Orbia Advance Corporation

Third Quarter 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

Gerardo Lozoya – *Investor Relations Director*

Sameer Bharadwaj – *Chief Executive Officer*

Jim Kelly – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to Orbia's Third Quarter 2023 Earnings Conference Call.

As we turn to Slide 1, all participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key, followed by “0”.

After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*”, then “1” on your touchtone phone. To withdraw your question, please press “*”, then “2”.

Please also note, today's event is being recorded.

I would now like to turn the conference over to Gerardo Lozoya, Orbia's Investor Relations Director. Please go ahead, sir.

Gerardo Lozoya
Thank you, operator. Good morning, and welcome to Orbia's Third Quarter 2023 Earnings Conference Call. We appreciate your time and participation today. Joining me today are Sameer Bharadwaj, CEO, and Jim Kelly, CFO.

Before we continue, a friendly reminder that some of our comments, today, will contain forward-looking statements based on our current view of our business and actual future results may differ, materially. Today's call should be considered in conjunction with cautionary statements contained in our earnings release and in our most recent Bolsa Mexicana de Valores report. The company disclaims any obligation to update or revise any such forward-looking statements. Now, I would like to turn the call over to Sameer. Sameer..

Sameer Bharadwaj
Thank you, Gerardo, and good morning, everyone. I would like to start by acknowledging our colleagues in Precision Agriculture in Israel. Our thoughts are with you and with everyone impacted by the attacks and ensuing war in this very difficult time for your country.

Our focus is to ensure safety of our colleagues and their families and to support them, as needed. At Orbia, we continue to be united by our values and shared purpose to advance life around the world.

I extend my thanks to all our employees for their steadfast dedication to our purpose and their commitment to one another, especially through challenging times such as these.

Now moving on to Slide 3, I would like to share a high-level overview of our performance from the third quarter of 2023. The third quarter was challenging, as prolonged elevated global interest rates continued to affect the markets in which we operate.

In addition, the slowdown in demand from the decline in industrial and construction activity in China led to increased global availability of exported PVC and other chemicals, depressing prices.

As a result, we continue to see lower year-over-year profitability in Polymer Solutions and began to experience weaker markets in the third quarter in fluorinated solutions and connectivity solutions. These were partially offset by increased profitability in both Building and Infrastructure and Precision Agriculture.

Quarterly revenues totaled $2 billion, down 14%, year-over-year. EBITDA decreased by 16% to $320 million with an EBITDA margin of 16.2%, approximately 50 basis points below the prior year. Finally, our operating cash flow was $218 million, down 3% from the prior year.

Despite the ongoing weakness of the operating environment, we continue to believe in our long-term fundamentals and the resilience of our businesses, over time.

At this time, I will turn the call over to Jim to address our financial performance in further detail.

Jim Kelly
Thank you, Sameer, and good morning, everyone. As Sameer noted, the primary factors impacting our third quarter results were the effects from prolonged higher interest rates and the global availability of exports from China, as a result of its weaker industrial and construction markets.

The higher interest rates have led to a deferral of investments in construction, infrastructure and other capital-intensive projects in many of our end markets. To mitigate these factors, we're proactively focusing on revenue generation opportunities and managing our costs, capital spending and cash position.

Turning to Slide 4, on a consolidated basis, our net revenues were down 14% year-over-year, reflecting lower sales in Polymer Solutions, Building & Infrastructure, Connectivity Solutions and Fluorinated Solutions. These results were partially offset by higher revenues in Precision Agriculture.

EBITDA of $320 million decreased by $61 million year-over-year, due to softer demand and lower prices in Polymer Solutions, Fluorinated Solutions and Connectivity Solutions, partly offset by EBITDA improvements in Building & Infrastructure and Precision Agriculture.

Operating cash flow of $218 million decreased by $7 million, or 3% compared to the prior year quarter, reflecting lower EBITDA and higher taxes paid. Free cash flow in the quarter was $27 million, a decrease of $74 million year-over-year, due to lower operating cash flow and capital expenditures of $166 million, a year-over-year increase of $48 million.

