Orbia

Q4 and Full Year 2019 Earnings Results Conference Call

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CORPORATE PARTICIPANTS

Gerardo Lozoya – *Investor Relations Director*

Daniel Martinez-Valle – *Chief Executive Officer*

Edgardo Carlos – *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the Orbia Fourth Quarter and Full Year 2019 Earnings Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a Conference Specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

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

Gerardo Lozoya
Thank you, Chad. Good morning and welcome to our Earnings Results Conference Call. We are pleased to be here today to present our fourth quarter and full-year 2019 results. We appreciate your time and your participation in this call. Our speakers today will be Daniel Martinez-Valle, Orbia's CEO; and Edgardo Carlos, Orbia's CFO.

I will now turn the call over to Daniel for opening comments. Please proceed, Daniel.

Daniel Martinez-Valle
Thank you, Gerardo, and welcome, everyone, to our conference call. Today, I am looking forward to detailing our financial performance from Q4 2019 and 2019 overall. The stories behind our performance and to painting a picture for how we intend to see success in the years ahead. 2019 was indeed a pivotal year for Orbia. Notwithstanding continuing headwinds in several of our verticals, sluggish market conditions, and overall macroeconomic uncertainty, I am happy to report that Orbia reached a full-year guidance for 2019 in line with our expectations. And I'll reiterate that although many of our verticals were facing challenging contexts influenced by, for example, the illegal import of hydrogen gases into the European Union, our fundamental business drivers are strong and healthy. Our earnings power is there. Our market penetration is growing, and we are making strides in terms of sustainable growth and value creation.

In terms of profit, our consolidated reported EBITDA in Q4 2019 was $294 million, up 9% from Q4 2018. Excluding the impact of IFRS 16 and one-time effects, the increase totaled 13%, yielding a margin of 18.5%. In 2019, we continued to have a strong balance sheet as we maintained our discipline in capital allocation across the organization, resulting in higher cash generation translated to a free cash flow conversion of 30.3%.

In terms of people, we achieved a new total recordable injury rate of 0.71, down from 1.08 in 2018, a powerful marker as we work to ensure the safety of every one of our 22,000 employees worldwide, and we are putting special emphasis on our process safety management. We also supported our employees by investing more than 500,000 hours in training, up 61% from 2016.

In terms of planet, we achieved new environmental milestones, including reducing hazardous waste by almost 15% across all our businesses. We also were selected as an index component of the Dow Jones Sustainability Indices, in recognition of our commitment to systemic sustainability agenda. We reinforced that commitment by joining the UN Business Ambition for 1.5 degrees Celsius. All these efforts are aligned with further strengthening our E&G standards. These are just a few of our 2019 accomplishments, but there are many more.

In the year ahead, we're continuing the focus on markets, products, services, and solutions where we can see higher profitability, and we continue to work to control costs, better manage working capital across our businesses, and enact our disciplined capital allocation strategy for superior operational and financial performance.

Before Edgardo goes into our financial performance data for Q4 2019 for the full year, I want to take you through a high-level overview of our key mountains in 2019, how our businesses contributed to our performance. And then, Edgardo’s deep dive, I will follow up with a quick update on our play-to-win strategy, and how it's fueling our future growth.

Turning to Slide two. 2019 was an important year for Orbia. After having grown through acquisitions and expanded into new markets over the course of several decades, we recognized that we had reached a critical junction. We needed to define our existence, as we had become a global enterprise with ambitions beyond manufacturing commodities. This led us to unveil a new name, purpose, and identity, which you can see here in the snapshot. In 2019, we evolved into Orbia for Mexican, reflecting our momentum as the force for the world.

We bound ourselves, as a team of 22,000, to a common purpose to advance life around the world. We introduced the first of its kind Living Global Mark, or Impact Mark, to hold us accountable and track our year-over-year performance, across key metrics, such as profit, people, and planet, from ROIC to percentage of women in management, to greenhouse gas emissions. We identified the core values that could help us move on this purpose. And we recognize the need to reorganize into five business groups focused on providing customer-centered solutions to process data communications, Dura-Line, precision agriculture, Netafim, building an infrastructure of Wavin, Fleur, Koura, and polymer solutions, Vestolit.

