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PRESENTATION

Operator

Good morning, everyone, and welcome to Orbia's Fourth Quarter 2020 Earnings Conference Call. As we Slide 1 (Operator Instructions) Please also note today's event is being recorded.

At this time, I'd like to turn the conference call over to Mr. Javier Luna, Orbia's Capital Markets and Investor Relations Director. Please go ahead, sir.

Javier Luna - *Orbia Advance Corporation, S.A.B. de C.V. - Director of Capital Markets & IR*

Thank you, Jamie. Good morning, everyone, and welcome to Orbia's Fourth Quarter and Full Year 2020 Earnings Conference Call. We appreciate your time and participation today.

Joining me today are Juan Pablo del Valle Perochena, Orbia Chairman of the Board of Directors; Sameer Bharadwaj, a recently appointed CEO; and Edgardo Carlos, group CFO. 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 the Chairman of our Board of Directors, Mr. Juan Pablo del Valle Perochena, who will join us briefly to introduce Sameer.

Juan Pablo del Valle Perochena

Thank you, Javier, and good morning, everyone. I am pleased to join the call today to introduce our newly appointed CEO, Sameer Bharadwaj. And to thank Daniel Martinez-Valle for his service to Orbia over the last 3 years. Daniel was an instrumental part of transitioning Orbia into a purpose-driven organization. He built a very strong leadership team and significantly accelerated our sustainability and innovation focus. We are very grateful for his leadership and wish him all the best in his future pursuits.

With that, let me introduce Sameer Bharadwaj, who stepped into the role of CEO on February 1, and he's Orbia's first non-Mexican CEO. This is a clear sign that in this future fit company, it does not matter where you live and where you're born to be at the helm. Sameer is not new to Orbia. He knows the company well from many years back. He joined the company in 2016 and brings more than 20 years of leadership experience in breakthrough innovation, operational excellence and talent development across the advanced materials, technology, energy and pharmaceutical industries.

Many of you may know Sameer from his most recent position at Orbia, where he was President of Fluor & Polymer Solutions business groups. In this role, Sameer demonstrated a strong leadership, made meaningful contributions and delivered outstanding results, such as driving a value-added mindset at Koura and growing the downstream business to strengthen our position in existing markets and advanced opportunities in high-growth flour chemical markets and applications. Strengthen investors position as PVC market leader in general and specialty resins both in Koura and VESTOLIT, instilling industry leading ESG standards, tools and practices across teams and sites.

Sameer possesses a deep understanding of Orbia, our vision and our values. He has been a significant contributor to Orbia's transformation, and the Board is confident that he and the senior leadership team will continue to ensure the disciplined execution of our strategic imperatives to deliver strong value creation for all our stakeholders.

With that, let me turn the call over to Sameer.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you, Juan Pablo, and good morning, everyone. I am honored and excited to take on this role as we navigate a challenging global landscape. We are in the early stages of a multiyear transformation with significant opportunities going forward to deliver value. For our customers, more innovative and efficient solutions. For our employees and communities, opportunities to grow and thrive in a safe and healthy environment. And for our shareholders, sustained returns.

I want to begin today's call with an important message. I must thank and pay tribute to Orbia's 22,000-plus associates who have worked hard to keep our operations running smoothly and serve our customers. Everyone has given their all. We work diligently to protect the health, safety and well-being of our team by applying strict COVID protocols. We introduced teleworking for nearly half our workforce and provided support to employees and their families in the communities in which we operate.

Despite our efforts, we tragically lost 28 of our own. Our heartfelt condolences and prayers are with their loved ones. We are still in the middle of a pandemic, and our priority remains the health and safety of our employees and supporting the communities they live and work in.

I spent the last month meeting with business, operations and functional teams across our organization. When there are changes in key management positions and especially the CEO role, questions arise as to the direction and focus of that new leader. I want to be clear that our commitment to our growth strategy and sustainability remains intact and going forward, we will focus on disciplined execution.

We have resilient businesses in Wavin, Netafim, Dura-Line, Koura and Polymer Solutions with excellent growth opportunities, including organic growth and bolt-on acquisitions, directed at solving some of the world's key challenges.

We will nurture and grow each of these businesses, exercising strong cost and investment discipline. Through commercial excellence, operating discipline, new product launches and geographic expansion, we aim to deliver consistent earnings growth year-over-year.

I'm pleased to say that across the board, our teams are unified in our belief in the strategy and our ability to accelerate our results in 2021 and beyond. With that, let me highlight 3 key aspects of our strong showing in 2020 and our positioning as we head into 2021 before turning the call over to Edga for a deep dive into our financial performance.

