Orbia

First Quarter 2025 Earnings Results Conference Call

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CORPORATE PARTICIPANTS

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Jim Kelly – *Chief Financial Officer*

Diego Echave – *VP of Investor Relations*

PRESENTATION

Operator
Good morning and welcome to Orbia's first quarter 2025 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 then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded. I would now like to turn the conference over to Diego Echave, Orbia's Vice President of Investor Relations. Please go ahead.

Diego Echave
Thank you, operator. Good morning and welcome to Orbia's first quarter 2025 earnings call. We appreciate your time and participation. Joining me today are Sameer Bharadwaj, CEO, and Jim Kelly, CFO. Before we continue, a friendly reminder that some of our comments today will contain forward-looking statements based on our current view of our business, and actual future results may differ materially. Today's call should be considered in conjunction with cautionary statements contained in our earnings release and in our most recent Bolsa Mexicana de Valores report. The company disclaims any obligation to update or revise any such forward-looking statements. Now I would like to turn the call over to Sameer.

Sameer Bharadwaj
Thank you, Diego, and good morning, everyone. As you will hear over the course of this call, we have continued to demonstrate how resilient we are as a company through the current challenging market conditions. I want to start by recognizing our employees around the world for their dedication to serving our customers and bringing innovative solutions as we continue driving value for our shareholders over the long term.

Now moving on to slide three. I would like to share a high-level overview of our first quarter 2025 results. For the quarter, revenues of $1.8 billion decreased 3%, and EBITDA of 198 million decreased 21% compared to the prior year's quarter. First quarter adjusted EBITDA was $260 million, an increase of 3% compared to last year. Adjusted EBITDA includes items that have a limited number of occurrences, are clearly identifiable, and are not reflective of ongoing business performance. These items include legal and restructuring costs as well as the impact of a raw material supply disruption in a Polymer Solutions business. It is important to note that this disruption has now been resolved.

Our first quarter results demonstrate the resilience of our businesses across market cycles. Adjusted EBITDA for the quarter improved compared to the same period last year. Overall, our end markets were reasonably stable. While we experienced softness in some markets, stability and improvements in others largely offset this. We remain focused on managing what we can control while exercising strong financial discipline in the current market environment. We continue to strengthen our leading market positions, make significant progress in cost optimization and non-core asset divestments, and improve our balance sheet, all to achieve our long-term strategic objectives, which I will detail later in the presentation. I will now turn the call over to Jim to go over our financial performance in further detail.

Jim Kelly
Thank you, Sameer. Good morning, everyone. I'll start by discussing our overall first quarter results. Turning to slide four, on a consolidated basis, net revenues of $1.8 billion were down 3% year-over-year. Polymer Solutions revenues declined, driven by lower prices and the impact from

an operational disruption at one of our key suppliers. The Building & Infrastructure segment was weak in parts of continental Europe and in Mexico, partly offset by strength in Brazil and the U.K. and contribution from its new manufacturing plant in Indonesia. These decreases were partially offset by increases in Fluor & Energy Materials and Precision Agriculture. I will provide a more comprehensive description of these factors in the business-by-business section.

EBITDA of $198 million for the quarter decreased 21% year-over-year, driven primarily by the non-recurring costs described previously and lower revenues in the Polymer Solutions and Building & Infrastructure segments. Adjusted EBITDA for the quarter was $260 million, representing an increase of 3% year-over-year. Adjusted EBITDA margin was 14.4% for the quarter. Operating cash outflow of $22 million improved by $28 million compared to the prior year quarter. The improvement was mainly due to effective working capital management and positive currency fluctuations, partly offset by the lower EBITDA. Free cash flow was negative $155 million, an improvement of $46 million year-over-year. Both cash flow measures reflect normal seasonal increases in working capital for Orbia. Typically, working capital increases consuming cash in the first half of the year and subsequently declines generating cash in the second half. The working capital increase of $169 million in the first quarter of 2025 is $24 million less than the increase in the same quarter of 2024, reflecting the results of our strong working capital management efforts. Free cash flow benefited from lower capital spending year-over-year with spending of $105 million in the quarter, which was $27 million lower than the prior year quarter.

