Orbia Advance Corporation

Fourth Quarter and Full Year 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Gerardo Lozoya - *Director, Investor Relations*

Sameer Bharadwaj - *Chief Executive Officer*

Jim Kelly - *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to Orbia's Fourth Quarter and Full Year 2022 Earnings Conference Call. As we turn to slide one, all participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star one on your touchtone phone. To withdraw your question, please press star then two. Please note that this event is being recorded.

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

Gerardo Lozoya
Thank you, operator. Good morning, and welcome to Orbia's Fourth Quarter and Full Year 2022 Earnings Conference Call. We appreciate your time and participation today. Joining me today are Sameer Bharadwaj, CEO, and Jim Kelly, CFO.

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

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

Sameer Bharadwaj
Thank you, Gerardo, and good morning, everyone. In our present environment of macroeconomic uncertainty, Orbia is in a solid position because of our 2022 performance and strong balance sheet. In difficult times, the value of our essential solutions that support resource security, infrastructure resilience, connectivity, energy efficiency, and wellbeing is magnified.

It is especially important that on today's earnings call, I first take the opportunity to thank our 23,000 employees for their ownership and ingenuity in showing up for our global customers this past year and continuing to deliver cleaner, smarter, more efficient solutions that improve life today for tomorrow.

Though we are spread across the globe, we are united by our common values and our purpose to advance life together. And on behalf of our organization, I must express our deep and heartfelt sympathy and solidarity with the over 24 million people impacted by the devastating earthquakes in Turkey and Syria. These are our colleagues, family members, and friends. As Orbia operates a number of sites in the region, we have immediately mobilized our crisis task force to relocate Orbia employees and their families out of harm's way and lend aid to the surrounding communities. We hope for the speedy recovery of the region and its people.

Now turning to slide three. I would like to share a high level overview of our fourth quarter and full year performance for 2022. As I shared, I'm happy to report that Orbia delivered solid results for the full year 2022 and even exceeded the upper end of our annual EBITDA guidance. During the fourth quarter, however, we continued to experience the business impacts of a challenging macroeconomic environment. Inflation, rising interest rates, increased input costs, and effects from the war in Ukraine, the energy crisis in Europe, and unfavorable currency translation resulted in lower year over year profitability for the quarter, with decreases in polymer solutions, building and infrastructure, and Precision Agriculture, partially offset by strength in Connectivity Solutions. But for both the quarter and the year, we generated significant cash flow and maintained a strong balance sheet, demonstrating the resilience of our businesses and the strength of our long term fundamentals.

Revenues for the quarter totaled $2.1 billion, which was 10% below the prior year level. EBITDA for the quarter totaled $308 million, a decrease of 39% and EBITDA margin was 14.6%, which declined by roughly 689 basis points versus the prior year. Excluding onetime charges, which Jim will discuss in more detail, EBITDA was $340 million in the quarter, representing a 16.2% margin. Finally, we generated $308 million of free cash flow, a $4 million increase compared to the prior year.

For the full year 2022, revenues totaled $9.6 billion, an increase of 10% as compared to 2021. EBITDA totaled $1.9 billion, a decrease of 7% compared to the prior year, and EBITDA margin was 19.8%, a decrease of approximately 350 basis points. Excluding onetime charges, full year EBITDA was $1.95 billion and margin was 20.2%. Free cash flow for the year was $466 million, a decrease of 19% related to higher capital expenditures.

In spite of the difficult operating environment, we remain focused on executing our long term strategy for value creation, as outlined at our Investor Day last May. We concentrated on three areas: investing in profitable growth and innovation, maximizing the value of vertical integration, and creating shareholder value by being thoughtful stewards of capital and disciplined operators as we work to tackle the major challenges of decarbonization and resource security throughout our solutions.

To that end, I would like to share a few noteworthy milestones from the quarter as we continue to carry out our plans for long term growth. In November, we joined forces with Solvay for a joint venture to supply critical materials to the lithium-ion battery market in North America. This venture will support the largest PVDF production facility in the region for this key battery material. For context, PVDF is a crucial fluoropolymer and component of the lithium-ion battery present in the cathode and the separator.

Orbia is uniquely positioned to add value to this venture with our vertically integrated value chain through which our Fluorinated Solutions business and Polymer Solutions business will supply the necessary materials. In combination, Orbia's raw material assets and production expertise and Solvay's (inaudible) PVDF technology innovations will enable delivery of PVDF that optimizes energy storage efficiency by increasing battery energy density, safety, and power. The total investment for this joint venture is an estimated $850 million, partially funded by a grant to Solvay from the U.S. Department of Energy.

In addition, Orbia received a $100 million award from the U.S. Department of Energy under the President's Bipartisan Infrastructure Law, which supports domestic manufacturing of batteries, battery materials and components for electric vehicles and grid scale energy storage. The grant will enable our Fluorinated Solutions business to build the first U.S. manufacturing plant for Lithium Hexafluorophosphate, LiPF6, and essential electrolyte salt used in lithium-ion batteries.