The increased capital spending supports Orbia's ongoing growth initiatives, which we highlighted as part of our strategic update in June. Our effective tax rate was 4% for the quarter, as compared to approximately 19% in the prior year period. The decrease in the effective tax rate was primarily due to the weakening of the Mexican peso against the U.S. dollar, during the quarter.

In August, we completed the reopening of the CBORIS (ph) notes we offered in December of 2022, raising an additional 10 billion in the Mexican market. The proceeds of the offering are being used to pay down short-term debt maturities. We also paid $60 million in dividends in the quarter.

Turning to Slide 5, I'll go through our quarterly performance in more detail by business. In Polymer Solutions, third quarter revenues were $677 million, a decline of 19% year-over-year, largely due to lower prices in general purpose PVC and caustic soda and lower volumes in specialty resin PVC. Results reflect weaker demand in construction-related markets due to high interest rates, as well as increase in availability in PVC from China's lighting, building and construction industry.

Third quarter EBITDA was $86 million, a decrease of 26% year-over-year, with an EBITDA margin of 12.7%, a decrease of approximately 120 basis points. These declines were primarily driven by reduced prices, partly offset by diligent cost control.

In Building & Infrastructure, third quarter revenues were $694 million, a decline of 1%, year-over-year. Results were impacted by lower demand in Europe, driven by the impact of higher interest rates, which resulted in lower construction and infrastructure investments. This was partially offset by volume improvements in Latin America and in the U.K., Ireland.

Third quarter EBITDA was $79 million, an increase of $9 million year-over-year, with an EBITDA margin of 11.4%, an increase of approximately 140 basis points. This was driven primarily by improved variable margin contributions and cost optimization, as well as contributions from M&A activity completed in recent years.

Moving to Precision Agriculture. Third quarter revenues were $250 million, an increase of 12% year-over-year, due to increased demand in certain markets of Latin America, India, Turkey and improvement in Europe. These were partly offset by continued soft demand in the U.S. and other markets, reflecting weak investment economics for farmers, due to elevated interest rates and adverse weather conditions.

Third quarter EBITDA was $19 million, an increase of $7 million year-over-year, with an EBITDA margin of 7.4%, an increase of approximately 200 basis points.

In Connectivity Solutions, third quarter revenues were $252 million, a decline of 32%, year-over-year. This was driven by lower volumes and lower pricing.

Many customers are deferring projects as a result of current high interest rate environments, as well as the delay in availability of government funding for fiber deployment.

Third quarter EBITDA decreased 34% to $69 million with an EBITDA margin of 27.5%, a decrease of approximately 85 basis points. This was driven by the reduced volumes and prices that I just discussed, partly offset by lower material costs and stringent cost control.

Finally, in Fluorinated Solutions, third quarter revenues were $187 million, a decrease of 16%, year-over-year. These results were primarily driven by lower volumes, partially due to timing of shipments and unfavorable mix, partly offset by favorable pricing.

Third quarter EBITDA was $67 million, a decrease of $11 million year-over-year, with an EBITDA margin of 35.9%, an increase of approximately 90 basis points. The lower EBITDA was largely due to lower sales volumes, as I previously noted, with the favorable margin resulting from higher year-over-year pricing.

To summarize, persistent elevated interest rates and global impacts of weakness in China's building and construction industry continued to impact our business with softening demand across most segments.

As we close out the year and look ahead to 2024, we'll continue to be focused on revenue generation, diligently controlling costs, managing through ongoing market weakness, and demonstrating fiscal discipline as we execute our strategy to grow our business. I'll now turn the call back over to Sameer.

Sameer Bharadwaj
Thank you, Jim. On Slide 6, I will provide an update to our outlook for the remainder of 2023. We are continuing to proceed cautiously, as we enter the last quarter of 2023, given the weak demand and pricing environment. We are focusing on revenue generation, commercial and operational excellence and fiscal discipline.

Our updated guidance now reflects a mid-teens percentage decline in revenue year-over-year and EBITDA of approximately $1.45 billion for 2023. We also continue to expect a tax rate between 44% and 47% and capital expenditures, approximately $600 million.

Looking ahead to the fourth quarter in each of our business segments. Beginning with Polymer Solutions, we expect the softer business performance to continue, due to the high interest rate environment and continued availability of exported PVC from China.

