Grupo Rotoplas
4Q21 Conference Call

Operator

Good morning and welcome to Grupo Rotoplas' 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.

Carlos Rojas Aboumrad:

Good morning. Thank you for being here with us today to talk about our latest quarter and our broader 2021 results.

[2020-2025 plan]

Our team has been working hard towards building the Rotoplas of the future with a clear focus on achieving our 5-year growth plan by which we are aiming to double the size of the company in terms of revenue as of 2025.

We have been cementing our leadership position, helping our customers to make the best use of water, and creating value through growth, operational efficiency, and social responsibility.

[Achievements]

Even though we faced significant challenges in 2021, I'm happy to report that we overcame them and met our growth and increased market share targets, while continuing to create value for our investors.

The fourth quarter was the third consecutive period with over 2.8 billion Mexican pesos in sales. On a yearly basis we registered double digit growth, exceeding our 17% growth expectations, and increasing our market share across the region, consolidating our leadership in the Americas.

Most importantly, we have achieved this accelerated growth pace by adjusting our strategy in an agile fashion. We adapted to the changes in the way societies use water, as well as to global supply chain constraints that lead to raw materials scarcity and cost increases. And this has been, to be sure, a significant challenge. Sales of services were affected by school closures and the sluggish demand for treatment and recycling plants, even as *bebbia* continues to grow at an accelerated pace. In addition, our gross margin decreased due to the increased costs in raw materials and logistics. However, we were able to address these issues through the increased efficiencies that we have developed through flow and our pricing strategy. We are already seeing a solid sequential margins recovery.

The leadership of our brands allowed us to post double-digit growth in every country during the year. I would like to highlight the growth in the United States, where we have now launched *Acuantia*, our one-stop-shop to provide end-to-end solutions to a broader customer segment including water storage and water treatment solutions.

By developing synergies between our e-commerce platform and the septic solutions business, while establishing alliances with new distributors and improving the user experience, *Acuantia* will enable us to reach more customers and to increase our presence in the American market where we are observing a growing demand for decentralized water solutions.

Flow has been a key enabler for adapting our strategy and operations without losing our medium and long-term focus. The coordination, alignment, as well as the improved organizational culture, have allowed us to thrive in a particularly volatile year.

We have reaped the benefits from initiatives launched since the transformation program started in 2019, contributing to this year's growth and operational efficiency. Accordingly, we achieved 98% of our annual EBITDA target in absolute terms and we reached our ROIC objective, keeping us in the path of generating sustainable value for our stakeholders.

During 2021, our priority, besides our team members health and wellbeing, was to maintain continuity of operations. The Company achieved a factory efficiency of 99.53% and the timely delivery of 100% of orders to more than 90,000 distributors and direct customers.

As Mario will discuss in further detail, this required a significant effort from our team as well as the strategic use of our working capital, but our commitment to our clients is paramount and, it should be noted, it was a crucial factor in strengthening our market leadership position.

Likewise, we were able to continuously adjust our pricing strategy to compensate for the costs we absorbed during the first semester and for inflationary scenarios in some of our markets. This is the sort of strategic agility that, combined with increased efficiency, has enabled us to continue to thrive while still investing to ensure our future growth.

[Investment]

In 2021 we invested in the first phase of the technological upgrade of the manufacturing plants in Mexico, as well as in the first stage of the next generation of water storage solutions, which will require less raw materials and less energy to produce, making them much more sustainable. In addition, we increased our production capacity in different countries and invested in the digitalization of businesses such as *bebbia* and *Acuantia*.

As we have discussed before, we believe that the demand for smarter, decentralized water solutions for homes, industries and agriculture will only continue to increase, and we are in a unique position to capture this market. During the year we continued with a rapid pace of innovation, we launched 13 new products in 2021, which totals more than 25 new solutions since the beginning of the transformation, while also introducing new sales channels to make sure our solutions reach everyone who needs them.

Also, in November we acquired a minority stake in Banyan Water, a US-based tech company that uses data and analytics to help customers save water and get relevant metrics about their water consumption. This is an important step for us since it will be a cornerstone to continue to develop new digital solutions to power Rotoplas' next generation of products & services.

Going forward, we will continue to focus on digitalization, user experience and sustainability. The adoption of sustainable practices in our own operations is relevant, but most importantly, helping our clients to reduce their environmental impact and help population to be more resilient to climate change is leading our purpose.