Turning to Slide three. This fundamental evolution, our ambition, assets, and the capabilities we had accrued over 30 years put us in the perfect position to make an impact on the toughest challenges of our time, from food insecurity to rapid organization, water scarcity to data access, human health, to the health of the planet. These are the issues that touch our global economy and our communities, the ones that demand solutions for existence as a company, and occupancy of this planet.

To rise to these challenges, we started acting on our play-to-win strategy, to capitalize on organic growth opportunities across our five verticals and challenge areas. In over 110 markets and more than 40 countries, our community of businesses is providing solutions that demonstrate that if future where profit, people and planet thrive is within our sightline. Our businesses are playing to win. Here are a few examples from three of our five business groups. Let's start with Koura, turning to Slide four.

Koura has been a pioneer in the development of fluoroproducts. They play a fundamental role in enhancing life, with applications in sectors from building and infrastructure to medicine. As such, Koura currently provides a propellant to power over 75 of the world's metered dose inhalers, which are used by more than 100 million people daily. In 2019, Koura introduced FX1528, a new low-carbon footprint medical propellant that improves patient choice by providing a safer therapeutic option while significantly lightening the environmental impact of a compound, to a degree of a 90% reduction in global warming potential.

Today, Koura is embarking on clinical trials in the United States to validate applications of FX1528 for an array of respiratory conditions, and it's expanding its pharmaceutical-grade laboratory facilities in the UK to accelerate commercial development. One of the most recent successes that we've had at Koura is a licensing deal with Kiesi (SP). This is a very significant milestone for us in strengthening our position in the global pharmaceutical industry. It is early yet, but the anticipated EBITDA impact of the FX1528 will be significant, in the tens of millions of dollars.

Turning to Slide five. Dura-Line is feeding the connected revolution, providing the conduits that carry vital information and services to half of the population in the globe that still lacks access. Anticipating the 50 billion of devices expected to come online in the next few years, and the shift to 5G, Dura-Line invested in 2019 an evolving sales coverage and developing a product mix for customers in three cities, with smarter technologies, more reliability, and scalability, from multiple dwelling units to rail systems, cellular networks, and smart cities.

Over the years, we have developed long-lasting, close relationships based on our customer-centric approach and R&D capabilities to provide tailor-made solutions to major telecoms and global technology clients. As the results were aligned today, a highly profitable business, with nearly 20% EBITDA margin, an exceptional gross profit. Our business has expanded outward from its major markets in the U.S., Europe, and India, and is now moving into the emerging Middle East, Africa, Asia, and Latin American markets.

Turning to Slide six. Netafim is a recognized leader in precise agriculture solutions that enable farmers worldwide to grow substantially more with far fewer resources to feed the world's growing appetite, expected to increase 60% by 2050. In 2019, Netafim was able both to grow within the market and grow the market. Specifically, Netafim made significant inroads into its target market of Africa. The business was able to secure three large scale projects crossing the continent, located in Rwanda, Tanzania, and Gabon.

These projects add up to more than $100 million in revenue, and are being implemented now, with Netafim delivering end-to-end agronomic to intelligence irrigation services to growers looking to maximize yields across 33,000 hectares of sugarcane and palm crops. I will briefly share our strategic action plan for ensuring operational excellence and superior financial performance in a bit, but now, I'd like to hand it over to Edgardo Carlos, the CFO, to take you through a deep dive into our Q4 and full-year 2019 numbers. Edga?

Edgardo Carlos
Thank you, Daniel. Good morning, everybody. And now, moving on to Slide number seven, please. I will briefly go over the financial performance for the fourth quarter 2019 and the full-year 2019. As you have already seen the numbers in the Press Release, so I tried to be brief so you will have more time for the Q&A.

First, let me start with the fourth quarter 2019. We reached a normalized EBIT of 303 million without (INAUDIBLE) and other one-time effects, representing a significant increase of 13% over last year. This was mainly driven by a strong performance, supported by a significantly higher profitability in the Dura-Line business, which doubled EBITDA reach in the fourth quarter of 2018. As a consequence of a better product mix and lower material costs, as well as the high performance of the Netafim business, spurred by similar trends.

On the negative side, we were affected by lower activity in the Wavin LatAm, as well as the continued significant impact of illegal import of refrigerant gases in Europe and our Koura business. Revenues decreased by 3% to 1.6 billion, mainly driven by lower sales in our Wavin, Koura, and Dura-Line business, the latter of which is resulting from lower sales in India, and those in our natural gas distribution business in the U.S. However, as pointed out before, Dura-Line is shifting to a much higher value-add mix in their portfolio. In addition, improvements in our working capital drove higher cash generation in the quarter to reach 312 million, with a strong free cash flow conversion rate of 75.2%.