Prices for general purpose PVC and caustic soda are expected to remain at low levels, both due to weak demand. In addition, a planned turnaround in some of our core assets will impact volumes and results.

In Building & Infrastructure, we expect continued weakness in EMEA with solid markets in most of Latin America.

We are focused on business optimization efforts across all market segments, and remain committed to our growth efforts in India, Indonesia and North America.

In Precision Agriculture, we continue to see lower-than-expected demand across Europe and parts of the Americas, particularly the United States. However, this is partially offset by seasonal increases in the fourth quarter and sustained strong markets in India, China, Turkey and parts of Latin America.

In Connectivity Solutions, we expect ongoing market weakness in North America and Europe, due to continued high interest rate-driven delays in customer demand. We continue to believe in the long-term fundamentals of this business as a commitment remains to connect over 70 million households with fiber in the coming years.

And finally, in Fluorinated Solutions, we expect demand headwinds to continue in certain markets through the remainder of the year. This will be partly offset by delivery of shipments that were delayed at the end of the third quarter. We are continuing to invest in growth projects in the Energy Materials segment, next-generation refrigerants and medical propellants and are making good progress on these projects.

In closing, as we move into the fourth quarter of 2023 and look ahead to 2024, we continue to be sharply focused on operational, commercial and financial discipline, as we maneuver through ongoing market weakness. However, we remain confident in our growth strategy and the long-term fundamentals of our business, and we will prudently invest so that we can continue to meet our customers' needs and deliver value to our shareholders.

Thank you for joining us today and for your continued interest in Orbia as we advance life around the world together. Operator, we are ready to take questions at this time.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press “*”, then “1”. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press “*”, then “2”.

At this time, we will pause, momentarily, to assemble our roster.

Our first question will come from Pablo Ricalde with Santander. You may now go ahead.

Pablo Ricalde
Hi, good morning, Sameer, Jim, Gerardo. I need you to explain a little bit further the increase we saw on the SG&A line. I know there's something about inflation and something about FX, but I don't know if you can provide a breakdown on how much was maybe the expenses related to growth and how much was net inflation on FX.

Jim Kelly
Hello Pablo, this is Jim. Thanks for the question. So, as I noted in my comments, we remain very committed to controlling our costs. So, both between cost management and cash, we are very disciplined in terms of how we're managing the company at this point in time. So, if you look at the--both the quarter and year-over-year variances, really, the story is the same in pretty much both of the periods. In the quarter, about half is between M&A and growth investments.

So, the increase of about 30,15-ish is combined between those two. You may recall, last year, we had the acquisitions of Bow and Biarri. So, the additions of the SG&A of those entities has led to roughly speaking, eight. And then in growth investments, we've got about seven.

So, combine those are about half of the variance. And then the other half is primarily FX with the level of activity that we have in Mexico and the appreciation of the Mexican peso, year-over-year, FX has been a considerable driver. And the story is pretty similar on a year-to-date basis, as well.

Pablo Ricalde
Perfect, thank you.

Operator
Our next question will come from Leo Marcondes with Bank of America. You may now go ahead.

Leo Marcondes
Hi, guys. Thanks for taking my questions. First one is on the guidance update. You have already provided a very good color on the outlook for the remainder of the year. But looking to the guidance and the figures that you have already posted this year, we can imply that expectations for EBITDA in the last quarter will be somewhere around $250 million, right? So, I was wondering if you could quantify just a bit for us from which businesses you expect a more challenging scenario in the first quarter versus the third quarter.

My second question is regarding the Building & Infrastructure segment. If you could also provide some color on your expectations in terms of EBITDA contribution from the recent acquisitions that you mentioned in the release for maybe the fourth quarter or next year would be very helpful.

Sameer Bharadwaj

Thank you, Leo. Let me take your first question, and I'll have Jim address your second question. In terms of our guidance, much of the sequential weakness that we are projecting in the guidance will be from our Polymer Solutions business, and a big part of it is driven by planned turnarounds in many of our core assets as much as four to five weeks of production time that will be lost as a result of the turnaround, and that will impact the results.

And so, that's why you'll find the projections to be unusually low. The second business where we expect sequential weakness is in the Connectivity Solutions, which is, again, as we talked about earlier, we are seeing a slowdown in the pace of investment in telecom buildouts with the interest rate increases.

