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PRESENTATION

Operator

Good morning, and welcome to the Orbia Third Quarter 2020 Earnings Conference Call. As we turn to Slide #1, (Operator Instructions) Please note that this event is being recorded.

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

Gerardo Lozoya Latapi - *Orbia Advance Corporation, S.A.B. de C.V. - IR Officer*

Thank you, Debbie, and good morning, everyone. Welcome to Orbia's Third Quarter 2020 Earnings Conference Call. We appreciate your time and participation today.

Joining me are Daniel Martínez-Valle, CEO; and Edgardo Carlos, CFO. Today marks my last earnings conference call as I have taken a new role within Orbia. I want to take the opportunity to thank you all for your trust and partnership over the last 2 years, and I am very happy to welcome [Javier Luna] as our new Capital Markets and Investor Relations Director. [Javier] and I will work closely together over the coming weeks and months to ensure a smooth transition.

Now moving to Slide #2, a friendly reminder before we continue. 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 periodic D&B report. The company disclaims any obligation to update or revise any such forward-looking statements.

With that, let me now turn the call over to Daniel.

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you, Gerardo, and good morning, everyone. First of all, I want to extend our sincerest hope that you and your love ones remain healthy and safe. Nothing is more important.

On behalf of Orbia's executive team, I'd like to thank Gerardo for his contributions to the Investor Relations function and wish him continued success in his new role. I'd also like to welcome [Javier] to Orbia. Javier brings over 20 years of capital markets knowledge and experience, having served in business consulting, private equity and investment banking roles at leading firms over that time, with a focus on industrials and including coverage of Orbia. We are committed to building a world-class Investor Relations function, and we're thrilled to have Javier join our team and lead this important effort.

Now turning to Slide 4 and a theme to sum up our third quarter performance and activities. First, Orbia delivered the highest profitability and free cash flow levels of the year as well as strong sequential performance despite the significant challenges caused by the pandemic. These results demonstrate our agile execution, strict cost discipline, working capital management and the resiliency of our diversified and global portfolio. Achieving such strong results would not have been possible without the hard work and dedication of our employees.

I would like to take this opportunity to thank all team members for your efforts and commitment to ensuring organization-wide health and safety while delivering on our customer commitments as we continue to navigate the pandemic together.

Second, we remain laser-focused on redeploying process improvements and strategic initiatives with clear performance targets throughout our organization.

Two capabilities we continue to build out: our operational excellence and customer centricity. On the operations side, we made significant progress this quarter in supply chain optimization and especially procurement. On the go-to-market side, several businesses continue to reorganize their sales structure to get closer to our customers, and that is having a positive impact on our top line.

Third, we are generating significant free cash flow and allocating capital thoughtfully, making disciplined and strategic investments across our business groups to capture growth today as well as in the future. There is no shortage of opportunities as we reinvest in our business to gain market share and move up the value chain by providing higher-margin solutions and services.

With that, let's move to Slide 5 for an overview of our quarterly financial results. Our strong market performance reflects significant sequential improvement despite difficult end market conditions due to ongoing impacts of the COVID-19 pandemic. Overall, our third quarter results were much more resilient than our initial expectations, putting Orbia back on track for a solid earnings recovery in the coming months.

Revenues totaled $1.6 billion, down 6%, reflecting softness in demand primarily in our best leads and core businesses. While EBITDA of $362 million decreased 5%, our EBITDA margin of 22.1% increased nearly 30 basis points mainly due to better profitability at Dura-Line, Netafim and Wavin.

On a sequential basis, Orbis revenue were up 16% while EBITDA was up 38%. We generated strong free cash flow of $127 million, and along with a slight reduction in our net debt, further strengthened our balance sheet while paying down the third installment of our $45 million dividend.

A combination of our diversified and global portfolio, a greater contribution from higher value-added products, lower raw material costs and effective cost containment measures underpinned this strong performance.

Moving to Slide 6. In the context of uncertain times, as some countries are experiencing second waves of the virus, we are prepared to adapt that quickly and take the necessary actions to safe park our employees while continuing to serve our customers and capture new market opportunities. We have shown strong resiliency this year and believe we will remain prepared for the future.

Overall, our people, sites and facilities continue to operate normally with no supply chain disruptions, adapting to a new and dynamic environment. During the third quarter, we are glad to report that some Orbia employees were able to return safely to their homes as certain lockdown measures put in place during the second quarter were partially lifted.