This plant will be constructed on the grounds of our existing fluorochemical production site in St. Gabriel, Louisiana. Following receipt of this award, our Fluorinated Solutions business signed a licensing agreement with Kanto Denka Kogyo to access Kanto Denka Kogyo's world class LiPF6 technology and industry expertise in commercial LiPF6 production.

We expect to invest approximately $300 million in the construction of this plant and our LiPF6 manufacturing operations over the next three years. This investment and our joint venture are contributing to state-of-the-art lithium-ion battery material production, supply chain security, and competitiveness of the North American transportation and energy storage industries. Norshoring (ph), especially to Mexico, is becoming more prevalent as companies look to reduce dependency on long and uncertain supply chains, particularly from Asia.

We expect to continue to invest in materials, technologies, and assets that accelerate a renewable powered world. And as we remain committed to creating sustainable value, we expect to remain resilient throughout economic cycles as we implement our long term strategy.

At this time, I will turn the call over to Jim to go over our financial performance in further detail. Jim?

Jim Kelly
Thank you, Sameer, and good morning, everyone. I'd further like to recognize what our teams accomplished in 2022 despite a challenging macroeconomic climate. Our business and functional teams demonstrated incredible agility and dedication to generating value for all of our stakeholders worldwide. As to our fourth quarter results in '22, I'll remind you that we're comparing to one of Orbia's strongest quarters in history, its final quarter of 2021.

As you'll see on slide four, on a consolidated basis, net revenues were $2.1 billion, down 10% year over year, with lower sales in Polymer Solutions, Building and Infrastructure, and Precision Agriculture. We saw a softened demand due to COVID lockdowns in China as well as weaker end markets due to macroeconomic turbulence and the ongoing impacts from the war in Ukraine. In addition, devaluations in certain currencies, particularly the euro and the British pound, contributed to the year over year decline in revenues.

In the fourth quarter, EBITDA of $308 million decreased by 39% year over year with an EBITDA margin of 14.6%, which was 689 basis points below the prior year's margin. Excluding onetime charges, EBITDA was $340 million in the quarter, which was 35% decrease year over year with an EBITDA margin of 16.2%, which was 610 basis points below the prior year's margin.

These decreases were largely due to demand slowdown across some markets, along with higher input costs and Polymer Solutions, Building and Infrastructure, and Precision Agriculture, partially offset by higher profitability in Connectivity Solutions. The $32 million of onetime items impacting EBITDA for the quarter was primarily comprised of restructuring costs, adoption of IFRS guidelines on software accounting, acquisition related costs, and hyperinflation impacts.

Operating cash flow and free cash flow were $555 million and $308 million during the quarter, reflecting our effective management of working capital. This more than offset lower EBITDA and an increase in capital expenditures. Capital expenditures of $221 million increased by $99 million in the quarter as compared to the prior year. Expenditures included ongoing maintenance spending and investments in support of the company's growth initiatives, particularly in connectivity solutions and building and infrastructure.

Our effective tax rate in the quarter was 126.4%, which increased from a rate of 41.9% in the prior year. This was mostly driven by onetime items, including a nondeductible impairment of Orbia's goodwill totaling $136 million in our Precision Agriculture business. This impairment was due to higher discount rates used in the analysis caused by increases in interest rates in the year.

Other factors contributing to the higher tax rate included the strengthening of the Mexican peso and additional reserves for uncertain tax positions, partially offset by the release of valuation allowances and nontaxable option revaluation benefits. We continued to return cash to our shareholders during the fourth quarter through $75 million of dividends.

Turning to slide five. I'll now review our full year results for 2022. On a consolidated basis, net revenues were $9.65 billion, up 10% year over year, with higher sales across all businesses, except for Precision Agriculture. This increase was driven by strong pricing in Polymer Solutions, particularly during the first half of the year, robust demand in connectivity solutions, and improved pricing in Fluorinated Solutions.

EBITDA of $1.91 billion decreased 7% year over year with an EBITDA margin of 19.8%, which was 350 basis points below the prior year's margin. Excluding onetime charges, EBITDA was $1.95 billion, which was a 6% decrease year over year, while EBITDA margin was 20.2%, which was approximately 310 basis points below prior year. These decreases were due to softening demand across certain markets in the second half of the year, coupled with higher input costs, particularly in Polymer Solutions, Building and Infrastructure, and Precision Agriculture, partially offset by higher profitability in Connectivity Solutions and Fluorinated Solutions.

Operating cash flow and free cash flow were $1.1 billion and $466 million during the year, reflecting effective working capital management. This more than offset an increase in capital expenditures and higher taxes. Full year capital expenditures of $549 million were up 77% from the prior year. Expenditures included ongoing maintenance spending and investments in support of the company's growth initiatives with the most significant year over year increases in Building and Infrastructure, Fluorinated Solutions, and Connectivity Solutions.