First, while 2020 was an unprecedentedly challenging and volatile year, Orbia delivered stellar results, exceeding our expectations. The management team acted quickly at the onset of the pandemic, mobilizing our people, leveraging technology, operating our assets while keeping our people safe, aggressively preserving capital and controlling costs and increasing connectivity with our customers, which resulted in strong earnings recovery and margin expansion as well as robust free cash flow generation.

Net revenues of $6.4 billion decreased only 8% as the impact from the COVID pandemic in Q2 was partially offset by the strong second half rebound. EBITDA performance nearly achieved pre-pandemic levels of just 3% compared to 2019 in the context of a global economic contraction of 4.3%. Effective cash management throughout the year resulted in free cash flow of $552 million, and a conversion rate of 42%.

Second, our portfolio of businesses proved to be resilient, especially Wavin, Dura-Line and VESTOLIT, which delivered solid top line results in the fourth quarter. The quarter's strong performance was underpinned by consistent execution against our growth strategy, in combination with improving demand across our markets, especially construction. Still, we remain very much aware of the continued uncertainty associated with COVID and the vaccine rollout globally.

Third, these results plus continued momentum year-to-date give us confidence that 2021 will be a year of growth. With a fortified balance sheet and cash flow as well as continued recovery in our markets, we are well positioned to capture global economic growth.

With that, let me turn the call over to Edga to review financial results in greater detail, before I provide an update on our strategy and how we see 2021 shaping up. Edga?

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

Thank you very much, Sameer. Good morning, everybody. I'm pleased to welcome Sameer as the new CEO. I also want to take this opportunity to thank Daniel for his vision, partnership and contribution he has made to Orbia over the last 3 years.

We are all very excited about the sequential strength in our business that we see starting in the third quarter, the benefit that we will realize as we continue to transform and the huge opportunities in front of us. Now let me walk through the detail of the fourth quarter and the full year results.

Now turning into Page 5, please. We delivered another strong quarter of results, ending the year significantly better than where we anticipated at the initial part of the COVID lockdown in the second quarter. This is a testament to the resiliency of our diversified portfolio, coupled with operating leverage and recovering end market demand.

Net revenues for the fourth quarter was $1.74 billion, up 6%. For the year, revenue was $6.42 billion, down 8%. Strong contribution from VESTOLIT and Wavin during the second half were not enough to offset a steep decline in the second quarter, coupled with relatively weaker results in Koura.

It seems that it has not been moved to the Slide #5, right? Operator, please. Okay, I will continue. Thank you.

So EBITDA for the fourth quarter was $383 million, up 30% year-over-year driven largely by strong performance in VESTOLIT and Wavin. We achieved a very strong EBITDA margin of 22%, an increase of over 400 basis points driven mainly by a robust margin expansion at VESTOLIT and favorable market condition for Wavin, coupled with the result of operational excellence initiatives that we started this year. EBITDA for the year was $1.31 billion, down just 3%, recovering earlier than originally anticipated.

We continue to tightly manage expenses for the full year and achieve an overall reduction of 5%, excluding nonrecurring charges related to the accelerated depreciation of IT licenses, which is a noncash item, some write-off associated to our footprint optimization in Wavin and Dura-Line and legal claims settlements. Savings were coming also from travel, external services as well as sales and marketing efforts.

Now please turn into Slide #6. Let me share the details of our fourth quarter performance by business group. In Netafim, the fourth quarter revenue of $270 million were essentially flat over last year. From a trend perspective, we continue to see a rebound across most major markets, especially North America, Europe, Middle East and Africa.

We are encouraged by strong demand and resulting increases in prices for agriculture, such as corn, sugar, cotton, almonds and coffee, even though still those prices remain below pre-COVID levels.

Our results during the quarter were affected by the temporary suspension of very important project in Ethiopia due to civil unrest. Netafim intend to resume work on this project, which is complete approximately 80% as soon as the condition improvs. For the year, revenue of $972 million were down 9%, significantly affected by the impact of the lockdown and demand constraint in the second quarter, which typically is our highest season in Netafim.

EBITDA of $53 million increased 8% in the fourth quarter based on a sequential recovery started in the third quarter, which explain why our second half results were 15% above those of 2019. EBITDA margin improved 160 basis points to 19.5% due to favorable product mix, improved pricing and lower costs resulting from manufacturing efficiencies. For the year, EBITDA of $181 million increased 1%, but margin-wise, increased 178 basis points.