Our global taskforce continues to monitor the progress of the pandemic, focusing on business continuity while also ensuring the health and safety of our employees to strict adherence to protocols in all our locations. To date, we have 612 confirmed COVID-19 cases, and very sadly, we've lost 19 team members over the course of the pandemic.

Separately, and equally as upsetting, we suffered the fatal operational incident this quarter. I want to be clear that as an organization, we are committed to employee safety and adhering to clear standards for workplace safety and performance, with the ultimate goal of achieving 0 accidents.

Our thoughts and prayers go out to these families who have lost their loved ones.

Moving to Slide 7 and our Play-to-Win strategy. Building on last quarter's overview, I'd like to provide an update on 3 specific areas: human-centered innovation, operational excellence and sustainability.

Human-centered innovation is the lifeblood of growth and competitive advantage of our company, and we see tremendous opportunity for Orbia in this area. We are in the process of moving from a current traditional R&D-driven innovation model to a human-centric approach where we establish cross organization teams, pulling from R&D, sales, marketing, engineering and other areas to work much more directly with our customers so that we can understand their challenges and pain points and develop innovative products and solutions with the added focus of maximizing the lifetime value of that relationship.

The overarching goals of our approach are: One, to consistently develop breakthrough solutions that result in industry leadership and market share gains; two, to generate products and software offerings that result in a growing installed base plus significant runway for aftermarket services and recurring revenue; and three, to support our purpose with advance life around the world, specifically focusing our innovation efforts on addressing a few of the world's most pressing challenges.

One of the many examples that I could share with you and that we're deploying -- where we are deploying our human-centric approach is today in Wavin. As a global leader in storm water management solutions, Wavin has partnered with one of the largest ports in Europe to address flooding challenges. We organized and collaborated with several key stakeholders and quickly developed an insight based solutions include derisked of stormwater management challenges. This solution will be piloted in mid-November and potential client benefits are many, including lower total cost of ownership, more effective maintenance management and sustainability benefits.

Also and most recently on the innovation front, we are thrilled today to announce that we just closed our first corporate venture capital transaction by completing an investment in SeeTree, a leading start-up in the agricultural tech space with a focus on tree farming.

With the use of military grade phones, ground sensors, artificial intelligence and machine learning tools and boots on the ground data collection, SeeTree offers a multilayer data collection strategy, introducing new resources for keeping trees healthy and maximizing their productivity at low costs.

Netafim will incorporate SeeTree into this digital farming offering and will support the development of SeeTree solutions. This investment illustrates a significant step for Orbia and Netafim, in particular, as we identify new ways to foster conscious and profitable farming.

Now let me talk about what we're doing on the operational excellence front. As we transform our organization, we recognize that operational excellence is a key enabler of our success and plan to develop this capability into a sustainable competitive advantage.

We are currently focused on 3 organization-wide efforts: procurement, footprint optimization and working capital management.

We are in the process of developing a world-class procurement organization, including optimizing key processes and partnering with the business groups, specifically in areas where we can leverage our collective purchasing power, such as in raw material and freights and logistics.

COVID has meaningfully accelerated this effort, and we will begin to see the benefits in 2021. As for footprint optimization, we have established a team of operation leaders from each business group that are identifying opportunities to leverage our manufacturing warehouse facilities across the globe, with the ultimate goal of improving asset utilization.

And regarding working capital, we have been collaborating with the businesses on renegotiating firm payment terms, strengthening our collection cycles and optimizing inventory levels.

Now let me turn to sustainability. The transformation we're undertaking, while aligned with the massive shift occurring in corporate social responsibility and ESG frameworks, is more than just reporting on what we're doing. That is fundamentally changing the direction and the global impact of our organization.

We have made significant strides in this area already. From an environmental perspective, we have fully taken the stand by committing to achieving 0 waste to landfill by 2025 and becoming Net Carbon Positive by 2050.

We have also published our first task force on climate-related financial disclosure, which provided a climate-based assessment of our operations and are now integrated as part of our strategic planning process across our businesses. During the quarter, in an effort to increase our value chain visibility and responsibility, we started assessing our suppliers through EcoVadis on ethical, environmental and social matters.

From a societal perspective, we have joined the tent partnership for refugees, an organization that aims to mobilize the business community to improve the life of more than 30 million refugees. To put this in perspective, if all 30 million refugees came together and lived in one space, it will create the second largest city in the world.