[ESG targets]

In our recent Agua Day, this past December, as we reaffirmed our financial targets, we outlined specific goals in terms of ESG. Two of the major targets are:

Being a net zero emissions company by 2040.

And we will increase the percentage of women in our workforce from the current 23% to 30% by 2025.

The progress achieved last year under the sustainability strategy helped us to improve our SAM rating by 10%, and we also improved our MSCI rating from double B to triple B. Additionally, we were included for the first time in the S&P Global Sustainability Yearbook, attesting to the success of our efforts.

Finally, I would like to share that our annual organizational health survey showed happier and more committed employees. This fills us with great enthusiasm to continue giving our teams the necessary motivation to accomplish our mission.

Well, this is our sustainable growth story. It has been a challenging and rewarding year and we look forward to its next chapter. In 2022, our storage solutions will continue to evolve towards greater sustainability while ensuring their top quality and value. We will also push for an accelerated growth in services and group EBITDA. All in all, ours is a story of sustainability and profitability, as well as one of rising to the challenges of a rapidly changing environment and making the most of the opportunities that are created. Thank you for being part of this story.

I will now turn the call to Mario. I look forward to your questions.

Mario Romero Orozco:

Thank you, Charlie. Good morning everyone. Thank you all for joining us today. It is very satisfactory to report that we reached our goals for the year and that our strategy has paid off. As we talked about in our previous calls, we were able to gain market share, adjust our pricing strategy and sequentially improve our margins, while ensuring the satisfaction of our customers and honoring our commitment to our communities. As Charlie said, we continue the path of a sustainable growth story.

Let's get started with the financial highlights of the quarter and for the full year.

[P&L]

This was the third consecutive quarter with sales over 2.8 billion pesos and double-digit growth rate. Our solutions continue to prove successful in addressing the changing needs of our customers. Also we registered double digit growth across our three product categories: storage, water flow and improvement. Most of products' growth derived from increases in volume.

This is an important point because as we had explained before, we decided to gain market share during the first semester by temporarily absorbing costs and to adjust our pricing strategy to increase margins during the second half. We think the strategy was successful, as we were able to leverage our leadership position and the strength of our brands, adjust our prices in inflationary environments and introduce new solutions to the market. In fact, out of our 30% annual product sales growth rate, 18% corresponds to volume increases and 12% to price increases. In addition, new products accounted to 2.6% of total revenue. In short, we were able to sell more products, introduce new ones and to do so at suitable prices across all our geographic markets.

The increased agility and coordination in our operations brought about by *Flow* has been a complete game changer. Despite increased volatility and unstable supply chains, we managed to secure raw materials and meet the growing demand. This entailed significant effort and a strategic use of our working capital and was no small feat, given that we have over 90 thousand direct distributors and clients. We have strived to strengthen our sales channels and improve our user experience by, among other things, ensuring that they find what they need when they need it.

As an aside, it is worth noting that this is the last quarter we will adjust our results for the expenses associated with the transformation *Flow*, as the program has become our operational standard.

In the end, we estimate that our strategy of gaining market share and then pursuing increased profitability granted us 1.8x times perpetuity based the costs absorbed which is about $1.5 pesos per share.

At year end we increased our net profits by 7%, excluding the effect of the early closing of our hedge coverage position in 2020.

[COVID | Operations Status]

A brief note 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 facilities and in the field. Furthermore, our administrative staff continues to work remotely, which has led to significant innovation in our work processes.

[Financial Highlights]

As to our financials, net sales increased 14% in the quarter and 26% annually, reflecting our increased market share, the launch of new solutions and our pricing strategy. When compared to 2019 the growth is 33% for the quarter and 35% on an annual basis. In a nutshell, growth is robust, *Flow* is paying off and water imbalances and changes in consumption habits brought about by the pandemic have boosted sales in a sustainable way.

Products sales grew 18% during the quarter and 30% during the year. The strength of products sales continues to compensate for the effects of the pandemic on water as a service sales.

Our pricing strategy allowed us to revert the decline of our gross margin, which grew by 450 basis points this quarter compared to the third quarter. However, there was still a 220 basis-points contraction versus the fourth quarter of 2020, as the increases in raw materials and logistics were not totally offset.