Now, let me give you a few full-year highlights. In 2019, overall, our normalized EBITDA without IFRS and one-time effects decreased by roughly 6%. This was mainly due to the challenge in market conditions faced by Vestolit and Koura, as measured in our Press Release.

However, we saw a significant improvement in profitability in the fluoro business, primarily in Dura-Line and in Netafim. For the full-year revenue decreased by 3% year-over-year, from 7.2 billion to seven billion, mainly driven by lower sales in the Vestolit, Wavin, and Dura-Line business, impacted by lower prices of PVC and caustic soda, sluggish market conditions, and illegal imports in Europe.

We continue to have a strong balance sheet as we maintain our discipline in capital allocation across all of the companies, resulting in a higher cash generation, translated to a healthy free cash flow conversion rate of 30.3%. It is noteworthy to mention that our geographical and business diversification provides us the basis to maintain a very healthy profitability ratio, despite some unexpected headwinds in 2019. Now, turning to Slide number eight, please.

As previously mentioned in the highlights, I want to emphasize the strong cash flow generation in the quarter and for the full year as well as a result of maintaining a very disciplined approach on how we allocate capital across all of our operations. Getting into the detailed numbers, our free cash flow for the quarter increased by 18% to reach 221 million, reflecting a strong conversion rate of 75.2%. In this current and challenging environment, we maintain a disciplined capital deployment approach, focusing our efforts around better working capital management, and a rigorous CapEx investment during the period, as we saw in the previous quarter.

For 2019, driven by our focus on operational excellence in managing and controlling our--

Operator
Pardon me, ladies and gentlemen, it appears that we have technical difficulty with our presenting site. Please stay on the line while we reconnect. Thank you very much.

Once again, thank you very much. Please stay connected while we reconnect our presenting site. Thank you very much.

Thank you very much for holding, our presenters have been reconnected. You may proceed.

Edgardo Carlos
Hello? Okay, I will start back from Slide number eight. So, as previously mentioned in the highlights, I want to emphasize a strong generation of free cash flow for the quarter, and for the full year, as a result of maintaining a disciplined result in how we allocate capital across our operations. Getting into the detailed numbers, our free cash flow for the quarter increased by 18%, reaching 221 million, reflecting a strong conversion rate of 75.2%. In this current and challenging environment, we maintain a disciplined capital deployment approach, focusing our efforts around better working capital management, and a rigorous CapEx investment during the period, as we saw in the previous quarter.

For 2019 and driven by our focus on operational excellence in managing and controlling our business, in this environment, we saw similar trends in how we generate the positive free cash flow that translated to a strong conversion rate of 30.4% in 2019, compared to 29.1% during last year. Clearly, we will continue our efforts to focus on delivering strong cash generation in 2020. During the quarter, our total financial debt declined to 3.5 billion, where cash and cash equivalent were 586 million, resulting in a net financial net debt of 2.9 billion. It is our aim to continue focusing on using our free cash flow to continue reducing our debt.

As shown in this slide, we maintain a very sound balance sheet, with a healthy financial structure of our debt. We kept our weighted average cost of debt below 5%, with an average maturity life close to 14 years. Finally, I am pleased to announce that starting in the first quarter of 2020, we will provide a more comprehensive view in our financial reporting, eliminating our formal fluent segment of reporting information on each of the five vertical segments, up to (INAUDIBLE). So, you can have a better visibility and understanding of evolution of each of our key segments.

Now, I will turn the call back over to Daniel for closing remarks before we open the call for questions. Daniel?

Daniel Martinez-Valle
Thank you, Edga. So now that we have reflected on the quarter and the year's financial performance, I want to set the stage for what is ahead. We know there is more to do to move the needle on our top line growth, our profitability, and to maximize our shareholder value in the years ahead. We are doubling down on capital allocation discipline and operational excellence to deliver higher profitability as we continue to control costs. This is something in full alignment with our play-to-win strategy

Turning to Slide nine. Our play-to-win strategy focuses on organizing this success, optimizing to today, and cultivating for tomorrow. Unlocking new levels of operational excellence will only come from aligning the strategic choices of our business groups and functional teams working as one engine to ensure that we continue to meet customer demand and advance life together with every choice we make. From sustainability to human-centered innovation, health and safety, to ethics and compliance, to governance and people. Our functional teams are working today with our business groups for a better tomorrow.

