Orbia

First Quarter 2023 Earnings Results

April 27, 2023, at 11:00 a.m. Eastern

CORPORATE PARTICIPANTS

Gerardo Lozoya – *Investor Relations Director*

Sameer Bharadwaj – *Chief Executive Officer*

Jim Kelly – *Chief Financial Officer*

PRESENTATION

Operator

Good morning and welcome to the Orbia First Quarter 2023 Earnings Results conference call. All participants will be in a listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Gerardo Lozoya

Thank you, operator. Good morning and welcome to Orbia's first 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 to turn the call over to Sameer. Sameer?

Sameer Bharadwaj

Thank you, Gerardo. And good morning, everyone. I would like to begin by reminding everyone who Orbia is and why we are here today, and where we are going on our journey. Driven by the purpose to advance life around the world at Orbia we are at the forefront of solving some of the world's toughest challenges. Through our global operations in over 50 countries, we are creating basic and advanced materials and solutions that enable clean water and sanitation, food security, infrastructure resilience, connectivity, health and well-being and the energy transition.

Now moving on to slide 3, I would like to share a high level overview of our performance from the first quarter of 2023. As expected, with the continuation of the macroeconomic volatility that we encountered in the second half of 2022, Orbia faced a challenging environment this quarter. Compared to a very strong first quarter a year ago, profitability decreased in Polymer Solutions, Building and Infrastructure and Precision Agriculture, which was partially offset by continued growth in Fluorinated Solutions and Connectivity Solutions. On the upside, however, many of our end markets strengthened somewhat compared to late 2022 levels, and sequentially EBITDA results improved across all businesses.

Quarterly revenues totaled $2.3 billion, down 12% year over year. EBITDA decreased by 23% to $469 million, with an EBITDA margin of 20.6% or roughly 295 basis points below prior year. Finally, our Operating cash flow was $167 million, down 14% from the prior year. This was largely driven by lower EBITDA partially offset by effective working capital management. Despite the challenges of the current operating environment, Orbia remains focused on executing our strategy for value creation, focusing on three key areas as outlined at our investor day in May 2022: investing in profitable growth and innovation, maximizing the value of integration, and creating shareholder value by being thoughtful stewards of capital and disciplined operators.

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

Jim Kelly
Thank you, Sameer. And good morning, everyone. I'll start by discussing our overall first quarter results.

Turning to slide 4. On a consolidated basis, net revenues were down 12% year over year, reflecting lower sales in Polymer Solutions, Building and Infrastructure and Precision Agriculture. These results were impacted by softer demand and weaker end markets as a result of the challenging macroeconomic environment, and as a reminder, are compared to a very strong prior year quarter. These factors were partially offset by higher revenues in Connectivity Solutions and Fluorinated Solutions, driven by strong demand and improved pricing, respectively.

EBITDA of $469 million decreased by $142 million year over year, due to the softer demand that I just mentioned. However, EBITDA increased by $162 million sequentially, due to a gradual improvement in market conditions through the quarter, benefits from favorable energy and natural gas costs, and the continued increase in profitability in Connectivity Solutions and Fluorinated Solutions.

Operating cash flow of $167 million decreased by $27 million compared to the prior year quarter, reflecting lower EBITDA and partially offset by effective working capital management. Free cash flow in the quarter amounted to a million dollars, a decrease of $67 million year over year, which reflected higher capital expenditures compared to the previous year period. Capital expenditures of $142 million increased by $41 million year over year, supporting the company's ongoing growth initiatives. Our effective tax rate was 64% for the quarter, as compared to approximately 34% in the prior year period. The increase was due to impacts from the appreciation of the Mexican peso and inflation.

Returning value to our shareholders remains a priority for Orbia. However, during the first quarter, the company did not pay any dividends due to the timing of the approval in our annual shareholder meeting, which took place in the last days of the quarter. An annual dividend of $240 million has been approved, and the first and second installments of our four equal dividend payments will both be made during the second quarter of the year.