The adjustments in prices also contributed to a 5.4 percentage points increase in the EBITDA margin compared to previous quarter, reaching 18%.

Quarterly net profits increased 55% year-over-year due to the recovery of the operating result and a reduction in financial expenses.

On annual basis, we estimate that the volatility in raw materials and logistics prices impacted our EBITDA by about $393 million pesos. Nevertheless, we achieved 98% of the annual EBITDA target in absolute terms.

Now, moving forward to our geographic breakdown.

[Sales per Country | Mexico]

Let's start it with Mexico. Sales in Mexico grew 4% during the quarter and 14% in the year due to the strong demand for our storage, waterflow and improvement solutions, including the new products we have introduced in the previous months.

As I mentioned, our pricing strategy during the second half drove a sequential recovery of margins. Despite this, EBITDA margin showed a 500 basis-points contraction year-over-year due to the raw materials and freights price volatility and the pandemic challenges faced in the water as a service segment.

As Charlie mentioned, we remain focused on investing in the optimization of our manufacturing technology in the country to ensure the sustainability of our operations and bring about the next generation of water tanks.

[Sales per Country | Argentina, US and Others]

Sales in Argentina grew 37% during the quarter and 57% annually, driven by record volumes in waterflow and water heating solutions, as well as a disciplined pricing strategy. The sales strategy taking advantage of the cross-selling capacities between brands has boosted our sales team efficiency. Our operations in the country grew at an accelerated pace with improved operating profitability.

Sales in the United States grew 42% quarterly and 32% during the year. The launch of *Acuantia*, has greatly strengthened our operations and our reach, as we continue to expand our points of sale through alliances with hardware stores as well as improve our users' experience, leading to a significant increase in our websites conversion rate. As I mentioned in our last call, we were able to use our purchasing power to acquire inventory before our suppliers increased their prices and we adjusted prices in an agile fashion, hence increasing our margins.

About the countries that are included in the others segment:

Sales in Central America grew by double digits during the quarter and the year, gaining market share and maintaining leadership within the region.

Sales in Peru decreased in Mexican pesos during the fourth quarter due to the depreciation of the Peruvian Sol, but registered double-digit growth during the year, driven by the strengthening and expansion of sales channels and the business diversification to waterflow and water heaters segment.

Finally, we continue to focus on strengthening the presence of our water-as-a-service platform in Brazil and our pipeline there looks attractive, with a high potential conversion rate. The recent water treatment and sanitation regulatory reform, which increases the role of the private sector, should greatly increase private investment in water treatment and significantly expand the market size.

[Sales | Products & Services Mix]

Now, in terms of our portfolio mix, sales of products were 96% of total sales during the quarter and the year, growing 18% quarterly and 30% annually. On the other hand, sales of services decreased 38% in the quarter and 20% percent in the year. This contraction is mostly attributable to the fact that school closures affected the drinking water fountains business and we have been experiencing a very slow recovery in the water treatment and recycling plants business. *bebbia*, our drinking water as a service, continues to grow at double digit rates and continues to gain subscribers, in the meantime *rieggo* recorded sales related to its first projects.

[Cash Position]

Moving forward to our balance sheet and cash position we optimized our cash conversion cycle by 7 days, and we continue reviewing our terms with all parties through the weekly cash control tower meeting to improve this relevant ratio.

Our net debt to EBITDA ratio closed at 1.3x times, 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 amounts to 4 billion Mexican pesos, has a maturity date in 2027 and was issued at an 8.65% fixed rate. During the year, the loans in Argentina & Peru were fully prepaid.

[Discipline in Capital Allocation]

About capital allocation CAPEX was 4.7% of total sales, amounting to $515 million pesos. This is in line with our 5-year business plan guidance, it is worth noting that the increase in CAPEX is directed towards improving our innovation and customer outreach. It is worth highlighting the investment in Mexico in new technology is to ensure the sustainability of our water storage products segment by improving performance to the end customer, reducing our energy and raw-materials consumption. Our CAPEX also includes investments in the digitalization of our costumer user experience and improvement in our internal processes.

As I already mentioned, we leveraged our cash position to ensure that we had taken advantage and adequate level of working capital to sustain our growth and guarantee the availability of raw materials in the context of price volatility. This was a significant strategic investment that enabled us to maintain a 100% order fill rate to our distributors and clients alike.

