# Orbia

## Third Quarter 2024 Earnings Results and Business Update Conference Call

## October 24, 2024, at 11:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Sameer Bharadwaj** – *Chief Executive Officer*

**Jim Kelly** – *Chief Financial Officer*

**Diego Echave** – *VP of Investor Relations*

## PRESENTATION

**Operator**
Good morning and welcome to Orbia’s Third Quarter 2024 Earnings Conference Call and 2024 Business Update. As we turn to Slide 1, 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 touch tone 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 Diego Echave, Orbia’s Vice President of Investor Relations. Please go ahead, sir.

**Diego Echave**
Thank you, operator. Good morning, and welcome to Orbia’s Third Quarter 2024 Earnings Call and 2024 Business Update. We appreciate your time and participation. Joining me today are Sameer Bharadwaj, CEO, and Jim Kelly, CFO.

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

Now I would like to turn the call over to Sameer.

**Sameer Bharadwaj**
Thank you, Diego, and good morning, everyone. Today, we will begin by discussing this quarter's results, followed by a 2024 business update, and conclude with Q&A.

First, I would like to thank our global employees for their steadfast commitment to building a resilient business that will continue to create value for our shareholders over the long term.

Turning to Slide 3, I will share a high-level review of our third quarter 2024 performance. Year-over-year, revenues of approximately $1.9 billion decreased 4%, and EBITDA of $288 million decreased 10% compared to the prior year period. Although we began to see some volume improvements in Fluor and Energy materials and Connectivity Solutions due to continued market headwinds, revenues and EBITDA were impacted by lower prices and an unfavorable product mix. Nonetheless, our long-term fundamentals remain robust, and we are taking important steps to adapt the business to the current operating environment, which we will elaborate on during the business update portion of today's call.

We continue to focus on optimizing business results through commercial efforts and cost reduction initiatives, and to drive cash generation through active working capital and capital expenditure management. I would also like to highlight the recent opening of our new Building and Infrastructure manufacturing site in Indonesia. The project was well executed and advances Building and Infrastructure's strategic objective to expand its geographic presence in high growth areas of the world.

I will now 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 with a discussion of our consolidated third quarter results on Slide 4.

Consolidated net revenues of $1.9 billion were down 4% year-over-year, which was a result of lower-to-flat volumes across a number of our business segments and lower prices in Connectivity Solutions and Polymer Solutions. EBITDA was $288 million in the quarter, a 10% decrease year-over-year, largely driven by lower pricing and an unfavorable product mix in Connectivity Solutions and lower revenues and Building and Infrastructure and Polymer Solutions.

Operating cash flow of $283 million increased by $65 million compared to the prior year quarter, primarily due to lower taxes paid and an improvement in working capital. Free cash flow in the quarter of $142 million increased by $115 million year-over-year. The increase in free cash flow was driven by the higher operating cash flow, as well as lower capital expenditures.

The effective tax rate was -120% for the quarter as compared to 4% in the prior year quarter. The tax benefit this quarter was primarily due to the depreciation of the Mexican peso against the U.S. dollar. Excluding the foreign exchange impact, the effective tax rate would have been 27.2%.

Net debt to EBITDA decreased slightly to 3.36x in the quarter. Net debt decreased due to a higher cash balance and a $31 million decrease in gross debt due to the depreciation of the Mexican peso, which was partially offset by increased borrowings of $40 million during the quarter. The lower net debt balance helps to offset the lower 12-month cumulative EBITDA.

Orbia made a dividend payment of $40 million during the quarter, which consisted of the third installment of the $160 million ordinary dividend that was approved at the annual shareholders meeting held on April 9, 2024.

Turning to Slide 5, I'll review our performance by Business Group. In Polymer Solutions, third quarter revenue was $634 million, a decrease of 6% year-over-year due to impacts from lower volumes and derivatives and lower prices. Third quarter EBITDA of $90 million increased by 5% year-over-year with an EBITDA margin of 14%. The improved EBITDA was driven by lower ethylene and electricity costs, coupled with management's efforts to optimize production and a continued focus on controlling fixed costs, partially offset by lower volumes.

In Building and Infrastructure, third quarter revenue was $632 million, a decrease of 9% year-over-year. The result was driven by weaker volumes in Latin America, driven by delayed investments due to government changes in some countries. This was partly offset by a slightly improved result in EMEA. Third quarter EBITDA of $78 million decreased 1% year-over-year with an EBITDA margin of 12%. The lower EBITDA was driven by lower revenues, partially offset by benefits from operational cost optimization initiatives.

In Connectivity Solutions, third quarter revenue was $235 million, a decrease of 7% year-over-year due to lower prices and an unfavorable mix, partially offset by higher volumes. Third quarter EBITDA decreased 55% to $31 million with an EBITDA margin of 13%. The EBITDA decline was driven by lower prices and an unfavorable mix, partially offset by the benefits of ongoing cost control initiatives.

Moving on to Precision Agriculture, third quarter revenue was $232 million, a 7% year-over-year decline

due to soft demand in the US and Turkey and unfavorable weather conditions in India. This was partially offset by continued strong demand in China, Africa and Latin America, driven by growing penetration in extensive crops. Third quarter EBITDA was $24 million, an increase of 28% year-over-year, with an EBITDA margin of 10%. The improvement in EBITDA included benefits from cost saving efforts.

Finally, for Fluor and Energy Materials, third quarter revenue was $221 million, an increase of 18% year-over-year, largely due to volume growth in minerals, partly offset by lower volumes and pricing in refrigerants. Third quarter EBITDA was $66 million, a decrease of 2% year-over-year, with an EBITDA margin of 30%. The lower EBITDA was due to an unfavorable product mix due to lower refrigerant results, partially offset by lower operating costs.

With that, I'll now turn the call back over to Sameer.