So, the privately funded projects are being more selective in terms of which projects they invest in, and the rest of the market is waiting for the government funding to be available under the BEAD program. The government has announced $42 billion of funding, but it won't be until the middle of next year until those funds will actually become available.

Having said that, we believe the slowdown in Connectivity Solutions is temporary, and the long-term fundamentals are absolutely intact with 70 million homes still to be connected and significant growth and funding available for these projects.

So hopefully, that answers your questions on the sequential guidance. Now of course, we have conflict brewing in the Middle East. And while Israel is a small part of our revenues, any broader escalation of conflict in the region could have a somewhat negative impact. And so, we have baked some of that into our guidance, as well. And hopefully, things don't evolve in the worst possible manner.

Jim Kelly
So, in response to your second question about growth from M&A. So, you may recall that we had made an acquisition in Asia Pacific, specifically in India, the Vectus business. So that is growing. And that area, in general, along with LatAm are relative areas of strength in B&I for us at the moment. So, we are seeing some positive results from that Vectus acquisition that we made.

We don't disclose specific numbers at that level of detail. So unfortunately, I can't provide you with a specific number. But generally speaking, Vectus is contributing to the growth that we're seeing in B&I.

Sameer Bharadwaj
Yeah, and so besides Vectus, we had BRE and Connectivity Solutions and Bow Plastics in Canada. And all of those are contributing and some of them there's, of course, they are impacted by the slowdown that we are seeing. But overall, we expect all of these acquisitions to reach their potential.

Leo Marcondes
Perfect, very clear. Thank you, guys.

Operator
Our next question will come from Alejandra Obregon with Morgan Stanley. You may now go ahead.

Alejandra Obregon

HI, good morning, Sameer, Jim, Gerardo. Thank you for taking my question. I actually have two. The first one is on Netafim. It seems that top line is recovering at least towards more normalized levels. But on the cost side, you're still showing a higher cost. So, if you can just talk about a little bit behind the drivers of both the revenue and the cost side that appears to be higher every third quarter for Netafim.

And then the other question is perhaps a follow-up on the Building Infrastructure side. So, if you can help us understand what percentage of your demand today is linked to, let's say, infrastructure and how much is linked to private works. And what type of contracts do you tend to see in either of the two, meaning is infrastructure a long-term contract? And if it is, how long would it last versus maybe private works that are shorter. I don't know. If you can help us understand the dynamics there, that would be very helpful. Thank you very much.

Sameer Bharadwaj
Very good, Alejandra. Let me talk about Netafim, first. And so Netafim, Q3 is normally seasonally the weakest quarter in Netafim. So, in Netafim, typically Q2 and Q4 are the strongest quarters and then followed by Q1 and then eventually, Q3. And so, what you see from a cost standpoint is you don't have adequate fixed cost coverage due to seasonally lower revenues, and that's why costs appear to be higher.

Now what's happening in Netafim more broadly? So, we have had weakness in the United States. And this is driven by two or three factors. First, the pricing for high-value crops that we typically participate in, in particular, almonds, walnuts, pistachios, has been low because of significant inventory builds over the last couple of years.

Second, we've had adverse weather events impacting the planting behavior. And third, the high interest rate environment has forced farmers to be very selective about what projects they're going to invest in. So that has led to a slowdown in the United States.

In Latin America, we've had challenges in Chile with again, pricing of higher value crops being lower, and in some of the other economies due to political situations. Having said that--and also, we've had a weak Europe ever since the escalation of the conflict in Europe. So that has impacted demand in Europe. Now offsetting those weaknesses are strengthened in Brazil, in Mexico, in Turkey, in India and in China.

So, in Netafim, of course, we are focused on costs. But more importantly, we are focused on demand generation, in particular, on the key growth vectors. And there are several growth vectors for Netafim, the largest one being extensive crops, and we have a significant effort on generating demand for extensive crops, and these include corn, soybean, alfalfa, cotton, sunflower and different crops in different parts of the world, but the opportunity is very significant.

And we are working on focused opportunities in various regions to generate demand in these areas. We are also working on expanding our services business model. We are working with large customers, and we have done successful pilots, and we are in the process of scaling some of these pilots.