Net debt to EBITDA increased from 3.30 times to 3.67 times compared to the year-end 2024. The increase in the ratio was driven by a decrease in cash of $149 million, an increase in total debt of $60 million, and a decrease in the last 12 month's EBITDA of $55 million. On an adjusted basis, net debt to EBITDA increased from 3.04 times to 3.23 times during the quarter. The increase in the ratio is reflective of the seasonal nature of Orbia's cash flows, and the company expects the ratio to begin declining in the second half of the year with the target being a year-over-year reduction by the end of 2025, assuming stable market conditions. On April 11, 2025, Orbia issued approximately $300 million of notes in the Mexican debt market with maturities of three years and ten years, split approximately even between the two periods. The proceeds of the issuance will be allocated to refinancing the previous Orbia 22L issuance and repaying other obligations.

Turning to slide five, I'll go through our performance by business group. In Polymer Solutions, first quarter revenue was $600 million, a decrease of 9% year-over-year, largely driven by persistent weak pricing environment and the operational disruption at one of the company's key raw material suppliers. First quarter EBITDA was $57 million, a decrease of 34% year-over-year, with an EBITDA margin of 9.5%, which was 359 basis points lower than the year-ago period. This was driven by lower revenue and higher input costs, partly offset by benefits from cost reduction initiatives. Excluding the impact of the raw material supply disruption, adjusted EBITDA for the quarter was $70 million, representing a decrease of 19%. Adjusted EBITDA margin was 11.7% for the quarter.

In Building & Infrastructure, first quarter revenues were $586 million, a decline of 6% year-over-year. The lower revenues were driven primarily by weakness in parts of Continental Europe and in Mexico, partly offset by strength in Brazil and the U.K., and contribution from the business's new manufacturing plant in Indonesia. First quarter EBITDA was $37 million, a decrease of 43% year-over-year, with an EBITDA margin of 6.3%, which declined 415 basis points versus the prior year. The decline in EBITDA was largely driven by restructuring costs and lower revenue, partly offset by operational cost savings. Adjusted EBITDA for the quarter was $64 million, representing a decrease of 2%. Adjusted EBITDA margin was 10.9% for the quarter.

Moving on to Precision Agriculture, first quarter revenues were $271 million, an increase of 6%, driven primarily by Brazil and Peru, partially offset by declines in Mexico and in Northern Europe. First quarter EBITDA was $33 million, an increase of 16% year-over-year, and EBITDA margin increased 110 basis points to 12.3% versus the prior year period. The EBITDA margin improvement was driven by higher revenues and cost-saving efforts. Adjusted EBITDA for the quarter was $37 million, representing an increase of 28%. Adjusted EBITDA margin was 13.6% for the quarter.

In Fluor & Energy Materials, first quarter revenues were $216 million, an increase of 14% year-over-year. Revenue growth was driven primarily by higher refrigerant volumes and stable prices across the upstream minerals portfolio. First quarter EBITDA was $64 million, an increase of 18% year-over-year with an EBITDA margin of 29.5%, an increase of 93 basis points versus the prior year period. The improved EBITDA results for the quarter were driven by higher revenue and a reduction in fixed costs, partly offset by higher raw material costs.

Finally, in Connectivity Solutions, first quarter revenue was $194 million, a decline of 1% year-over-year. The decrease in revenues in the quarter was driven by lower prices, partially offset by higher volumes. First quarter EBITDA increased 12% to $26 million with an EBITDA margin of 13.6%, an increase of 167 basis points year-over-year. EBITDA performance was driven by the increase in volumes as well as from cost reductions.

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

Sameer Bharadwaj
Thank you, Jim. Turning to slide six, I'd like to provide an update on our progress in improving earnings and strengthening our balance sheet as outlined at the October business update. First, our cost reduction program is on track to deliver cumulative annual savings of $160 million by the end of 2025, achieving 70% of our target to reach a savings level of $250 million per year by 2027. Second, we are focused on ramping up revenues from recently completed and soon-to-be-completed organic growth investments in 2025. These include the new product launches and the Indonesia investment in Building & Infrastructure and the completed capacity expansion in North America in Connectivity Solutions, among others. Finally, we have signed agreements that will generate proceeds of over $25 million from non-core asset divestments as of the end of the first quarter of 2025. We anticipate reaching at least $75 million in proceeds by the end of the year and are on track to achieve the 150 million target by the end of 2026.

Turning to slide seven, I will now provide an update to our outlook for the coming year. In light of the current business environment, the company anticipates that 2025 adjusted EBITDA will be approximately $1.1 billion to $1.2 billion. Considering market conditions, capital expenditures for 2025 will be actively managed to approximately $400 million or less with a primary focus on investments to ensure safety and operational integrity, completing growth projects under execution that are close to revenue, and being extremely selective on any new growth investments.

