operator

Our next question is from Carlos Peyrelongue with Merrill Lynch.

Carlos Peyrelongue, Analyst

Thank you for the call. Carlos and Mario, good morning. A few questions if I may, with regards to the US, the plants, in terms of number of plants to open this year and next year, could you provide us with some guidance on that.

The second question is related to the margins in Brazil, they came down for 500 basis points, if I recall from the report. Can you comment on what happened there and what's your expectation for this year in terms of margins, they closed 2014 around 10.6%. Can you provide some guidance on that?

And lastly, have you won any particular contracts on Mexico in weather harvesting and bathrooms, can you provide some visibility as to how the process works in terms of -- the programs are the -- they haven't been cut at the -- cuts the government announced. Can you provide any attachments you had in terms of gaining contracts. Thank you.

Carlos Rojas Mota Velasco, Chief Executive Officer

Thank you, Carlos. This is Carlos Rojas. First of all, your first question about the US plants, Mario explained earlier, we already started with the first plant operating, we had our first sale and we are now starting to build up our great customers base. Now with these and with the reaction that we see from our solutions in the market, we are already checking, working with the possibility of opening a second plant, in the second half of this year. And may be start after that working, we are ready for the third plant -- production plant for this year.

So this year we should have two plants working for sure and the third one on the way. From there we will see how was the market reacting and we built our plants for next year.

On the question of Brazil margins, Mario will answer you. Mario, would you please?

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Mario Romero Orozco, Chief Financial Officer

Sure. Hello, Carlos. Well, as you mentioned the deal, EBITDA margin on an yearly -- on an annual basis drop 480 basis points. From those 480 basis points, 240 comes from the impact of FX resin from all of our business, a country that was mostly impacted on assets and resin was Brazil, that's the reason we see a half of the drop because of that.

And the second is, that's right. We do the different cost with government are fixed price and that it takes time, you have to wait for one year, to make a price adjust. So what you will be seeing in 2015 is those price adjustments in the tap water solutions are being installed in Brazil, which you didn't see in 2014. Those are the few reasons why the margin in Brazil drop.

Carlos Rojas Mota Velasco, Chief Executive Officer

And your question about the programs for the final weakness from the Mexican government, today, they are working with a, their new needs but they are going kind of small, Carlos, because as we know we are recurring from next of this year. And there is fewer plant that we cannot do repeat and work with this -- during the election time, we are working with M&V, I'm not sure they will do the bid before the election or during the election but we will start having the results either in the second -- second quarter or the third quarter of this year. That's why, we are going slow.

Carlos Peyrelongue, Analyst

Understood. Thank you. Thank you very much.

Carlos Rojas Mota Velasco, Chief Executive Officer

Thank you, Carlos.

Operator

We will take our next question from Mauricio Santos with GBM.

Mauricio Santos, Analyst

Hi, Carlos. Hi, Mario. Thanks for the call. My question was basically regarding the spread between the integral and the individual solutions margin. I guess you can somewhat explain that or just told us about the FX risks in Brazil and the fixed price of contract. However how do you feel about this going forward. It was my understanding that the integral solutions should have higher margins compared to individual solutions. Is that correct?

Mario Romero Orozco, Chief Financial Officer

Yeah, that is correct, Mauricio. And third question was explained to Carlos, why that it was most affected with these risks in FX movement. And the other one is that we already had, -- we had some onetime expenses in the year to developing the integrated solution mainly in Mexico.

So those three items FX, resin and some one-time development expenses that affected the integrated solution. Going forward the company has learned some new staff were building some new competitive advantages and we are getting closer to the end consumer and we think these will eventually reflect in higher margins in the coming years.

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Mauricio Santos, Analyst

Okay. And a follow-up on this -- you just told that you are selling 35% of this year sales are going to the government. Is that number comparable to what you sold in 2014?

Mario Romero Orozco, Chief Financial Officer

Yes. It's more or less the same, little bit shorter this year was more around the 40 sites, for 2014 we around the 40 sites and the reason is that they fully recover the company or other town are growing also very fast. For example, Carlos was talking about intensity of individual solutions in Brazil. We also have some plants in other countries like Peru, so we are balancing that channel mix across the company.

Mauricio Santos, Analyst

Okay. So let's say if you get any additional contract in Mexico any additional contract with the government in Mexico, that should be incremental to the divestiture just released?

Mario Romero Orozco, Chief Financial Officer

Yeah, that is correct.

Mauricio Santos, Analyst

Okay, thank you very much and congrats on the IPO.

Carlos Rojas Mota Velasco, Chief Executive Officer

Thank you, Mauricio.

Operator

And at this time we have no further questions from our phone add.

Mario Romero Orozco, Chief Financial Officer

Well, then we have a question on the chat, it comes from Areli Sanchez and she asked what are the main treats for Rotoplas. What's the major expectation in Mexico?

Carlos Rojas Mota Velasco, Chief Executive Officer

Thanks Areli. After what we have mentioned we don't see any other one that would affect to Rotoplas results. I mean, nothing specifically in Mexico. We got no questions. Then we would like to thank you for being with us for your interest and for your questions and we'll be in touch in the next quarter. Thank you very much to all.

Mario Romero Orozco, Chief Financial Officer

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And in the meantime, if you have any questions regarding anything on the company, you can contact us, you already have our contact information and we will be more than happy to attend those.

Carlos Rojas Mota Velasco, Chief Executive Officer

Thank you.

Operator

Ladies and gentlemen that does conclude today's presentation. We appreciate everyone's participation.

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