Turning to slide 5, I'll go through the quarterly performance in more detail by business. In Polymer Solutions, first quarter revenues were $770 million, a decline of 28% year over year. These impacts were due to lower prices in general purpose PVC, largely driven by increased product availability in both the US and China markets as well as lower volumes from a softer than usual opening to the construction season. First quarter EBITDA was $147 million, a decrease of 52% year over year, with an EBITDA margin of 19.1%. Results were impacted by reduced prices and volumes, primarily in the general resins portion of the business, which was partially offset by lower raw material costs and improvement in specialty PVC and derivatives. Sequentially, volumes and margins both improved due to seasonal impacts, improved PVC pricing and lower ethane costs.

In Building and Infrastructure, first quarter revenues were $691 million, a decline of 11% year over year. These impacts were due primarily to lower volumes in Europe, and lower prices in certain markets within Latin America and Asia. First quarter EBITDA was $70 million, a decrease of $35 million year over year, with an EBITDA margin of 10.1%. This was driven primarily by lower revenues and reduced margins in Europe associated with higher input costs. Sequentially, results improved by $23 million, or 49%, due to higher volumes across all regions and lower costs.

Moving on to Precision Agriculture, first quarter revenues were $275 million, a decline of 12% year over year. First quarter EBITDA was $28 million, a decline of $24 million year over year, with an EBITDA margin of 10.3%. The decrease from the prior year was primarily due to softer demand in the US and Europe, given the challenging macroeconomic environment and weather events in the US, and were partially offset by strength in Latin America and China. Sequentially, revenues and gross margins improved, particularly in China and LatAm as well as in Turkey, despite shipment delays caused by the recent earthquakes in the region. The business also saw signs of recovery in Europe over the quarter.

Connectivity Solutions once again realized robust performance in the first quarter, with $345 million in revenue, an increase of 6% year over year. These results were achieved despite lower volumes, which were offset by higher pricing. First quarter EBITDA was $114 million, an increase of $43 million year over year, with an EBITDA margin of 33%. Results were driven by strong revenues and stable material costs. Sequentially, revenue and gross margin improved due to seasonal effects and ongoing market strength.

Fluorinated Solutions had another strong quarter, with first quarter revenues of $242 million, up 19% year over year. These results are primarily driven by favorable pricing, most notably in refrigerants, as well as higher volumes. First quarter EBITDA was $102 million, an increase of $25 million year over year, with a 41.9% EBITDA margin, as compared to 37.4% in the prior year period, largely due to disciplined pricing and continued product mix improvements, which helped offset higher input costs and growth investments. Sequentially, revenue and gross margin improved due to higher pricing.

To summarize, while results declined as compared to a very strong first quarter of 2022, we've seen some positive signs of momentum and recovery in the early part of 2023 and we're cautiously optimistic for the year. As we look ahead, we'll remain focused on closely managing costs and maneuvering through ongoing macroeconomic challenges to continue to deliver strong results.

I'll now turn the call back to Sameer.

Sameer Bharadwaj
Thank you, Jim. Turning to slide 6, I would like to share some examples of the tangible progress we've made on our sustainability goals focused around the pillars of low impact operations, sustainable solutions, and impactful ventures. During the quarter, we published our 14th sustainability report, which has evolved to become an impact report and covers our progress milestones marked for people and planet, environmental goal adherence, as well as financial and strategic updates. Some highlights of the 2022 impact report were:

Our safety protocols helped us achieve an 8% reduction in recordable incident rates for employees and contractors. We saw the results of working closely across our business groups for adoption of renewables and greener operations, we reduced Scope 1 and Scope 2 emissions by 11% and increased share of renewable electricity from 6% to 16% year over year as we developed our net zero roadmap.

Our corporate venture capital fund invested $10 million in sustainability focused startups, working across sectors such as AI enabled advanced battery technology and green hydrogen. In the quarter, our corporate venture capital fund Orbia Ventures invested in Chloris Geospatial, a company that shares our vision for a net zero world. Chloris is a leading technology company that has developed a platform for tracking and measuring forest growth and degradation from space. Using remote sensing and machine learning technology, Chloris's global database can be used to pinpoint and mitigate tree loss from anywhere on Earth. Additionally, Orbia Ventures completed an investment in Type One Energy, a world leader in stellarator research and development, on a mission to provide clean, affordable nuclear fusion power to cities worldwide.

I will now turn the call back to Jim to discuss our outlook for the rest of 2023 and business assumptions.