Now looking ahead in each of our business segments for the coming quarter and the remainder of the year.

Beginning with Polymer Solutions, challenging market dynamics, driven by excess supply and lower export prices out of China and the U.S., are expected to continue. This is somewhat mitigated by the fact that our primary markets are in Europe and Latin America, where market dynamics are more favorable. In this environment, we remain focused on capturing the benefits of footprint optimization efforts while maintaining strict discipline around fixed costs, working capital, and capital investments. These actions are aimed at improving both profitability and cash generation.

In Building & Infrastructure, we expect stable to improving fundamental performance despite challenging market conditions in parts of Europe and Mexico, driven by focus on cost optimization efforts and incremental profitability from new product launches and geographic expansions.

In Precision Agriculture, market conditions are expected to remain stable. We anticipate growth through deeper penetration and extensive crops, mainly in Brazil, India, and the U.S. The business will also continue focusing on growth initiatives from its new digital farming platform and new products, while delivering operational efficiencies.

In Fluor & Energy Materials, the markets for our fluorine value chain remain fundamentally solid, supported by consistent demand and pricing. We will continue with tight cost control measures to support margins, and growth investments will be focused on low-carbon refrigerants, medical propellants, and battery materials.

And finally, in Connectivity Solutions, we expect volumes to grow through the year as network investment activity returns to more normalized levels. Profitability growth will be driven by increased demand as well as benefits from cost reductions and higher utilization of manufacturing facilities.

While the tariff situation is dynamic, most of Orbia's exports to the U.S. are protected by rules for USMCA-compliant products, thereby limiting potential impact on Orbia.

In closing, as we move forward in the year, we remain focused on operational, commercial, and financial discipline. Thank you for joining us today and for your continued interest in Orbia.

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 are using a speaker phone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Our first question will come from Alejandra Obregon with Morgan Stanley. Please go ahead.

Alejandra Obregon
Hi. Good morning, Sameer, Jim and Diego. Thank you for taking my question. The first one is on your strategic review. Sameer, you did mention what you are expecting for the year. I know it has been only five months since you announced it, but perhaps if you can elaborate a little bit on whether it has played out in line vis-a-vis your expectations so far and what’s missing for the rest of the year. Like where are you more constructive and vis-a-vis what you have announced and so on? The second one is perhaps on the balance sheet front. I was hoping to hear how comfortable you feel for -- I mean, your liquidity position for the short term in the year, especially with all the cyclical headwinds that we know and we understand are there. But just in the context

of your financial stability for the short-term obligations, how comfortable are you there? Those are my two questions. Thank you.

Sameer Bharadwaj
Okay, Alejandra. Let me take your first question, and then Jim can answer your second question very well. In terms of our strategic review, what we outlined back in October, we are actually very well on track with the things we said. We talked about an effort to reduce our costs, whether it's manufacturing, SG&A, optimizing footprint, and deliver $250 million of savings by 2027. And we are solidly on track, and we can see that in the numbers. And I think we said earlier that we are looking at cumulative savings of 160 million per year by the end of 2025. And even if we look at our numbers for Q1 year-to-date 2025 versus 2024, SG&A and manufacturing costs without depreciation and one-offs, we are down $48 million versus previous year. So, we can see the cost benefits coming through. We are being very disciplined in terms of optimizing both global costs as well as costs in the businesses and continue to work on our footprint optimization efforts. And you might have seen many of the plant consolidation announcements that have been made out there.

On the growth opportunities, we are -- we have either completed or are close to completing the capital investments for growth investments that we had initiated a couple of years ago and are now close to completion and close to revenue. These are some of the new product launches in the Building & Infrastructure business such as our Tegra below ground product, the push-fit fittings G5, Hep2O fittings in the UK, the BIAX investments as well as the investment in Indonesia. And these are either complete or close to completion and will ramp up contributing to revenue as we go along.

The investments in Connectivity Solutions in Canada and Salt Lake City have also been completed and are running at quite high utilizations, as well, and contributing to the performance of the Connectivity Solutions business. So, we'll share more details -- the growth projects are longer term, and so we'll share more details on that later in the year in terms of the impact. But as of now, I can say they are on track. And then, of course, we talked about our non-core asset sales. These are sales of small assets, whether it's real estate or buildings or non-core businesses. And then also some of them are a result of restructuring actions. And those are on track, as well. We are solidly on track to deliver the $75 million from non-core asset sales in 2025. And I think you had a question for Jim on short-term financial obligations and the balance sheet. Jim, do you want to take that question?