Orbia is now exploring specific opportunities to further support these refugees across our entire value chain. And for our support of UNICEF to fight COVID-19, we have already installed more than 1,500 facilities benefiting over 100,000 people per day living in precarious conditions in countries such as Colombia, Guatemala, India, Ecuador, Brazil and South Africa. More stations are yet to be installed in Mexico and Peru to reach potentially 450,000 people in total.

In addition, we have donated more than 200,000 face shields across multiple countries through our own work and partnership with Doctors without Borders, CARE and other organizations.

From a governance perspective, our focus is to strengthen and diversify our Board of Directors. In partnership and with the leadership of our Chairman, we are committed to adding directors with complementary skills and capabilities to achieve our long-term strategy and goals, including experience in technology, the regulatory environment and circularity.

In addition, we will continue to add diverse directors based on race, ethnic background, orientation and/or gender as we believe diversity of experience and thought is critical to the success of our organization.

Finally, we welcome the Abraham Accords Peace Agreement reached by the UAE in Israel under close coordination with the U.S. We are convinced this agreement will contribute to advancing life around the world and look forward to making a very positive contribution in such context with Netafim on all our other businesses.

Before I turn the call over to Edga, I wanted to share that September marked our 1-year anniversary of rebranding our company at Orbia and beginning of our journey to transform into a future-fit, purpose-driven customer-centric global organization.

Sustainability is an integral part of our purpose, and quite simply, we aim to give rather than take. We are working with the private sector, governments and local not-for-profit organizations around the world to help bring about a more livable future.

This is a multiyear transformation, and that's something we will achieve overnight. However, in 12 short months, we have made significant progress, especially when you consider the backdrop of executing during a once-in-a-century global pandemic.

Looking back over the past year, we have done a tremendous amount of heavy lifting to advance Orbia. Just some of the most notable milestones that underscore our collective efforts include: Building a top-notch, diverse and truly global diversity team that believes in the vision and understands what our transformation means. This included creating critical positions that support execution such as healthy, safety and environment, compliance, human-centric innovation.

(technical difficulty)

Operator

At this time, we're having an audio difficulty. Please bear with us.

Edgardo Carlos - *Orbia Advance Corporation, S.A.B. de C.V. - CFO*

Can you hear me?

Operator

Yes. I can hear you. We lost a couple of lines. I believe they're reconnecting.

Edgardo Carlos - *Orbia Advance Corporation, S.A.B. de C.V. - CFO*

Okay. I will continue. And thank you, Daniel, and good morning, everybody. Thank you for being here with us today. I want also to thank all our team around the world for supporting each other, our customers and communities. Their commitment to Orbia is greatly appreciated, and our performance is a result of their contributions.

Now let me walk through the details of our third quarter financial results. Moving to Slide #9, please. Our businesses delivered strong results as the resiliency of our diverse and global portfolio, coupled with operating leverage as demand recovered, drove better-than-expected performance.

Relative to the second quarter, although some regions where we operate continue to experience a negative impact on mobility and underlying economic activity, our third quarter results saw significant improvements. Net revenues totaled $1.6 billion, down 6% year-over-year, mainly driven by lower sales in VESTOLIT and Koura. Sequentially, net revenue were up 16%, reflecting improving demand particularly in Wavin and higher sales and prices at VESTOLIT.

EBITDA was $362 million, down 5% in spite of extraordinary performance in Netafim, Dura-Line and Wavin, which increased approximately 30% in the quarter versus last year. However, we suffered from a lower pricing environment for VESTOLIT as well as lower business activity and prices in Koura.

EBITDA margin of 22.1% increased nearly 30 basis points mainly driven by higher margin at Dura-Line, Netafim and Wavin. EBITDA reflected a $7.1 million charge this quarter as we continue to streamline our operations in Wavin both in Europe and in Latam. Sequentially, EBITDA was up 38%, reflecting the strong recovery in demand from both Wavin and VESTOLIT.

In these environments, we continue to tightly manage expenses, capturing approximately $60 million in year-to-date savings, including approximately $14 million in this quarter. Earlier, that had brought significant savings in group, trial Sera services, sales and marketing efforts, among others. As demand returns, we estimate that we more -- we will be able to maintain more than 50% of the identified savings as permanent going forward.

Now turning to Slide #10, please. Let me share the detail of our quarterly performance by business group.

Let me start with Netafim. The revenues of $223 million were essentially flat. We continue to see strong demand in the U.S., China and Australia, partially offset by timing of Africa project last year and continued COVID impact in Latam.