Our newly established Critical Risk Committee set clear roles and accountability for how we manage risk, providing an enterprise risk management framework to determine risk appetite, and set associated limits for all of our activities. In our newly established critical risk--doing good as we do well is critical as we maintain a foundational commitment to fostering an ethical culture led by integrity, transparency, and compliance. In 2019, Orbia's new Ethics and Compliance team continued to invest in programming and compliance infrastructure, to enhance our procedures that will help us conduct our business activities in full adherence with local and global laws. I have been personally invested in building an Ethics and Compliance team, systems and processes, that will keep us above board and avoiding any preventable violation in our activities.

Turning to Slide 10. 2019 has been a high momentum year for all of us at Orbia. As we keep moving forward, to become a purpose-driven, customer-centric, future-fit force for the world. I want to conclude by emphasizing that we have what it takes to deliver on our purpose. And we remain focused on our commitment to increase shareholder value by improving customer centricity, maintaining strict cost management to support top line growth and margin expansion, and enacting our disciplined capital allocation strategy.

As to the outlook for the year ahead, we all know, and we've seen recent developments related to the coronavirus that has significantly increased uncertainty around economic growth and could negatively impact some of our key markets. If we assume no major disruption to the global economy, we feel confident that we will deliver mid-single-digit growth and EBITDA, and a stronger free cash flow generation, that will in turn decrease our leverage. I am very optimistic about what is ahead for Orbia. Thank you all for joining us on the call today. Chad, we're ready to take questions.

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

And our first question will come from Luis Carvalho with UBS. Please go ahead.

Luis Carvalho
Hi, Daniel, hi, Edgardo, hi, Gerard. It's Luis, here. First of all, thanks for the additional clarity you provided in the business model looking forward, I think it's going to help us a lot on trying to (INAUDIBLE) anything visibility, in each of the business lines. I would have basically two questions here. The first one is about the [indecipherable] communication, if you could give us a bit more color on the business segments, and how you should think looking forward? Seems like the company has really revisited its strategy, maybe, I don't know, in the final business, if you could provide a bit more details on take this back towards more customer-centric and less commoditized the company. So, how should we think about this?

Second, it's more about the organic growth, CapEx growth. So, what do you see for your capacity to grow economic business lines, I believe the--I'd say the spread's volatility in the recent coronavirus outbreak?

And the third, do you have any other visibility you can share with us about the (INAUDIBLE) dividend policy, and how we should think about it looking forward? Thank you very much.

Daniel Martinez-Valle

Thank you, Luis. So, let me take those three questions. First one's related to capital allocation in general, and specifically to buying those in the customer-centric environment. Again, our play-to-win strategy is a very clear framework that enables us to have a very disciplined capital allocation policy to ensure that every time we've decided and we've made explicit choices about where to play and where not to play, and how to win, we will direct our capital, we will direct our people, and we will manage our risks in a very aligned way with our conscious choices. Meaning, we've identified every single investment that we need to make for our five business groups, for the next three-to-five years, in order to have a play-to-win decision in every market and every segment, and every geography that we've operated, and that we will be operating moving forward.

We're tapping into new markets and new opportunities across our five business groups, specifically, for example, in the case of Dura-Line, I mentioned during my introductory remarks that we're entering into the Middle East. We're entering more aggressively into Latin American markets, and we're also entering into Africa. Same thing with Netafim and other business groups, specifically related to vinyls. Vinyls has a very, very huge component associated to customer centricity, specifically related to our specialty resins business. Let me remind everyone that we hold our number one position globally in terms of the specialty resins space and PVC globally. And also, our compounding business is highly customer-centric, focused on developing formulations on a tailor-made context for each one of our customers globally. So again, vinyls is not the exception, we have been customer-centric for quite some time now, and we will continue to invest in this business, which is very profitable, and where we hold a very strong position globally.

