Mexichem S.A.B. de C.V.

Q4 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

Daniel Martinez-Valle – *Chief Executive Officer*

Rodrigo Guzmán – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Mexichem Fourth Quarter and Full Year 2018 Earnings Conference Call. As we turn to Slide 2, all participants will be in 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 touchtone phone. 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 Mr. Daniel Martinez-Valle, CEO of Mexichem. Please go ahead, Sir.

Daniel Martinez-Valle
Welcome to our fourth quarter conference call, as we review and highlight another strong quarter. This was our fourth quarter in which we consecutively achieved double-digit growth in revenue, consolidated net and majority income. Revenue increased 15% to $1.7 billion, consolidated net income grew more than three times, from minus $22 million to $46 million, and majority net income increased 129% to $32 million. For the full year, revenue increased 24% to $7.2 billion, and EBITDA grew 26% to $1.4 billion.

We will discuss our fourth quarter and 2018 results further in a few minutes, along with our business outlook, but before we do this, I want to say how pleased I am with the execution of our strategy to drive our return on invested capital above our weighted average cost of [audio disruption]. We continued this positive trend on ROIC. The company continues its focus on making our assets more profitable, while making our balance sheet stronger by maintaining financial discipline, which allows us to better finance our operations.

Atop our list of goals is to align our businesses to address many of the world's biggest challenges, such as ensuring sufficient water and food resources. As an example, our Netafim business won four major community irrigation projects in India, which will bring precise irrigation, for the first time, to 60,000 farmers in more than 100 [audio disruption], and will cover more than 55,000 hectares. Without these projects in place, two and a half times more water would be needed to produce the same crop yield. This kind of water savings from just four community irrigation projects is equivalent to the yearly water consumption of half a million people.

We are also very proud of how we help manage and carry water both above and below ground in cities, reducing leakages, and in turn, making buildings more sustainable. We also make buildings safer by being the world leader in flame retardant solutions for building wire and cables. In data communications, our conduits carry fiber optic cables as part of the expansive rollout of 5G data to the home. In addition, we are developing a new generation of flexible PVC resins that are safer, longer lasting, and use less energy to produce end products. And some 100 million asthmatics breathe easier thanks to the use of our fluorine-based propellants in medical inhalers around the world.

During the fourth quarter, and throughout 2018, we moved further along on our path toward transitioning from being a manufacturing-focused company, to one that is much more customer-centric. Every day, every one of our 22,000 global employees works closely with our partners and customers, across all our business groups, to identify challenges, and then provide innovative, best-for-the-world solutions to help solve them, because their success is our success.

Our full-year earnings results prove we are on the right track. As is possible to see on this slide 6, in 2018, Mexichem achieved its full-year EBITDA guidance, despite the fact that some of our businesses experienced challenging market conditions at yearend. We'll have more detail on that in a moment.

Helping to drive our success is how diversified Mexichem is as a global company, both in terms of geographies, as well as products. When you look at our 2018 sales by region and destination, Europe is still our largest market, accounting for 37% of global sales; next is North America with 30% of sales; Central and South America with 20%; and then 13% for the rest of the world. The countries that represented more than 4% of our consolidated revenues during 2018 were the U.S. at 17%; Mexico, 10%; Germany, 7%; UK, 5%; Brazil, 6%; Colombia, 5%; and finally, India at 4%. At the same time, our company is less volatile given our downstream growth in more specialty solutions that carry higher margins, which in the fourth quarter of 2018 represented 60% of our total EBITDA. With this, Mexichem is increasingly more global, more diversified, and more solutions focused.

Looking now at Slide 10, as I mentioned on our previous calls, in the past few years we have transitioned to a returns-driven model from a history of mergers and acquisitions. And I am very proud that we have consistently delivered growth in our return on invested capital, taking it to 9.2% in 2018, from 6.5% in 2015.

Going to Slide 8, this month is the one-year anniversary for closing on our Netafim acquisition. It was, and continues to be, a game-changing acquisition for us. Mexichem is increasingly incorporating real-time data into its solutions. Launched in May, NetBeat™ by Netafim is an all-in-one platform that enables farmers to optimize their irrigation and fertigation, based on a sophisticated analysis of real-time data from sensors in the field, external sources, and dynamic crop models. All this is done using an intuitive interface from the farmer's smartphone or tablet. We are very optimistic about the future of NetBeat, what this means for Mexichem, but more importantly, what this means for farmers all around the world.

Last month, Wavin, part of our building and infrastructure business, launched the world's first, metal, plastic pipe fittings that makes a whistling sound when a water leak is detected. The acoustic, leak-alert feature was born through customer feedback to solve the installer challenge of tracing unpressed fittings. The new Wavin Tigris is an innovative solution that helps our customers find leaks fast, reducing deployment times, and reducing installation costs, while at the same time, saving buildings and their tenants from potentially costly water damage and water waste. This is a very good example of human-centered innovation, which I'll expand on later.

Now on Slide 10, Dura-Line, our Datacom business, continues its sole-source supplier partnership with major U.S. telecommunication companies to supply the needed conduits for the broad 5G fiber rollout. I am also excited that Dura-Line has entered into a supply agreement with a global leader in e-commerce for its conduit needs all around the world.