During the quarter, we were able to maintain pricing discipline in our most important markets. Additionally, we closed on several projects on high-value markets, which will provide a new set of opportunities going forward. EBITDA of $40 million increased 25% while EBITDA margin expanded roughly 380 basis points to reach 17.8%. This increase was driven by a greater contribution from higher-value products particularly in the U.S., lower raw material costs and operating costs.

Dura-Line posted revenue of $193 million, down 2%. Higher sales in the U.S., which saw a stronger demand for higher value micro technology products such as Microdels were offset by lower order volume in Europe and Latam due to continued COVID-related business disruption. We continue to see the accelerated adoption of higher value-added microtechnology products and solutions in the U.S.

This business continue with an extraordinary profitability, with EBITDA reaching $55 million in the quarter, an increase of 31%, expanding nearly 680 basis points due to a favorable mix shift toward premium products and lower raw material costs. EBITDA margin reached 28.5%. It is noteworthy to mention that increases that we experienced of raw material in the third quarter have not yet fully reflected in our P&L.

Wavin revenues were $568 million, slight increase of 1%, driven by a strong recovery in Europe, especially higher sales volume in Germany, the Nordics and France, and to a lesser extent, in Latin America primarily Ecuador and Mexico. I'm very pleased to share that Wavin posted a 39 sequential increase in net revenues, reflecting a significant rebound in demand in its main market with new product introduction and gain in market share.

EBITDA was $95 million, up 28%, and EBITDA margin increased approximately 360 basis points year-over-year, reaching 16.7% and historically high level. Stronger performance in Europe amid lower raw material costs, better country and product mix, including growth in higher-margin products and lower operating expenses drove the high performance in the quarter.

In addition, Latin America saw increased demand for high-margin products as to the do-it-yourself construction business gain traction primarily in Brazil. Sequentially, EBITDA increased more than twofold. Koura posted revenue of $167 million, down 20%, reflecting COVID-19 pronounced impact in the flourine market this quarter, which resulted in lower volume and pricing for metspar, Acidspar and HS.

Additionally, certain shipments were delayed to the fourth quarter while the European market continued to be challenged by the illegal import of refrigerant gases.

EBITDA of $63 million was down 28% primarily on lower sales. EBITDA margin was 300 -- sorry, 7.5% with a decrease of 440 basis points year-over-year due to a less favorable product mix despite significant cost management efforts.

Koura continue to invest in value-added applications, including next-generation refrigerants and additives for energy storage and improving sustainability across this value chain. We are -- we have seen increased interest in our recently announced Zephex 152a medical propellent with 90% lower global warming potential, and we are expanding also our footprint in Japan with a refrigerant recycling solution. We are in a very strong position to take advantage on a market rebound when conditions improve.

VESTOLIT revenues were $544 million in spite of the strong recovery in volume and prices experienced in the quarter. Our sales were down 10% compared to last year primarily due to lower average PVC pricing. This affected our EBITDA, which was down 18%, but reaching still a very healthy margin of 22%.

On a sequential basis, revenues and EBITDA increased 28% and 87%, respectively, as PVC prices rebounded significantly, driven by global demand recovery and several declared force majeure events in the U.S. and Europe that impacted global supply. This tightness in supply still in effect and we will expect to see a continued demand and favorable PVC pricing dynamics in this fourth quarter. However, as we mentioned in the previous quarter, there are certain planned maintenance, shutdown in selected facilities in the coming months at Orbia.

In summary, we saw a strong sequential improvement across the aggregate portfolio, including markets that were significantly impacted by COVID-19 during the second quarter.

We delivered strong profitability driven by our rigorous focus on expense management and deployment of operational excellence initiatives. We are encouraged by the positive momentum and continue to position Orbia to benefit from the recovery while keeping a close watch on the broader trends as significant uncertainty remains.

Now turning to Slide 11, please. We continue to generate strong cash flow during the year. And in this quarter, we generated operating cash and free cash flow of $193 million and $127 million, respectively, with a strong free cash flow conversion of 35%.

In an environment of significant higher volume and stronger sales, we managed to contain the increasing working capital. Receivables and inventory levels increased just 2% from second quarter as sales increased by 16%. Total working capital increased $65 million, reflecting certain extraordinary payment of trade financing with LGs.