And then finally, we relaunched our digital offering Growth Sphere, which is a far more robust solution than we previously had and can add significant value to large farmers. And so, we see good growth potential in that, as well.

And then finally, after a couple of weak years in the greenhouse business, we are now building a strong pipeline, particularly in the United States, China and Australia, and all of those should help with return of revenues in the Precision Agriculture business. And of course, simultaneously, we'll be focused on managing our costs appropriately.

In Building and Infrastructure, now much of our demand, if you look at our segments, and the way we define our segments is building is one of the segments and which includes hot and cold segments. And then you have infrastructure, which includes soil and waste, storm water management. And then we have indoor climate systems. Much of our revenues are driven by housing.

And we know that from a fundamental standpoint, housing is short in all of the economies we participate in. So particularly in Europe, there is a significant shortage of housing; however, demand was significantly impacted in particular in Western Europe, in Germany, Netherlands and the Nordic countries. So, we've had significant weakness in those countries.

Eastern Europe was impacted by the war as well, but there is a significant pent-up demand. And so, when these economies recover and each of the governments are working hard to turn these economies around. And we've already seen some stimulus programs in Central and Eastern Europe that should help drive demand. And much of the demand is driven by housing and building and construction. So that should help with B&I, particularly in Europe.

Latin America, in Central America and Mexico have been strong for us. And so, we continue to do well, and we continue to gain market share in those regions. We are also doing a much better job of realizing the synergies across the various Orbia businesses, particularly in between Polymer Solutions, Building & Infrastructure and Precision Agriculture. And that's what you see parlayed in the results.

Now we've also undertaken significant business optimization initiatives within the Building & Infrastructure business and some of that is showing up in the results, as well.

Jim Kelly
If I may just go back to Netafim as well, just for one second because I think part of the question was seasonality of costs. So, you do see an increase in costs, relatively speaking, or you see it via reduction of EBITDA margin in the third quarter, typically every year. And part of that is that Q3, from a seasonal perspective, is a lower revenue--lower revenue quarter for us.

So, what we have is a lower absorption, essentially, of our operating cost and inventory, so higher costs in the P&L in the third quarter. And then adding to that, in this particular year, if you remember in some of our strategy discussions, we've been talking about making some investments to grow in the areas of extensive crops and greenhouses. So you'll see a little bit of increase in cost as we've invested in those.

And we're already beginning to see some benefits from those. We just recently announced the project in Canada in greenhouses that, as part of a reflection of the greater investment we've been making in that area.

Alejandra Obregon
Got it. That was very clear. And just a follow-up, is that project in Canada flowing into 2024 numbers when is it a good or a fair assumption to have that coming in?.

Sameer Bharadwaj
I think 2024 would be a fair assumption.

Alejandra Obregon
Perfect, thank you very much.

Sameer Bharadwaj
Thank you, Ale.

Operator
Our next question will come from Vicente Falanga with Bradesco. You may now go ahead.

Vicente Falanga Neto
Hi, thank you, everyone, for taking my questions. First of all, on Connectivity Solutions, it was my understanding that the competition was getting a little bit tougher. To what extent do you think this competition could be irrational or excessively detrimental to prices and margins in the U.S.? If you can comment a little bit about that. And then second, if you could just provide updates on the LiPF6 and PVDF plant in the U.S., what stage are these plants right now? Thank you very much.

Sameer Bharadwaj
Thank you, Vicente, for your question. Let me take your question on Connectivity Solutions. While we are seeing increased presence of competition in the United States, particularly in standard DUCs, so one of the key reasons why the top 20 carriers buy from Orbia's Connectivity Solutions business, it's not just the conduit. So, there's a significant amount of work we do to advise our customers on their network buildouts. And we provide a comprehensive offering. And in fact, the recent acquisition of Biarri, where we provide network design services, are a very complementary part of our offering.

And so, buying decisions by customers are not just based on price, alone. So, there's a significant amount of stickiness in our offering, particularly with our large customers. Now of course, we do have a lot of fragmented customers through distribution channels, and we might see increased competition there.