Mexichem's specialty compounds business completed the installation of a new MEGOLON production line in the UK in December, increasing our capacity for halogen-free, flame-retardant compounds for the wire and cable industry. The project was completed in less than six months, a major accomplishment, and enable us to meet increasing customer demand for products that achieve higher levels of fire safety as required in the EU.

Now moving to Slide 11. In recent weeks, we began operations in our human-centered lighthouse lab, working to solve systemic global challenges, from improving water access, to building sustainable infrastructure, to rethinking agriculture systems. We are working in partnership with IDO, and leveraging capabilities, including human-centered design, engineering, and material and manufacturing.

As we evolve into a more purpose-driven, future-fit organization, we will be increasingly able to tackle today's and tomorrow's toughest challenges, while continuing to grow our lead in certain areas, such as our unique position by owning the world's largest fluorite mine, making us one of the few stable and reliable partners to manufacture fluorine-based products. We are the global leader in the production of specialty resins. We are the global top five PVC producers. We're the global leader in precise irrigation. We're the leader in data conduction market in the U.S., and finally, we're the global leader in water conduction solutions for building and infrastructure.

Our roadmap shows that we're committed to being disciplined in capital allocation and execution, while creating opportunities that help our customers, and ultimately impact millions of lives around the world. We are proud that our financial results continue to show that we're on the right path and executing well.

I will now turn the call over to Rodrigo Guzmán, our CFO, to review our financial results. Rodrigo.

Rodrigo Guzmán
Thank you, Daniel.

As Daniel mentioned before, our business groups' performance, our geographical diversification, and the less volatile structure of our portfolio of products make the company more resilient and allow us to reach our midyear revised EBITDA guidance of 25% to 30%, up from 20% to 25%. In 2018, our EBITDA grew 26% over the reported 2017 EBITDA, while we reached a ROIC of 9.2%, with a weighted average cost of capital of 8.5%.

As you can see on this Slide 12, during Q4 2018, revenues totaled $1.7 billion, up 15% from Q4 2017; net majority income increased 129%, to $32 million; operating cash flow before CapEx and financial activities improved 17%; and cash conversion increased by 2,600 basis points, from 122% to 148% in Q4 2018.

As we mentioned during our third quarter call, we expected a very challenging fourth quarter, specifically in our vinyl business. These challenges were further complicated by the Force Majeure announcement in mid-November, from our main ethylene suppliers to our VESTOLIT subsidiary in Germany. As a result of this action, VESTOLIT was also forced to declare a Force Majeure to its clients, while the team worked diligently to resume normal operations as fast as possible. It is very relevant to remember that on January 17th, VESTOLIT announced that normal operations had resumed. During the quarter, the decline in our vinyl business group's EBITDA of $57 million was roughly offset by Fluent, which increased 37%, or $28 million; Fluor, which increased 16%, or $11 million; and lower expenses in the Holding Company to $10 million, or a decline of 59%.

For the fourth quarter 2018, as is possible to see on this Slide 13, revenues totaled $1.7 billion, up $221 million, or 15%, from Q4 2017, led mainly by the consolidation of Netafim's results in Mexichem´s consolidated numbers; strong sales performance in Fluent U.S. and Canada and AMEA; and higher sales in our Fluor business group, which more than offset sales decline in Vinyl and Fluent LatAm and Europe.

The exchange rate effect for Q4 2018 in sales had a negative impact on a consolidated basis, compared to Q4 2017. Organically, revenues decreased 4% year-over-year, or $55 million. From that amount, 84%, or $46 million, was a result of FX impacts. This was due mainly to the revaluation of the U.S. dollar against relevant currencies for Mexichem, such as the Brazilian Real, Euro, Sterling Pound, Turkish Lira, and Colombian Peso. In constant currency basis, and organic basis, revenue will have been $1.5 billion, a decrease of 1% year-over-year.

The Fluor business group's growth momentum continued, thanks to better pricing conditions on one side of the business group, which balanced a slight decline of the weighted average price in its portfolio of products elsewhere. This decline was due to supply-demand market conditions in both Europe and the U.S. The Vinyl business group reported a decline in revenue, mainly because of tighter conditions in PVC prices. The industry also had to work through an excess global supply of caustic soda, which affected global prices.

For 2018, consolidated revenue increased by 24%, to $7.2 billion, an increase of $1.4 billion compared to 2017. This was related largely to an increase of 35% in Fluent sales, which stemmed mainly from Netafim´s consolidation into Mexichem numbers, as well as 23% sales increase in Fluor, and 6% increase in Vinyl, the latter two associated with better market conditions. In constant currency and organic basis, revenue will have increased by 7%, to $6.2 billion.

For the fourth quarter 2018, EBITDA was $269 million, a 3% decrease compared to the $277 million reported in the same quarter last year. EBITDA margin for the quarter was roughly 16%.

As expected, and previously shared, we were presented with some challenges during the fourth quarter. Low, single-digit EBITDA decline was mainly driven by our vinyl business group, which declined its EBITDA by $57 million, or 38%, compared to the same quarter last year. Approximately 70% was due mainly to the tightness in the PVC, caustic soda, and ethane markets, as we expected, and was mentioned in our third quarter 2018 results. And approximately 30% was due to the Force Majeure declared on November 12, 2018, by our VESTOLIT subsidiary, which, as mentioned before, resumed its normal operations during January of this year.