We closed the year with net debt of $3.15 billion, and our net debt to EBITDA ratio was 1.65x, which increased from 1.34x in the prior year. This increase was due to higher debt balances at year end and the year over year decrease in EBITDA. During the fourth quarter, we successfully completed offerings of short and long term sabores (ph) notes, introducing 10 billion pesos into the Mexican market with a sustainability linked bond feature. The proceeds from the issuance will be used to repay short term debt maturity in 2023 to fund growth investments and for general corporate purposes.

Our effective tax rate for the year was 35.6%, which increased 260 basis points year over year. This increase in the effective tax rate was primarily due to the same factors that drove the increase in the quarterly rate. For the full year, we returned $442 million in cash to our shareholders with $299 million in dividends and $142 million in share repurchases.

Turning to slide six. I'll go through our quarterly performance in more detail by business. In Polymer Solutions, revenue for the fourth quarter was $735 million, a decrease of 26% year over year. This decrease was driven by lower volumes because of the slowdown in demand and lower prices in general purpose PVC.

Lower prices reflected increase in product availability as a result of high industry operating rates to capture profitability in the Chlor-alkali segment. This phenomenon was partially offset by higher prices in specialty PVC, chlorine, and caustic soda. Revenue for the full year was $3.7 billion, up 7% year over year as a result of strong prices during the first half of the year as well as higher performance in our specialty PVC and Chlor-alkali businesses.

EBITDA for the fourth quarter was $101 million, a decrease of 69% year over year with an EBITDA margin of 13.7%, down approximately 1,836 basis points as compared to the fourth quarter of the previous year. For the full year, EBITDA was $804 million, a decrease of 29% year over year with an EBITDA margin of 21.8%, down approximately 1,123 basis points year over year.

The decreases in EBITDA and EBITDA margin were due to lower prices and volumes in general purpose PVC and higher feedstock and energy costs, particularly in Europe. This was partially offset by strong pricing in the specialty PVC and Chlor-alkali segments.

In Building & Infrastructure, revenues of $661 million were down 6% in the fourth quarter, driven by lower volumes. These impacts were particularly prevalent in Europe from inflationary cost environment and demand volatility, and in Brazil from political disruptions and currency devaluation. Full year revenue was $2.9 billion, which was flat compared to the prior year. EBITDA for the fourth quarter was $47 million, a decrease of 43% with a margin of 7.1%, down approximately 460 basis points year over year. This decrease was largely due to lower volumes and continued input cost increases, particularly in Europe.

Full year EBITDA was $321 million, down 24% compared to the prior year. EBITDA margin came in at 11%, representing a decrease of approximately 355 basis points. This decrease was primarily driven by lower volumes as well as continued input cost increases and currency depreciation, primarily for EMEA markets.

Excluding onetime items, due to restructuring costs and hyperinflationary effects from Turkey, EBITDA for the quarter was $55 million and EBITDA margin for the quarter was 8.4%. This was a decrease of approximately 333 basis points as compared to the fourth quarter of the previous year. For the full year, excluding these one off items, EBITDA was $330 million and EBITDA margin was 11.3%, which was a decrease of approximately 320 basis points.

Turning to Precision Agriculture. Revenue for the fourth quarter was $229 million, a decrease of 14% year over year. This was primarily due to softening demand in many markets and currency devaluation. The slowdown in Europe was directly related to economic weakness from the war in

Ukraine and high energy costs in key market segments, especially the greenhouse segment. The slowdown in the U.S. was partly related to continued destocking after an inventory buildup during the first half of the year. This decrease was partially offset by strength in Latin America and Turkey.

Full year revenue was $1.1 billion, a decrease of 4% year over year. EBITDA for the fourth quarter was a loss of $4 million, a decrease of $14 million year over year. Excluding $16 million of onetime items due to hyperinflation, a legal settlement, and newly included corporate service allocations that will also be included going forward, EBITDA for the quarter was $12 million. Excluding these items, EBITDA margin was 5.2%, down 560 basis points as compared to the fourth quarter of the previous year. The decrease in EBITDA for the quarter, excluding onetime items, was driven by lower demand, unfavorable product mix, and currency devaluation.

For the full year, EBITDA was $119 million, down 18% compared to the prior year with a margin of 11%, a decrease of approximately 200 basis points year over year. Excluding $25 million of onetime items, EBITDA was $144 million and EBITDA margin was 13.3%, down approximately 195 basis points year over year. The decrease in EBITDA for the full year, excluding onetime items, was due to lower demand, unfavorable product mix, and currency devaluation.

In performing our annual assessment of Orbia's goodwill balances at the end of the year, we determined that the goodwill associated with Precision Agriculture was impaired. As a result, a charge of $136 million was recorded in the fourth quarter. The impairment was due to an increase in the discount rate used in the analysis, driven by increases in interest rates during the year.

Connectivity Solutions once again achieved strong performance in the quarter with revenues of $317 million. This represented a 7% increase year over year, supported by investments in production capacity, along with growing demand for fiber infrastructure. Revenues for the full year were $1.4 billion, an increase of 38% year over year, driven primarily by robust demand.