But there, again, because of our ability to serve customers all across the United States and because we are the only ones who has an extensive footprint across the U.S., we are able to--we might see some margin compression, but we are able to hold on to our share in those segments, as well. And as I said earlier, we expect this weak period to continue for the next couple of quarters, but the long-term fundamentals are indeed, very strong for this business.

In terms of your questions on LiPF6 6 and PVDF, very good questions. Those are our flagship projects. And as a reminder to everyone, LiPF6 is an electrolyte sort that goes into the lithium-ion battery. And we are doing a project in to put LiPF6 capacity in the United States. We have received a $100 million grant for that project. We are currently in the engineering phase.

We have secured the technology license from the leading producer of LiPF6 in Japan, which is Kanto Denka. And that project is proceeding and is on track. The second project, we had announced a memorandum of understanding with Solvay for a 51-49 joint venture to produce the first producer of suspension-grade PVDF in the United States.

And as of now, we've been in the process of working on the definitive agreement for that joint venture. And as soon as that's done, the engineering teams are going to carry on, on that as well, okay. So there is a good cooperation between both sites, even as we speak.

Now both of these are flagship projects because with very strong economics and with strong government incentives to both of these projects and substantial growth expected over the course of the decade. And these investments are also somewhat protected because under the IRA rules for the car companies to qualify for $7,500 tax credit, they have to demonstrate that critical materials did not come from countries of concern, which includes China.

And given the amount of investment the United States is making to support battery materials infrastructure in the U.S., they are committed to protecting the industry and encouraging the industry, as well.

So, both of those projects are on track, and we are really looking forward to the scaling of those businesses overall for the decade. And they will have a transformational impact on Orbia and the role Orbia will play in the energy transition, as well as its earnings profile, going forward.

Vicente Falanga Neto
Great, thank you very much. That’s very helpful.

Operator
Our next question will come from Pablo Monsivais with Barclays. You may now go ahead.

Pablo Monsivais
Hi Sameer, Jim and Gerardo. Thanks for taking my question. I was wondering how this quarter results changes, if at all, the decision-making process on your PVC expansion plans. Do you think that you will push further your CapEx decision or not yet? Thank you..

Sameer Bharadwaj
So, that's a very good question, Pablo, and I'm glad you asked that question. So now, our long-term fundamentals for PVC depend on the supply of PVC, globally, and demand for PVC, globally. And we have been taking a very hard look at this, especially in the context of changed market conditions.

And even as we speak, we have a team in China on the ground, meeting with producers, going to conferences to get a better feel for the demand and supply profiles, particularly in China because that has a big impact on the world. Now we still believe that the long-term supply-demand fundamentals for PVC are favorable. In the short term, the weakness in China, particularly the real estate bust, has caused a slowdown in demand to the level of 50% to 60% of GDP.

And so, if GDP for China is 5%, PVC demand in China is now expected to grow at 2.5% to 3%. Now on the supply side, you have three types of suppliers. They are the coal-based suppliers and the ethylene-based suppliers. Now what we are finding is that many of these ethylene-based suppliers are actually securing their feedstock from North America and taking these liquid feedstocks from North America at very high logistics costs, and so they don't have a great cost position.

And then on the coal-based players, 80% of them are integrated; 20% are nonintegrated. The nonintegrated players have a very high cost of $1,000 a ton. So, they are not competitive from an export standpoint. And the ones who are exporting right now are the integrated players who have a cost position of $600 to $700 a ton. And even these players, by the time you get the material from inland to the port, add the VAT and export, typically, you need to see prices in the mid-800s, closer to 900 for it to be economically viable.

And so today, what we are seeing is even though China is exporting, a lot of them seem to be exporting at either breakeven or below cash cost. And that situation is not sustainable. And we believe that there will be some rationalization of capacity, particularly with the nonintegrated players in China, and that affects the long-term supply-demand situation.

Now that was a long explanation, Pablo, but I think it's very important for everyone to understand what that means. What that may mean is that the peak of the cycle might be delayed by a year or two.

Now where does that put us? Now as I had shared earlier, we are currently in the first engineering phase, and that is expected to be completed by the first quarter--by the end of the first quarter of next year. And then we would start the detailed engineering, and then the final investment decisions will be taken by the end of the year.