Jim Kelly
Sure. I'd be happy to address it. So, first and foremost, let me reaffirm that we remain committed to doing everything within our control to maintain our investment grade rating. As it relates to short-term liquidity, you would have seen on the balance sheet, Alejandra, that we continue to have a significant amount of cash, so $860 million on the balance sheet. And we continue also to have our 1.4 billion committed revolving credit facility available to us. There is nothing drawn down on that. And then on top of that, I would say overall that ensuring adequate liquidity and de-risking of any near-term debt maturities is an integral part of ensuring that we maintain the investment grade rating. So, we've been active in that front. So, as you saw, we refinanced the December maturities of the Cebures on April 11th for about $300 million as we spoke of. And then you are probably aware that there are some maturities coming up in '26 and '27. For those, those are being considered, as well, as part of our liquidity plan and ensuring that we're de-risking our balance sheet, but no specific plan has been announced on that refinancing at this point in time, but it is under consideration.

Alejandra Obregon
Got you. That was very clear. Thank you very much.

Sameer Bharadwaj
Thank you, Alejandra.

Operator
Our next question will come from Leonardo Marcondes with Bank of America. Please go ahead.

Leonardo Marcondes
Hi, everyone. Thanks for taking my questions. I have two from my side here. The first one is related to the sale of non-core assets. You guys already mentioned that you expect to reach 150 million of divestment, right, over the next two years, but I would like to know if you could provide some more color on which segment should these investments be from and what are their EBITDA contributions nowadays? The second question is related to the bonds, as well. I mean, in my understanding – correct me if I'm wrong. You will probably have to issue more debt in order to refinance the short-term maturities, right? So, my question is, what are the expectations in terms of timing and interest rate for those new issuances? Thank you.

Sameer Bharadwaj
Okay. So, let me take the first part of your question on non-core assets with segments and their current EBITDA contribution, and then Jim can address your question on the bonds. So, on the non-core assets, a large majority of the non-core asset sales are related to the Building & Infrastructure segment. And as you're aware, we are undertaking a very significant optimization of the footprint in Building & Infrastructure where we are potentially optimizing the European footprint in a very significant way. And this optimization results in assets, whether it's plant, buildings, infrastructure that come up for sale. And their EBITDA contribution at this of time is very low. And so, in terms of impact on Orbia, we are able to generate cash from the sale of these plant infrastructure and buildings but with very little impact on loss of EBITDA. And there are a few others in some of the other segments where we've done some optimization in the Polymer Solutions business, and that's going to have some impact, as well. And then we've had some assets, or let's call it land and buildings, that are underutilized or not utilized in various parts of the world that we are now monetizing as part of the non-core asset sales. Jim, do you want to take the second part of the question?

Jim Kelly
Sure. Thanks for the question. Again, going back to what I was speaking of in terms of maintaining the investment grade rating and doing everything we can to de-risk the balance sheet. So, again, reinforcing that we did already refinance the Cebures that were going to come due until December. We wanted to get ahead of that while markets were still open in Mexico. So, we feel we had a successful refinancing initiative there as it relates to the international bonds that will be maturing in the upcoming years. So, as I mentioned just a minute ago, we have not announced anything formally there, but we are considering what we will be doing as it relates to that refinancing. You may be aware that the 2026s have a May 2026 maturity, so those will begin to show as current debt in the near future. So, that's something that we will want to begin to consider I would say in the shorter term.

I would expect that we could be active in international markets most likely to refinance that. You did ask about rates. In today's environment, it's very difficult to say exactly what rates would be. They've been quite changeable, as I'm sure you are aware, and the ultimate rates of the offering will be dependent upon what prevalent market conditions are at the time of the offering. Again, reference rates, U.S. Treasuries, etcetera, have been increasing over time, but I would say that as far as what the anticipated rates for our offering would be, they would be relative to that reference rate. The spreads would be typical for what an industrial investment-grade company's spreads would look like. So, I would say you used the reference rate. Add a typical investment-grade spread, and that should get you to approximately what our offering rate should be.

Leonardo Marcondes
Perfect. Thank you both for the very clear answers. Thank you.

Operator
Our next question will come from Victor Modanese with UBS. Please go ahead.