CapEx of $43 million was down 41% year-over-year mainly due to the temporary slowdown or delay of certain new projects affected by the lack of mobility and other limitation caused by COVID-19.

During the quarter, we accelerated several CapEx programs that will kick in during 2021. Very important to mention that in this environment, we preserve not only our critical CapEx, but also our strategic investments in R&D, innovation and Play-to-Win initiatives.

In September, the company established a GBP 300 million commercial paper program with the Bank of England with a maturity date of May 18, 2021, at an annual cost and equivalent in U.S. dollar of 74 basis points. Based on our strong financial position, we made the decision to repay $400 million of our $1 billion revolver credit facility and have planned to pay down the remaining in the coming months in order to reduce our carrying costs.

It is important to mention that our revolver credit facility will remain in place for the next 4 years. Orbia net debt was $2.9 billion at the end of the third quarter, comprising total debt of $4.2 billion and cash equivalents of approximately $1.2 billion. Orbia's net debt-to-EBITDA ratio was 2.39x while the company interest coverage ratio was 5.81x. The company's target leverage ratio remained at 2x, consistent with historical average. In the quarter, as Daniel mentioned, we paid $45 million in dividends.

Going forward, we continue to pursue organic top line growth opportunities while expanding margins and focusing on improving asset utilization in order to drive return on invested capital. We are executing well on our strategic initiatives and position Orbia to significantly outperform during the economic recover and over the long term.

Now I will turn the call back to Daniel for closing remarks. Daniel?

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you, Edga. And I'm now on Slide 12. A recovery in our market during the third quarter driven by improving global demand trends was significantly more pronounced than our expectations and is clearly encouraging. We executed well as a team, capturing well where we could, expanding margins and Wavin's case at record levels and driving continued cost savings and strong free cash flow. Amid continued uncertainty, however, we will not be reinstating annual guidance at this point.

We remain confident in our ability to capture growth and profitability as our markets continue to recover. Still, uncertainty regarding the shape and the base of the global economic recovery, rising COVID-19 cases globally, which could lead to reinstated shutdowns and other factors create uncertainty. We will continue to execute with agility and focus on controlling the controllables to position Orbia as we exit this unprecedented year in a strong position.

Debbie, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Nikolaj Lippmann with Morgan Stanley.

Nikolaj Lippmann - *Morgan Stanley, Research Division - Equity Analyst*

Congrats on the numbers. And also, Gerardo, best of luck in your new role.

So then my first -- I get kind of the first question, I know it's probably the easiest. My first question is here for you. You took the helm 2 years ago. There are some clear signs in these numbers of an improvement downstream -- in the downstream business. Can you reflect a bit on sort of your targets from -- when you took the helm to where you're going, where you stand today?

And related -- I no longer have one question, so it's going to be 1.5. Related to that, would you be kind to try to explain the margin expansion in Netafim and Dura-Line kind of . What exactly are the drivers of some significant and impressive margin expansion in these 2 businesses? And how sustainable should we -- how sustainable do you think that they would be? What kind of range of margins should we expect in the future?

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you so much, Nick. Thank you for your questions. So regarding the first one, in terms of the transformation, that started a couple of years ago where we are now and where we're heading. Again, there's several elements and components of this transformation that are absolutely critical, starting with having a clear purpose and being customer-centric, being as close to our customers as we can.

In addition to this, as we stated in our introductory remarks, it's a combination of both optimizing for today, doing everything that we can in terms of controlling the controllable. I mentioned the procurement efforts. I mentioned the footprint optimization. I mentioned the working capital management. In terms of procurement, we can expect in the next couple of years bottom line impact of at least $50 million to $60 million.

We are taking advantage of significant synergies across all our business groups in terms of asset utilization and the footprint optimization from a manufacturing perspective. From a working capital perspective and cash flow management, you saw the numbers in this quarter. We are moving the needle in terms of optimizing for today.

In terms of cultivating for tomorrow, the biggest opportunity lies ahead for the business and to really evolve our business models into more customer-centric models that are recurring from a revenue nature perspective with incremental sort of EBITDA margins.

What we saw and what we are seeing in both Netafim, Wavin and Dura-Line is a reflection of a combination of factors. It's a reflection of increased economic activities in markets we operate. From a demand perspective, we're seeing increased volumes. It's a combination of different factors that have to do with focusing more on higher end -- higher value-added products which have incremental EBITDA margin versus a traditional product in which we were focusing in the past.