EBITDA for the fourth quarter was $84 million, an increase of 108%. EBITDA margin was 26.7%, up approximately 1,305 basis points as compared to the fourth quarter of the previous year. Excluding onetime items due to restructuring costs, EBITDA for the quarter was $95 million, and EBITDA margin for the quarter was 30.1%, up approximately 1,650 basis points.

For the full year, EBITDA was $357 million, up 167% with an EBITDA margin of 26.1%. This was an increase of approximately 1,260 basis points year over year. Excluding onetime items, EBITDA for the full year was $368 million and EBITDA margin was 26.9%, up approximately 1,340 basis points. The significant EBITDA growth in Connectivity Solutions was due to higher revenues and stabilization of material costs.

In Fluorinated Solutions, revenues for the quarter of $201 million increased by 2% year over year. This increase was primarily due to strong pricing across our product portfolio, particularly in refrigerants. This was partially offset by lower volumes. Our full year revenue was $852 million, a 15% increase year over year, driven by strength in pricing across all product groups and partially offset by lower volumes.

Fourth quarter EBITDA was $65 million, a decrease of 3% as compared to the fourth quarter of the previous year. EBITDA margin was 32.1%, down approximately 153 basis points year over year. These decreases were due to high input and strategic investment costs, partly offset by strong pricing across the product portfolio. Full year EBITDA was $305 million, up 25% year over year. EBITDA margin was 35.8%, up approximately 300 basis points year over year. These increases were due to revenue growth, including strong pricing, which helped to offset lower volumes and higher input and logistics costs.

In summary, despite the volatile market environment during the year, our teams remain laser focused on delivering shareholder value through strong operational efficiency and disciplined capital and asset management.

I'll now turn the call back to Sameer.

Sameer Bharadwaj
Thank you, Jim. I'm on slide seven. At our Investor Day last May, we shared our strategy for value creation. We continue to believe in the resilience of our businesses and have evidence of it in challenging times. We are balancing our near term needs to closely manage costs with our long term commitment to grow our businesses to meet customer needs and generate shareholder value. Our teams have worked through the quarter and over the years to come through on this strategy.

In Polymer Solutions, we continue to optimize PVC production volumes and maximize Chlor-Alkali production in sales to take advantage of the positive market environment for those products. Over the course of the year, the team worked hard to minimize variable and fixed costs in order to help offset the increase in input costs, notably electricity costs in Europe and shipping costs.

In Building & Infrastructure, we kept our focus on productivity, operating efficiencies, and cost optimization through footprint rationalizations. We completed successful integrations of Vectus and Bow Plumbing to capture synergies and expand our reach in India and North America. And we continue to see double digit top line growth from our indoor climate systems as well as from our urban climate resilience solutions.

In Precision Agriculture, we responded to a demand slowdown in the second half of 2022 by maximizing operating efficiencies and optimizing costs. We continue to implement growth projects and target geographies that will support growing and emerging market demand in areas including extensive crops and irrigation services.

In Connectivity Solutions, we continue to expand our capacity to support growth in fiber optic infrastructure and networks. We drove adoption of our advanced product offerings such as micro duct and Future Path and completed the integration of Biarri Networks to extend into end-to-end connectivity services seeing our first sales within the year.

Last but not the least, in Fluorinated Solutions, we continued to focus on generating value from our existing assets and invested in downstream value creation. In particular, we invested in portfolio enhancements, including low carbon footprint refrigerants and propellants and next generation lithium-ion battery materials.

Turning to slide eight. I would like to share updates on the progress we made pertinent to our ambitious sustainability goals. Sustainability is central to our success as a company and accelerating the path to a net zero world as we help our customers achieve their own sustainability commitments is our bottom line.

In 2022, the science based targets initiative validated our near term targets to reduce SCOPE 1, 2 and 3 greenhouse gas emissions by 2030, making ORBIA one of the few companies in the world to have SBTi approved goals for all three scopes. We remain aligned with what the world and human kind need to keep temperatures below a 1.5 degree centigrade rise.

We were upgraded in our Sustainalytics and MSCI ratings in 2022 with our MSCI rating upgraded from B to BB in reflection of our ethical practices and our continuous focus on sustainable performance. In addition, we received an EcoVadis gold medal in 2022 for our sustainability performance. We also maintained our place in the Dow Jones Sustainability Indices.

Finally, and as but a single example of our widespread progress in embedding decarbonization and circularity into our processes, solutions, and offerings to our customers, our Precision Agriculture business debuted the first ever carbon credit program for drip-irrigated rice. This inaugural program seeks to drastically reduce methane emissions from rice cultivation to nearly zero, while also providing additional long term income to growers. By consistently embedding sustainability into our structured solutions, partnerships, and engagements, we can achieve profitable growth as we fulfill our purpose.

I will now turn the call back to Jim to discuss our full year 2023 outlook and business assumptions.

Jim Kelly
Thank you, Sameer. On slide nine, I'd like to introduce our outlook for 2023. Broad market uncertainty, including impacts of monetary tightening, exchange rate volatility, inflation challenges, and the war in Ukraine, continue to impact the global environment, all of which make our near term forecasting challenging.