Let me turn now into Dura-Line, which posted the fourth quarter revenue of $176 million, up 9% year-over-year, mainly driven by top line growth in the U.S. and Canada, which partially offset lower volume in Europe due to COVID induced project delays. For the year, revenue of $732 million were down just 2%. EBITDA of $34 million in the quarter was essentially flat and includes $3 million nonrecurring restructuring costs. EBITDA margin of 19.3% declined 149 basis points. Excluding restructuring costs, EBITDA margin would have been 21.3%, up 46 basis points. Despite the fact that the raw material costs starting to be materialize strongly in this quarter.

For the year, EBITDA of $173 million increased 16%, continue with this favorable trend based on a very good product mix, low raw material costs in the first half of the year and also proving that our successful strategy shifting towards high value-added products, especially in North America are gaining traction, while they are increasing faster than the standard conduit products. EBITDA margin of 23.7% expanded by 381 basis points.

Wavin revenues were $582 million in the fourth quarter, a significant increase of 12% year-over-year. We saw continuous strength across several key markets in Europe, including Germany, France and the Nordic and also in LatAm. Specifically, Mexico, Colombia, Ecuador, Brazil and Argentina. For the year, revenue of $2.07 billion decreased 8% as a strong second half performance was not enough to offset the severe COVID related impact in the second quarter. LatAm was more significantly hit than Europe and also from the recovery perspective, LatAm is recovering at a slower pace than Europe.

Fourth quarter EBITDA of $88 million show an impressive increase of 69% year-over-year, with EBITDA margin of 15.1%, up 526 basis points was driven by effective price management, strong market share gains, cost savings and continued mix shift towards value-added products. For the year, EBITDA of $261 million decreased 3%, while margin of 12.6% increased 58 basis points.

Koura posted fourth quarter revenue of $182 million, down 3%, I mean, the continued impact of COVID. Volume improved, both in upstream and downstream, while average pricing was lower by product line as well as due to mix. Quarter ended with a strong fluorspar shipment in December. For the year, revenues of $698 million decreased 13%. However, from the sequential perspective, we have seen a continued recovery beginning from July.

EBITDA of $58 million in the fourth quarter was down 23% and EBITDA margin of 32% decreased 833 basis points year-over-year, primarily due to a onetime charge in the fourth quarter of $13 million associated to the increase in provisions related to commercial legal disputes.

We started seeing some initial encouraging sign in our upstream business, in particular, aluminum fluoride, which although continued to see depressed price, was able to achieve volume increase due to a strong commercial activity in Middle East, Brazil and India. EBITDA of $254 million for the year decreased 22%. In general, market prices for our products were impacted by the COVID during the year, which coupled with the effects of the illegal import of refrigerants into Europe affecting our profitability. Our team at Koura did an excellent job somehow offsetting these impacts by implemented operational improvement, disciplined cost management and introduction of new products.

Finally, Polymer Solutions. Revenues were $617 million in the fourth quarter, an increase of 12% year-over-year. I mean historically, high prices of PVC driven by the global supply shortage. The slowdown in caustic soda demand and the oversupply due to consistent chlorine production for

PVC another material for the building and construction industry maintain the caustic soda price under pressure, although it is starting to show some signs of stabilization towards year-end.

For the year, revenues of $2.17 billion decreased 7% I mean lower volume due to the pandemic early in the year and VCM availability, offset partially by increased derivative volume, mainly in the sanitation markets.

EBITDA in the fourth quarter increased meaningfully to $158 million, up 86% as all PVC and resin sites were at full capacity. EBITDA margin of 25.7% increased about 1,000 basis points, driven by strong demand and prices and energy cost savings.

Important to mention that operating expenses in the fourth quarter of 2019 include a one-time expense of $25 million related to the VESTOLIT settlement in Germany. For the year, EBITDA of $462 million increased 4% and EBITDA margin of 21.3%, expanding nearly 229 basis points, reflecting the strong momentum of the business.

In summary, we saw top line sequential improvement from third quarter to fourth quarter across the entire portfolio with the exception of Dura-Line, which experienced the typical seasonality slowdown in North America and Europe. Market that were significantly impacted by COVID-19 continue to recover. Year-to-date, we continue to see a strong order rate in every business and expect this trend to persist as vaccines are rolled out and the fiscal stimulus package in various economies continue to be implemented.

Now please turning into Slide #7. We continue to generate strong cash flow during the year, particularly in the fourth quarter as demand recovered in several businesses. We generated operating cash and free cash flow of $390 million and $304 million, respectively, with a strong cash conversion rate of 79.2%. In an environment of higher volume and stronger sales in this quarter, we've managed not only to contain the increasing working capital, we reduced working capital by 6.3% versus previous year, while sales increased by 6%. This has been as a result of the big contribution that VESTOLIT and Wavin brought into the quarter.