[ROIC vs Cost of Capital]

In the next slide we can observe Rotoplas economic value creation. ROIC reached 14.5% as of December, 235 basis-points higher than our cost of capital, in line with our 2021 guidance and our sustainable value creation strategy for 2025. As Charlie 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 all of our investors. In fact, our return on invested capital has increased 63% percent since the beginning of *Flow* in August 2019.

[ESG Initiatives & Progress]

Now moving into ESG. Charlie has already reiterated some of the major commitments we have made in the context of our Sustainability Strategy. On this slide you can see some other KPIs among the profit, people and planet dimensions and our short- and medium-term targets. For example, we will keep a close eye on our client's satisfaction, the percentage of suppliers evaluated with ESG criteria, our greenhouse gas emissions intensity, and the impact of our purification solutions.

It is also worth noting some ESG actions and results during the year, in addition to the improvement in the SAM and MSCI ratings that we already discussed, and which can be summarized as follows:

We released our first Annual Report aligned with the TCFD recommendations and we completed for the second consecutive year the CDP questionnaire.

We participated in the United Nations Global Compact Accelerator, with a special focus on gender equity and climate change.

Finally, it is worth noting that we allocated $22 million pesos in social investments in Mexico, Argentina, Peru, and Central America, directly benefiting more than 15,000 people.

As we have said in the past, we are committed to achieving a Sustainable Growth Story, creating value for all of 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. We create value for our investors while upholding the best ESG standards and practices and becoming an ally for those who work towards the common good. Now let me show you a brief video around ESG.

VIDEO 50 seg

[Guidance 2022]

Well thank you and I hope you enjoyed this data and images which speaks about what the Company does. Well now moving into the guidance for 2022, we continue to bet on our internal drivers and the growing demand for smarter, decentralized water solutions. We expect a sales growth greater or equal to 15%, an EBITDA margin range between 16 and a half and 17 and a half and a return on invested capital 200 basis-points greater our cost of capital, all this while keeping our leverage below or equal to 2 times.

This year we will continue to invest in creating disruptive capacities to continue to grow into a company suitable for the future.

[AGUA]

Before we move to your questions, I would like to express our appreciation for the confidence that investors have shown in our stock, which registered an 11.2% annual return in 2021 or an increase of 19.7% considering the capital reimbursements or dividends which was a great management effort to deliver such value creation above the Company's common practice.

Finally, BTG Pactual started covering the story, with a buy recommendation and a target price of $39 pesos. Therefore, bringing the consensus target price to $43 pesos with 55 cents.

[Q+A]

That's all for me for now. Thank you very much for your time and attention. We look forward to your questions.

Operator: We will now conduct a Q&A session, if you would like to ask a question, please press the Q&A button located at the bottom of your computer screen and type your question, as well as your full name and the name of your company.

Operator: Let's star. Our first question comes from Michel Gálvez. Could you give us more color over your cash burn? We noticed higher inventories, which required higher working capital needs.

Carlos Rojas (CEO): Mario, please go ahead.

Mario Romero (CFO): Oh, thank you, Michel, and thanks for joining us this morning. Well, as we mentioned, you know, last year was a lot of disruptions around supply chains. The company operates in 14 countries. We serve more than 90,000 distributors and clients, and our primary goal was to secure raw materials to maintain our manufacturing facilities and field services operating we achieve with this strategy 99.53% of operating efficiency and we deliver 100% of all the orders, receive our clients. So that obviously increase our inventories is close to 800 million pesos for the period. That was a conscious move, leveraging our financial strength and favoring market share gain. And we believe that was a an interesting move which end up in increasing market share in all of our market and segments that we compete in and that the inventory thing will be a temporary situation which will be reverting in 2022.

Operator: Thank you. We have two other questions from Michel Gálvez from Principal Financial Group. I'll read the first one, which would be the expected CAPEX for 2022?