These impacts were offset mainly by, one, the consolidation of Netafim into our Fluent business group, which increased its EBITDA by 37%, including an impact of $8.5 million as a result of the one-off adjustment effect related to the recognition of the Netafim purchase price allocation, which reduces the Fluent report of EBITDA in Q4 2018, less 21% organic and in constant currency basis; and second, better market conditions in our Fluor business group, increasing its EBITDA by 16%, 17% on a constant currency basis.

It is relevant to remember that in last year's Q4 2017, we mentioned that Fluent had $24 million in expenses related to CADE and the Netafim acquisition; while during this quarter of Q4 2018, we had $8.8 million related to Netafim, which includes the $8.5 million purchase price allocation adjustment, mentioned previously, and $0.3 million in expenses.

Also, it's important to point out a couple of relevant things. One, in Q4 2017, our Fluent Business Group did not consolidate Netafim´s results, due that the acquisition closed in February 7, 2018. But Fluent´s numbers were affected by the $24 million related to CADE and Netafim acquisitions expenses. In Q4 2018, Fluent numbers were only affected by $0.3 million expenses related to Netafim acquisitions mentioned above. And second, in Q4 2018, Netafim's standalone numbers, into Fluent consolidated numbers, include the impact of the $8.5 million one-off adjustment related to the purchase price allocation mentioned previously.

By eliminating this last adjustment into Netafim's standalone numbers, and comparing those with the 2017 Netafim pro forma numbers included in our press release, the EBITDA margin of Netafim grew in Q4 2018 versus Q4 2017, including Mexichem's distribution business in the irrigation space.

From year to year, Mexichem demonstrates its strong resilience resulting from diversification in geographies and its product portfolio, in which more than 60% of its EBITDA is represented by specialties and downstream products. Mexichem met its committed EBITDA growth guidance, closing the year at 26%. With reported 2017 EBITDA of $1.1 billion, we have maintained our growth path in all our business groups, even with the headwinds observed in Q4 2018.

Mexichem Q4 2018 operating cash flow, before CapEx and financial activities and cash conversion, improved 17%, and by 2,600 basis points respectively, compared to 2017, even when tax and net interest paid increased by $18 million each, or 100% and 600% respectively, as shown on Slide 14. Change in working capital improved by $97 million, or 93%, mainly as a result of Fluent Europe's improvement in accounts receivable.

For 2018, cash flow before CapEx increased 18%, due mainly to our EBITDA growth and the improvement in working capital, which moved from a demand of $103 million during 2017, to a demand of $92 million during 2018.

Our total financial debt, as of December 31, was $3.6 billion, while cash and cash equivalents totaled $700 million, resulting in net financial debt of $2.9 million, as shown here on Slide 15. Our leverage continues to be healthy, and our net debt to EBITDA and interest coverages closed the year at 2.05 times, and 5.59 times, respectively.

Going into Slide 16, we continue with a very sound balance sheet, and with a very healthy financial structure in our debt, including Netafim. Our tenor is 14.3 years, our weighted average cost of debt is 5.12%, and our debt profile is matched with our revenue currency.

Now, I will turn the call back over to Daniel for some remarks about last year's performance, before we open up the call for questions. Daniel?

Daniel Martinez-Valle
Thank you, Rodrigo.

In 2018, Mexichem achieved strong results. We will continue to focus on our returns driven and organic growth model. Notwithstanding our belief that Mexichem is poised to capture opportunities that fuel its growth, the global economy in 2019 will be affected by slower economic growth, political uncertainty, trade negotiations, and volatility in financial markets. In this context, the company's guidance for its EBITDA growth in 2019 is between minus 1% to 4% from the 2018 reported EBITDA. Our capital allocation policy will continue to be oriented towards maintaining our positive trend in return on invested capital, with an estimated CapEx of between $400 to $450 million.

We are very excited about how we're fundamentally transforming the company into one that better understands our customer needs, and delivers high value-added solutions on top of our core business. We will continue to be a resilient company based on a strong balance sheet, a healthy debt profile, and strong cash conversion. We will leverage our global footprint and our diversified portfolio of businesses. Today we are truly a global company, and one ready to tackle today's and tomorrow's toughest challenges. As our 22,000 employees increasingly embrace our purpose, our strategy, and our execution, we will consistently deliver strong shareholder returns.

Once again, I want to thank you all for being on the call today. Denise, we're ready for questions.

Operator
Thank you, sir. We will now take your questions. To ask a question, you may press star, then one, on

your touchtone phone. To withdraw from the question queue, please press star, then two. Once again, it is star one to ask a question.

Your first questions will come from Vanessa Quiroga of Credit Suisse. Please go ahead.

Vanessa Quiroga
Thank you for taking my question, good morning. The one that I have is on Fluent, on the Fluent results. If we look at the organic EBITDA and revenue numbers that you are providing, it seems that the EBITDA margin was around 10%, and actually, you mention it here 11%, and that seems to be a considerable reduction compared to the organic margin seen in 4Q ’17. So if you could give more color on what led to this lower margin.