CapEx for the year was $228 million compared to $261 million in 2019. While we temporarily slowed or delayed certain new projects during the peak of COVID, we began to accelerate several growth and efficiency projects in the third quarter, which continued in the fourth quarter to reach a more normalized level.

In this quarter, we also paid down the remaining portion of the $6 million in our revolver credit facility, which will remain available until June 2024. During the year, our net debt position was reduced by $114 million ending 2020 with a net debt of $2.75 billion And our net debt-to-EBITDA ratio was 2.1x. As we continue to see a recovery across most of our markets, and given the strong cash generation we achieved in 2020, we are shifting our capital allocation priority from cash preservation to a disciplined growth investment to continue to capture current and seek new way of growth.

We remain very focused on growing our top line with high profitability, while accelerating our asset utilization to be able to deliver solid return on invested capital while continue paying a healthy dividends to shareholders. While we are focused on organic growth, we will continue with a disciplined approach to look for compelling bolt-on acquisition as well as partnership with a context of our growth strategy, enhanced technology solutions, geographical expansion and adjacent product offering.

During the year, we paid $230 million in dividends that represent approximately a dividend yield of 5.2%. And make repurchase of share for $42 million, largely occurring in the first quarter. As commented in our press release, our Board approved a dividend of $0.10 per share to be paid during 2021. We will continue to maintain our strong balance sheet and our investment-grade status and feel comfortable with our debt level at 2.1x, which is within our targeted range.

In summary, we feel very good about where we ended in 2020 and are encouraged by the momentum we are seeing -- now we're seeing in 2021, while staying alert given continued uncertainty. We are making solid progress on our portfolio optimization initiatives, tightly managing expenses while investing strategically and continue to improve working capital and cash conversion.

Now I will turn the call back to Sameer to address our strategy and outlook.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you, Edga. I would like to end today's prepared remarks with an overview of our strategy and how we think about the opportunities in 2021 and beyond. Our multiyear transformation, which began in earnest 3 years ago, was accelerated in 2020 as we took advantage of the dislocation created by the COVID pandemic to mobilize our people, regroup our initiatives and sharpen our focus. We are all operating with a common purpose to advance life around the world and adopting common processes and systems to execute faster and more consistently over time.

It is a work in progress, but we continue to make great strides. We have an outstanding portfolio of businesses and assets with diversification across customer products, markets and geography. We are focused on strengthening and expanding our market leadership through innovation and initiatives that bring us closer to our customers and that results in our customers valuing us more. We have many exciting growth projects in various stages of maturity.

For example, in Netafim, while we continue to execute our multi-decade work to fundamentally change how the agriculture industry approaches sustainable growing, crop yield and water utilization, we are working on developing irrigation-as-a-service as well as positioning around extensive crops opportunities.

In Dura-Line, we are making significant investments in Europe and Asia, building out our local presence and sales coverage in these regions and markets.

In Wavin, we have significantly expanded our footprint in India. In Q4, we established legal entities in India, contracted local OEM suppliers and started our first sales and deliveries in both countries.

For 2021, we are embarking on investing in local manufacturing by repurposing 2 former Dura-Line sites in India. In Koura, we have an asset with a lot of untapped potential. The business continued to advance strategic initiatives across its portfolio, including the launch of a next-generation medical propellent, Koura Zephex 152a and the development of multiple next-generation low global warming potential refrigerants.

Looking to future opportunities, we are positioned to benefit from exponential growth in energy storage, specifically tied to EVs. A key component of the lithium-ion battery is fluorine. Currently, about 60% to 65% of the world's fluorine or source power comes from China, and China supply will be under pressure with continued domestic growth. We own the largest supply globally, 20% of the world's reserves with decades of high-quality reserves. And for some time now, have been moving up the value chain, moving from selling hard rocks into advanced applications in the medical, automotive, construction and other sectors. Besides energy storage, other mega trends impacting fluorine demand include growth in 5G telecom, the explosive growth in computing and data storage.

Finally, in Polymer Solutions. Let me take a moment to address the recent reports. As you know, Polymer Solutions is an outstanding business with advantage assets and a very efficient cost structure. Today, we are benefiting from a supply demand imbalance caused by several force majeures in 2020. We estimate that these events took out about 5% to 6% of global capacity in an industry that has seen under investment in the past few years. This has resulted in historically high PVC pricing. We are well positioned to continue to benefit from this dynamic and because we are vertically integrated, we are also able to ensure security of supply for our downstream businesses, especially Wavin and AlphaGary.