In particular, this is a case for Dura-Line, but also for Netafim, where we're focusing more and more on higher-end solutions in the form of software [generation] of the service.

In the case of Wavin, Netafim and Dura-Line, we have streamlined through global organizations not only to be more customer-centric, but also to be more agile, leaner and to have the right sort of cost and payment measures on an ongoing basis. So what we can expect moving forward is expansion of margins to optimize global footprint. There's different sort of challenges and different opportunities as we talk about Netafim, as we talk about Dura-Line, as we talk about Wavin.

In the case of Koura, we saw sort of weakened demand, and we saw lower prices associated with the pandemic. Having said that, you saw that we showed a very strong EBITDA of 38%. This is the EBITDA margin that Koura shows in the worst of time. So definitely looking forward to mid-40s, low 40% margins as we see sort of recovery in the downstream business and the upstream businesses associated to Koura.

And last but not least, VESTOLIT is experiencing today the tightest probably PVC market that we've seen in recent history. We will see better results in Q4.

We did not experience this in the latter half but in the first half of Q3 of this year. But we are seeing a very tight market which will benefit VESTOLIT, although we will see some softness associated to the maintenance programs that Edga was mentioning in the introductory remarks.

So moving forward, we do expect to have more simplicity, more clarity, more focus and a very clear intention to have an optimal risk management of the companies and the businesses that we operate moving forward.

Nikolaj Lippmann - *Morgan Stanley, Research Division - Equity Analyst*

If I may just follow-up. If we look at Dura-Line, just sort of big picture, a few years ago, it was doing 13%, 14%, sometimes 15% margins.

Now you are -- you have year-on-year growth of next to nothing, and your margin is almost 27%. It must be a very different product that you're selling. It certainly is a very different performance, and congratulations on that.

Well, (inaudible) exactly what it is that is going on.

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Yes. No, that's a great question, Nik. And I'm glad to share with you the details about the expansion in the margins that we're showing in Netafim -- in Dura-Line.

Dura-Line has a very, very strong presence in the North American market. Let me give you a couple of metrics that talk about the customer-centric transformation that is happening in Dura-Line. Out of those 5 global hyperscalers, the Amazons, the Facebooks of the world, 4 out of 5 of these global hyperscalers are our customers today in Dura-Line. Out of the 10 telecom providers in the U.S., 8 of them are our major customers.

We are definitely expanding our presence in terms of moving away from commodity products with sort of very low -- relatively low EBITDA margin to much higher microtechnology products that are high value-added to our customers and have a higher-margin for us.

And just as an example, in terms of what we've seen in the last few months, we have actually seen 260 new customers that were not our customers in the past couple of years purchasing products from our advanced portfolio solutions just in North America.

We are leveraging this position, the strategic accounts strategy that Peter is executing in North America. And we are shifting our emerging market strategy away from the commodity products and into the higher-end products that are higher-margin and that are more sticky. And the strategic accounts strategy that is proving to be very successful in the North America region is going to be replicated, not only from a commercial perspective, but also from a manufacturing and footprint perspective in places like Brazil, Europe, India and in the Middle East.

So in terms of the outlook, we are very optimistic about the fundamentals of 5G and infrastructure deployment associated to fibre optics, but we will have to invest more in OpEx and in CapEx to develop these capabilities, develop these accounts and develop their capabilities in general to be able to replicate what we're seeing in North America today and the rest of the globe where Dura-Line is operating and will continue to operate but in a more profitable way moving forward.

Operator

The next question is from Leonardo Marcondes with Itau BBA.

Leonardo Marcondes - *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

I have only one question regarding the company's expectation for the first quarter, right? So the company has an important part of its revenues in Europe. And I would like to know if you guys could provide a bit more detail on how the quarter has been so far? And what are your expectations now that there are some government that have been announcing or starting new lockdowns across their continent?

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Yes. Thank you for the question, Leonardo. In terms of the Q4 color, we've seen a month of October that was off to a good start, similar to what we saw in September. But as we move on to the second half of the fourth quarter, we are starting to see a lower seasonality effect.

I think it's important for everyone to remember that, traditionally, Q4 is relatively soft due to seasonality effects for most of our businesses. But that is being combined to what you were mentioning, a potential second wave of COVID-19, in particular, in Europe and maybe in the U.S.

We're going to have shutdowns in a few facilities associated through our VESTOLIT business that may impact in a minimal way our Q4 profitability. This will be definitely offset by the very tight market conditions that we see in the PVC market today. However, our revenues are expected to be a little bit flattish versus previous year due to both seasonality and the potential COVID impact that you were referring to.