Jim Kelly
Thank you, Sameer. On slide 7 I'll provide an update to our outlook for 2023. We reaffirm the previously shared guidance of a flat to mid-single digit percentage revenue decline and EBITDA of $1.65 billion or higher for 2023. We will continue to update these numbers as the year progresses. We also continue to expect a tax rate between 29% and 32% and capital expenditures in the range of $600 million to $700 million, including $300 million to $350 million of maintenance spending and $300 million to $350 million of growth related investments, depending on the underlying economic environment.

We're being proactive in managing costs and our cash balance under the current macroeconomic backdrop. Despite the positive signs we saw in the first quarter, we expect continued volatility ahead. However, our resilient businesses are well positioned to grow through economic cycles, and we look forward to creating value over the near and long term.

Beginning with Polymer Solutions, general purpose PVC demand has improved somewhat through the first quarter. But the construction industry continues to be weak due to higher interest rates. Specialty PVC and chlor-alkali market conditions are expected to remain healthy. In the second half of the year, the overall PVC environment is expected to gradually improve, with the potential of interest rates, leveling or decreasing. Caustic soda prices are expected to remain strong, but may decrease somewhat from current levels.

In Building and Infrastructure, gradual market improvement is expected across all regions, leading to improved volumes and steady margin levels. Strong growth is expected to continue in indoor climate solutions and urban climate resilience markets. The business is also focused on tight cost and cash management.

In Precision Agriculture, we're seeing an ongoing trend of recovery in most markets, particularly in Latin America, China and Europe. The US remains challenging, due primarily to the extreme weather that has been prevalent in California. Volumes in Turkey are expected to improve in the coming quarters to compensate for the volumes deferred from the first quarter. Given the more favorable market dynamics, overall margins are gradually improving.

In Connectivity Solutions, we expect global demand for additional bandwidth and fiber connectivity to continue to grow, driven by both public and private investments. We're continuing to expand our production capacity in order to meet the market requirements, with capacity coming online through 2023 and 2024.

And finally in Fluorinated Solutions, the acidspar market remains tight globally. We're focused on maximizing value from our existing assets and extending into downstream markets, investing in the development of lower global warming potential refrigerants, advanced medical propellants, and product offerings for electric vehicles and semiconductor applications.

Sameer, I'll turn the call back over to you for closing comments.

Sameer Bharadwaj
Thank you, Jim. Orbia will host a strategy update webcast on Tuesday, June 6, 2023, via a livestreamed webcast. Jim and I will provide an update on the company's execution of its long term growth and value creation strategy and financial targets. Further details to access the webcast will be announced soon through our Investor Relations platform. As we move ahead in 2023, we remain confident in our ability to deliver profitable growth through executing our strategy, continuing to pursue innovation and by maintaining our daily focus on operational, commercial and financial discipline. We see a cleaner, smarter, more efficient world on the horizon, and our teams are working hard every day

to make that vision a reality. We thank you for your continued interest in Orbia, as we advance life around the world together.

Operator, we are ready to take questions at this time.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question and answer session. To ask a question you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Deepak Mundivundran [ph] with Barclays. Please go ahead. Deepak, is your line muted? Sameer, can you hear me?

Sameer Bharadwaj
Yes, I can hear you, but we can't hear Deepak. I think he might have dropped off.

Operator
No, his line is live. But I'm not sure, probably he has some problems with his line. Can we move on to the next question? Maybe he can join back in.

Sameer Bharadwaj
Yes.

Operator
Okay. The next question comes from Passo Sousa with UBS. Please go ahead.

Passo Sousa
Hi, everyone. Thanks for taking my question. My first question, as the company indicated, there was an increase in the debt to support investments in the quarter, right, and in addition to the lower EBITDA [indiscernible] increasing the leverage ratio, which we believe to continue happening in the upcoming quarters. Having said that and looking at the company on a full year, would it be possible for investors to expect a similar amount in terms of dividend payments for 2023 as [indiscernible] the company is at a growth stage given the five years plan? So, just trying to understand here the balance between dividends and capital used for growth.

The second question is following comments on market uncertainties and taking advantage of the Orbia global footprint, which regions and which markets do you see greater uncertainties at the moment, which are growing in line or better than expectations and which regions challenge have been [indiscernible]? It would be great to hear from you guys. Those are my questions. Thank you.