In specialty compounds, we hope to benefit from the rebound in the economy and operating leverage in our assets, geographic expansion and growth in our Performance Additives platform. There are significant macro trends that will support Polymer Solutions growth over the next 3 to 4 years, in particular, infrastructure build-out and upgrades globally in both developed and emerging markets.

We expect this business to continue to contribute sustained earnings growth and operating cash flow, allowing us to invest not only in this business but in attractive projects across our entire portfolio of businesses. At the same time, there's a significant opportunity to operate more efficiently. We are focused on a strong operating discipline and supply chain management, including streamlining our procurement efforts to gain, scale savings.

Can you move to the next slide, please? I would like to now give you an update on our sustainability efforts. We will continue to position Orbia as a leader in sustainability, corporate social responsibility and governance. On environmental, we achieved significant milestones during the quarter and over the year. We continued work on our global life cycle assessment, where we demonstrated that drip irrigation has a lower carbon footprint compared to alternative irrigation methods.

For example, in corn fields, drip results achieved at least a 60% lower footprint versus flood irrigation. We continue to drive recycling initiatives across our businesses. We increased use of recycled polymers in Wavin and Netafim. In Koura, the third refrigerant recovery plant at Mihara, Japan has been sanctioned, and progress is being made to have this operational during Q4 of 2021. With this, we will have the largest recovery capacity of any company in Japan. We reduced our sulfur dioxide emissions by 28% versus our 2018 baseline. And as a reminder, our goal is to reduce SOx emissions by 60% by 2025.

Finally, our CDP score improved significantly to B or management level. On the social front, we further several strategic associations. Efforts are underway across our business to support our people and their families around the world in getting through and beyond coronavirus from mental health programs to medical support where our doctor network is calling a vulnerable population on a daily basis, showing we care and that health is only a phone call away. We have established a new partnership with Resilient Cities Network, which is the world's leading urban resilience network collaborating for a safe and equitable world for all.

On governance, there are several milestones to share as well. We introduced a new ESG incentive as part of senior management compensation applicable beginning in 2021. In 2020, our Board elected 2 new independent members, increasing independent member contribution to 64%. As we have upcoming board retirements, we are working with an external search firm to recruit independent board members with the right skill sets that align with our strategy and strengthen our capabilities, and we have incorporated sustainability considerations into our capital deployment decision process.

Encouragingly, the market and external organizations continue to recognize our efforts as we were included in the Dow Jones Sustainability index for the second consecutive year as well as the S&P sustainability yearbook and the FTSE4Good Index, where we have been a member since 2015. We were also awarded the EcoVadis silver medal, which puts us in the top 18%.

Turning over to Slide 10 and our outlook for 2021. The recovery in our markets during the last 2 quarters driven by improving global demand trends was significantly more pronounced than our expectations and is encouraging. We executed well as a team, capturing growth where we could, expanding margins, achieving meaningful cost savings and generating robust free cash flow. While we continue to be conservative in our actions around global recovery from COVID-19, we are introducing 2021 guidance and assumptions.

Assuming no significant unexpected disruptions related to COVID-19, Orbia expects EBITDA to increase between 4% to 7% in 2021, driven by recovery in demand in several of our key businesses.

Capital expenditures should be in the range of $350 million to $400 million as already discussed.

Moving to my final closing remarks, the final slide. 2020 was a year of strong execution by the businesses as we navigated the challenges associated with COVID in real time. We made significant strides in positioning Orbia to capture greater success. And as we enter 2021, we have an improved cost position, a demonstrated track record of shifting our mix to high-end solutions, a stronger, more flexible financial position and our leverage to several secular growth trends.

While the extent of the economic impact of COVID-19 is still uncertain, we are at an exciting time in a multiyear transformation journey as we are deeply committed to delivering on our promise to advance life around the world, and also contributing to sustainable development as we create value for all. The opportunities in this are huge and so is our result. As a leader, I always commit to remaining open and transparent into unlocking the embedded value within our portfolio to drive shareholder value creation.

Thank you for your continued interest in Orbia and your trust in us. We will build upon that through strategy execution and open timely communication. Please stay safe, and we look forward to providing a progress report on our first quarter conference call.

With that, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question today comes from Nikolaj Lippmann from Morgan Stanley.

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

And also, congratulations on the numbers. You can ignore the second question. But the first question is to -- I will try to -- the first question is Juan Pablo, thanks for joining as nonexecutive Chairman and major shareholder. It's the obvious question. Can you try to reflect on, what is the key mandate or the key strategic agenda for Orbia the next 3 years and the key mandate that you have given to Sameer and team. So that is the question, a very first very open question.