**Sameer Bharadwaj**
Thank you, Jim. Turning to Slide 6, I will provide an update to our outlook for the last quarter of the year. The market hasn't recovered in the second half of the year as we had expected at the end of the prior quarter. Therefore, our updated EBITDA guidance for 2024 is $1.1 billion to $1.15 billion. Excluding one-time restructuring and legal charges, full year adjusted EBITDA is expected to be $1.15 billion to $1.2 billion.

Capital expenditures are expected to be between $450 million and $480 million, and the effective tax rate between 27% and 31% excluding the impact of inflation and foreign exchange rate changes in Mexico.

Looking ahead in each of our business segments to the coming quarter. Beginning with Polymer Solutions, recovery in the second half of the year has not materialized as anticipated, and we remain in the trough of the cycle, which we expect will continue through the balance of the year. We will continue to focus on controlling spending and operational efficiency.

In Building and Infrastructure, we expect continued headwinds in parts of EMEA and LatAm. We are currently focused on manufacturing footprint optimization and operational cost reduction to position the business for improved profitability. We are also working to ramp up production from recent investments in new products and regions, which will bring significant results over the coming years.

In Connectivity Solutions, we expect a slower ramp up in demand recovery than previously anticipated, although customers remain optimistic for growth as we progress through 2025. Controlling costs and enhancing operational efficiency continue to be primary areas of focus for the remainder of 2024.

In Precision Agriculture, we continue to see weak market conditions in the US, driven by low crop prices and high interest rates. Turkey continues to be a challenging market with high interest rates and inflation causing farmers to delay irrigation investments. These trends are being partially offset by continued growth in extensive crop activities in China, Africa and Brazil, among other countries. We will continue to focus on cost management and improving working capital in our efforts to improve margin and cash flow.

Finally, in Fluor and Energy Materials, while we see some signs of demand recovery in refrigerants, Q4 is normally a seasonally slower period. We are maintaining our focus on maximizing value in the fluorine chain and diligently controlling costs.

Back to you, Diego, to provide an introduction to our 2024 business update.

**Diego Echave**
Thank you, Sameer. In June of last year, we held a strategic update, and our discussion today will serve

as a follow up to that. We will share updates on the state of our business, actions we are taking to improve it, and what we are expecting over the next few years. We will then open the floor for questions, and by the end of this discussion, we hope you will have a better understanding of Orbia's current business situation, how we are navigating the current environment and better visibility to the future.

I will now turn the call over to Sameer.

**Sameer Bharadwaj**
Thank you, Diego. Turning to Slide 2. Given the current conditions, we have started to implement specific actions to improve earnings and strengthen our balance sheet, while ensuring that we execute on the previously announced strategic growth opportunities, especially in energy materials. We will explain how we will increase earnings from the expected 2024 adjusted EBITDA baseline of $1.15 billion to $1.2 billion over the next two to three years without the benefit of any potential market recovery.

Our first priority is to reduce leverage, and we will achieve this by implementing the following actions. First, execute on the already identified $250 million per year cost reduction program, which would bring incremental $165 million per year in savings by 2027. Second, realize results from recent organic growth investments with a ramp up of $150 million per year of EBITDA from 2025 to 2027. Third, we will reduce capital investments to $450 million or less for 2025 and 2026. Fourth, we will continue to tightly manage working capital across all businesses. And finally, we have started a non-core asset divestment program targeting cash proceeds in excess of $150 million to $200 million by 2026. In combination, these actions will allow us to strengthen the balance sheet and maintain our focus on the previously announced long-term growth opportunities, particularly those in energy materials that will create significant shareholder value over time.

Moving to Slide 3, I will start by reviewing some of the factors that are impacting our EBITDA performance in 2024. An excess of PVC capacity in China has led to high levels of exports. This, combined with a slowdown in construction activity across the world due to high interest rates, has driven global PVC prices to decrease by more than 50% since 2021 to a current level of about $750 per ton. This has resulted in lower revenues in EBITDA within our Polymer Solutions business.

The combined effects of high interest rates and energy costs have led to a recessionary backdrop in Europe, causing building permit issuances to decrease 34% since 2022. In Germany, building permit issuances are down 46% cumulatively over the past two years. This has had a significant impact on European demand within our Building and Infrastructure business. More recently, government changes in certain Latin American countries have led to a downward trend in volumes in that region due to investment delays.

Our Precision Agriculture business was impacted by a decrease in net farming income in the U.S. evidenced by a 23% decline over the last two years. Farmer sentiment for large capital expenditures is at its lowest level since 2016. Low crop prices and elevated interest rates have pressured farmers' top line, while increased input costs have contracted margins.

Within Fluor and Energy materials, the reduction of F-gas quota in the U.S. has resulted in a decrease in volumes. Prices are expected to increase with a lag, as we previously experienced in Europe with quota reductions, but that has not materialized yet in the U.S..

Connectivity Solutions has been impacted by weaker market conditions, driven by high levels of inventories held by customers, high interest rates, and delayed deployment of funds related to U.S. government infrastructure programs. To address these significant headwinds, we are making a concerted effort to drive EBITDA and cash flow improvements to solidify our balance sheet and ensure our ability

to continue to invest in critical strategic growth projects.

Turning to Slide 4, we have identified and are implementing cost saving actions, which are expected to yield incremental EBITDA of around $250 million per year. An estimated $85 million per year is expected to be contributed in 2024 with an additional $165 million per year by 2027. The cost savings are split roughly 50/50 between manufacturing costs and SG&A costs. Within the manufacturing cost reductions, the benefits will be achieved largely through the optimization of facilities in the Americas and Europe across several businesses, supply chain and logistics cost savings, and SKU rationalization.