Carlos Rojas (CEO): Well, just a quick comment first on the CAPEX and then I'll let Mario get more into the details, but we have generated so many initiatives to evolve Rotoplas and some of them since the beginning of the transformation, which was at the end of 2019. Fortunately, we find ourselves with lots of content in growing the company organically. And so CAPEX will be higher than we have traditionally have had. And this is to first drive on the evolution and sustainability of our core businesses, primarily in the water storage segment by evolving our manufacturing plants. And with these new capabilities evolving in a very relevant way, our water storage solutions and we started with this last year. We validated the first phase during last year in one of our plants, and we will continue to pursue this strategy very aggressively. Secondly, while we did have during the pandemic, sluggish demand for water treatment plants in Mexico particularly, we have seen much higher demand at the end of last year. We would hope that we would have been higher last year, but it's really gaining traction in terms of closing new customers in the beginning of this year. And we do see kind investments for those water treatment plants in Mexico and in Brazil. There's additional product, projects, sorry, which will require additional CAPEX. Also wanted to say maintenance CAPEX is not increasing in other terms. Mario, anything else that you like to contribute?

Mario Romero (CFO): Well, probably it's going to be a high CAPEX year. CAPEX will come around 8 to 9% as a percentage of revenue. And the reason is just what Charlie explained, we it's, it's a big move towards investing in this new technology for water, the next generation of water tanks. We are targeting an IRR higher than 20%. And we are very excited about this new technology because really, it's really a disruptive move into the marketplace. The product by itself offers greater benefits and performance to our end users, and we believe that's kind of the things that the Company should focus if we want to be sustainable going forward. Secondly, as part of these high CAPEX year, we believe that traction coming from Brazil and Mexico in water treatment and recycling plants is going to be there. Mexico is it's going to be playing catch up for two years. The pandemic really hit commercial hotels and all those sectors which really refrained from doing new things. Brazil, as we mentioned briefly during the conversation last year, there's a new law coming into place around water sanitation that that's going to bring a lot of opportunities the next 10 years. So, the Company is really putting the money or all these big initiatives that the Company has created. Well, we put in the money into those, and we're really very enthusiast about the future that this will bring to that to the Company.

Operator: Thank you. The third question from Michel Gálvez, which is your base case scenario over cost and raw materials and logistics? When are you expecting this would normalize in your base case? And are you working in further savings in costs and expenses?

Carlos Rojas (CEO): Mario.

Mario Romero (CFO): Well, yes, and you know, that's a very interesting question, Michel. First, you know, 2021 was a crazy year, this freight containers from China to Mexico increased by more than 10 times. Raw materials increased 75%, one month towards the other. So, it was a very volatile environment where the company need to adjust and operate and find ways to deliver to our clients, but also to our shareholders and all the communities and stakeholders alike. Going into 2022, we expect some volatility still happening in the first half and we believe things are going to start to normalize in the second half. We've been seeing by the end of last quarter some of price drop in resin prices and some normalization, as well as in freights. Freights are not coming back to the levels we were used to, but now the company has set up the pricing in this new normal. So that's more or less what we're sensing. It's kind of a one of the top priorities within the Company monitoring this on a weekly basis. Pricing in one side and cost and logistics in the other. And as mentioned, I think is going to be the name of the game at least until June. And then, to your other, to your other question in bettering that one, part of the transformation is, all the time looking at new initiatives to bring about either cost reduction or expenses optimization, and there is still a lot of different initiatives in the company aimed towards that. One of the reasons around this big initiative of the new water tanks technology speaks around energy and raw materials optimization.

Operator: Thank you. Our next question comes from Liliana De León, GBM. Good morning, and congratulations for the results. I would like to know about the growth in the US. Could you give us more color on the US performance? How much of this sound top line comes from e-commerce and how much from septic tanks? Which business is gaining more traction? Thank you.

Carlos Rojas (CEO): Hi, Liliana, thanks for joining. Thanks for your question. First of all, I got to say that I'm very excited about the US, we're finding such great opportunities in this very resilient market with huge potential, such a deeper market than we used to in Latin America. And we're finding these opportunities were Rotoplas' unique capabilities in delivering decentralized water solutions are really needed. And in terms of e-commerce, it's a business that's been growing very well. Most of the top line growth comes from the e-commerce business, and that is particularly because it's the one that is bigger and that we've been working on longer. And so in terms of total amount of dollars in growth the e-commerce represents that the bigger growth. But in terms of speed of growth, the septics is very new, but that one is growing at an incredible rate. It's incredible to see in the US such a developed country, solutions that are very old in terms of technology and the way they're implemented. They have so many pain points for the customer, for the end user. And so the opportunity for offering end to end solutions to these customers in such big market, I mean, 30 million comes from septics. It's a huge market. It's tremendous. Now, septics does leverages on the e-commerce capabilities so that we can offer these one stop shop experience, which offers a much better customer experience in terms of solving for septic needs. And so I got to say that while the biggest dollar amount growth comes from e-commerce, the higher growth rate is coming from septics, and that one will eventually be much more relevant as it continues to get larger.