That said, and assuming no significant or unexpected disruptions, Orbia is a resilient company. We've had a good start to the year across all businesses. While it's early in the year to give definitive ranges, based on where we are, we anticipate a flat to mid-single-digit percentage revenue decline and EBITDA of $1.65 billion or higher for 2023. We will refine our guidance as the year progresses.

Orbia is also expecting capital expenditures in the range of $600 million to $700 million for 2023, including $300 million to $350 million of maintenance spending and $300 million to $350 million of growth related investments depending on the underlying economic environments.

The effective tax rate for the year is expected to be between 29% and 32%. As we look ahead into 2023, we expect to see ongoing impacts from the challenging macroeconomic environment, at least during the first half of the year, and we will continue to proactively manage costs and cash flow.

I'd like to share some market outlook commentary by business. Beginning with Polymer Solutions, we expect the PVC market to improve over the course of 2023 as China reopens and construction markets worldwide stabilize. We've seen general purpose PVC prices rebound from the bottom in the start of 2023. And ultimately, we expect general purpose PVC prices to settle above pre-pandemic levels. We continue to believe that the industry supply-demand balance will remain tight for the long term.

In Building & Infrastructure, we expect inflationary cost pressures through the first half of the year with conditions improving in the second half. Energy costs in key European countries have come down below prewar levels, but uncertainty remains. We will continue to manage margins and to focus on driving a higher value sales mix in this business.

In Precision Agriculture, we expect demand for precision irrigation products to strengthen over the course of the year, supported by continued investment in technologies that address water shortages worldwide. In Connectivity Solutions, we expect continued growth throughout the year, supported by favorable market conditions and continued investments and incremental capacity.

And finally, in Fluorinated Solutions, we expect improvements in revenue and profitability across the product portfolio aligned with market strengthening and new regulations, partly offset by incremental costs to invest in long term growth initiatives.

As we've demonstrated, our businesses have been strong across all economic cycles. We will continue to remain balanced in addressing our short term business needs while keeping our long term view in perspective.

Finally, the company's Board of Directors has approved and intends to recommend to its shareholders for their approval at Orbia's next Annual General Meeting of Shareholders, ordinary dividend payments of $240 million payable and four quarterly installments in 2023 and an authorization to establish a share repurchase fund to repurchase company shares up to the maximum amount permitted by law.

Sameer, I'll turn the call back over to you for closing comments.

Sameer Bharadwaj
Thank you, Jim. As we close out 2022 and move into 2023, our team continues to be optimistic that we can deliver sustainable, profitable growth over the long term and create value for our many stakeholders. We can do this through executing our strategy, continuing to innovate and differentiate our solutions, and by maintaining our daily focus on operational, commercial, and financial discipline.

We can see a world where food and water are plentiful, cities and communities are climate proof, connectivity to information is extended everywhere and living clean and green is the way of life for everyone. This is the world we are making possible now at Orbia through our work every day. Thank you for your continued interest in our company as we take on the toughest challenges and help to advance life around the world.

Operator, we are ready to take questions at this time.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, we ask that you please pick up their handset before pressing the keys. To withdraw your question, please press star then two.

Today's first question comes from Basso Sousa with UBS. Please go ahead.

Basso Sousa
Hi, Sameer. Hi, Jim. Hi, everyone. Maybe my first question here. If you could provide a little bit more details in the CapEx breakdown per business, maybe per project for 2023, especially in the growth investments and also the timing to start benefit points investments. Is it expected for late 2023? Does that -- the guidance already includes that or maybe it will become more clear early or mid or late 2024 anything on that side would be very helpful.

My second question regarding the capital allocation. The company has relevant investments guided for the next few years, up to 2027, as you guys released before with the guidance, right? And in the short term, you plan to continue with strong dividend payments and share buybacks. I think it would be great to hear from you guys as well, the company's positioning. I mean when we look at Orbia, should we think about a dividend player, a growth player, a M&A player? Where is the focus? What are the main goals you guys are seeking. These are my two questions. Thank you.

Sameer Bharadwaj
Basso, thank you for your questions. Let me take your first question on growth CapEx. At Investor Day last year, we had outlined our five year investment plan and the types of projects in which we would be investing. And that begins this year. And so which is why we gave the guidance of CapEx for growth in the range of $300 million to $350 million.

In terms of the projects, I anticipate some spending on our PVC expansion project, mainly on engineering, land acquisition type of costs. Then the initial engineering and investments required for the LiPF6 and PVDF projects somewhat later in the year. The expansion plans for Dura-Line, we've announced the building of three new plants for Dura-Line in the Western part of United States and Canada. And that project is ongoing. And then finally, we have our Indonesia project that we talked about last year as well. And so these will come over the course of the year. I would say more of it in the second half than in the first half. Timing of these can be somewhat variable, but I think that's what we can share at this time.