Jim Kelly
Hi, Passo. This is Jim. Thank you very much for the questions. So starting with your question on the debt. In fact, while our leverage ratio did increase slightly in the quarter, the underlying debt actually was fairly stable. So what you're seeing in terms of the driver for the increase in the net debt to EBITDA ratio was actually a decrease in the denominator of a lower EBITDA year over year, as a very strong EBITDA from last year fell off and a more moderate EBITDA from this year was added into the 12 month. The underlying debt itself increased slightly, mostly due to just foreign currency translation of our Mexican peso denominated debt. So that was really the driver there.

And I think you also asked about looking forward, the leverage ratio, we would expect that it could increase slightly from where we are now, as we go through the remainder of the year. But roughly, I would say stable to slightly increasing over the upcoming quarters.

On the dividend question that you asked. So, as we noted, a dividend of $240 million was just approved in our recent shareholder meeting. You would have heard a year ago in our investor day where we talked about our base dividend of $240 million and that growing over time, with growth in earnings. We do remain committed to that strategy in terms of how we're going to manage our capital. So I would expect that in ongoing years, despite the fact that we are committed to putting significant money into the growth investments that will support Orbia's overall growth over time, we will remain committed to paying this dividend.

I'll turn it over to Sameer for your question on the markets.

Sameer Bharadwaj
Passo, nice to meet you. Let me try and address your question on market uncertainties by business, because it's hard to generalize by region. And so we see continued strength in our Connectivity Solutions business and our Fluorinated Solutions business. And that's global. With respect to our Building and Infrastructure business, and our Precision Agriculture business, we are seeing recovery and modest rebound in our underlying markets, both in in Europe and in Latin America. And you can see that reflected in the performance in Q1. And we believe that momentum will continue. So we are cautiously optimistic about stabilization and recovery in those two businesses in those markets.

And then the United States is where we have seen some slowdown in building and construction activity in the first quarter, and that's reflected in our outlook. It's uncertain to what extent the interest rate increases will have an impact on slowing down the US economy. And at this point, it's best to be cautious and we'll see how the year goes along. But we have seen some slowdown in building and construction activity in the US and we will cautiously monitor that in the coming months.

Passo Sousa
That's clear. Thank you, guys.

Operator
The next question comes from Nick Lippmann with Morgan Stanley. Please go ahead.

Nick Lippmann
Hi, good morning. Thank you very much for the call and protecting my question. I was wondering if you could provide a little bit additional color on your numbers, and congratulations on the results. They were very strong. In particular, a couple of subsidiaries stood out. It looks like your fluoro-gases [ph] are doing extraordinarily well. Could you provide a little bit of color on what really drives that sequential improvement in profitability? Maybe in terms of if any of this comes from the mining business, or if all of it comes from the downstream.

I was also wondering if you can provide, and this is more on the less positive side, what's going on in Netafim? The numbers are very different from what we had seen at the start of February [ph]. I've asked on prior calls about this, but can you give a little bit more color on what's going on? And what's the solution? What is management doing about the current situation in terms of Netafim performance? Congrats on the numbers. Thank you very much.

Sameer Bharadwaj
Thank you, Nick. And let me start with your question on our Fluorinated Solutions business. And as

we've always said, the downstream fluorinated solutions business, the fluoro-gas business, is regulation driven, we are going through a decade long transition, where the current generation refrigerants will be phased down and slowly replaced by the next generation refrigerants. And as part of that transition Orbia is one of the companies that has a significant amount of F-gas rights. And as you think about what happens in such transitions, is the next generation product is very expensive and the current generation product plus the value of an F-gas right, those two values will eventually converge over time. And we are seeing that reflected with higher pricing of refrigerant gases, the current generation refrigerant gases in the regulated markets. And so we see strength across the board, whether it's the United States, Europe or Japan, in refrigerant gas pricing, and that is helping drive the earnings of Koura.

The upstream part of Fluorinated Solutions remains stable with respect to the mining activity, both metallurgical fluorspar and acid grade fluorspar, and we've always talked about this in our previous calls, that long term we believe there will be a supply constraint driven by significant growth in end markets and applications, particularly as you see ramp up in the lithium ion battery space in semiconductor applications, in 5G telecom, fluorine will be constrained over the next decade. And so we have strength in the upstream part of the business, but we have tremendous strength in the downstream part of the business, and then as we get into the new applications, and you've seen our announcements with respect to the new investments in LiPF6 and PVDF for battery materials, those will drive extraordinary growth for Fluorinated Solutions over the course of the decade.