Operator

The next question is from Andres Cardona with Citibank.

Andres Felipe Cardona Gómez - *Citigroup Inc., Research Division - Research Analyst*

I have 2 questions. The first one is about the segment that we formally known as Fluent. There were very strong margins across the segment. And I wanted to understand if there is any carryforward gain or inventory gains that are partially explaining the strong performance? And if you can provide any, like, reasonable long-term margins for each of these business divisions?

And the second one is if you can share with us how does the backlog looks like for Datacom and Netafim committing now sales, and if you are expecting the top lines to dynamize into 2021?

Edgardo Carlos - *Orbia Advance Corporation, S.A.B. de C.V. - CFO*

Thank you for the question. We clearly do not have any impact on the value of the inventories. What is true is, as I mentioned in my opening remarks, is that several of increases that we experienced in the raw materials want to be fully reflected in the fourth quarter and the first quarter of next year, depending very much at the orders that we have in place in during the third quarter.

Related to the backlog, in Netafim, we still have a very strong backlog of new projects primarily in India and Africa that are probably 2x the size that we have at the end of 2019. So it's very prominent business for the next 18 months.

And in case of the Dura-Line, we still see a very good performance. However, all the issues related to COVID-19, to some extent, delay the permit for signed mega projects in the U.S., so we may see some slowdown in the pace of invoicing during fourth quarter and probably first quarter of 2021. But this is temporarily until they get at full speed again after the permits are approved.

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

And just a quick comment on Fluent, because we've seen a few of you mentioning the Fluent organization. As you may recall, Fluent has actually a corporate structure and a very small organization dedicated to the management of the day-to-day.

As part of the customer-centric transformation that I was mentioning in answering Nik's question, we actually eliminated and disappeared the Fluent organization, because we actually wanted to get closer to our cost -- to our customers, leverage the deep domain expertise that we have in our business groups.

And today and since more than 1.5 years ago, we have dedicated business group precedents who have dedicated a significant part of their lives to Datacom, to building an infrastructure and to drip irrigation, managing and operating their businesses to advance life around the world in each one of the challenges that each one of those businesses face. So Fluent as an organization and from a reporting perspective is no longer here.

Operator

The next question comes from Luiz Carvalho with UBS.

Luiz Carvalho - *UBS Investment Bank, Research Division - Director and Analyst*

So I have basically 2 follow-ups. Actually, apologies if I missed it. I missed the beginning of the call.

But the first one, regarding the usage of capital allocation. Pretty much 1 year ago, there were some news related to the, I would say, at that time, the vinyl business and potential bypasses. So just trying to understand how do you say the capital allocation process and the portfolio management is being taken right now. And if the pandemic certain is taking of impact these plans in terms of any restructuring in terms of the business lines.

And the second one is mostly above, let's say, the public trend that we saw this quarter. So congratulations on the results. My question is more if you can share a bit of color on the sustainability of the reserve. You already mentioned some of this in previous questions. But if you can try to quantify how this quarter was much better from margins and lower inventory costs and what we can expect in terms of, I would say, a minimalization in terms of economic activity mainly in Latam, for example.

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Yes. Thank you for the questions. We've -- in terms of the first question on capital allocation, so as we continue to see improved economic conditions that started at the beginning of the third quarter in all our businesses in which we operate today, we are now exploring actively opportunities and transactions that may increase value to our various stakeholders.

Again, as per my previous answer to next question, we are focusing on exploring every opportunity and every potential transaction that may be out there that can simplify, clarify at an additional level of focus and optimize our risk management from an Orbia perspective. And that will ultimately increase significant value to our shareholders. So that's the answer to your first question.

In terms of the second question, again, I think that we need to have a long-term view. I gave you a little bit of color in terms of what to expect in Q4. We do expect the increase of raw materials to have an impact in our Q4 results, and that'll probably play out until Q1 and probably Q2.

We do expect to continue to see this very tight PVC market that has significantly increased prices all across sort of the globe, in particular in Latam associated through shutdowns and force majeures. The same has been the case for the U.S. and Europe. Europe is slowly recovering as we speak. But we do expect to see a tight market over the rest of Q4 and probably a little bit into Q1.