In terms of SG&A, we are streamlining regional sub-structures, reducing costs and improving efficiency. We are also simplifying the corporate and administrative structure and are in the process of creating global capability centers in low-cost regions for IT and other functions. Through these actions, we will achieve improved earnings power by adjusting the cost profile of our businesses to reflect current market conditions, and we'll provide leverage for earnings growth as markets recover,

Moving to Slide 5. In addition to our cost saving actions, we expect to realize more than $150 million of additional EBITDA over the 2025 to 2027 timeframe, as previously executed growth capital investments begin to pay off. As a reminder, this does not include any market recovery.

In Polymer Solutions, we expect incremental earnings of more than $30 million over the period from additional capacity for specialty PVC resin and semi conducting and halogen-free wire and cable compounds among other projects.

In Building and Infrastructure, we expect incremental earnings of more than $40 million per year from the ramp up of new products launched like sewer system-related components, by actually oriented PVC pressured pipes, and next generation push fit fittings, along with footprint expansion into new markets such as Indonesia.

In Precision Agriculture, we expect incremental earnings of more than $25 million per year from further expansion in extensive crops, growth markets like Africa and China, incremental revenues from a recently relaunched digital farming solution, and the world's first pressure compensated dripper for thin-walled drip lines.

In Fluor and Energy Materials, we expect incremental earnings of more than $25 million per year from the ramp up of low global warming potential medical propellants and refrigerants, the completion of a synthetic metallurgical fluorspar [ph] project, and custom electrolytes for batteries.

In Connectivity Solutions, we expect incremental earnings of more than $30 million per year from the already completed capacity expansions in North America, new products for power, datacenters, aerial networks and network services. These growth investments across our businesses are at the center of our growth strategy, and the benefits from these investments will help raise Orbia's EBITDA profile.

Turning to Slide 6. Starting from a baseline of the 2024 adjusted EBITDA guidance, we see considerable room for EBITDA upside through the combined impact of our cost saving initiatives and growth investments. Beginning with the $1.15 billion to $1.2 billion 2024 adjusted EBITDA guidance, we expect to add more than $100 million in cost savings and growth projects in 2025, another $100 million in 2026, and $115 million in 2027, taking us to approximately $1.5 billion independent of market recovery. Beyond EBITDA, we are also acting to improve Orbia's cash flow and leverage profile.

I will now hand it over to Jim to talk about our financial actions and targets.

**Jim Kelly**
Thank you, Sameer.

Turning to Slide 7, we intend to reduce annual capital expenditures to $450 million or less for 2025 and 2026. We'll focus maintenance capital expenditures on safety and asset integrity, spending approximately $260 million per year. Growth capital expenditures will be directed towards projects with the best return profiles, with capital expenditures to EBITDA ratios of 3x or lower and strongest strategic fit, including the previously announced investments in energy materials.

As we progress with the design and engineering phases of the large energy materials projects, we have a better understanding of the required timing of investments, which has reduced the capital requirements in 2025 and 2026. The distribution of 2025 capital expenditures shown in the chart highlights the focus on growth in the Fluor and Energy Materials business.

Turning to Slide 8, for 2025 and 2026 combined, we expect to generate around $350 million to $410 million of cash, with debt reduction being our first priority for the utilization of this cash. The estimated cash available will come from a cumulative EBITDA within a range of $2.6 billion to $2.7 billion. Assuming an operating cash flow conversion of EBITDA of 60%, $900 million in capital expenditures, and $200 million in lease payments, we anticipate free cash flow of between $460 million and $520 million and implied free cash flow yield of about 18%. Accounting for minority interest payments of approximately $260 million and proceeds of more than $150 million expected from non-core asset divestments, we arrive at the $350 million to $410 million cash generation.

Moving to Slide 9, we summarized how the actions in progress will support the potential debt reduction of more than $350 million by 2026 without the impact of market recovery. Starting from the net debt balance as of the third quarter of 2024 of $3.7 billion with the cash generation of $350 million to $410 million, we would expect to end 2026 with a net debt balance of between $3.3 billion and $3.35 billion. We expect that the improved free cash flow outlined earlier, together with the sale of certain non-core assets will enable us to reduce debt and achieve a leverage ratio below 2.5x, strengthening our balance sheet.

I'll now turn it back to Sameer.

**Sameer Bharadwaj**
Thank you, Jim. We now want to highlight the upside and earnings power potential from a market recovery. Many of our end market segments are related to infrastructure investments, which will benefit from interest rate reductions. In Polymer Solutions, we would expect incremental earnings potential within a range of $100 million to $300 million from demand recovery and capacity consolidations, which will drive higher operating rates and prices. We would also expect to see a positive impact from our compounds business by increasing penetration in high growth markets, including medical applications and wire and cable for datacenters.

In Building an Infrastructure, we would expect incremental earnings potential within a range of $50 million to $80 million through recovery and growth, due to low housing stock globally and growing demand for urban climate resilient solutions.

In Precision Agriculture, we see the potential to realize between $30 million to $50 million in incremental EBITDA from a recovery in our traditional high value markets, particularly in the U.S.. There is significant room to increase demand through further penetration in extensive crops.

In Fluor and Energy Materials, we could generate between $30 million to $50 million of additional EBITDA

through the expected tightening across the fluorine value chain, driven by global growth in battery and semiconductor materials. There is also significant opportunity in the United States, driven by demand for Inflation Reduction Act-compliant fluorinated materials.

Finally, in Connectivity Solutions, we believe there is potential to realize between $50 million to $100 million of incremental EBITDA through government programs to allocate $90 billion to support broadband deployments nationally, private investments in data centers to support growth of AI and cloud computing, and significant investments in power grid upgrades and modernization.

We are well positioned for market recovery, which would be an added benefit to the combined impact of our cost actions, growth investments, capex discipline and non-core asset sales, resulting in a stronger balance sheet.

Before opening the call for questions, we want to provide an update on our energy materials projects.