Operator: Our next question comes from Mariana Cruz, BTG Pactual. Good morning, everyone. Thank you very much for taking my question. In the call, you mentioned the investments you made in the new technology to produce a new generation of water tanks. Could you give us more color on what this new technology implies? Thank you very much.

Carlos Rojas (CEO): It is a technology that allows us to have much higher control in the process, and with this, we can improve the specifications of the product all the way from being able to use a wider spectrum of materials, including hopefully much higher content of recycled materials, which will make the product much more sustainable. And also, in the design of the product, we can produce a product that has a better shaped product, which gives a much better resistance and better performance. In appearance, it also is a much better product. We have tested this in one of our markets in central Mexico for quite some time now, to close to a year. And we have seen tremendous reception from the customers. They do prefer it by a lot. And so we have seen these possibilities in improving profitability in this segment because of the preference of the customer for this kind of solution in terms of the technology. It is a different manufacturing process that that's what I can say. And it's a technology that we have been co-developing with experts in that manufacturing process, which is a new manufacturing process, but one that has existed in the market for a while for other products. And so, I can say that it's a much more sophisticated manufacturing process. Mario, anything else that you think might be worth sharing in terms of…?

Mario Romero (CFO): No. I think with what we commented on, on the CAPEX, but I would just probably add onto this, that during 2021, we in one of the regions in Mexico, we did this investment and we really run a pilot for nine months to validate all the different data around customer acceptance, market share gain, pricing points and so on. So that was run in 2021. So we're going into 2022 to make this investment with a lot of data and confidence around why this is going to be very successful.

Carlos Rojas (CEO): Thank you, Mariana.

Operator: The next question in line comes from Rodrigo Alonso from Latin Finance. What is the status of the M&A you plan to do in North America and how will you finance the acquisitions with with cash flow or loans? And do you plan to issue an ESG bond in 2022?

Carlos Rojas (CEO): Thank you for your question, Rodrigo. As we've mentioned before, we see great opportunity in the US and we're pursuing that strategy aggressively. We're finding better and better ways to participate through M&A in the US. We have been making an effort to do so for multiple years now. The one we did in the last year is small in size, in terms of the dollar investment, but it is of very high strategic relevance as the digitalization of water is really a big component in the future of water management. There're other opportunities that we see that we're pursuing, and we do think that we will find better windows to do, to do more acquisitions. And in terms of the financing of these acquisitions, I think it would depend on case by case, depending on the target and the particularities of each of those companies in terms of size and its structure and profitability structure. Mario, anything else that you think we can can share in terms of strategy for M&A in the US and the financing?

Mario Romero (CFO): Well, no, I think you covered all the issues, as we mentioned on these previous calls. The US is a market which, as Charlie mentioned, is presenting a lot of opportunities, and we're devoting a great part of our, let's say, inorganic thinking around the US market.

Carlos Rojas (CEO): And there's a question about plans to issue an ESG bond in 2022 Mario.

Mario Romero (CFO): Well, that that. No, we're not planning to issue any new debt.

Carlos Rojas (CEO): Thank you, Rodrigo.

Operator: Thank you, guys. Our next question is from Martin Lara from Miranda Research. Good morning. And I have two questions the first one. What was the contribution of the *Flow* program in 2022 in terms of sales and EBITDA? And the second one? Could you please share with us the pricing strategy for this 2022?

Carlos Rojas (CEO): Thank you Martin. Mario. Can you get into more detail.

Mario Romero (CFO): Well, thanks, Martin, for for joining us this morning. Well, *Flow*, in terms of revenue, it accounted for about 8% of total revenue coming from the *Flow* initiatives and in EBITDA around 25%, I think it is important to tell you guys that *Flow*, all the initiatives that are now running within the Company take time to mature. Most of them are going to be reaching maturity by 2025. So, and that's what we're monitoring to capture all that by. The reason between why the EBITDA component is higher than revenue, it's because there's a lot of initiatives around costs and expenses that don't necessarily reflect in the revenue. To your second question around our pricing strategy, this year our budget, it's going to be aligning prices towards expected inflation in 2022. That's if nothing, you know, it's if volatility does not prevail then and have a similar year to 2021. But today we expect that.