Victor Modanese
Hi. Thank you for taking my questions. I have two on my side here. First of all, despite a lower EBITDA guidance, the CapEx guidance of $400 million remain unchanged. So, my question is, if market conditions remain challenging and even deteriorate, would there be flexibility to cut CapEx further in order to preserve cash flow generation and maintain leverage under control? And is this level of CapEx sustainable or next year would require higher investments to offset lower ones in 2024? And my second question is, Orbia seems partially shielded from the tariff discussion, given its diversified operations and sales geography, as well as the USMCA-compliant production as you mentioned during the call. However, the trade war could lead to some level of demand and pricing deterioration for the markets where you operate. So, my question here is, how much of this uncertainty is incorporated into your guided estimates for the year? And is there any downside to that coming from potentially lower economic activity? Thank you.

Sameer Bharadwaj
Very good, Victor, and thank you for your questions. And in terms of CapEx guidance, if you might pick up on a change, we said $400 million or less. And so, very clearly, we will be quite dynamic with respect to responding to any change in market conditions and adjust our spending accordingly. Our maintenance capital spending is roughly in the order of $250 million - $260 million per year, and whatever growth investments we have this year is actually just completion of projects we had started a couple of years ago. And it makes sense to complete them and bring them closer to revenue as soon as possible, and that's the reason why the capital investment is in the range it is this year. And as we also said that we'll be extremely selective about any new growth capital investments and take into account the current market conditions before we embark on any new growth capital. So hopefully, that addresses your question on CapEx guidance.

Now as far as tariffs are concerned, you are indeed right. We have been relatively shielded given the USMCA, well, at least for the 90 days deferral, and hopefully, there's a reasonable agreement between the United States and Mexico or a reasonable renegotiation of the USMCA where that situation continues. We are also seeing -- if we do see a decoupling or deglobalization happened, particularly with China, I do believe -- we do believe here that there will be a case for increased regionalization where the United States, Canada, Mexico, and the regional economies will be more interdependent than they have been in the past. And so, that should help, as well.

Now, your question was on the guidance. Now, our guidance reflects -- the only impact that we are concerned about from tariffs at this point if the USMCA exclusion holds is an overall slowdown in economic activity from a prolonged trade port. And if the U.S. economy and other economies go into a recession, and that, of course, has an impact on demand and pricing. And that's why the range that we gave takes into account some of that, okay? Now, if all things go well and we don't see any broader economic downturn, we'd hope to be somewhere in the middle or higher end of that range. But the range was intended to take into account the market uncertainty we see at this time. Now, of course, nobody can predict if things get a lot worse, and so we have only reflected what we see at this time. Hopefully, that answers your questions.

Victor Modanese
Yes. Thanks.

Operator
Our next question will come from Pablo Monsivais with Barclays. Please go ahead.

Pablo Monsivais
Hi. Good morning. Thanks for taking my question, Sameer, Jim, and Diego. Just one quick question on your read-through of the CapEx for AI that we have seen on the and the boom of data centers and how they are pulling back the growth expectations. What is the read-through on the Connectivity Solutions business? Thank you.

Sameer Bharadwaj
So, Pablo, do you mind repeating the question? It wasn't -- we weren't able to hear very clearly.

Pablo Monsivais
My question was what is the read-through on the Connectivity Solution from the data centers and the CapEx for AI that has been decreased over the last few months? What do you think that is the read-through for this segment?

Sameer Bharadwaj
Very clear, very clear. So, yeah, let me talk about Connectivity Solutions. The Connectivity Solutions business, we are seeing month-over-month improvement in demand as the traditional telecom spending resumes. Okay? So, if you look at the connectivity in the United States, fiber connectivity is still at 50% penetration and has ways to go to get to 80% - 85% before it is saturated, and that is expected to happen over the next several years. And the pace of that activity, we are seeing month-over-month improvement, and we have a pretty strong order book for the second quarter, as well. So, we are seeing that happen.

Now, in terms of the AI and data center market, which I would separate from the traditional -- the telecom market that we are in, we, in fact, did a pretty exhaustive study of the opportunity potential for the AI data center market. And also, there's a third segment, which is very relevant. The power grid market, which we produce stick pipe or polyethylene pipe for the power grid market, that is expected to see significant growth over the next decade, and we already have presence in that space.