The second question, if you take it, is on the margins. More operational and Netafim, Dura-Line and Wavin, still very strong margins. It really looks sustainable even with higher price polyethylene prices. Can you reflect on the sustainability of these margins in the downstream business going forward? And also how that ties in with the guidance.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

So Nick, this is Sameer. Juan Pablo is not on the call. He was there for the introduction section and he had to depart after that. But I'm happy to address the first part of your question, and Edga can answer the second part on the margins.

Nick, the mandate is essentially to continue on the execution path that we have started on. We have excellent businesses, and each one of these businesses have outstanding growth potential. We have some really good organic projects within these businesses. And my first priority is going to be to get traction on these projects, so that we can put ourselves on the right path and deliver sustained and solid earnings growth.

Edga, do you want to address next, second question on the margin?

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

Yes, absolutely. Thank you for the question. You clearly pointed out, I mean it was an impressive performance in some of the downstream businesses. It's true that now we are looking into the impact of the raw materials. So there is going to be some potential erosion of those high margins into the first quarter.

But let me try to give a framework, how we see the downstream part of our business, which is basically Netafim, Wavin and Dura-Line, which comprises approximately 60% of our top line. And we really expect sustainable profitability levels measured at EBITDA ratio. And I will say that Dura-Line should be running consistently at 20% EBITDA ratio.

Netafim, we are aiming to be in the range of 18% to 20%. We are there already. So we may probably have some additional improvements depending very much on the value of group positions that we are preparing.

And Wavin, that has been increasing significantly. Since we acquired Wavin many years ago, is expected to be in the range of 14% to 16%. So if you add it all together, our blended, the profitability of the downstream business should be in the range of 16% to 17% overall. I hope this gives the color for your question.

Operator

Our next question comes from Frank McGann from Bank of America.

Frank J. McGann - *BofA Securities, Research Division - MD*

I was just looking at your strategy over time. And up until the change in the CEO, it didn't state very clearly that the company was looking to potentially exit Polymer Solutions and focus on theoretically value-added products and the other and the other business change of segments. And I was just wondering, obviously, the Polymer Solutions business is doing phenomenally well now, and the outlook seems quite good. But I was just wondering what's -- what factors are you thinking about in terms of how you allocate capital going forward, which -- what is the best way for you to maximize value within the company looking at the different businesses that you are in?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Frank, yes, let me address that question. And you're right about the strategy. In the past was, we were -- we had publicly stated that we were looking at portfolio options for the Polymer Solutions business that would unlock value for shareholders, but it also depends in the context and the time. And today, as you can see, the outlook for that business is immensely strong. We are on very firm ground and the outlook for the next 3 to 5 years is very strong. And so while we will continue to explore ways to unlock shareholder value from that business. We're not going to be in a rush to do any kind of deal at any price, and it needs to create value for the shareholders. And so in that context, we remain committed to the business, but that doesn't mean we won't explore for joint ventures and other opportunities as we go along.

Operator

Our next question comes from Luiz Carvalho from UBS.

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

Sameer, I wish you good luck and all the best for your new challenge. And I'll take the opportunity that you were on the call, not to ask more nonquestions with strategic and more long-term ones. So maybe to start. If you can share with us, where do you see Orbia, let's say, 5 years from now? And what are the metrics that we need to follow and how your compensation package is tied to them? That will be the first one.

And second, when we look to capital allocation as sum, just coming back to Frank's question, the capital allocation strategy for Orbia had changed quite a bit over the years. Last decade, the company was very active and M&A, now it's embedded and a shift from a commodity to customer-centric company. So just trying to understand how do you see the associated company from a capital allocation perspective on the back of these 2, I would say, these 2 scenarios. I mean it would be at the time of dividend payer we'll be pursuing M&A, is this transition is the focus? So I'm just trying to understand it better.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Yes. So very good question, Luiz. And then -- and both Edga and I will try and address parts of your question. In terms of the next 5 years, what I see in front of me as I dig into each of the businesses, I have a strong familiarity, of course, with the Fluor and Polymer Solutions side of the businesses. And I'm quickly diving deep into the other 3 businesses. And what I see are incredible growth opportunities, right? And a great runway ahead of us fueled by a post-pandemic rebound as well as fundamental growth drivers in each of those markets. And so my primary objective is to get traction on driving growth in each of these businesses. We will nurture and grow each of these businesses over the next 5 years. And we feel pretty good about, if we are super disciplined from an investment discipline standpoint, a cost discipline standpoint, drive commercial excellence, and continue with our strategic plans, we can deliver sustained earnings growth over the years in each of these businesses.