In terms of our dividends and share buybacks and once again, consistent with what we have said before, we believe that Orbia can continue to maintain. And as earnings growth potentially grow dividends year over year through this phase over the next four or five years. And given the earnings power of the company, our baseline dividend today is $240 million a year, and we see no reason why that's going to change. And as the earnings part of the business evolves and grows, we will grow that with time.

In terms of share buybacks, our first priority, of course, will be to invest in our growth projects. But from time to time, should we see good opportunities to buy back stock at a lower price, we reserve that flexibility. But I can tell you that our first priority will be growth projects. So what -- the way I would classify the company is we are committed to the growth that we shared with you on Investor Day. Our plans are on track. But at the same time, Orbia gives a very good dividend. And for those investors who are patient for the long term and will reap the rewards of our long term investments will benefit from the dividends in the interim period.

Operator
Thank you. And our next question today comes from Nikolaj Lippmann with Morgan Stanley. Please go ahead.

Nikolaj Lippmann
Thank you very much for the call and for taking my questions. Two questions, if I may. Jim, I heard you talk about the write-down in I think Netafim quite clearly. You mentioned the discount rate, which seems sensible. But could you talk a little bit about to what degree it also has to do with the revenue problem? And maybe if you can provide a bit more color on what's going on with Netafim with now this is the second quarter, whether the trend seems quite different. And so if you can talk, address the issue of market share if it's related to the specific markets you're in, if it's related to innovation. So that -- just some color on Netafim is my question number one.

And question number two relates to the PVC expansion. When do you think that we kind of know the ship (ph) code and the timing of -- when do you expect to greenlight that and start deploying CapEx to that specific project. Thank you very much.

Jim Kelly
Hey, Nik. It’s Jim. Thanks for the questions. I'll start with the discussion of the impairment from Netafim and then I'll ask Sameer maybe to talk a little bit more on the details of the market share and business growth. But in terms of the impairment, it was entirely due to increase in interest rates over the course of the year, and therefore, the use of a higher WACC and discounting the future expected results of the cash flow of the business. The future results continue to be very positive. We continue to have a very optimistic view of both Netafim itself as well as the underlying markets that we support. And there really has been no change, honestly, year over year in terms of our forecast and our long term view for that business.

Sameer Bharadwaj
Thank you, Jim. Let me --

Nikolaj Lippmann
Can I ask just on the market share, do you feel that in Netafim today, and I remember I asked the same question last quarter. But to what degree is this Netafim specific? And to what degree does it relate to the markets that you're in? Are you losing market share in Netafim?

Sameer Bharadwaj
Nik, I was just about to give more color on the market in Netafim. So what happened in the second half of last year is we had two effects. There was significant overstocking in the first half. And so

many of the dealers when the economy has weakened significantly slowed down their purchases. And this was coupled with relatively lower prices in the high value crops, where Netafim placed, and resulted in weak revenues in the third and fourth quarters.

What I can tell you is we are off to a pretty good start to the year in Netafim and seeing a strong rebound in revenues across all markets and -- which is very encouraging. So this -- we are convinced that this is not a Netafim specific market share issue. This is a broader market decline and everybody faced the same market conditions as we did.

And if you see there's a rebound in the United States, in Europe. Our markets in Turkey, China, Brazil, and Mexico continue to remain strong. They never experienced a slowdown. And so I'm quite encouraged by the start to the year in Netafim. And I was in Israel a couple of weeks ago and looking at the development pipeline, the focus on extensive crops and services, I'm quite optimistic about the opportunities ahead of Netafim. Having said that, this is a long term opportunity. The long term opportunity is huge, and we are working to realize the benefits of these opportunities over the course of the year.

In terms of your second question on PVC expansion timing. Right now, we are in the file engineering phase of the project, and we are working on negotiating incentives with the state. We are working on lining up long term supply agreements and we're looking at potential land locations. And this project will come up for final approvals more towards the end of the year, okay? So the spend that we will have will be more on the engineering side for this project and the significant capital investments so this will not ramp up until the middle of 2024.

Nikolaj Lippmann
Got it. Thank you very much.

Operator
Thank you. And our next question comes from Haranan Kissluk with MetLife. Please go ahead.

Haranan Kissluk
Good morning, sir. Thank you for taking my questions. So during this quarter, you took a sustainability linked loan for $500 million. But you also said that a portion of that is going to be used to repay some short term debt. So I was wondering what's the debt level that you are targeting by the end of the year?

And also linked to that, taking a more broader view. In the last couple of years, your gross debt has been increasing, and there were no significant acquisitions during this period. So I was wondering if we should read here that you are running now the company with a higher leverage level than in the past? I mean also for the growth opportunities that you have ahead. So maybe through this upcoming cycle, we're going to see growth or maybe also net leverage rising a little bit until you materialize your growth opportunities?

Jim Kelly
So thanks for the question. And first of all, let me comment on the sabores (ph). We're really excited to be able to issue the 10 billion pesos in the Mexican market. It's the first time that Orbia has gone public in the Mexican market in quite a long time. So we are very happy with that

issuance. And in fact, it was significantly oversubscribed. So we are very excited to be able to participate in the market.