Turning to Slide 11. Orbia is uniquely positioned to secure the North American supply chain for critical energy materials such as LiPF6, lithium hexafluorophosphate and PVDF, polyvinylidene fluoride. Orbia is already vertically integrated into fluorine and also produces chlorine, both of which are needed for energy materials. The lithium-ion battery market has been growing at over 20% CAGR over the last few years, driven by electric vehicle and stationary storage demand. Even with the recent slowdown in EV adoption, the market for lithium-ion batteries and materials will be significant in North America and elsewhere. We are timing our investments to capture this market and expect to see earnings contribution by around 2028 to early 2029 with a capex to EBITDA ratio of around 3x. Orbia's total investment in these projects by 2029 is expected to be in the $900 million range, with the majority to be spent between 2026 to 2028.

What we have shared with you today is a plan to lower leverage and strengthen the balance sheet without depending on market recovery. We believe these initiatives are prudent and rational in the near-term, as we navigate the current environment and position us well to capture upside from market recovery.

With that, we will now open the line for questions.

**QUESTIONS AND ANSWERS**

**Operator**
We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question today comes from Andres Cardona with Citi. Please go ahead.

**Andreas Cardona**
Good morning, Sameer, Jim, Diego, thanks for the updates. We do appreciate you reflecting this more challenging environment through your outlook for the different business lines. My question has to do with how this strategy update reflects the minority investors' concern about the stock price performance.

As a background, when Sameer assumed as CEO three years-and-a-half ago, it was clear he focused on the left-hand side of the balance sheet, as he defined meaning improved operation. But now that the industry is at the lowest stage of the cycle and the stock price is depressed, doesn't it make sense to consider a more ambitious focus on the right-hand side of the balance/capital structure? And I ask this,

Sameer, because I'm one who believes that any of the five core business lines could be worth more than the current company valuation, then why not consider the divestment of any of them? Pursue a dual listing, float any of the assets, spin off some of them to get a better valuation recognition. So just this context to try to understand how this strategy update reflects those investors concerned about price performance as well capital allocation.

**Operator**
Pardon me. I think our speaker line might be muted. Can you hear us?

**Sameer Bharadwaj**
Thank you, Andres, for the question. We fully anticipated that this question would come up during this call, and we can provide you some guidance along those lines. We are obviously not happy with our current valuation, and your observation is right, any one of our businesses are worth a significant amount. And as we work to optimize our businesses in the ways we already talked about this morning, part of that discussion involves assessing ways in which potential changes to our portfolio could help us sharpen our focus, reduce leverage, and create significant shareholder value.

As part of our 2021 strategic update, as you reminded us, we discussed our efforts to create value in our various businesses with a view to capturing some of that value over a three to five-year period on the right side of the balance sheet. Consistent with that approach, we believe the time has come to carefully consider divesting, in whole or in part, businesses that we determine are not an optimal fit within our portfolio, or that would create more value under a different owner. We intend to pursue opportunities to build a strategically focused, highly synergistic portfolio going forward with a single-minded dedication to creating shareholder value.

Hopefully, Andres, this addresses your question.

**Andres Cardona**
Thank you. Sameer,

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

**Pablo Monsivais**
Hi, good morning, Sameer, Jim and Diego. Thanks for taking my question.

It's a little bit of a follow up to Andres' questions. I see on your slide that you're expecting 2.4x net debt to EBITDA for 2026, but given how volatile your EBITDA has been, is this ratio enough? Shouldn't it be lower, because sometimes your EBITDA is hard to predict. So maybe just a comment on the right amount of debt that your business should have. And I don't know, perhaps just increasing or rethinking the size of the non-core asset sales, because perhaps you will have more opportunities to lower even further your net debt to EBITDA target. Thank you.

**Sameer Bharadwaj**
Pablo, thank you for the question.

As you can imagine, we are not factoring in any market recovery in our assessment for '25 and '26 and we want to be conservative in our assumptions in terms of being confident about what we can deliver. And also, as you pointed out, we have not counted any benefit of the non-core asset sales to EBITDA in calculating that leverage ratio. When you sell an asset, some of the non-core asset sales will show up as EBITDA, and that's not factored in the leverage ratio calculation, once again, to be conservative.

As far as non-core asset sales are concerned, these are assets that do not generate significant earnings, but could contribute cash to help reduce leverage in the short term, if divested, and these include land, buildings and some local businesses that are not strategic for the long term. And some of these opportunities are arising out of the extensive restructuring actions that we are undergoing right now. And as you rightly pointed out, we are targeting $150 million to $200 million in 2025 and ’26, but the opportunity is larger, and we will share more at the right time, but your point is well noted.

**Pablo Monsivais**
And then, just as a follow up, Sameer, then what could be the early signs for a market recovery? What do you think is needed there for a market to become more confident that we are in that path? Thank you.

**Sameer Bharadwaj**
So, a very good question, Pablo. So clearly, as we see continued interest rate reductions in the United States as well as in the European Union, those will be significant catalysts for demand recovery. I was in Singapore a couple of weeks ago, and I met with the lead analyst for CMA who follow PVC supply and demand globally, and where we are today is not a sustainable situation. And China exporting 2.5 million tons per year is not sustainable, because there's a significant portion of Chinese capacity that is not competitive, and their costs are over $1,000 a ton, and market prices today are about $750. And so, there is an expectation that there will be consolidation of capacity in China and also a couple of players in Europe may fall off the supply curve, and this will help strengthen the PVC supply demand balance from a supply standpoint.

Then keep in mind what happened after the war started in Europe. There was significant demand construction in Europe as demand in Europe collapsed with increased energy prices and a decline in building and construction activity with increase in interest rates. And so, as this demand comes back, that should have a significant leverage on the supply demand situation for PVC, which is why you see the range is quite significant, $100 million to $300 million on PVC prices alone. So that would be a sign I would look for, consolidation of capacity and resumption of demand in building and construction, with a decline in interest rates.