The open question remains, our overall valuation, which remains low, and we will have to find ways to unlock that valuation potential as we go on that journey. And I can assure you, me and Edga, and the Chairman and the Board are fully committed to exploring the right moves that may be needed to unlock the valuation potential 5 years from now. And then of course, you asked about compensation packages, one of the key things we've been doing is, bringing our compensation packages to conform with global practices and global standards such that they can stand up to scrutiny from any institution as well as introducing a strong ESG component as a factor that influences the team members' compensation.

In terms of capital allocation strategy, Edga, do you want to address the question on dividends, share buybacks and capital allocation that Luiz was asking?

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

Yes. Yes, for sure. As I mentioned in my opening remarks, I mean, capital allocation plays a very key role in our strategy, especially in terms of how we're going to be investing and developing each of our businesses within our portfolio. And you know that we have been, and we will continue to be very much focused on organic growth. This company has been extensively doing inorganic growth very successfully. We have the right assets in many locations. So now we will need to look into how we can accelerate the asset utilization and improve the returns. But in terms of investment, organic growth is very important. We have several examples that we are undertaking, as Sameer mentioned in the opening remarks and doing inroads in places in which we were not present for a while like, Wavin in India, taking advantage of the resizing of the footprint of Dura-Line. That is an incredible synergistic approach to go with the brownfield project at a very relatively low-cost to get inroads in one of the most relevant places in terms of demand.

We are investing also heavily on product development. Wavin is another example and the same as Netafim and Dura-Line that we are introducing products that are pretty much sold out, especially in Europe now for Wavin. And this is something that, for us, means very important source of capital allocation. Then I will mention something that is important is, within the operation expenses, SG&A, as I mentioned in previous call, we are also looking into how we can expand our go to market. Just an example, a couple of years ago, we were -- we had a very limited penetration of our products with Dura-Line in Europe.

This year, after a significant investment in our commercial team in that area, we're able to think about in a double-digit growth in top line for 2021. Those geographical expansion, product offerings are something that really are changing the scope of our offering to the customers.

Then course, yes, we will maintain, as I mentioned in my opening remarks, we will continue maintaining a return to the shareholders because we will really consider that part of the -- we will not reinvest a significant part of our cash generation. But at the same time, we will maintain a very healthy dividend to the shareholders. Sameer, do you want to add something?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Yes. No and again, Luiz, it's a very good question. What I can tell you is, we are not low -- we're not looking at multibillion-dollar acquisitions at very higher multiples. That's not a great way to create value. And looking at our portfolio of businesses, many of our organic growth projects have returns where you can get EBITDA for 1x to 3x. And so there is tremendous potential in our businesses to secure earnings growth in a very capital-efficient way.

And for example, we are investing in a brownfield, aluminum fluoride expansion in Koura business. We are looking at how we can sweat our assets and debottleneck in our Polymer Solutions business.

So there's many, many such opportunities across our businesses. Dura-Line has tremendous potential from a geographic expansion standpoint. And all of these projects, when you put them all together, they deliver EBITDA growth at a very favorable multiple, which is far more favorable than driven by large M&A. And so we will focus on such opportunities. And along the way, of course, if a breakout opportunity shows up, we will consider it.

Operator

Our next question comes from Alejandro Zamacona from Crédit Suisse.

Alejandro Zamacona Urquiza - *Crédit Suisse AG, Research Division - Research Analyst*

Sameer, congrats on the appointment. Just a quick question for us on the CapEx guidance. For 2021, you're expecting a range between $350 million and $400 million. So relative to the $230 million CapEx in 2020 and [$260 million] (inaudible) significant acceleration. So wondering what's behind this acceleration. So any color on that would be helpful.

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

Sure. Thank you for the question. Yes. I mean we -- remember that we were -- even when we started in 2020, our plan was to invest $360 million that we announced in February last year before the pandemic. And for sure, we stop. So we do have several projects, the ones that Sameer was mentioning in the previous answer that has been delayed because not only we were very much focused on preserving our cash, but also because it was the lack of mobility and resources to be able to go under this investment.

So you know that this company has, roughly speaking, $400 million depreciation per year. So we are investing in what we call the normal maintenance and environmental compliance in a range of $200 million, $220 million. Then we have approximately $120 million that we have identified and hopefully, we can execute this year, providing that the conditions improve in terms of mobility and access to suppliers. And then we have also approximately $40 million that we are revamping our infrastructure in IT that comprises cyber protection and also improvement of the landscape of the IT capabilities that we have.

Operator

Our next question comes from Jean Bruny from BBVA.

Jean Baptiste Bruny - *BBVA Corporate and Investment Bank, Research Division - Chief Analyst*

Yes. Just congratulation for the numbers and Sameer for your nomination. Maybe just a quick one on the vinyl business. And to be more specific on what we can expect from the first quarter. Just to know, if you have seen some impacts from the polar vortex in the U.S., in Texas on your ethylene plant there in cracker.