In terms of the use of the proceeds, we did indicate that part of it would be used to pay down some short term maturities that would be taking place as well as to fund growth investments that are expected in the course of the coming year and years ongoing, as well as ongoing corporate purposes. So I wouldn't say, in general, that there is an expectation to be operating or be at a higher leverage level from -- for an ongoing period of time.

We did discuss back at Investor Day that we'll be making growth investments over the course of the next five to six years at least, and that we believe that we'll be continuing to keep our leverage at a net debt to EBITDA range of 2.5 or thereabouts. You know, we may slightly exceed that for short periods of time as long as we see the possibility in the near term to bring it back down to that level. But I would say, roughly speaking, 2.5x net debt to EBITDA is the target that we would be looking to operate at the highest level.

So yes, in terms of a forecast for this particular year, we don't go into that level of detail. It is -- I'd say it's fair to say that there will be a gradual increase in the leverage ratio as we make the investments for growth that we've been talking about. As you saw, we do have the beginnings of the ramp up that Sameer just spoke of later in this year related to the growth investments in the battery space as well as in our PVC expansions and continuing the connectivity solutions expansions. So those will drive some increase as we go through the year, but it will be a gradual increase towards that 2.5x level that we've been talking about.

Haranan Kissluk
Got it. Thank you very much.

Operator
Our next question today comes from Pedro Gama with Citi. Please go ahead.

Andres Cardona
Hi. Good morning, everyone. This is Andres Cardona from Citi. Good morning, everyone. I have a question about PVC. You are flagging that Asia, in particular January opening may be supported for margins. But I would like to get your sense about what is happening in the Americas. How do you expect the oversupply to go along 2023? And if you are seeing caustic soda and chlorine soda margins being supportive of this expansion of PVC margins? And what could be the trigger for this progressive normalization?

And the second one is if you can share some insights about the cash flow in 2023, just looking for some color on working capital, cash taxes, and others. Thanks.

Sameer Bharadwaj
Andres, thank you for your question. Let me comment on PVC. And as we had shared earlier, the precipitous decline in PVC prices that we saw in the second half of last year was largely a supply shock phenomenon driven by COVID lockdowns in China and the significant exports from the U.S. at very low prices to maintain caustic soda chlorine profits.

Now what you've seen in the past couple of months is that these prices have rebounded in a very significant way from the bottom. They had achieved the export prices had achieved a bottom of around $600, $650 a ton even though domestic prices were still in the range of $1,400, $1,500 a ton. And what you're now seeing is that the export prices have rebounded to the $950,000 per ton range. And what I can say is markets worldwide are coming back, but slowly, okay?

So even in the face of less than strong demand, you're seeing prices going up, and this is partly due to some supply issues, which again, reemphasizes our point all along that this industry is operating at very high utilization rates and the slightest disruptions in supply can have a disproportionate impact on pricing.

Now we've seen some retreat in caustic soda prices worldwide from the peak. And so those have repeated to some extent, but still nowhere close to the levels they used to be a year and a half or two years ago. Chlorine prices continue to remain high. And so one of the things in the United States that will actually benefit us over the course of the year is that natural gas prices are low and therefore, ethane prices are also low, which is benefiting us in the process. And simultaneously, the derivatives markets are strong and the specialty resins markets are strong, which is also benefiting us. And so keeping fingers crossed, we're off to a good start to the year and hope to see things stabilize more and strengthen more over the course of the year as China fully reopens.

On the cash flow, I'll let Jim take that question.

Jim Kelly
Sure. So thanks. So for 2022 cash flow, we generated $1.1 billion at the operating cash flow level. I would say our expectation for 2023 would be to maintain somewhere around that same level. And that a decline that might be seen through lower EBITDA would be offset generally by lower taxes paid. You did ask specifically about taxes. So I would expect those to come down a little bit year over year. And then also continuing efforts to manage our working capital. I think we made good progress, particularly in the fourth quarter of 2022, in bringing working capital down. Our efforts there continue, and I expect that we'll continue to see benefits from that as we go through 2023.

Operator
Thank you. And our next question today comes from Frank McGann with Bank of America. Please go ahead.

Frank McGann
Okay. Thank you very much. Just to follow up a little bit on the guidance and thinking with your different segments as you look out over the year, where you see the potential for more upside. Dura-Line has been very strong. Do you expect that to continue to go at the same pace that it is? PVC, which you've kind of addressed, but the thoughts there for additional upside relative to what you've been assuming in the guidance that you've given would be very helpful. Thank you.

Sameer Bharadwaj

Very good, Frank. Nice to have you on the call. Let me talk about each of the businesses here. So we have a very strong -- continued strong momentum in Dura-Line in our Connectivity Solutions business and a very strong backlog of six months or higher. And the raw material costs have stabilized, and so margins are relatively stable. And so we see that strength continuing. As of now, we haven't seen any weakness in that business.