We still have time to think hard about the timing of the project and the size and scale of the project. And given the weak market conditions, we are going to be very prudent about our capital allocation decisions and have a very high bar on the business case before we commit to significant capital spending. And so, rest assured that we're going to have the highest levels of scrutiny before we make an investment decision, and we still have time to do so.

And there's a timing we can work with. There's the size and scale of the project we can work with. And we'll keep you posted as we go along.

Now I do want to comment on the what's actually happening, right now. It's a weak quarter, and we are expecting weakness to continue in Q4. And it's much of what we are seeing across all of our businesses is weak demand and weak pricing. We are not losing market share, and this cannot continue for long because we are in essential sectors and in essential sectors, one cannot postpone consumption for too long, and there is pent-up demand building up.

And so as soon as we see stabilization of interest rates, some pickup of demand in China and de-escalation of conflict in Europe, these will be key catalysts for a significant rebound. So hopefully, that puts things in context. We at Orbia are approaching this with a very calm--in a very calm manner.

I do believe--Jim and I believe that we have a very resilient set of businesses. And by being focused on operating discipline, fiscal discipline and being very prudent in capital allocation, we think we can come out of this weak phase much stronger than before.

Pablo Monsivais
Perfect. Thank you very much.

Sameer Bharadwaj
Thank you, Pablo.

Operator
Our next question will come from Andres Cardona with Citi. You may now go ahead.

Andres Cardona
Hi Sameer, Jim, Gerardo. Most of my questions have been answered, but let me ask, you have limited your comments about the outlook of the next couple of quarters. And I understand the visibility may be poor, but could you expand on some preliminary comments about 2024? Where do you see the main, I don't know, profitability recovery or challenges? Anything could be very helpful. Thanks.

Sameer Bharadwaj
Good to hear from you, Andres. So, look, let me just go business by business. And I think we mentioned some of the comments in the script as well. Now Polymer Solutions, we are seeing PVC prices came off the bottom. Nobody can sell PVC for $700, $750 a ton for too long. And even last week, we saw an uptick in Southeast Asia, and it is skimming off the bottom. And also, we will be past our turnarounds in Q4. And so, we expect to see an uptick in Polymer Solutions in Q1, for sure.

Now Building Infrastructure, a lot of the work that we are doing, Building and Infrastructure, Q1, Q2, we begin to see an uptick in demand. And so hopefully, we can maintain the strong momentum we’re seeing in B&I. Netafim, seasonally after Q4, Q1 is also hope to see some continued momentum in Precision Agriculture, as well.

And Connectivity Solutions, we might continue to see some weakness in Q1 before we begin to feel the positive impacts of the government funding. And then which of the businesses are we talking? Fluorinated Solutions, hopefully, we are focused on maximizing our volumes and maximizing value in terms of pricing across all of our segments. And hopefully, we continue that momentum in 2024.

Operator
Our next question will come from—

Sameer Bharadwaj
We couldn't hear your name.

Christina Ronac
It was me.

Sameer Bharadwaj
Go ahead, Christina.

Christina Ronac
All this is super helpful. Thank you so much. Now on the seasonality, you're saying how 3Q is weak. So, I'm just trying to better understand the guidance. Why is 4Q EBITDA going to be even lower around 220 versus 320 in 3Q?.

Sameer Bharadwaj
So, is this for all of Orbia, or is this--did you ask for Precision Agriculture?

Christina Ronac
Yes, sorry, on a consolidated basis, just given your guidance, so you are expecting 4Q to be even weaker because you were saying how 3Q is seasonally weak.

Sameer Bharadwaj
So that's right. So particularly in Europe, there's seasonality with a fair amount of December, there's a slowdown in Europe in many of our business segments. But also, as I mentioned earlier, we are going to lose a month in our Polymer Solutions business because of significant turnarounds, and these are planned turnarounds. And those are the reasons why you'll see the Q4 number to be unusually weak. And this is in addition--we are expecting continued weakness in Connectivity Solutions.

Christina Ronac
Okay, very clear. Thank you.

Operator
Our next question will be from Tasso Sousa with UBS. You may now go ahead.

Tasso Sousa
Hi, thank you for taking my questions. I got late on the call, and I'm sorry if any one of the questions were already asked. But maybe, guys, if you could provide us with an update on the 2023, 2028 plan. Given the same challenges we're seeing in the market, what could we expect looking for the plan? Or maybe do you believe the market can resume the previous expectation at some point in 2024, 2025 and that our plan is actually maintained?