And then on guidance, can you provide an idea of the trend that you are seeing for each of the divisions, which one could be lower in 2019 versus 2018, that could bring consolidated EBITDA to be down? Thank you.

Daniel Martinez-Valle
Vanessa, we do apologize, but we had an issue with the connection and the line. Would you be so kind as to repeat the question from the very beginning? We’d appreciate that.

Vanessa Quiroga
Yes, no problem. Can you explain what led to the reduction in EBITDA margin of the Fluent division, from an organic standpoint? And the other question is regarding guidance. Can you provide your outlook by division? Thank you.

Rodrigo Guzman-Perera
Okay. How are you, Vanessa? Rodrigo Guzman speaking. The reduction in the EBITDA margin in the fourth quarter was [indiscernible] by a decline in EBITDA in Colombia, basically. As you may know, along the year, Colombia was a very tough country for us. In fact, at the end of the year, the Colombian government, the new Colombian government, announced a new fiscal policy in order to create growth in the country. So for 2019, we are expecting that Latin America, including Colombia, will be better than during 2018. That’s the main reason why the margin declined.

Vanessa Quiroga
Okay.

Rodrigo Guzman-Perera
Then the guidance, as you may know, we do not give guidance by division, but what we are foreseeing for the following year, and we said during the third quarter, is that in vinyls we are going to face a very tough first nine months, related with the dynamics on the market for PVC, caustic soda, and ethane, much more in the ethane prices, given the lack of capacity for distribution of natural gas in the U.S.

Then, what we are seeing it for Fluor, is that we are going to see a better year on upstream, given that in the last year prices went up and we closed the new contract with those prices. But in downstream, we are going to see a better year when you compare it with 2017, but worse year when you compare it with 2018, given the announced stabilization on prices that we gave at the beginning of the last year, if you remember our first quarter conference call.

Then, going to Fluent, we are going to see a better year in Latin America in our building and infrastructure business, given that we haven’t seen a growth or a recovery on Brazil and Mexico, and we expect recovery, also, in Colombia, given this new fiscal policy that the government announced at the end of the last year.

We are also foreseeing an increase in the EBITDA for Netafim, and a slight increase in our EBITDA for Europe. That's mainly the guidance.

Daniel Martinez-Valle
And just to clarify on the vinyl side, Vanessa, let me just be very clear. We do see, for the next nine months, numbers that will be, compared to Q4, higher than Q4 2018 for the next nine months, but slightly lower than what we experienced in the first half of 2018.

Vanessa Quiroga
Okay, that's very helpful. For Dura-Line, in the U.S., are you optimistic that you'll see growth still in 2019?

Rodrigo Guzman-Perera
Yes. We are seeing a growth in our EBITDA number, but we are going to see a flat margin, given some market conditions we are facing with some of our clients.

Vanessa Quiroga
Okay, and just on Colombia in Fluent, is there something that worsened in the fourth quarter in the operations there, or did you see the same kind of very unfavorable conditions during the whole year?

Rodrigo Guzman-Perera
We saw very unfavorable conditions in Colombia in general, and those conditions followed the seasonality in that market. I mean, we didn't see any specific thing that attract our attention for the fourth quarter.

Vanessa Quiroga
Okay, thank you very much.

Daniel Martinez-Valle
Thank you, Vanessa.

Operator
The next question will be from Vicente Salendra of Bradesco. Please go ahead.

Vicente Salendra
Hi, good morning, Daniel, good morning, Rodrigo. Regarding your CapEx guidance again, you mentioned that you ethane price pressure will likely last for another nine months, right, or at least for the first nine months of 2019. So for the fourth quarter, are you considering like a considerable improvement in profitability for core vinyl, and how much of this recovery do you feel is impacting your guidance today?

And then my second question, could you give us an update on the share buyback program? How much have you already executed, and do you expect to complete the full program by the middle of this year? Thank you.

Rodrigo Guzman-Perera
Great. On the vinyl side, what we have been seeing since the last quarter and during this first quarter, is a recovery on the ethane prices. If you look at the market prices of ethane in the U.S., they have come back at the same levels as we had, let's say at mid-year of previous year. The issue is that we

are not seeing a specific pressure, but what we are seeing is that the ethane prices are going to be volatile along the first nine months. So it's not specifically in relation with if we are seeing an increase in prices or not, but more volatility along the first nine months.

In the case of [ph] and caustic soda, the prices of caustic soda declined during the last quarter, given the lack of demand in Brazil, specifically in one client, which demands are roughly 6% of the top end production in the U.S., and then that amount of caustic soda remain in the rest of countries in Latin America, and that produces a reduce in prices. That client announced that they are going to claim back to its normal operations along this quarter, and we expect that we can see, let's say, a normalization on prices on caustic soda, along this first quarter and the rest of the year.

In the case of PVC prices, then the expectation is, if prices of oil goes up, then PVC prices are going to go up, but this volatility, and these market conditions in relation with trading and the global situation of the world, do not allow us to be, let's say, too much optimistic, but not be, let's say, worse than our expectation for the PVC prices along this year.