And the second one is maybe on Europe for the vinyl business as well. It appears that there's some shortage of PVC regimes in Europe. What's your view on that? What's your view -- the impact probably on prices and what we can expect from -- for the results of the vinyl business in the first quarter?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Okay. Yes. Very good question, Jean. We -- when we started out Q1, we continue to see very strong momentum in the Polymer Solutions business in the vinyl business until the events in Texas last week, right? And the events in Texas last week have resulted in many of the players declaring force majeure, including our cracker and VCM partner. And that will affect us to some extent in Q1. But I'm pleased to say that all of our operations in Mexico that were impacted due to the spike in electricity prices have now resumed operation. And we are hoping that the cracker and downstream VCM operations of OXY will also resume in the next few days, within the next week. And while that is expected to have some impact on Q1, as a result of these shortages, I do expect the tight environment to persist through Q2 or at least the early part of Q2 and would be an offset to the situation we are encountering in Q1.

But having said that, overall, despite the impact of Texas, Q1 is shaping up to be pretty good as of now. Again, keeping our fingers crossed.

Jean Baptiste Bruny - *BBVA Corporate and Investment Bank, Research Division - Chief Analyst*

And maybe what is happening in Europe on the PVC regime?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Sorry, on Europe. Yes. So in Europe, we -- our assets were down last year in Q4 due to maintenance, regular maintenance and unexpected shutdown in a one of our reactors. And since then, the asset has been back up online, and is operating very well at full utilization. And so that business in Europe, the [mall] business and the specialty resins business in Germany is doing incredibly well. And meanwhile, there have been other shortages in Europe. And finally, we are seeing prices in Europe go up, which is a positive sign. So we'll see how it evolves.

Operator

And our final question today comes from Leonardo Marcondes from Itaú BBA.

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

I have -- my questions are regarding Koura, where we saw a sequential recovery this quarter, right? So could you elaborate a little bit more on how should we think in terms of volumes and margins for the segment this year? And also, could you provide an update on the legal import issue?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Okay. Very good question, Leonardo, and thanks for asking that. In Koura, we are yet to see a significant recovery in our end market. Now keep in mind, the markets drag in Koura, particularly acidspar and refrigerants, these markets and also aluminum fluoride, for example, aluminum fluoride is one of the biggest consumers of the flourine atom. These markets experienced a significant slowdown through the pandemic. And we are still waiting to see recovery in these end markets. And now what we do expect to see is as infrastructure investment and all the stimuli across the world starts rolling out, you will begin to see a pickup in aluminum, which will then lead to primary aluminum smelters coming back online, which would then drive aluminum fluoride demand, which would then lead to a price recovery in the acidspar markets, right? So we've been waiting for that to happen, and we expect to hold momentum in the first half of this year. And hopefully, in the second half of the year, we should see a recovery there.

On the refrigerant side, we are already seeing some signs of life. And so, starting with China. China is very important. It's a leading indicator. And starting with China and Europe and finally in North America, we are beginning to see an improvement. Now of course, the illegal import situation still weighs down on us. And while the illegal trade continues, and I don't have leading data to back this up, it does feel like COVID may have had some mitigating impact on the scale of the illegal import activity and with tighter border controls and drop in prices of refrigerants, it feels like it may not have been as attractive, but we do believe it continues unabated.

On a positive side, the EU authorities are engaging well. We are deeply connected with all of the authorities in the EU and the member states. And they have instituted good training for the customs officials, DG CLIMA is closely involved. They are talking about a single window system where customs officials will have direct access to the quota data so that they can enforce it better. We are looking at member states instituting more penalties. But this is going to take time, Leonardo. And -- but we will have to stay consistent and keep up the pressure and work cooperatively with the authorities to eventually root out this problem.

Operator

And ladies and gentlemen, at this time, we will conclude today's question-and-answer session. I'd like to turn the conference call back over to Sameer for closing remarks.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

I would like to thank everybody for joining this call. One of the things I would really like to do going forward is increased transparency and enable all of you to have a much better understanding of each of our individual businesses and the specific growth opportunities in our businesses to the extent it does not compromise our competitive position. And to that effect, I would love to invite some of our business group leaders on these calls, potentially on a rotating basis, so that you can get to know some of our business group leaders and be able to directly ask questions off of the business group leaders. So once again, I thank everyone for their participation and look forward to talking to you guys again at the end of Q1.

Operator

And ladies and gentlemen, that will conclude today's conference call. We do thank you for attending. You may now disconnect your lines.