From a sort of longer-term perspective, again, we're focusing on evolving our business models to having sort of more recurring revenue flows associated to these new business models. We're focusing more on having higher-end products delivered to our customers and really focusing on operational excellence and having an impact in terms of our bottom line savings associated to our procurement efforts for operational footprint sort of optimization, and last but not least, a clear focus on working capital management and increasing our free cash flow conversion on a continuous basis.

Luiz Carvalho - *UBS Investment Bank, Research Division - Director and Analyst*

Okay. I can just a follow-up on your first question, just to clarify. What do you mean all the possibilities? I understand maybe if you include that potential acquisitions on bypasses, right?

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Yes. That is correct.

Operator

The next question comes from Frank McGann with Bank of America.

Frank J. McGann - *BofA Merrill Lynch, Research Division - MD*

Yes. So just wondering, just looking longer term, obviously, what the world is going through right now has caused a lot of changes and caused a lot of issues from an economic standpoint.

Just wondering when you think of your businesses in each of the segments as you look out over the next 5-plus years in terms of the long-term effects, which businesses do you think can be changed for better or for worse? And what opportunities maybe might you have or not have now that -- because of the whole COVID economic downturn situation?

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

So we're actually very optimistic about the long-term trends and the longer fundamentals associated to our 5 business groups, Frank. We can go in detail one by one, but Netafim has a fantastic outlook associated to the fact that 70% of the world's water is utilized in agriculture and only 7% is used with effective methods such as drip. This gives you an idea of a very long run way that is ahead of us with our traditional business models.

But if you have on top of that irrigation as a service, if you have on top of them digital and what we're doing in digital, I just mentioned the fact that we just made our first investment in the corporate venture capital space, an AI-related start-up in Israel, but that means also in terms of adjacent businesses such as greenhouse, we do believe that the runway for Netafim in terms of top line growth and profitability is very optimistic.

In the case of Dura-Line, I just explained in one of the previous questions why we're so optimistic of why 5G, 6G even and the infrastructure buildout associated through our Datacom business makes us feel very optimistic.

And the third one has to do with Wavin. Wavin is moving from a traditional pipes and savings company to higher-end products that are eventually moving into business models that will be associated with services, and that will be associated to stickier relationships with customers.

So we are very optimistic about the prospects of that, not only in the developing world, but also in the developed world. I mentioned the fact that Koura operates the largest source power mine in the world, We have a unique position in terms of the supply. But we also have a unique position in terms of our downstream business.

Our upstream business is very strong in terms of what we see from long-term prospects associated to fluorspar, Acidspar, metspar, but also in terms of HF and aluminum fluoride.

In the case of downstream, we are at the forefront of refrigerant gases, especially for medical purposes, but we also are very keen on building the future in terms of what we can do on a number of fronts, including energy storage, medical, and other spaces that are critical, such as battery, energy vehicle -- electric vehicles and battery and energy storage moving forward.

And last but not least, our ethylene business has a unique global position. We have a very strong position associated to our ethylene cracker operations in the U.S. We have a unique cost advantage associated to those assets. We are the fifth largest operation in terms of general resin producers.

We are the largest specialty resin producer in the world. So we're very confident about the long-term prospects in terms of supply-demand dynamics.

We are seeing it today. Again, today is a unique situation that we've never seen in the Q3 of the PVC industry, but we are very, very optimistic and positive about the long-term supply demand dynamics that we pay. So all our businesses have very strong fundamentals, and we're very much looking forward to having the right organization and the right level, again, of clarity, simplicity, focus and risk optimization so that we can deploy capital in the most thoughtful way and ultimately result in a lot of value creation for our shareholders.

Operator

This concludes our question-and-answer session. I'll now turn the call back over to CEO, Daniel Martínez-Valle, for closing remarks.

Daniel Martínez-Valle - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you, Debbie. While the COVID-19 pandemic continues to challenge economies worldwide, we are successfully operating, as you saw, our businesses. We are executing our Play-to-Win strategy, and we are positioning Orbia for future growth and the long-term value delivery that I just mentioned.

It is a time of opportunities and challenges at Orbia, and our people are fully energized and fully inspired, so is our executive team and our Board.

While delivering on our commitment to people and the planet, we are keenly focused on profitability with specific sites in achieving above-market organic growth, strong margin performance and expansion over time, robust free cash flow generation and double-digit return on invested capital.

Thank you so much for your interest in Orbia as we continue to transform our company, and in the process, deliver meaningful stakeholder value. Take care and stay safe.

Thank you all.