Carlos Rojas (CEO): And maybe just what that *Flow* in terms of the focus of initiatives, if we categorize them at the beginning, it was much more about increasing profitability. And it was a lot of cost and expense reduction driven initiatives. We then saw a much more intensive stage last year in promoting the revenue line and particularly on more in products, and those initiatives have been developed and have been executed in a very high percentage. Some of that will continue to be executed, and it's obviously part of *Flow* this initiative with which we're evolving the water storage solutions. And that requires so much CAPEX, but a lot of that was developed in last year and we'll continue to be executed to take it Companywide throughout this year and next year. And a lot of the initiatives that are now being, we're being focused on which have higher potentials are these new businesses in in services and in the US, which are mainly focused in Mexico, Brazil and the US. And we see with these businesses much higher potential. We have been working on them for multiple years now. They're gaining not only more and more traction, but they're gaining enough size where we will start seeing impact in relative terms to the size of the Company in the coming years. So we're very excited about that and that will be the bigger trend going forward in terms of where we will be focusing our resources and initiatives.

Operator: Thank you. The next question comes from Rodrigo Salazar, AM Advisors. Hello. Could you expand on your margin guidance? Seems that margins will not recover as initially expected with the pricing strategy, and they, the margins be lagging towards 2025 guidance. Are you expecting a strong rebound in 2023 with the new technology and more normalized cost pressures?

Carlos Rojas (CEO): Mario.

Mario Romero (CFO): Hi Rodrigo and good morning. I think you're right in the spot, but I would probably in order to try to help you understand around margins and what is happening to consider these. Products in 2021 reached 18%. And products in 2022 is going to be improving those margins. We are thinking more around the 19% coming out from products. Services, in the other hand, it's the one that it's like dropping the margins. And the reason is we are heavily investing, which remember all the new machines of *bebbia*, just flows into the expenses and that drops the margins. So, the margin drop is not coming from a low recovery on the product side, but because of the drag in services. However, having said that, we believe that in the cycle towards 2025, we're going to be reaching our guidance of 20% or more. So, it's it's it's a two-part story, one, it's products which, you know, the hiccup of 2021 because of the raw material price increases that we explain, but we are on track of reaching the target. The drag is coming from the services side, but that eventually will meet by 2025 towards our goal.

Operator: Thank you. We have another question from Liliana de León, GBM, profitability is improving, but 2022 seems to be again a challenging year in terms of higher raw material prices. Which region or business line do you think would be the most resilient to keep absorbing price increases and in which one you are cautious about?

Mario Romero (CFO): I would say, you know that. We believe that raw material price peaks were reached between October and November last year. The price set up and margin structure going into 2022 is taking into account those price points from raw materials. But we've been seeing in December, January, February and started to see some color in March that those prices are starting to drop. So, because we set up the prices of our products and services using that, we believe that we should be able to achieve our targets with regards to margins.

Operator: Ok. Moving to the next question Alain Jaimes from Signum Research says good morning and congratulations on your results. I could see that you use CAPEX to modernize several of your platforms. My question is how much do you estimate that this amount of investment translates into income? That is, how much do you plan to grow with the investment made? Thank you.

Carlos Rojas (CEO): Hi, Alain, thanks for your question. I'll let Mario get into more details in a second but let me just say that a lot of the platforms were building and evolving with this investment, have been towards the services and the new businesses platforms, which has great potential and where we see higher growth rates. Today, they don't really make an impact because of their proportions of the two businesses, the new businesses and the and the traditional products business. And I do see that they will continue to grow as, in an accelerated manner. And if you take a look at what we're doing with a *Acuantia* and with *bebbia*, it's very clear that the evolution of those platforms. We do have a guidance of doubling the business by 2025 in revenues and while we will continue to have growth, very, very healthy growth in products, a lot of the growth that we need to get to that doubling number is going to come from these new platforms. Mario, I'm not sure there's any details that we can.