Your next question? Yes.

Nick Lippmann
May I just ask on the F-gas rights, just to make sure I understand, are you selling these gas rights? Are you selling CO2 rights associated with prior emissions of CO2? How exactly are you monetizing this?

Sameer Bharadwaj
No, no, we don't sell these F-gas rights. You need to have F-gas rights to be able to sell product. And the value of the F-gas right is reflected in the pricing of the product.

Nick Lippmann
Got it.

Sameer Bharadwaj
Okay, so now your question about Netafim, so Netafim, as I've said before, we had a very strong first half last year, it was extraordinary. And part of it was driven by supply chain constraints and significant buying by customers due to the challenges we had in the second half of 21 with respect to the supply chain. And then demand fell off in a very significant way in the second half of 2022, and so it wasn't just our Precision Ag business that was affected, the entire market, the entire industry was massively affected by that demand drop. Now, I'm pleased to say the turnaround in revenues, in Precision Ag is very significant from the fourth quarter to Q1. And so, we posted very strong revenues in Netafim, and had it not been for the earthquake in Turkey and the floods in California, they would have been even stronger.

And I'm pleased to say that the month on month momentum in Netafim is pretty strong. Okay? So we've had good performance in some of our core markets in Mexico and Brazil and China and Turkey, and the slowdown that we had in the United States and Europe, and we are seeing stabilization and turnaround in those markets. And we see significant growth opportunities, particularly with the growth vectors we have in extensive crops, in services, in greenhouse solutions, as well as digital farming, and we are now focused on developing the capability to execute on those growth plans in each of the regions.

So this is going to take some time to play out. But the fundamentals of the business remain strong, and we are focused on execution at this point.

Nick Lippmann
Got it. Thank you very much.

Sameer Bharadwaj
Thank you, Nick.

Operator
The next question comes from Andres Cardona with Citi. Please go ahead.

Andres Cardona
Hi. Good morning, Sameer, Jim and Gerardo. I have two quick questions, and maybe one that may demand some more detail. The first is, can you comment about the short term outlook for [indiscernible]? And fluor margins, are they sustainable and what should we expect in the second quarter?

The second one is if Jim can comment about the taxes, working capital and financial expenses he expects for the year. I'm just trying to calculate our model here from a cash flow perspective.

And maybe the last one, and I don't want to spoil the update, but Sameer was talking a little bit about the big announcement that you read on PVDF and LiPF6, which seems to be getting little attention from investors. But from our perspective it seems to offer a big growth opportunity, perhaps transformational for the fluor [ph] division. So can you help us to understand the size of the opportunity on a [indiscernible], what does this mean? Is it just 10%, 20% of what you see over the next decade on this opportunity? Thanks, again, and congratulations on the first quarter results that were very strong.

Sameer Bharadwaj
Very good, Andres. Look, let me take your first and third question on Dura-Line and on the scale of the opportunities for LiPF6 and PVDF. And then I'll have Jim answer to your question on tax and working capital. With respect to Dura-Line, I wouldn't be as focused on a quarterly analysis on margins versus a more long term view on what's going on in that space. So as you can see, as part of the Inflation Reduction Act, there are a number of government programs that are driving massive adoption of fiber in the United States market, whether it's the RDOF program, the rural deployment of fiber, and there's two or three other programs with multibillion dollar deployments over the next several years, and that will drive significant growth in Dura-Line. We have a very strong order backlog and pipeline, and we are in the process of building three to potentially four new plants to serve the demand. And as we see it, over the next several years' demand growth will remain very strong. There is capacity addition, but it's not clear whether the capacity addition will keep up with the growth in demand. And of course there's increasing competition and there's more competitors announcing capacity increases in the space.