Now, we are seeing significant activity from the hyperscale's. And so, while there is still noise about data center spending slowing down, the -- keep in mind that the data center business is still a small part of our business right now, maybe about 5% or 6%, and we have significant activity actually ramping up with most of the hyperscalers. And so, we haven't quite seen the impact of any slowdown in data center activity yet. But keep in mind, it's a small portion of our business, and you won't see the impact on the full results even if there was a brief -- slowdown for a period of time. But no, we haven't seen it on our end.

Pablo Monsivais
Okay. Very clear. Thank you, Sameer.

Operator
Our next question will come from Andres Cardona with Citi. Please go ahead.

Andres Cardona
Hi. Good morning, Sameer and Jim. I have two questions. The first one is if we should expect to see some more restructuring expenses in the second quarter in the year. The second one is we're looking at the last year strategy update, you said the plan a $250 million, $410 million of cash available to use net debt coming from the separation of the business. But as you are reducing 2025 guidance, should we expect a reduction that level of cash available to the net leverage? Thank you.

Sameer Bharadwaj
Very good. So, look, let me -- Jim, actually, you can take both of these questions. Yes, go ahead.

Jim Kelly
So, thanks for the question, Andres. So, as it relates to the restructuring costs, we took the vast majority of the anticipated restructuring costs in the first quarter here, as we came to a conclusion with some of the local unions and works councils, etcetera, on the terms of some of the plant closures. So, the vast majority was taken in Q1. We do expect some small remaining severance costs to be recorded over the remainder of the calendar year. But at this point in time, what we see is relatively small increments that restructuring cost as compared to what we saw in the first quarter. So, bottom line is I would expect there to be some, but they should be relatively immaterial numbers. And then in terms of the second question, as I understood it, it's -- are we still on track in terms of the deleveraging plan. Did I correctly understand and where we expect to be toward the end of the year and into 2026? Can you just confirm that that was what you're asking there?

Andres Cardona
Yes, [inaudible] said the business will generate some $350 million, $400 million between '25, '26 to deleverage the company, right? And as you are reducing the guidance of '25, I was wondering this level of cashflow generation should be -- expect to be impacted in a similar amount.

Sameer Bharadwaj
Okay. So, I think -- go ahead, Jim.

Jim Kelly
As Sameer outlined, there were really three primary elements to the deleveraging plan. So -- and Sameer has gone into quite a bit of detail on all three. But the 250 million of cost reduction, the 150 million of EBITDA from recently completed and/or about to be completed growth projects, and then the $150 million in cash to be generated from sale of non-core assets. That then supplemented by restricting our capital expenditures, not paying any dividends, and not having any share repurchases. So, those are sort of all the elements of the deleveraging plan that we've outlined. So, as Sameer spoke of, we are on track for all of the things that are within our control within that plan. Our expectation, therefore, is still to be generating positive cash and to be reducing the leverage I would say that at least as it relates to this year, given, as you mentioned, the slightly lower guidance that it may get us to a slightly higher leverage rate by the end of this year than we had originally expected, but I still would expect right now that that would be below the level of three and that for next year we would still be on track to have a leverage level below 2.5, which is what we stated back in October.

Sameer Bharadwaj

Yeah. And, Andres, you're right, but the situation is so dynamic. And there are so many factors, both positive and negative, that can change, and we are still in early days with respect to the end of 2026. And so, at a high level, we still want to achieve those leverage reduction targets in terms of absolute debt reduction, and we might use different levers to get there, right? And the operating levers -- we might exercise harder on the operating levers in terms of driving top line, managing costs, reducing working capital to get to the same outcome.

Andres Cardona
Okay. Thank you, Sameer and Jim.

Sameer Bharadwaj
Thank you, Andres.

Operator
Again, if you have a question, please press star then one. Our next question will come from Pablo Ricalde with Itau. Please go ahead.

Pablo Ricalde
Hi. Good morning, Sameer. Good morning, Jim. I have a more strategic question towards 2026. Like we all note 2025 will be challenging, high leverage. But thinking of 2026, which segments do you think have more -- the most growing potential in 2026? That's my question.

Sameer Bharadwaj
Okay. Pablo, it's a very good question, and quite frankly, it involves trying to figure out when the markets would recover, right? And what I can say is, if I go through each of the businesses in Polymer Solutions, PVC pricing is as low as it gets. Below -- anything lower and nobody makes any money. There are some important dynamics there. Our exposure is largely to the European and Latin American markets, where market conditions are a little bit better. And also, as this year goes along, we are seeing some softening in ethane prices, which helps reduce our cost and makes things better.