In terms of growth CapEx moving forward, in the context of coronavirus, as you know, uncertainty is increasing and moving by the minute, as we speak. We have a very clear understanding of what is our traditional exposure, in particular to China, which is today very insignificant. We understand what is the impact of the coronavirus in the context of potential global supply chain disruptions for each one of our global businesses. And we are operating accordingly, reacting with very disciplined cost management, very disciplined capital allocation, and with a very strong balance sheet that will enable us to continue to be resilient, as uncertainty may increase over the next several weeks and months. Finally, our dividend policy will remain constant, very similar to what we have seen in the past couple of years, in line with our ordinary dividends that haven't paid out in the last 24 months.

Luis Carvalho
Okay. Thank you very much.

Daniel Martinez-Valle
Thank you, Luis.

Operator
Our next question will come from Vanessa Quiroga with Credit Suisse. Please go ahead.

Vanessa Quiroga
Thank you. Good morning, congrats on the improvement in margins and in influence. Actually, that brings my first question. Can you quantify more or less how much of the everyday improvement was from a reduction in raw material prices, and how much left on strategies related to improving the sales mix? And the other question I would have is regarding your outlook by each of the subseries in influence. So, for Dura-Line, what can we expect in terms of growth, and for the U.S., Europe, and any other relevant markets?

What about in the case of Wavin and that growth that you expect for the different markets? Thank you.

Daniel Martinez-Valle
So, in the case of our fluent business, we were actually benefited by lower raw materials, as you mentioned, Vanessa. But it was actually a combination of both enhancing our product mix and moving to higher profitability products, and at the same time, the combination of lower raw materials. I would say it was 60/40, 60% associated to moving to higher profitability products, and 40% related to the raw material decrease in cost. In terms of the Dura-Line, Wavin, and Netafim business moving forward and our outlook for the next year, in very general terms, I can share with all of you that Dura-Line expects to have stable growth in countries like the U.S., from a top line perspective, but we are focusing on higher profitability products, in particular in the U.S.

We are increasing in a very significant way our sales coverage in regions like LatAm, Middle East, and certain countries in Europe, like Germany and the Nordic countries. We believe that by moving to products that have higher profitability, we can see an improvement in top line growth, but a higher improvement in profitability. In the case of Wavin, we see growth prospects for LatAm, in particular, for Brazil. We see stable growth in Europe, we are optimistic in terms of what's coming up in 2020 after a lot of uncertainty associated to Brexit, in particular in the UK. We are executing our play-to-win strategy in regions like Asia, in particular India, Indonesia, and other countries, from an organic perspective.

And then finally, for Netafim, as I mentioned during my introductory remarks, we are very optimistic about our projects on irrigation as a service context, not only in the Americas, but specifically transformational projects that we're working on in Tanzania, Gabon, Rwanda, and other regions. We see the U.S. behaving very positively from a financial performance perspective, in 2020 in particular. There are certain countries in LatAm where we have high expectations, like Brazil. And in general, again, we're optimistic about prospects in India and in other places in Asia.

Vanessa Quiroga
Great. So, regarding India--and Daniel, thank you for all the overview. Regarding India, what's going on in terms of your strategy in India, in the more instances?

Daniel Martinez-Valle
That's a great question, Vanessa. We are actually leveraging the fact that there are very significant opportunities across all our business groups in India. As you know, we have thousands of employees, just from a Netafim perspective, operating and helping farmers grow more with less, day by day, in India. We're leveraging our significant position thanks to our Netafim footprint, to really sort of drive an Orbia decision that will enable us to capture opportunities in the datacom space.

We've done very interesting projects in smart cities over the last three years, but we want to continue to capture growth opportunities in the 5G deployment space, in that country in particular. Wavin is actively exploring opportunities in the organic space, building capabilities that will help us have a significant position in the high-end part of the products, services, and solutions, in the buildings and infrastructure base. And the rest of our business groups also have been actively not only identifying but also capturing opportunities in the fuel halogen space, and specifically for our vinyl/compounding business. And we are very keen to develop an Orbia position that will probably transform India in a billion-dollar-plus operation, three years, four years, five years, don't know.

Vanessa Quiroga
Very good. Thank you, Daniel.

Daniel Martinez-Valle
Thank you, Vanessa.

Operator
The next question comes from Leonardo Marcondes with Itau BBA. Please go ahead.

Leonardo Marcondes
Hello, Daniel, Edgardo, Gerardo, thank you for taking my questions. Actually, I have a few questions. First, about the guidance, I would like to know if you guys could provide more color on the guidance by breaking down by segment? My next question is on the fluent segment. Is there any update on the illegal part in Europe? That's my question, thank you.