So, basically—

Daniel Martinez-Valle
And just to build on that, Vicente, I think you asked a key question regarding what's the impact of our vinyl business, in terms of our guidance that we gave for Mexichem as a whole. As you know, Mexichem has, for the last many years, executed on a strategy to become a more specialty-based business in general. As we mentioned, 50% of our total EBITDA today is associated to our specialty products and solutions on a consolidated basis. However, as we transition from moving from being a commodity player to a specialty player, we're still sort of in the final stages of that transition, and we do have exposure from the vinyl business to some commodity prices. As you know, there are pure plays and the chemical space that have recently announced, as recent as last week, guidance, in terms of their EBITDA growth, from minus 22% to minus 8%, from minus 8% to minus 4%.

Mexichem is a diversified portfolio of businesses. We are increasing our focus on our downstream businesses, as you well know. That gives us a very different sort of resilience, vis-à-vis, the pure plays in the chemical space, and we will continue to execute on this strategy moving forward.

Vicente Salendra
Perfect, thanks. And just on the, if you could you follow-up on the share buyback program, if you can give us an update on that.

Rodrigo Guzman-Perera
Yes. Today we have roughly 26 million shares in our hands, equivalent to a $70 million as a buyback in our assets, and we ever complete the total amount of the buyback program. So we are in that level, and we will see how these will be involved along the year.

Vicente Salendra
Okay. Sorry, I just didn't get that. Will you complete the full buyback program or not? Could you just remind us what will the—

Rodrigo Guzman-Perera
We ever complete the buyback program, because the buyback program is too high. The approval of the [indiscernible] in the last year, it's around $300 million, but we ever reach that amount. For a moment, [audio disruption] 25 million shares in our hands.

Vicente Salendra
Okay, got it, got it. Perfect, that's good. Thank you very much, bye-bye.

Operator
The next question will be from Frank McGann of Bank of America Merrill Lynch. Please go ahead.

Frank McGann
Yes, thank you. Two questions if I could, one just on CapEx. You're raising CapEx, it seems fairly [indiscernible] the CapEx levels we see on '17 and '18. I was just wondering where you think that's going to be allocated, and what special programs or anything account for the differences.

And then going to one of your comments in terms of what can affect 2019 in terms of trade wars and such, or trade issues and such, I was wondering where you think that could potentially, depending, of course, on how things develop over the year, where the risk and opportunities might be?

Rodrigo Guzman-Perera
Okay. Frank, as we have been mentioning along this first two months of the year, our regular CapEx is between 80% to 85% of our total position [ph] of the last year. [Indiscernible] a little bit that amount because we are going to seek opportunities, of course, going downstream, in order to develop new products and new solutions. That is one side. And the other side, we need to maintain the [audio disruption] of our upstream business, in order to continue leveraging that, with that, with those assets, our downstream business. But, along the year, we are going to be so cautious on doing investments and doing CapEx in products or in assets that could increase our return invested capital. That is our focus today.

In the second question, the trade war, in relation with what we expect for the year, of course our guidance already consider some of the Brexit impacts in the Fluent Europe, and also in our Fluor business in Europe. It will depend on if it is higher or not, how big the impact will be, but we are so conservative on our numbers, including that impact. And also, we are very conscious about what is happening in the trade war between the U.S. and China, in relation with our rest of the products. For example, in Fluor's part, and also in the PVC, in the PVC space, those are the ones that could guide us, let's say, in the level in which we are announcing between 1% to 4%.

Daniel Martinez-Valle
And just to add on what Rodrigo was mentioning, in terms of political uncertainty, trade wars, financial market volatility, but specifically in terms of China-U.S. trade war, it is very, very relevant for everyone in the call to really understand the position that Mexichem has in the refrigerant gas space in the world. Mexichem owns 20% of the world's reserves in Fluor's part [ph]; 60% of the world's reserves, apart from our 20% mine are in China. China, today, is for China, there's actually an excellent demand in the Chinese market today, so China will not be able to export for the time being, which means that if you just consider the U.S., in the U.S., China, Mexico context, 80% of the market in the U.S. depends on Mexichem's fluorine base products.

We are conscious of this position. Congress people in Washington are conscious of this position. So we are fundamentally very optimistic about how we can leverage our position, from an answer perspective, in the Fluor business, in particular, given volatility associated to trade wars, U.S. versus China, U.S. versus Mexico. So it's very important for everyone to understand that Mexichem does have a very relevant position in the world market and the fluorite space.

Vicente Salendra
Okay, thank you, very interesting answer.

Operator
The next question will be from Leonardo Olmos of Santander. Please go ahead.

Leonardo Olmos
Hi, good morning, everyone. My question is regarding the 2019 and the guidance. I think, we're now in the end of February. Does most negative things going forward, so you have a up to minus one negative EBITA for 2019. Looking the other side of the coin, what aspects of EBITDA estimate that you have control over?

Rodrigo Guzman-Perera
Okay. The positive things we are seeing is, of course, it continues in our [indiscernible] products, in Fluent, basically, also, improving each time, as we announced the position of Netafim, accelerating its penetration on the market, and that's exactly what we are doing now. Also, we believe that the conditions on the market for downstream products in Europe in the Fluor, in the first part scenario, to be better. And also, the PVC prices could improve, and ethane prices could be lower. So, basically, what we have in our control is to continue penetrating the market with our products downstream, and also, improving our portfolio of products in Fluent.