Mario Romero (CFO): We will have to share with you, and I think you posted a very interesting question. We cannot disclose the details, for example, on the, on the new water tank. We already have a model built around it. We know how much more market share we're going to be achieving and how's that going to translate into better revenue. Those details, given which is a new technology, we have competitors we rather prefer to reserve it.

Operator: Thank you. The last question, it's from Rodrigo Salazar, AM Advisors. Could you expand on *bebbia* and the water plant business? What's the situation of water plants? It seems a lot of contracts are not being renewed and not new contracts are being signed. In *bebbia* users are expanding positively, but these counts might be affecting short term numbers. When do you expect this business to be profitable and that sales are being fully reflected? And the second part of the question or comment is what do you believe is the customer pushback in *bebbia*, or what has been the biggest challenge to attract more clients?

Carlos Rojas (CEO): Um. Let me compliment Mario at the end, and particularly with the last question about *bebbia*, but in terms of numbers, can you share first some details on that.

Mario Romero (CFO): You know, and I think that's a fair point that Rodrigo makes, you know, given these two years, the reason a lot of contracts were not renewed on the water treatment plants was due, because there was a lot of uncertainty in our clients going forward. They didn't know if they have to become smaller, larger and so on. So that's we believe it's temporary that the pipeline that we have built in the last five months is very promising. So, we believe that that's going to come back and and recover its growth story. With regards to profitability, there's no specific profitability, if we stop growing, *bebbia*, profitability will be there. And all the services unit will be profitable. The reason is that remember that all the purifier that we installed in your home that is recorded as an expense. So, every addition of new clients, we grew more than 80% our client based in 2021. Every addition that's a very high customer acquisition cost because we need to put together the machine to start creating the service. Churn rates are below 10%, that gives you a lifespan of more than than 10 years for our clients. The business has proved very well. So, if we stop that business today from growing, you will will be achieving 20-25% EBITDA on *bebbia*. But we don't want to stop. We want to increase exponentially the amount of families that use the *bebbia* service. Having said that, and I think it's a fair question we should give you, I think we will discuss this internally more color around how *bebbia* is behaving by itself, apart from the rest of the water treatment and recycling plan, so you can have better color of how that business looks once it stops growing, but today we prefer to push the growth. And it's not because we are losing clients because we were getting a lot of new clients.

Carlos Rojas (CEO): I'm just two comments, one on treatment, one on treatment plants and the other one *bebbia*. Regarding *bebbia*, we have been also working very much on developing the capabilities to service this kind of customers, which is in the business model that's so different to what we were used to with the product business. Much more digital. It's a service business where we're servicing thousands of customers every every month directly at their homes and it did require lots of process development, technological platform development and, additional new capabilities, but in terms of what we're seeing from customers in terms of their satisfaction and their desirability of changing water consumption habits, going from the traditional solutions to this kind of water subscription solutions and with purified water, it's tremendous. So, we're we continue to invest very confidently that this will be one of the main businesses in the future in terms of water plants. One of the big things is that the capabilities that we've had acquired when we invested in water treatment through our acquisition was in solutions that were driven to these centers of high foot traffic, such as hotels or stores, which during the pandemic, they all came to basically a halt. And so these kinds of projects came to a halt and there was a lot of uncertainty on what was going to happen to these places, cinemas, shopping centres, big stores, hotels and we had been developing other capabilities for other kinds of water treatment plants. I did mention this in the AGUA Day where you were able to join and we developed capabilities to service the food and beverage industry, to service the mining industry, to service other industrial kinds of customers. The automotive industry, the pulp and paper industry and these industries in Brazil, we've been finding lots of success in terms of booking and in Mexico, it's been following Brazil and we're starting to see a lot more traction. Hopefully, we'll be able to share numbers around booking for water treatment plants, which is a leading indicator of what sales will look like and profitability. But we're very confident that it will start picking up in this year. Thank you, Rodrigo.

Operator: Thank you, Charlie. Thank you, Mario. We're running out of time. Thank you all for joining us.

Mario Romero (CFO): Mariana, I think for the missing persons that we really have, we didn't have enough time. We should reach back and answer to them, please.

Operator: Exactly. If you have any further questions, please make sure to include your name and we will contact you after the call. Have a great day.

Mario Romero (CFO): Thank you. Have a great day, bye bye.