Daniel Martinez-Valle
So, regarding giving guidance by segment, I think Edga was very clear in terms of how we're going to be reporting moving forward. Luis alluded to the fact that for all of you investors, now it is, I think, having an additional level of disclosure from a business rule perspective, all the way up to the EBITDA level, will be a critical component of having more transparency and more clarity, and a deeper understanding of how our business evolves moving forward.

But yes, I can give you some color, in terms of, I mean, our guidance for the whole year. Clearly, we're expecting, as we said, and depending very much on the evolution of the illegal imports of refrigerant gases in Europe. We don't see a growth opportunity in the Koura business, in which the upstream business is going to continue doing very well, trying to offset this part of the illegal imports. And we do see some continued improvement in our datacom and irrigation business, all of the places, as many I was mentioning. And even our business from Vestolit, and general preliminary solutions, both in the compound business growing compared to 2019, depending very much, again, based on what we've mentioned in the outlook, how this situation evolves with the coronavirus.

And going to the illegal importation of refrigerant gases into the EU, as you all know, is a significant part of what happened in 2019, in particular to our Koura business. Let me give you a little bit more color in terms of 2019 and 2020. We were impacted roughly 55% in terms of volume, 45% in terms of price. However, and this is very important, more than 60% of this negative impact was offset by improving performance, another part of our Koura business, mainly pricing and operational improvement, and to a lesser degree licensing deals in the pharma space, like the Kiesi deal that I mentioned, again, in the introductory remarks.

In terms of 2020, we do see a balanced market in terms of upstream versus downstream. We do see continued impacts from illegal imports into 2020. However, we are working on several fronts with relevant authorities in the EU and elsewhere to address this issue. We're working on the investigation side, the enforcement, public relations, public affairs. I am happy to see that this is now something that has a much more heightened awareness, in terms of different stakeholders, but both at the EU level and at the member state level. There is now an urgent call for action. But having said that, we need to make sure that everyone understands that these efforts will take time to bear results. We're doing everything we can on every single front, but we should expect this to continue for the remainder of 2020, and we will do everything we can to mitigate this from the rest of our business as Koura.

Leonardo Marcondes
Okay, thank you.

Daniel Martinez-Valle
Thank you.

Operator
The next question will come from Alejandra Obregon with Morgan Stanley. Please go ahead.

Alejandra Obregon
Hi, good morning, everyone, and thank you for taking my questions. So, I would just like to follow up on what you mentioned before on Netafim. So, I was trying to understand how to think of Netafim going forward. So, on one side, you have the end of the project in India, but you just announced several projects starting, I believe, soon. I'm just trying to quantify the business that will no longer be there, but then will it be offset entirely, or maybe more than offset from the new projects. Just trying to get a sense of how to think of top line for the business for 2020. Thank you.

Daniel Martinez-Valle
Yes, that's a great question. We start transformational projects in India in different sort of parts of India. Our first transformational project happened in Karnataka, where we today have more than 60,000 farmers that were connected in community irrigation projects. These projects take time, from a business development perspective, and take time from an implementation perspective, but have a long-term impact in terms of significantly increasing yields, since there are different crops that these farmers operate, and significantly reducing the water consumption. The project that we mentioned in Africa, in particular, Tanzania, Gabon, Rwanda, et cetera, are projects that have an infrastructure component in terms of building and giving access to water, to farmers, and to different companies that operate different crops. There are a few services component to this business, and a product component to this business.

So, the way you should understand Netafim business is, A, we have a traditional drip irrigation technology segment, if you will. B, we have transformational projects that could be both community irrigation projects, like the one I described in Karnataka in India, but also transformational projects for specific crops like sugarcane, which is what we're doing in Ethiopia. And then, as we mentioned in previous calls, we're working on developing and strengthening and scaling what we call an irrigation as a service business model, which, instead of selling products, drippers, or systems, we partner with our customers, and we actually operate the drip irrigation technology with our high-end net digital solution.

And we service the business in a multi-year sort of structure where we stopped being a product manufacturer, and a product sort of delivery mechanism, and we actually transformed the Netafim traditional business model into what we articulate as a service provider business model, which has huge potential all over the world in every single crop and in every single country where we operate today.