Daniel Martinez-Valle
And this is a very relevant question. Today, we only have exposure to commodity-based markets in 16% of our total business. The rest is downstream business, or specialty-based businesses, in which we control our destiny; we own the customer; we have, actually, higher margins; and we have, as I mentioned during my initial remarks, a very strong competitive position across all our different businesses, across all the different countries where we operate globally.

It's very important for everyone to remember that Mexichem, today, is a $7.2 billion organization that operates commercially in more than 120 countries globally. We have an EBITDA margin of close to 19%, and grew our EBITDA, year-over-year, 26%. If these were challenging times, we definitely look forward to the best of times. Having a company like Mexichem, with a resilient balance sheet, growing 26% with a 19% EBITDA margin in challenging times, attests the business model that is strong, that is resilient, and that will prove to be profitable for every single one of our shareholders moving forward.

We're very optimistic about the future of this company, and we're working on making it, as I mentioned it on many occasions, a purpose-driven future-fit organization that can fundamentally tackle and solve today's challenges, and tomorrow's challenges, effectively.

Leonardo Olmos
Very clear, thank you. Just one question, since you mentioned Netafim penetration in the market, could you give any example of countries or regions, or specific products that are getting into, especially in LatAm and in Europe where you, I think you have more room to grow?

Daniel Martinez-Valle
So we have room to grow in every part of the world, not only with Netafim, but with the rest of our business operations. And particular with Netafim, we are increasingly growing in emerging countries, India is one of our most relevant operations, but we're also increasingly growing in developed countries like the U.S.

As I mentioned during my initial remarks, we're very optimistic about the prospects of NetBeat, our digital solution that is proving to be very relevant to increase crop yields, using less water, for every farmer that is using it today, across all geographies in the world.

We are also very optimistic about how we are evolving business models all across our business groups, and particular in Netafim, we're piloting irrigation as a service business models, which, as I mentioned before, have higher margins, have higher stickiness, and make us more relevant, in terms of being closer to our customer, addressing customer needs, year after year, crop after crop, cycle after cycle.

Leonardo Olmos
That's great. Thank you very much.

Operator
The next question will be from Christian Landi of Scotiabank. Please go ahead.

Christian Landi
Hi, good morning, thank you, Daniel, Rodrigo, and Geraldo for the call. It's a brief one. I just wanted to know what oil prices are you estimating for 2019 based on your guidance?

Daniel Martinez-Valle
In which product?

Christian Landi
No, oil prices.

Rodrigo Guzman-Perera
Oil prices are estimated between $60 ph to $65per barrel.

Christian Landi
So $60 to $65?

Rodrigo Guzman-Perera
Between $50 to $60 per barrel.

Christian Landi
So $50 to $60. I guess that's WTI?

Rodrigo Guzman-Perera
Yes.

Christian Landi
Okay, thank you.

Operator
The next question will be from Rodrigo Verduzco of GBN. Please go ahead.

Rodrigo Verduzco
Hello, thank you for the call. My question is regarding the caustic soda prices. We saw in the report, and you said in the call, that you see pressure, caustic soda prices, due to the Brazil [indiscernible] situation. We were wondering if you could give us a bit more of a color in the impact of caustic soda price on your operation. We know you have spot sales in South America, and we also know the caustic soda prices affect, as a buffer, in the SLN cracker operation, but we were wondering if you could give

us magnitudes, or which part of the business worries you the most in the caustic soda impact.

Rodrigo Guzman-Perera
Yes. Only 5% of our total EBITDA is coming from caustic soda. It's specifically in our operations in Germany, and here in Mexico in TMB , and also in the [indiscernible] plant. That is the [indiscernible]. The other part is what happened in the cracker. If ethane prices remain lower, and the PVC prices remain in the level they are today, the only impact we receive from caustic soda is if that could help us to improve our profitability. Let's say that it's not directly impact our numbers, except if the ethane prices goes up and PVC prices goes down. But directly, in our numbers, only 5% of our EBITDA is coming from caustic soda.

Rodrigo Verduzco
Okay, perfect, thank you very much. That was very helpful.

Operator
The next question will be from Leonardo Marcondes of Itau BBA. Please go ahead.

Leonardo Marcondes
Hi, guys, thanks for taking my questions. I have two questions. My first question is, could you give us a bit more color on what [indiscernible] should make Mexichem a more client-focused company this year? What markets do you see opportunity to grow and to enter?

And my second question is, in the previous calls, you guys mentioned that you were expecting [indiscernible] deliver $200 million EBITDA for 2020, which includes the margin expansion to up around 17%. I would like to know how the progress on this have been so far. Thanks.

Rodrigo Guzman-Perera
Okay. You go to the market?

Daniel Martinez-Valle
Sure. So, as you know, as I mentioned, again, in my initial remarks and the previous conference calls, we are working across our five distinct business groups to become more customer centric. That means our reference business, that means our Fluor business, our Datacom business, our building and infrastructure business, and our precise agro business. We are seeing opportunities in every region in the world, including Africa, Middle East, Asia, Europe, LatAm, and the U.S. As we evolve our business models on top of our core business model that have made us so successful in the past several decades, we see a lot of opportunities across all our different spaces. Building and infrastructure, above and below ground, have to do with water management, and we're working on a number of fronts across all these regions.