So the way we see it is today the margins are pretty strong, driven by strong demand and decreasing raw material costs, and we do see some moderation that would be expected as more players enter the space. But the pace of demand growth is so strong that it's really hard to predict what will happen with the margins over the long term. I don't expect these to collapse all of a sudden. But if you take a long view on this, demand growth is exceeding supply growth, and so that should eventually play out in terms of how the margins should evolve over the long term. We are conservative in our planning purposes, and we believe long term margins to be more in the 20% to 25% range. But that might end up being conservative, it's really hard to predict at this point of time.

Now, coming to the scale of the opportunity for energy materials, this is truly extraordinary. And in fact, now we base our calculations on assumptions for energy storage capacity by the end of the decade, and we are assuming about 4 terrawatt hours of energy storage by 2030. Now, of course, if you go and look at analyst forecasts out there, they're anywhere from 3 to 10 terawatt hours, potentially even higher, and now that the Biden administration has passed these new EPA laws requiring as high as 67%, 68% adoption of EVs by 2032 versus an original target of 38%, this is only going to accelerate that transition, right? We see just the North American market for LiPF6 could be tens of thousands of tons by the end of the decade. Now, keep in mind, we just announced the first plant that we are building is only 10,000 tons. And this could easily be several multiples of that by the end of the decade. And likewise for PVDF, if you do the math, we have announced a capacity of around 20,000 tons with our joint venture partner Solvay, this could easily be multiples of that by 2032.

So the scale of the opportunity there is absolutely enormous, and the Biden administration is absolutely committed to nearshoring that supply chain to the Americas. And so in that context the investments in Mexico and the United States will be strong beneficiaries. But that is truly a part of the transformation story of Orbia, and as you have rightly said, the world has not fully understood it, or fully acknowledged it. Now, there is proof in the pudding. We won $100 million from the Biden administration for the LiPF6 investment. And our JV partners, Solvay, won $178 million for the PVDF investment, which will benefit the joint venture. And Orbia is the only company in the Americas that can actually secure the supply chain for [indiscernible] for lithium ion batteries, with its existing presence in Mexico and the United States. So I think this story needs to be fully understood by the world. And of course, we'll talk about it more at our strategy meeting update on June 6. But thank you for the question.

Jim, I'll let you answer the question on working capital and taxes.

Jim Kelly
Sure. Thanks, Andres. Hello. I'll start with the question on taxes. First of all, to reinforce what I stated in my comments in terms of the forecast for the year, we do still believe that our effective tax rate for the year will be between 29% and 32%, likely at this point trending toward the higher end of that range, but still within that range. And as I indicated also in my comments, some of the volatility, or in fact a significant portion of the volatility that we're seeing in the rate, really results from appreciation of the Mexican peso, and just a phenomenon of us being a US dollar functional company in terms of our financial statements in Mexico, but filing in pesos. So we're significantly affected by changes in the peso as a result of that. So essentially, with a 7% increase in the value of the peso in the quarter and essentially having all of that impact on one quarter' pretax earnings, it really drove the rate that you see for the quarter up significantly. The assumption that we have underlying the expectation to still fall within the 29% to 32% rate would anticipate some easing of the appreciation of the peso, likely more back to a range of about 19.1, 19.3, that general range. So, to the extent the peso gets back to that range, we would expect that this would be the rate we would fall into for the tax rate range.

And, again, in terms of the impact of the appreciation on the rate, it accounted for over 30% of that rate. So, in other words, if you were to look at our ongoing nominal rate, where we earn our income and the stated tax rate within the jurisdictions where we earn our income, we'd be at a tax rate in the mid-20s. So you can see from that to get to the 60% range on the quarter, you can see the significant impact that was caused by the appreciation of the peso. There's also an element of inflation there as well, but that's less than the appreciation impact.

On working capital, we did have a consumption of working capital in the quarter that was largely due to the pickup in the business in the quarter, and largely would be seen in increases in accounts receivable associated with higher sales. If you look, the way we tend to look at it is more on a days basis, and we did see a significant reduction in days, about six days down, actually in this quarter compared to the prior quarter. So, we believe we're in a good trend there. And we continue to focus very strongly on working capital in particular, with the growth agenda that we have, and needing to ensure that we've got efficient use of all of our resources, and trying to manage working capital as efficiently as possible so that we have cash available to help to fund the growth investments. So we worked very hard in terms of managing the working capital, we will continue to do that. I expect to see continuing reductions across all of the businesses in terms of the days of working capital over the course of the year, and something that I had stated in the last call that I'll reinforce in this call as well is an expectation of having operating cash flow in excess of a billion dollars for the year.