Alejandra Obregon
Right, thank you. So, quick follow-up, so, can you help us understand the percentage that the traditional drip irrigation represents of the entire revenues? And then on the transformational projects, would it be fair to assume that they would be maybe 4Q 2020 kind of revenue, or more of a 2021 perhaps kind of contribution? Thank you.

Daniel Martinez-Valle
So, the percentage of the traditional business model of Netafim today is 80%, 75%. And moving into 2020, we are already seeing some of these bookings in terms of revenue in our books. And obviously, given that this is sort of a long-term process in terms of business development with customers, this is a multi-year commitment in terms of what we're doing with them, that translates into a multi-year revenue stream.

Alejandra Obregon
Thank you, this was very clear, and congratulations on this project.

Daniel Martinez-Valle
Thank you, Alejandra. Thanks.

Operator
The next question will come from Vicente Velanga with Bodesco. Please go ahead.

Vicente Velanga
Thank you, Daniel. Good afternoon, everybody. I had basically two questions. You mentioned how Brazil hasn't been picking up, and as a matter of fact, we are seeing construction picking up or still not. I just wanted to see if you're already seeing orders for PVC pipes picking up or still not? And can you remind us, if possible, what is EBITDA of Brazil right now? I remember it used to be something close to $40 million, more or less. And historically, in better years for Brazil, it had been closer to 70 million. And then you also mentioned--my second question, that you expect the India operations to add up to one billion dollars plus in five years. Just to check, if this is top line, and if--yes, I mean, if you saw 15% EBITDA margin, then it could add $150 million to your EBITDA. Thank you very much.

Daniel Martinez-Valle
Okay, in terms of Brazil, yes, we do see better activity in Brazil in several of our businesses, and particularly for pipes in Wavin. We do see an increase expected for 2020, in the range of 5%. And I mean, we try not to disclose the EBITDA numbers for each country in particular, but it's a little bit lower than the numbers that you had just mentioned. And regarding India, it is top line, and that's--the expectation that I described was articulated by you very well.

Vicente Velenga
Okay, thank you, guys. Thank you.

Daniel Martinez-Valle
Thank you, Vicente.

Operator
And our next question will come from Alejandro Chavales with Credit Suisse. Please go ahead.

Alejandro Chavales
Hi, guys. Thanks for taking my question. I guess, just on the--looking at free cash flow. I think it's interesting that the working capital investment was up 22% year-over-year, as per the report. And so, obviously top line is not growing that fast, and even plastic prices are declining. I was wondering if this is explained by something in particular, and the measures that you're taking to obviously. You mentioned that you're improving your free cash conversion capability, so perhaps more color on that would be useful too.

Daniel Martinez-Valle
Yes, for sure. I mean, you're right. We've been growing working capital in an environment in which top line was not growing. That is a consequence of several factors, one was, as we mentioned in previous conference calls, the impact of the delay in collection in India, after the election in May, that really, to some extent, increased our account receivables. They are going slowly back to the normal, that we are expecting this to basically normalize during the first half of 2020.

And at the same time, in particular, cases in which we--dependent on the situation, of the created eventually, because we anticipated some shutdown in our facility for starting maintenance. So, both really contributed to increase our working capital. As you see, in the last consecutive quarters, we have been working very strong to reduce the working capital, and we are really working with every single business group to review every day, the days of receivables the days of inventories, and also the days of payables.

Alejandro Chavales
Okay, thanks, very clear. And regarding CapEx, do you have any specific target in mind for 2020? And I think--something that you have in mind?

Daniel Martinez-Valle
Yes. As commented in the last conference call, we are--I mean, we are coming from a CapEx of $270 million--$260 million in 2019. We are expected to invest in projects of $360 million for 2020, $100 million out of this $360 are very much related to the things that I was mentioning, our expansion, regional expansion, some green free projects boosting our organic growth, and very much focusing on the ones that are the play-to-win. We've identified those that are really very short payback, and the ones that are very transformational for our business as a whole.

Alejandro Chavales
Understood. Thank you very much, and congratulations.

Daniel Martinez-Valle
Thank you.

Operator
Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Daniel Martinez-Valle for any closing remarks.

Daniel Martinez-Valle

I'll just wrap up by saying thank you everyone, and we look forward to having one-on-one interactions throughout the year with each one of you. Thank you.

Operator
And thank you, sir. The conference has now concluded. Thank you for attending today's presentation, you may now disconnect your lines.