Now again, things can change dynamically. And the expectation is also over the next four years or five years as building and construction activity recovers and demand recovers, the PVC supply and demand should tighten, right? And so, one would expect in the normal course of events for the markets to start tightening '26, '27, '28, '29, right? So, that's for the Polymer Solutions business. In the Alphagary business is benefiting quite strongly from the growth in the data center market. And in Alphagary in wire and cable -- in the wire and cable segment, we are inside the building and inside the data center. That's seeing significant growth. And so, we're enjoying that, particularly in the U.S. We've also developed a leadership position in the medical segment in our Polymer Solutions Alphagary business, and so that's going to help us. And our India business is doing exceptionally well, right? So that's one of the things we are quite excited about in 2025 as well as in 2026.

In Building & Infrastructure, the level of optimization we have done and streamlining we have done for the business -- and we have reorganized to be far more nimble and far more agile, and the teams are doing an outstanding job in very challenging market environments. And any improvement, let's say, in the European conditions, the war in Ukraine between Russia and Ukraine comes to an end and the fact that there's a change of government in Germany and they have announced $500 billion infrastructure spending, all of those should help with the recovery of building and construction activity in Europe. And I would like to wait and see how that how that pans out next year. So, that's one of the things I'd be looking out for any recovery in the European markets, particularly for the building and infrastructure business.

Connectivity Solutions, I've already spoken about. The continued investment of the large telecom carriers to increase fiber penetration to the premises is expected to continue at a pretty strong place beginning '26 and '27. So, that's -- that should allow us not only to capture the volumes but also lead to better spreads or margins and help us in the connectivity solutions business. And so, that's something I would look out for. I don't want to say what the precise timing would be, but that's something we expect to see happen over the next two years or three years.

And then in Precision Agriculture, despite weak market conditions, particularly in the U.S. and Turkey in our traditional heavy wall markets, the team has done a fantastic job of growing in extensive crops and in other geographic areas of the world, particularly Brazil, Mexico, India, China, and parts of Africa. And we are really focused on driving top line and once again realizing operating efficiencies whether it's from cost reductions or footprint optimizations, and we hope that trend continues in the Precision Agriculture business. So, hopefully, that gives you a sense for what we would expect from these businesses in '26 and '27. What I can say is, with all the optimization we have done, we have created tremendous operating leverage for when the markets recover. And of course, the hope is the world doesn't go into a significant downturn or a recession as a result of the trade wars that are going on, but it remains to be seen how that pans out. Hopefully, that addresses your question.

Pablo Ricalde
Yes, Sameer. That was very useful. Thanks.

Sameer Bharadwaj
Thank you, Pablo.

Operator
Our next question will come from George Ordonez with Bank of America. Please go ahead.

George Ordonez
Good morning thanks for taking the question. Just a follow-up question. If I look at your cost base, roughly how much of that is related to ethane? And so, just trying to back into if we see -- if do see ethane softening like what that means for you margin-wise and free cash flow-wise.

Sameer Bharadwaj
Yeah. So, I don't want to give a number off the top of my head, but that's a great question. We are watching it very closely because as we've gone through January, February and March, we have seen ethane prices come down. And as you know, that directly impacts our cracker. And one of the other things we are waiting and watching is the impact of the tariff force. So, you may be aware that a significant portion of ethane goes on ships to China and is use in the petrochemical industry for polyethylene production. And if China is imposing similar tariffs on ethane, that should result in a decrease in ethane exports and further downward pressure on ethane prices. But I would say it's tens of millions of dollars of impact, okay? And so, I don't want to give a specific number off the top of my head, but it's quite material, okay? And we can potentially come up with something off-line and have Diego sync up with the call investors and analysts.

George Ordonez
That’s great. I look forward to that. Thank you.

Sameer Bharadwaj
Yeah.

CONCLUSION

Operator
With no further questions, this will conclude our question-and-answer session. I would like to turn the conference back over to Sameer Bharadwaj for any closing remarks.

Sameer Bharadwaj
Thank you very much. I would like to thank everybody for joining the call and for your thoughtful questions. What I'd like to leave you with is we are doing our best in very turbulent times. And hopefully, you can see the resilience of Orbia and the impact of all of the operating discipline on the results that is flowing through. And look forward to seeing you at the end of next quarter as we continue our journey to simplify, to focus, and to delever. Thank you.

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