Again, I mentioned irrigation as a service and community irrigation projects, that does not only include places like the U.S. and India, but also includes potential opportunities in places like the Middle East. We, today, are working on large transformational projects in Ethiopia and Rwanda, which are fundamental to the economies of those countries.

Fluor, as we move along, in terms of executing a strategy from being a volume-based company, to becoming a value-based company, our downstream business will be more and more relevant, and more and more customer centric. There's a lot of opportunities that we're actually exploring, as we speak, executing, as we speak, that are customer centric, and that solves likes of millions of people on the farmer space, on the car industry space, and on other spaces that we'll be able to share as we move along throughout 2019.

Datacom, as you know, we have a very strong position in the U.S. market. We're actively working with Dura-Line's management team to replicate the success that we start in the U.S. business all across the globe. We're actively working in places like Asia. We're actively working in places like LatAm, and we're exploring opportunities in the Middle East moving forward.

And last, but not least, our building and infrastructure business has significant opportunities in developing countries across Asia, eventually Africa. We're working very actively to capture our first share in developed countries, such as the U.S. and Latin America, represents significant business opportunities in our above ground, as well as in our below ground space for building and infrastructure.

Rodrigo Guzman-Perera
In the case of the guidance related to Netafim, so you may remember we announced it in the second quarter of the last year, and we said that we expected to increase our EBITDA to $200 million in the business, with a margin of 17%, by 2020. Of course, those numbers do not include the FX impact, because we cannot forecast them, as it doesn't have any control on the exchange rates globally. We can say that we are in the correct path. We are doing what we expect. We are working, not only on getting the synergies we plan to have, but also, as I said, to improve the penetration of the Netafim products into the Latin American markets, into the U.S. markets, and also, into other countries like India.

We can say that we are on the right path to get in those numbers at 2020, again, excluding the FX impact we had in the fourth quarter of the last year and the third quarter, and anything that we could have in the future.

Leonardo Marcondes
That's perfect. Thank you, guys.

Operator
The next question will be from Nikolaj Lippmann of Morgan Stanley. Please go ahead.

Nikolaj Lippmann
Thank you very much, and thanks [indiscernible] for taking my question. Just basically one. Could you just remind me, I'm sorry if [audio disruption] if you have included the original [audio disruption] the magnitude? If so, the magnitude [audio disruption] we're looking at sort of like-for-like on whether there is any appreciation from Netafim [audio disruption]. And then the two [audio disruption] $8.5 million one-off [audio disruption], and sorry again if I'm slow, the total amount of [audio disruption]. Thank you very much.

Rodrigo Guzman-Perera
Okay. Nik, we can barely hear you. I mean, the phone is not clear, but I will try to answer what I understand.

The question is in relation with the Netafim and in relation with the numbers, with the impact and without the impact we had in 2017 and in 2018. In 2018, in the Netafim numbers, we had an impact on the PPA adjustment for around $8.5 million. So when you adjust the EBITDA numbers from Netafim, and you take those numbers out, then you are going to realize that the margin, that the EBITDA margin in the last quarter of Netafim is higher than the one that we experienced in 2017.

I think that was the question, because we [audio disruption].

In the Mexichem irrigation business, today, it's only a distribution business. Mexichem has two legacy irrigation businesses. One is related with distribution of products, and the other one is a couple of companies, we have one in Panama and the other one in Colombia. The companies were not moved out of Mexichem yet. We are going to do it during this year.

In the case of the distribution business, the impact is not too high in the numbers of Netafim. But even with those numbers, including those numbers in the fourth quarter of 2018, again, the margin of Netafim grew, it's an important basis.

Nikolaj Lippmann
Got it, thank you. And could you remind me the total amount—I'm sorry about the sound here—but could you remind us a total amount of sort of one-offs in Fluent, that affected the EBITDA [audio disruption] in the fourth quarter? Thank you.

Rodrigo Guzman-Perera
Yes. In the fourth quarter of 2017, it was $24 million. In the fourth quarter of 2018, it was $8.8 million. Those were the one-offs we had in both quarters.

Nikolaj Lippmann
Got it, thank you.

Operator
The next question will be from Petr Grishchenko of Barclays. Please go ahead.

Petr Grishchenko
Good afternoon, and thanks for taking my questions. First I wanted to ask a couple of questions on the capital structure. The company emphasized its commitment to IG, and obviously, keeping leverage below two times, but given that leverage currently since evolved a threshold, would it make sense, perhaps, to slow down equity distributions until the metrics fall within those targets, or any thought on this will be very helpful.

And the second question, looking at maturity profile, can you discuss maybe conditions you're looking for to deal with the 22 bond?

Rodrigo Guzman-Perera
Okay. Let's go over the first question. We already announced dividend that will be paid during 2019. The dividend is surrounding $218 million, $50 million from the [indiscernible] dividend, and around $168 million is coming from the ordinary dividend.

The net debt to EBITDA ratio of 2.05 we get at the end of the year, let's say that it's on the right path. We expect [indiscernible] position of Netafim. We could be below two times net debt to EBITDA in no longer than 18 months. We acquired Netafim in February 7, 2018, so then, we should be below two times no longer than July of this year, and going forward. That is our expectation. We continue to being so tight, and we have the commitment on our investment grade , and that is our target.