In Connectivity Solutions, we have been significantly impacted by two things. Both product mix and customer mix have hurt us. On the product side, we have seen a lower demand for our higher value products, microduct and futurepath. And on the customer side, many of our key accounts were sitting with high inventory levels and slowed down their pace of investments with high interest rates. And we would expect to see both of these, product mix and customer mix, recover as we go through 2025, and we would expect to see a resumption of orders from many of our key accounts, and that should lead to demand recovery as well as improvement of margins in that business.

Our Agriculture business would also be a beneficiary of low interest rates because the farmer has been highly stretched from all directions and has been hesitant to make investments in the past 12 to 18 months. And especially as crop prices improve, both on the high value crops, almonds, pistachios, walnuts in California, as well as on the extensive commodity crops, we would expect to see resumption in investment in drip irrigation systems. So hopefully this gives you a sense for the types of catalysts that we would see for demand recovery.

Now, of course, there are some businesses which are doing well, and I'd like to highlight the compound business within Polymer Solutions, which is seeing strong demand with growth in datacenters and environment cable, and as well as we now have a leadership position in medical compounds. Our acquisition in India is doing very well, and as we invest in more growth capacity, we expect that to contribute significantly. So hopefully this sheds some light on your question.

**Pablo Monsivais**
It does, Sameer. Thank you very much.

**Sameer Bharadwaj**
Thank you, Pablo.

**Operator**
The next question comes from Alejandra Obregón with Morgan Stanley. Please go ahead.

**Alejandra Obergón**
Hi. Good morning, Orbia team. Thank you for taking my questions. The first one is very quick on the strategic review. It seems that you might be cutting on dividends for the coming three years. Is this the correct reading? So that would be the first question.

Then the second one, perhaps a follow-up to the prior questions or asked differently, when it comes to the recovery of the cycle and the different business lines, could you perhaps talk about where do you have more conviction on the recovery, and to what extent which business lines could perhaps be less of an add-on towards the future in your strategic view? Is there any division where you think that could be less relevant for Orbia as you move forward as you look at the prospects going forward? Thank you.

**Sameer Bharadwaj**
Thank you, Alejandra.

So as far as dividends are concerned, dividend recommendations are made by the board in the February board meeting based on available cash and are subject to shareholder approval. And available cash, beyond what we have shown for ‘25 and ’26, will also depend on the pace of market recovery. So, what we have shown in the slides here in terms of available cash is not counting any market recovery. As we have said before, debt reduction will be our first priority, and the board will make a recommendation based on the situation at that time.

As far as your second question is concerned, in terms of market recovery and conviction or lack in conviction thereof, we firmly believe the long-term fundamentals for all of our businesses are sound. PVC demand and capacity, PVC is a very critical polymer for the world, and 60% to 70% of it goes into infrastructure, and it is necessary for the world's growth, and particularly for water and food security, and there hasn't been a lot of investment in the space for a while.

As the current supply demand imbalance corrects itself, there is an expectation that the operating rates will continue to improve steadily over the next five years, and we would expect to see a restoration of the balance there and an eventual recovery in prices. So again, once again, I'm talking about a long-term view. I'm not talking about the next six months.

Similarly, as far as our Connectivity Solutions business is concerned, the fundamentals are strong. There is a strong driver for deployment of fiber infrastructure in rural areas. There's $92 billion of funding outlined, and we would expect to see significant growth in AI-powered datacenters over the next decade with the hyper-scalers. And so those fundamentals remain intact, and we will see demand recovery in the Connectivity Solutions business, as they continue their normal buying behavior.

Then, once again food security is very important for the world, and crop prices cannot stay low forever. As we see an improvement in crop prices and the fundamentals improve, our agriculture business should improve as well.

As far as the Building and Infrastructure business is concerned, that is directly related to interest rates as well as the low housing stock around the world. Once again, we have a long-term conviction that that market will eventually recover.

**Alejandra Obregón**
Got it. That was very clear. Thank you, Sameer.

**Sameer Bharadwaj**
Thank you.

**Operator**
The next question comes from Ben Isaacson with Scotiabank. Please go ahead.

**Apruva Ohri**
Good morning. This is Apurva on for Ben. Thanks for taking my question.

So, if we look back to your 2022 investor day, you were targeting about $3.3 billion of EBITDA in 2027. Based on our math, that target moved down a bit last year, and then now you're guiding closer to the $1.5 billion range, which is excluding that market recovery you mentioned. To clarify, was there a significant market recovery that was baked into that $3.3 billion? Or are you suggesting that growth prospects have more than halved in the last few years?

**Sameer Bharadwaj**
So that's a very good question. Since the 2022 investor update, the world has changed. At the time of that update, we were still optimistic on PVC prices staying above $1,200 to $1,400 per ton, and we were planning a large-scale investment in PVC capacity of 1 million tons. And the earnings contribution from those were included in the over $3 billion of earnings expected in the ’27, ‘28 timeframe. Since then, as we've seen, market conditions went down in a very significant way across all of our businesses, and this in a way has reset the baseline.

We announced earlier this year that we have stopped the PVC expansion project, because given where PVC prices are, the business case does not make sense at this point in time. We also in a previous communication highlighted our capital allocation priority. We are no longer investing the kind of capital we talked about in the 2022 investor update, and in the near-term, we believe we need to manage capex very tightly, keep it to below $450 million per year, focus first on reducing our leverage and strengthening our balance sheet, follow our cost reduction opportunities and deliver those $250 million per year savings to put the business back on a steady track, while at the same time making sure we do not compromise some of our highest value growth opportunities, such as those we have in Fluor and Energy Materials.

**Apurva Ohri**
Thank you for the color there. And then, if I may add on a quick follow-up, so with 2027 at 1.5 and then we bake in those market recovery scenarios from Slide 10, we're still adding about $420 million. So, understanding that your capital allocation priorities in the near-term are on debt reduction, what are the signals or triggers that would put you back on that path towards $3.3 billion eventually?