Our Fluorinated Solutions business continues to experience strong volumes and strong pricing across the board, whether it's assets power, metallurgical fluorspar, Aluminium fluoride, refrigerant gases, and medical propellent businesses. And that we expect that strength to continue. I've talked about PVC. And as we see stabilization in those markets, the leverage on earnings is very significant, right? And so the one source of upside could be greater and more improvement in PVC price than through the course of the year would be a significant source of upside.

Our AlphaGary business is very stable. And we are off to a good start in Wavin and Netafim for the year. And so keeping fingers crossed that the markets, especially in Europe, continue to recover. Energy costs have come down. They are now below prewar levels. The FX has also gone in the other direction, and we should benefit from that as well. And so that's the story if you go business by business across the board.

Now it's only February, and it's early in the year. And which is why in terms of guidance, we chose to set a flow. And we'll refine this as we go along and we get a better read on the economy over the course of the year because the full impact of the rate increases and deferred pursuit to achieve 2% inflation is still not known yet. And especially how the second half of the year will perform. But if current conditions continue, I think we are very well placed, okay?

I also want to point out, I mean there were questions about CapEx. Two of the most significant announcements that we made in this call are on our projects, the PVDF joint venture with Solvay that we are kicking off. And the LiPF6, which is 100% our own venture that is also being kicked off. These are transformational and very significant, right? And so we are putting up 20,000 tons of PVDF and 10,000 tons of LiPF6. But the market potential for these over the course of the next 10 years, you're looking at a 5 to 10x expansion in these markets in the course of the decade.

And in terms of investment, the PVDF investment is an $850 million investment with -- of course, we have a 49% stake, so it will be proportional. And the LiPF6 investment is roughly $300 million investment with a $100 million grant from the Department of Energy. Now if you remember, Frank, at the Investor Day, we had shared that most of our growth will come from organic growth projects. 80% or more of a growth is coming from organic growth projects in this five year period with investment to EBITDA ratios of 2 to 4x.

And what I can say to all of our investors and the analyst community that the economics on these two projects are on the more favorable and more attractive side of that range. Which is a huge deal, right? And of course, it's going to take three years to deploy that capital and kick that off and then plan for subsequent expansions. But especially given the near shoring of supply chains and the United States' desire to have security of supply for both battery and semiconductor value chains and the fact that we are fully integrated from my end to market from Mexico to the United States. This is a big, big deal, okay? So I just wanted to make sure we get that out there.

Frank McGann
Thank you. Thank you very much. Appreciate it.

Operator
Thank you. And ladies and gentlemen, our next question comes from Regina Carrillo with GBM. Please go ahead.

Regina Carrillo
Good morning. Thank you for taking my questions. Following on the previous question on CapEx guidance, and I know you just said that most of the growth will come from organic projects. But I still wanted to ask, does that mean that the $300 million to $350 million assigned to growth CapEx for the year. So that's not including jibe (ph) of inorganic growth for the year? How much could you possibly assign to that? And if there is any more details you could share with us about CapEx for the next couple of years? And priorly, I just wanted to ask you we should expect another Orbia day for this year. Thank you.

Sameer Bharadwaj
Regina, it was a little hard to follow the specific detail you're looking for on the CapEx guidance. Do you mind repeating that part of the question?

Regina Carrillo
Yes. No worries. Just if there is any details for the next couple of years? I mean I know about the $67 billion in CapEx, but is there anything -- where do you expect most of that CapEx to go out?

Sameer Bharadwaj
Okay. Okay. Good. So look, I think as we've disclosed the big investments this year, so we are continuing on the expansions in Dura-Line, right? And those are to the tune of around $150 million, and that will happen over the course of the year. We have the Indonesia project. And then later on in this year, we'll start deploying the early phase of the capital for the LiPF6 and the PVDF projects.

For our big PVC expansion, we don't expect significant capital deployment this year other than engineering. And then over the course of the next two years, '24 and '25, you'll see the ramp-up in capital required, particularly for the LiPF6 and PVDF projects. And then from -- I would say, from the latter half of '24, early part of '25 to '27 is when you’ll see the capital deployment for the PVC expansion.

Jim Kelly
So Regina, you also asked a question about Investor Day. So the intent at this point in time is to have what we would call a more strategic update to Investor Day and to do that by a call, and we expect that would be in the months of May, June time frame. So we'll be formalizing the plan for that soon and announcing a specific date and time for that call.

Perfect. Thank you, Jim. And thank you, Sameer.

CONCLUSION

Operator
Ladies and gentlemen, this concludes our question and answer session. I'd like to turn the conference back over to the management team for any final remarks.

Sameer Bharadwaj
Well, thank you very much for joining the conference call. I would like to emphasize that Orbia continues to remain a very resilient company with a very strong balance sheet, strong management team, a strong portfolio of growth projects and a disciplined approach to capital allocation. And for investors who are patient for the long term will be very well rewarded. So thank you once again for your attention, and then we will share more with you at the next earnings call as the year progresses.

Operator
Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.