My second question, we have seen some other announcements on shutdown in facilities, holding investment in some new projects, given the low margins and so on. Could all be eventually evaluate a similar decision? Or maybe given this scenario in the company's solid balance sheet, are you actually seeing some good M&A opportunities? And maybe the third one here, actually, a follow-up on the second question, potentially reducing exposure to the (inaudible) cyclical business would it be currently for Orbia? Those are my questions. Thank you.

Sameer Bharadwaj
Thank you, Passo. Let me make sure I got all of your questions. So, your first question was around the impact on our '23 to '28 strategic plan. And you had a second question around are we seeing M&A opportunities given weak market conditions across the board elsewhere? And your third question, I'm not sure I fully got your third question, Passo.

Tasso Sousa
Maybe on these M&A opportunities, potentially reducing exposure to the (inaudible) cyclical business investing in maybe other business, if that could be an alternative on this M&A front?.

Sameer Bharadwaj
Very good. Understood. So let me talk about our long-term strategic plans. And if you recall, much of our strategic plan for the next six to seven years is driven by organic growth investments. Almost 80% of it is driven by organic growth investments. And we had, in particular, four big projects, the PVC project, LiPF6, PVDF, the capacity expansions in our Connectivity Solutions Business and then a few other projects such as the growth in B&I in United States, in India, Indonesia.

Now we are committed to our growth plan. With the one caveat that given what we are seeing happening in the PVC market, and we are taking a hard look at the supply-demand situation and reanalyzing the business case to see how that impacts our decision on timing and/or scale of that project. And so yes, so in terms of impact on our strategic plan, this could impact our strategic plan from a timing standpoint and scale standpoint.

And the businesses are right now in the process of reworking their strategic plans, over the next several years. And we will provide an update. We do an annual update sometime in the May, June time frame, and we will provide all our investors with an update on where we stand with our refreshed strategic plan going forward.

On your second question on M&A, at this point, our goal is to maintain a strong balance sheet, focus on improving the performance of our businesses, while we're going through this weak market environment period and generating cash and conserving cash. Now M&A, it will have to be a very high bar. There have to be very significant synergies, there has to be significant growth potential. And we don't want to overpay for an acquisition.

And so, while we will be selectively looking at M&A, the bar for M&A will be incredibly high. And typically, we'll be looking at smaller M&A projects that, potentially, address the gap in our portfolio that will help us strengthen our channels to market and get closer to customers or address gaps in technology in our portfolio.

And in terms of reduction of exposure to cyclical businesses, we expect that to happen naturally over time as we see growth in our downstream businesses, particularly in B&I, in Connectivity Solutions, in Precision Agriculture, and particularly in fluor as we get into the energy transition, we expect to see a phase of sustained growth, which will help offset the cyclicality that comes from our exposure in the PVC business.

Tasso Sousa
Alright, I'll be here. Thank you.

Sameer Bharadwaj
Thank you.

CONCLUSION

Operator
Again, if you have a question, please press "*", then "1". It appears there are no further questions. This concludes our question-and-answer session. I would like to turn the conference back over to Sameer for any closing remarks.

Sameer Bharadwaj
Thank you, Anthony. So, in conclusion, what I'd like our investors to take away is that even though we've had a weak quarter, and we expect some weakness going forward, I'd like to point everybody to our long-term strategic plans. The long-term fundamentals remain intact. Orbia and its group of businesses are extremely resilient.

And there are significant synergies across our value chain that have enabled us, despite the decline in performance, if you compare with our peer group and many of the other companies in similar sectors out there, we have held up better than many of the peer group companies out there. And we are taking the opportunity to do some self-help and optimize our businesses and operations, manage our costs more efficiently.

And we're looking forward to coming out of this stronger when demand returns and our pricing power returns. And the key catalyst, as I had mentioned earlier, to look out for a stabilization of interest rates, recovery in China and Europe and other key parts of the world so that when the pent-up demand comes, we are ready to deliver upon it. Thank you very much for joining the call, and we look forward to talking to you in February for the year-end earnings call.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.