**Sameer Bharadwaj**
Well, the $3.3 billion included $600 million or $700 million of contribution from a large PVC investment. So first, we need to readjust that number to a more realistic number in the mid-twos. By 2029, ’28, ’29, ’30, when some of our growth investments in Fluor, which is in the LiPF6 and PVDF projects and as well as some of the efforts in pharmaceuticals and next gen medical propellants start kicking in, you will see

an uplift. You would take the $1.5 billion, you would add market recovery to it, which again, we cannot put a timeline on. And then to that, you would add the contribution from Fluor and Energy Materials, which we have indicated in the slide. We are investing $900 million as a roughly capex to EBITDA ratio of 3.0, and so that should contribute materially to take the earnings over $2 billion.

But once again, our objective today was not to speak about the long-term, and we've learned the lesson that it's hard to predict the future. And rather than talk about any pie in the sky numbers, we'd rather be very grounded in the next two or three years, deliver on those numbers, and keep us on a growth path to eventually get us above $2 billion.

**Apurva Ohri**
Appreciate that. Thank you.

**Operator**
The next question comes from Pablo Ricalde with ITAU. Please go ahead.

**Pablo Ricalde**
Hello. Good morning. I have two questions. The first one is on the EBITDA guidance. Everybody's talking about this market recovery, but what is the bear case in this example? What’s maybe the biggest downside risk you see on this EBITDA guidance you are providing for 2024/2025?

**Sameer Bharadwaj**
Pablo, so the guidance that we are providing doesn't assume any market recovery and is largely based on us delivering on our cost actions, as well as some of the growth projects for which we have already made the investments. Now clearly, if weak market conditions pursue, even the growth investments ramp up could get delayed. And so, in that context, the risk to these numbers would be if there is a weak environment that persists beyond 6 to 12 months from today, that's clearly a factor. Having said that, the opportunity set that we have on the growth projects is larger than we have put forth here, so even adjusted for any slowdown, we put in numbers here that we think we should be able to deliver.

**Pablo Ricalde**
Okay, perfect. My second question is more on the geographic exposure. In which regions do you think maybe recovery could come faster than other regions?

**Sameer Bharadwaj**
So, first of all, in terms of recovery, which regions could come faster? If you see a recovery in the U.S., that has a second order effect across the world. And so, strengthening in the U.S. will lead to strengthening of prices across the world, particularly in PVC. The European market recovery is very important for us, given our significant exposure to Europe. About 35% of our sales are in Europe. And if you see a significant recovery in Europe with the reduction of interest rates, there is significant earnings leverage in Europe.

Then third, a good China is good for the entire world. So, if you see China stabilizing with all of their stimulus actions and demand recovery in China, then eventually China becomes for China, and they have less of an impact on the rest of the world, that's good for everyone.

**Pablo Ricalde**
Perfect. That was very clear to me. Thanks.

**Operator**
The next question comes from Tasso Vasconcellos with UBS. Please go ahead.

**Tasso Vasconcellos**
Hi, Sameer. Hi, Jim. Thanks for taking my questions. I have a follow-up here on the divestment of non-core assets. You mentioned between $150 million and $200 million by 2026 in cash being generated, but what about capex and opex reduction coming from the investments and potential impact on EBITDA, are those material as well? And maybe a follow up on that question, are those metrics already included in the new guidance of capex and EBITDA growth ex-market recovery that you just provided? Those are my questions. Thank you.

**Sameer Bharadwaj**
No, that's a very good question. See, these non-core assets that I indicated earlier do not contribute significantly to EBITDA. So, there is no material loss of EBITDA as a result of that, and then the opex is taken into account from that standpoint. And sale of non-core assets also has an impact on lowering maintenance capital for those assets, and that has not been incorporated. That would be upside to the numbers that we are guiding right now.

**Tasso Vasconcellos**
That's clear. Thank you.

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

**Leonardo Marcondes**
Hi, everyone. Thanks for taking my question here. I have just one question, which is regarding your portfolio. Leverage is up and some of the business has not been performing well for a while. So, my question is, do you consider any sort of portfolio rationalization in your plans? Is there anything that you could consider to sell in the short to midterm? In the past, the company talked about divesting from the previous business, so any color here will be very helpful. Thank you.

**Sameer Bharadwaj**
Leonardo, in terms of what portfolio moves we are considering, what I can tell you is we've been deeply engaged in discussions with the board, starting with the September board meeting and the October board meeting this week, where we are taking a hard look at each of our businesses and evaluating them for fit, evaluating them for synergies across the portfolio, and also evaluating whether we are the rightful owner based on any investment that may be required in those businesses to realize their full potential going forward. And so, at this time it would be early for me to comment upon which shared businesses we are considering for the portfolio move. We will share more details at the appropriate time, but I can tell you that these are very active conversations right now.

**Leonardo Marcondes**
Very clear. Thank you.

**Operator**
The next question comes from Federico Alejandro Galassi with Rohatyn Group. Please go ahead.

**Federico Alejandro Galassi**
Hi. Thank you for taking my question. Just one small question looking on Slide 9 when you see the free cash flow for the next two years. Almost half of the free cash flow is going to minority interest, and the question is how flexibility is this minority? Again, it looks like half of the money that you are generating is going there.

The second one, if we have some downside risk to your numbers, the cash available for reducing debt more than the equity holders will not be enough to achieve this 2.4. This is the first question. How do you see that? And the second one is, when we see the story of the company, the rough number, your net debt EBITDA was always below 2x. Today it's high above that, and your target is 2.4x. Do you feel comfortable with this 2.4x particularly in an environment of high interest rates? That's all my questions. Thank you.