I think then you also asked about financing costs. So there, once again we're subject to foreign exchange, and specifically the Mexican peso this year really driving a lot of what we're seeing in terms of the increase in the financing costs that you see in the quarter. So fundamentally, the more ongoing stable drivers are our interest expense, which, that may increase slightly over the course of the year, we do have a bit of short term debt that we have to refinance this year, that will likely be refinanced at slightly higher rates than what's existing in our debt portfolio right now. So you could see a slight increase, just from a rate perspective, in terms of interest expense as we go through the year. And then the volatility in the FX that's in this line, unfortunately, we can't really control, nor really predict at this point. So that's going to be subject to market rates.

Andres Cardona
Thank you, Jim and Sameer for your answers. I'm looking forward for this [indiscernible].

Sameer Bharadwaj
Thank you, Andres.

Operator
The next question comes from Pablo Monsivais with Barclays. Please go ahead.

Pablo Monsivais
Hi, Sameer, Jim and Gerardo. Thanks for taking my question. I have a simple question. Have you seen any significant discrepancy between your initial assumptions for this year's guidance relative to the actual results so far? And also what segments in particular have underperformed relative to what you thought early in the year? Also a second question on—sorry.

Sameer Bharadwaj
Go ahead.

Pablo Monsivais
Yes, I have a second question on, given what you have said on the impact of your fluoride business for EVs, what are your thoughts on the changes in the mining laws? That's it.

Sameer Bharadwaj
Okay. Let me start with the guidance. In fact, our previous earnings call was not too long ago, right? It was late in February because of the full year results, and we had already indicated that we are off to a stronger start to the year. And if you look at it sequentially, we've had strength across all of the businesses, and most notably, PVC prices bounced off from the bottom, which was an oversold market in Q4, and it bounced off pretty strongly from the $650 per ton in the spot market, back up to the $950, $1,000 per ton. And that was good to see because it validated our thesis on the supply/demand, tightness. And as I mentioned earlier, we've seen good sequential momentum in both our Precision Ag

business and our Building and Infrastructure business, and continued strength in our Connectivity Solutions business and our Fluorinated Solutions business. And so it was good to see the strength across the board, and that continued through the quarter after we had given that initial guidance in February. And having said that, we're maintaining our outlook, simply because we haven't yet seen the full impact of the rate increases. And there's still uncertainty around what will happen in the second half of this year. And if all goes well, then we may not see as much of an impact. But it's really hard to predict at this point of time, which is why we are maintaining our guidance as before. Okay?

Your second question was around the impact of the changes in the mining laws. Now, we are looking at it carefully and continue to assess the implications. We support fair and balanced mining regulation that respects the interests of various stakeholders involved and permits sustainable operation of the concessions. Rules that are clear, predictable, and incentivize strong investment and good stewardship are good for concession holders, mine workers, mining communities, the government and the environment. Orbia has been a responsible and conscientious mining concession holder in Mexico for many decades, committed to the communities in which we operate, and to making major investments in mining safety and environmental protection. And we intend to continue this commitment and to remain a strong advocate for fair and sensible mining regulation.

So we are watching the events as they unfold, and we are hopeful that the House and the Senate follow due process and come to a reasonable conclusion that benefits both the society as well as the industry. So I'm quite hopeful of that.

Pablo Monsivais
Perfect, thank you very much.

Operator
The next question comes from Leonardo Marcondes with Bank of America. Please go ahead.

Leonardo Marcondes
Hi, guys, thanks for taking my questions. My first question is regarding the Polymer Solutions business, which presented a very strong recovery in margins from the last two quarters, right? So I was wondering if you could provide a bit more color on that. Looking at the release, it seems that it came from the specialty resins and derivatives business, so what should we expect for this business for the remainder of the year in terms of margins?

And my second question is regarding Koura, that also presented a very strong margin, which you attribute to the strong pricing strategy, right? So could you provide more color on this? It seems that the company was able to increase prices, even amid this challenging macro scenario so if you could comment a bit about this, it would be great to get a better sense of how the business should perform, at least in the short term. Thank you.