And then, the maturity profile of our debt is, as I said, 14.3 years. In 2022, we should [indiscernible] see it, a big chunk of that, like $1 billion. For the moment, we don't know what are going to be the conditions of doing that, but at least we are going to start doing the job for [indiscernible] that debt during 2020.

Petr Grishchenko

Got it, that's very helpful. Thanks for the color. And second question I had on the operations front, we keep hearing some impending changes in the mining in Mexico, and given the company's mining concession to operate, I think one salt and two fluorite mines, can you maybe help us understand potential exposure here?

Daniel Martinez-Valle
In terms of the mining operations, as you know, we have historically been very keen to operate our mines at world standards, in terms of safety, in terms of security, and in terms of how we operate every single asset in all our mines. We feel very confident that we're at the high end of how mines should be operated, complying with every single regulation, every single legislation, and going beyond what is required by law, both in Mexico and in terms of world standards.

So this is our commitment, it will continue to be our commitment moving forward, and this is what makes us feel very confident that we should not be concerned about anything that has to do with our mining operations. This is a day-to-day job. This has to be a day-to-day concern, not only for me and for the [indiscernible] of the businesses, but every single employee that works and operates in those mines. This is how we work, and this is how we will continue to work in the future.

Petr Grishchenko
Got it, that's very helpful. And the last question, if I may, given the company exposure to construction and auto segments, just on Tuesday we saw U.S. housing start declining, a two-year low, and auto sales continue to be quite soft. Can you perhaps share any views on the U.S., and what are you seeing from the demand side?

Daniel Martinez-Valle
So, as you know, our building and infrastructure business today, which is basically the combination of both fluorine and [indiscernible] have no preference, or very little preference in the U.S. market. So in the short term, we have no concerns regarding housing stats, or any other sort of dynamics associated to the building activity, in the U.S. in particular.

We are very optimistic about that space in the midterm and in the long term. From a Dura-Line perspective, as you know, we have captured significant opportunities associated to 5G, fiber optic deployments, with very relevant customers, probably the top five customers are one of our best customers worldwide. Some of those sort of major deployments are in their final stages, but we see significant opportunities outside of the U.S., where we can actually sort of replicate the business model that has proved to be so successful for Dura-Line in the U.S., in other regions in the world, as I mentioned in my previous remarks, such as Latin America, India, and even Europe.

Petr Grishchenko
Great, thanks so much, guys, and the best of luck to you.

Daniel Martinez-Valle
Thank you.

Operator
The next question will be a follow-up from Vanessa Quiroga of Credit Suisse. Please go ahead.

Vanessa Quiroga
Thank you. My total question is regarding margins for Fluent for the Fluent different regions. Can you remind us, what's the range of the EBITDA margin that you have for each region? Thanks.

Rodrigo Guzman-Perera
Vanessa, I don't remember specifically the margins for regions. I know the margins for companies. Let's say that the Dura-Line business, it's around, between 14%-to-15%. The margin in Latin America, it's also in that range. The margin in Netafim, it's around 14%, and in Europe, it's between 12%-to-13.5%, in Fluent.

The margin in vinyl is 20, and the margin in Fluor, it's surrounding 47%.

Vanessa Quiroga
Thanks. And regarding CapEx, can you tell us how much you will be dedicating to upstream versus downstream, and whether this is including maintenance to the cracker for the first time since it was a new asset, and how much is probably dedicated to Netafim to extract synergies?

Daniel Martinez-Valle
So our CapEx is allocated in a very diversified way across all our businesses. We are very optimistic about the business prospects in our five business groups globally. In terms of the cracker, in particular, we do not foresee a major sort of CapEx allocation associated to maintenance, or to any other sort of [indiscernible] CapEx required for the cracker. In particular, the specific number that we have projected for this year is $7 million, which is not significant on a consolidated basis.

We cannot disclose, at this point in time, sort of the breakdown between upstream and downstream, and particular in the Fluor business. As I mentioned before, we are sort of growing our business with a value-based mentality versus a volume-based mentality in Fluor, in particular. That means that we will continue investing both in the downstream business, as well as in upstream business.

As per the previous question, we will invest what is required to have world-class operations, in terms of safety, in terms of security, and in terms of productivity in our mine, and particular in [indiscernible]. And we will be doing the same thing across our chemicals businesses, across our downstream businesses, and we will continue to invest for growth moving forward.

Vanessa Quiroga
Okay, great, thank you, Daniel and Rodrigo.

Daniel Martinez-Valle
Thank you, Vanessa.

Rodrigo Guzman-Perera
Thank you, Vanessa.

Operator
And, ladies and gentlemen, this concludes our question-and-answer session. I would like to hand the conference back to management for their closing remarks.

Daniel Martinez-Valle
Thank you, everyone, for your time today. As I mentioned, we are very optimistic about sort of the prospect of our business moving forward. We're working diligently to deliver consistent growth in our return on invested capital, and we will continue to execute our strategy. And we're available to entertain any questions off line with any of you.

Thank you so much, and look forward to our next call. Have a great day.

Operator
Thank you. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.