**Sameer Bharadwaj**
So let me comment on the net debt to EBITDA ratio. Our net debt today is about $3.7 billion, and we are targeting about $350 million of debt reduction by the end of 2026, which would reduce the $3.7 billion to roughly $3.3 billion, $3.35 billion. And as we have guided, assuming no market recovery, the EBITDA guidance is around 1,350 to 1,400. So, if you take the midpoint of that, that will get you to the 2.4x leverage, and that EBITDA number doesn't even include any benefit of the non-core asset sales, which would lower that ratio even further. And if you had any market recovery that would enable us to lower it even further.

In terms of our comfort with debt levels, we have mentioned this before, yes, historically, you're right that the number was around two, and right now, I think our comfort level, we've said this in previous calls, is more in the neighborhood of 2.5x. Having said that, as we generate cash over the next two years, our goal will be to continue strengthening our balance sheet well below 2.5x, and hopefully take it to the two level you mentioned.

**Operator**
As a reminder, if you would like to ask a question, please press star then one to enter the question queue. The next question comes from Sofia Martin from GBM. Please go ahead.

**Sofía Martin**
Hi, thank you for taking my questions. I have two questions. The first one is related to the Koura project, the electric vehicle projects you have. What are the estimated project timelines for these projects, and what would be the EBITDA generation for each? Thanks.

**Sameer Bharadwaj**
Thank you very much for the questions. Now, before I respond to your question, I missed responding to one of Federico's questions on minority interest. Federico, most of that minority interest is our Oxy joint venture for ethylene currently.

Now coming to your question on fluor, the timeline is right now we are in the engineering phase, and we will be in engineering for much of 2025 and for at least a part of 2026. And then the significant investment for those projects would be the second half of 2026, 2027 and a part of 2028. So, in terms of Orbia's capital requirements for those projects across both projects is roughly $900 million. Keep in mind, we have a 49% share of the PVDF joint venture and 100% share of the LiPF6 venture.

Also keep in mind that that number includes the benefit of the $100 million DOE grant that Orbia has received, and a partial benefit of the DOE grant that Sensqo received that will benefit the JV.

Now, in terms of actual EBITDA numbers by project, I'm not at liberty to disclose it by project, given that we have confidentiality agreements with our joint venture partner. But it's fair enough to say that both of these investments put together for Orbia would generate EBITDA, a capex to EBITDA ratio in the neighborhood of 3.0. So, we would expect a $300 million contribution from a $900 million investment.

**Sofía Martin**

Perfect. Thank you very much. I have one additional question. What should we consider a mid-cycle EBITDA figure and a margin for the company from now on? And if you have further detail on this by division. Thank you.

**Sameer Bharadwaj**
So, as we talked about, we believe we are at the bottom of the cycle, and with the actions they have taken on cost-discipline and realizing value from the already deployed growth investments, we have shown a pathway to $1.5 billion, and then we have shown what the market recovery could look like. The market recovery could contribute another $250 million to $500 million. And so, if you were to project a mid-cycle number for 2027, and if you assume you get some market recovery by 2027, you would add another $250 million to the $1.5 billion.

Now it's very hard to call the timing of that. It could happen sooner or later, and then it's very hard for us to predict that.

**Sofía Martin**
Thank you, Sameer. Very clear.

**Operator**
The next question comes from Alejandro Lavin with Santander. Please go ahead.

**Alejandro Lavin**
Hi. Good morning, everyone. This is Alejandro Lavin from Santander. So basically, this is like a follow up question on all these questions on capital allocation and strategic plans. So, first of all, we are all expecting these markets to recover to come from external factors. We're expecting an improvement in China, in construction, in rates, even government infrastructure plans. And those are things that you obviously cannot control, and that's the market recovery.

On the other hand, yes, you are taking action on things where you can control. You're doing the right things to navigate the tough cycle. You're cutting costs, cutting capex, working capital, etc., but in my view, that is just the first part. Maybe you probably can do more. Maybe you can think of selling assets, streamline not only operations, but streamline the company vision and the mission, the strategy to simplify the business, maybe thinking of doing something more transformational. The stock is down 50% this year, and yes, a big part of that is due to the market recovery that did not come, but there is also likely another factor related to Orbia's complexity, or even conglomerate-like operations.

So maybe in the medium-term, even if the market recovers and your stock recovers, you might never get the valuation that you think you deserve in my view, if you don't pay attention to this. I think you need to also think about simplifying the business, simplifying the vision. Maybe just answering the question: who you are and how do you make money? Because in several cases, answering that question is not easy for us investors. Just want to hear the thoughts and this is a constructive conversation. Thank you.

**Sameer Bharadwaj**
Alejandro, very good observation. And as you've rightly noted, we are focused on what we can control. We've also talked about the non-core asset sales, and we want to push that quite aggressively. And then you talked about transformational moves, and I can tell you, these are very active conversations right now. We see where the stock price is at, and we know that we may need something transformational to unlock and capture value for all shareholders. And so that's absolutely right, and so we're going to pursue that independent of a market recovery. So even if the market recovers, your point about simplifying the portfolio, focusing on the highest priority opportunities, and deleveraging is very important, and that's going to be our first priority.

**Alejandro Lavin**
Okay, thank you, all, for the call.

**Sameer Bharadwaj**
Yes. Thank you.

**Operator**
The next question comes from Michael Bourke with M&G. Please go ahead.

**Michael Bourke**
Good afternoon, Sameer, Jim, Diego. Thank you very much for the call. Appreciate the color in the presentation.

I have a couple of questions. One, why is the interest bill so high? I can't reconcile the $300 million with your overall level of debt. Are you overpaying for the duration in the debt curve?

Two, within your plan for the debt reduction, what's the plan for the FY 2026 bond? Is that the first one you're going to look to take out to maintain the current structure and aggregate by just reducing the front end?