Sameer Bharadwaj
Yes. So let me talk about Polymer Solutions, right? Last year we had a supply shock, with the COVID shutdowns in China there was a lot of PVC on the market being exported, and this was coupled with very high prices for caustic soda and chlorine, which is a very strong incentive for producers to maximize the production of caustic soda and chlorine, which then results in overproduction of PVC and an excess supply of PVC on the market. And that's what resulted in the significant drops in prices in Q4, and it was good to see that things have now stabilized. So, I would say even in the face of soft demand, so demand is soft due to decrease in Building and Infrastructure activity, prices have stabilized and bounced back from the bottom in a very significant way, and at the same time, the raw material cost, the input costs have been either stable or declining, whether you look at natural gas or

ethane. Now, going forward, at least for the next few months, we still see a relatively soft but stable market environment. And hopefully, when China fully reopens from the COVID restrictions and begins to rebound, you will begin to see more firming up and more stabilization, which again, the offset to that is what I mentioned earlier, potential softness in the United States, given the interest rate increases. So those are the factors that will play out over the course of the year. And so from a PVC standpoint, what I would say is that it's soft but stable, and that momentum should continue, at least for a few months, and the strength in derivatives should continue for the foreseeable future. We are seeing some softening of prices in caustic soda, but they're still well above historic levels.

In terms of Fluorinated Solutions, what we are seeing happen is, absolutely consistent with what we have said all along for the last several quarters, that over the long term the supply of fluorine will be constrained, given the growth in new applications of fluorine. And these new applications are, whether it's lithium ion batteries, or 5G telecom, semiconductors, on top of the current set of applications, and at the same time supply will be constrained because historically, about 65% of fluorine came from China, and the number of mines in China are declining. And while China continues to grow, it consumes its own fluorine. And so what we are now seeing play out in terms of general strength is the long term supply/demand fundamentals are playing themselves out. And we believe that will continue. There will always be short terms ups and downs, but long term fundamentals will continue to play out over the next few years.

Operator
Leonardo, are you done with your questions?

Leonardo Marcondes
Oh, that's perfect. Thank you.

Operator
Thank you. The next question comes from Regina Carrillo with GBM. Please go ahead.

Regina Carrillo
Hi, good morning, and congratulations on the results. I wanted to ask about capex. Last quarter, you mentioned that around $300 million to $350 million would be assigned to growth [indiscernible] year. I just wanted to know, do you still think that there's any relevant progress on those projects? And finally, I wanted to ask you for more color and what should we expect for the strategic update [indiscernible]. Thank you.

Sameer Bharadwaj
Thank you, Regina. And thanks for following us. In terms of capex guidance, we've given guidance on maintenance capex and growth capex as well. And so the maintenance capex guidance remains the same, in the range of $300 million to $350 million. And in addition to that, we will have growth capex of a similar magnitude, and there's some more uncertainty around that because of the timing of the projects. Some of the projects may move around by two or three months here and there, which may then move the capex into the next year. But that's what we are looking at in terms of capex.

Now in terms of the strategic update in June, I would like to remind everyone that we had shared our business plans for each of the businesses and the significant growth projects last year. What I can say is, those growth plans are on track. The projects are far better defined, and more specific than they were a year ago. And in our overall guidance, we will essentially reaffirm the guidance we had given last year, which again, reminding everyone, we are targeting revenues of $13 billion to $15 billion by the end of 2027, early 2028 and EBITDA in the range of $3.1 billion to $3.5 billion by that timeframe. So I think what we'll provide is more specificity and more detail on what that journey is going to look like.

And we've done a refresh of all of the strategic growth plans for each of our businesses and we'll share that update on that call.

Regina Carrillo
Perfect. That sounds great, and we're excited. Thank you.

Sameer Bharadwaj
Thank you, Regina.

CONCLUSION

Operator
This concludes the question and answer session. I would like to turn the conference back over to Sameer Bharadwaj for any closing remarks.

Sameer Bharadwaj
Well, I would like to thank everybody for your continued interest and belief in Orbia. Orbia is truly a company at the forefront of addressing some of the world's key challenges, and given the mega trends is very well positioned to have a significant impact over the course of the next decade. Once again, I would like to reaffirm our invitation to everyone to join the strategy update call on June 6, and look forward to seeing everyone on that call. Thank you.

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