Then just one final question, if I may. Just with regard to maintenance capex coming down so much, your depreciation bill is a lot higher, so the asset base is going to age materially. Is there risk that you under-invest in the business in the next two or three years to get debt down? Do you have any concerns about that, particularly given the nature of what you do overall? Thank you.

**Sameer Bharadwaj**
Let me take the last question first, and then I let Jim answer your questions on interest and the 2026 debt. In terms of maintenance capex, what I can assure you, Michael, is our number one priority is safety and asset integrity. We've been through these cycles in the past where in difficult times, management teams underinvest in safety and asset integrity, and that eventually comes back to bite you. We will not do that.

We had a significant amount of maintenance capital debt over the last several years that we have now cleared out, and we are in a good place now. And from now on, we should be able to manage in this range. And also, given the significant footprint optimization actions we are taking as a result of which several plants have come out of our system or will come out of our system, and you can see the announcements that are out there, that will also lead to a reduction in maintenance capital.

**Michael Bourke**
Thank you.

**Sameer Bharadwaj**
Jim, do you want to address the other two questions?

**Jim Kelly**
Sure.  I'd be happy to.

So, in terms of the interest costs, that was your first question, roughly speaking, $225 million, $250 million, thereabouts of interest costs annually. On our gross debt balance of about $4.6 billion, you get to roughly 5% net interest on the total debt. So, I don't think that is an out of range interest rate. Needless to say,

there are different rates. For example, some of the debt that we got with the international bonds is as low as 2%, some of the longer-term rates are considerably higher than that, but on average an average rate in the high-fours close to five I think is fairly reasonable for a company of our magnitude and the global stature.

If you look at our upcoming maturities, so within ’25, we have the short-term portion of our CEBURES Mexican debt coming due, and that is around the end of the year. So, we are currently strategizing as to how we would think about refinancing that, but my expectation is that we would refinance that in ‘25 and probably around the middle of the year, well in advance of its maturity.

As you mentioned, we have about $600 million coming due in 2026, and I think that is the one where we are more likely to look at whether we would refinance that full amount. Those are international bonds. As that maturity approaches, we'll look more strategically as to whether we would continue with international bonds and how much, but I think that would likely be the opportunity where we would begin to take on less debt than we currently have and potentially not take on that full $600 million. I hope that answers your question.

**Michael Bourke**
Yes, absolutely. Thank you very much.

**Operator**
Once again, if you would like to ask a question, please press star then one to enter the question queue. The next question comes from Nicolas Frank with Jefferies. Please go ahead.

**Nicolas Frank**
Hi, thanks for the call and the comprehensive update here. I'm surprised it hasn't come up here for an hour. Can you talk about the rating agencies in as much detail as possible? Baa3 stable from Moody's, BBB- stable from S&P, and BBB stable from Fitch. What's the update? If you can give us each agency, when you expect to have an update with them, how comfortable they are with your plan and maintaining the investment grade.

Then just to complement the maturity profile and liability management question that was just asked if you can talk a little bit more about liquidity. You have just over $900 million in cash. If you can talk about additional sources of liquidity in terms of RCF, credit lines, just so we can be as comfortable as possible with the balance sheet. Thank you.

**Jim Kelly**
Sure. I'd be happy to address those questions. Thanks for asking. So, first of all, on the rating agency conversation, so about two years ago, we began a routine where every quarter after the analyst call, the treasury group and I are meeting with all three of the rating agencies to make sure that we have good transparency with them, that they understand our markets and the activities that we are taking on in terms of reacting to the current market environment, and controlling the things that are within our control. So, we have a very open relationship with them.

The feedback that we have gotten is that essentially they understand the markets that we're in. They have specialists that have deep understandings of these markets, and see that we are where we are in the cycle toward the bottom of it. As long as they see us taking proactive actions here to control costs, control capital, and maintain leverage as best we can through this period, that they are comfortable with the rating as it stands.

Now, if they were to see markets recover and us not recover along with those markets, then they may

begin to have concerns, but that's not been the case expressed up to this point in time. They've expressed that they are comfortable with the actions that we're taking and have not indicated concerns at this point in time with regard to our ratings. Generally speaking, their risk committee meetings take place in the spring, so all three have recently had their risk committee updates and have reaffirmed their ratings with us at that time.

**Sameer Bharadwaj**
Jim, could you address the part of the question on liquidity?

**Jim Kelly**
Sure, happy to address that. So, you mentioned the RCF, we did renew our RCF earlier this year, in the end of the first quarter, and at this point in time, we have $1.4 billion that's committed available to us, and we have no drawdown on that facility whatsoever.

**Nicolas Frank**
That's great. Thanks very much.

**Jim Kelly**
You're welcome.

**Operator**
The next question comes from Emilio Antor with GBM. Please go ahead.

**Emilio Antor**
Hello, Sameer. I have one question regarding the Connectivity Solutions division. With the presidential race in the U.S. coming to an end, how would the result affect the BEAD program? Can it be canceled? And what is the [indiscernible] of the decision with the government investments from the longer-term?

**Sameer Bharadwaj**
So, yes, that's a good question. We believe the funds have been committed. It's hard to predict what the outcome of this election is going to be, but regardless of rural network funding, there's a significant amount of growth in urban areas driven by private investment, and we can see that waiting by the sidelines as many of these private investors are waiting for better interest rate conditions to fund some of the build-out of the metro area networks.

And then, of course, we expect to see growth with the cloud computing and AI datacenters as well. So, recovery of Connectivity Solutions is not entirely dependent on the BEAD infrastructure funding. There are several other factors for recovery.

**Emilio Antor**
Perfect. That will be all. Thank you.

**Operator**
Once again, if you would like to ask a question, please press star then one to enter the question queue. That's star then one to enter the question queue.

**CONCLUSION**

**Sameer Bharadwaj**
Since we have no further questions. I would like to thank everybody for joining the call, and we look forward to updating you at the end of the year with the end of the year results after the board meeting in

February. Thank you very much.

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