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Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Alejandro Chavelas *Crédit Suisse AG, Research Division - Research Analyst*

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

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

Gabriel Barra *UBS Investment Bank, Research Division - Associate Analyst*

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

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

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

Vanessa Quiroga *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

PRESENTATION

Operator

Good morning, and welcome to the Orbia First Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note that this event is being recorded. I would now like to turn the conference over to Mr. Gerardo Lozoya, Orbia's Investor Relations Director. Please go ahead, sir.

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

Thank you, Alisa, and Good morning and welcome to our earnings results conference call. Before we continue, this conference call may contain forward-looking statements including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic D&B report.

Such forward-looking statements are based on the company's functions, estimates, outlooks and other judgments, made in light of information available at the time of preparation of such statements and in both known and unknown risks and uncertainties. Accordingly, forward-looking statements may not be realized as described, and actual financial results and other projections may differ materially. The company disclaims any obligation to update or revise any such forward-looking statements. We are pleased to be here today to present our first quarter 2020 results. We appreciate your time and your participation in this call.

Our speakers today will be Daniel Martinez-Valle, Orbia's CEO and Edgardo Carlos, Orbia's CFO. I will now turn the call over to Daniel for opening comments. Please proceed, Daniel.

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

Thank you, Gerardo, and welcome, everyone to our conference call. As you know, we're operating in unprecedented times, times of significant uncertainty, volatility, and adversity due to the global health crisis unfolding around us and impacting us all. But these are also times in which we can see opportunities to show up in extraordinary ways for people, to continue to deliver for our customers, communities and shareholders as we work to advance lives around the world.



On our call today I will be touching briefly on our results for the first quarter, and will focus largely on our response to the coronavirus outbreak and the actions we are taking for business continuity while we protect our most important asset, people. Those who are part of our global team, make up our customer base and are the end users of our products and solutions that support human health and wellbeing, food and water access, data connectivity and infrastructure resiliency.

First and foremost, I'd like to thank our more than 22,000 dedicated employees for continuing to serve our customers around the world. We are being challenged as individuals and as a company to execute with precision under extraordinarily difficult circumstances, and yet we have survived physical circumstances before. By upholding our fundamental commitment to the health and safety of our stakeholders, our executional excellence and our purpose, I am convinced that we are well positioned to weather the storm and emerge strong, unified and resilient.

I commit to our employees, our customers, our suppliers, and our shareholders that we will continue to do everything we can to support and serve you in this present environment and in the future.

Turning to slide 2, shortly I will provide greater details on our response and business actions taken in the face of the coronavirus pandemic. But first, I will share an overview of quarterly results which Edgar will dive deeper into.

While we entered 2020 with strong business performance in March, we started to see the impact from the outbreak reflected in our financials. Many of these impacts were due to temporary closures of certain sites and plants in affected areas as well as a widespread drop in demand which was especially notable in our Latin America operations and markets, and to a lesser degree in Europe and Asia operations.

For the quarter, our consolidated reported EBITDA was \$309 million, down 3% as compared to Q1 2019. Nevertheless, we were able to expand our EBITDA margin by 100 basis points as compared to Q1 2019, to reach a 19% margin, driven by maintaining prices, controlling costs and realizing operational efficiencies. Our revenues decreased 3% to \$1.6 billion in the quarter, mainly driven by lower sales across our businesses due to the coronavirus-related impact.

However, improvement in our working capital drove up our free cash flow to \$105 million, reflecting a strong conversion rate of 34% for the quarter. In preparation for what we anticipate will be a challenging second quarter, in terms of constrained revenues and margins, we are maintaining the utmost discipline in controlling costs, managing our working capital and have taken precautionary measures to ensure the liquidity and financial stability in the near and medium terms. Edgar will elaborate on these measures shortly.

Turning to slide 3, while the longer-term impacts of the coronavirus remain hard to predict, we are taking action for our resilience, business strength and ability to deliver for each other and our customers, keeping those we serve as well as the public apprised of how we are adapting and maintaining our focus and execution. To start, we have assembled a global task force responsible for monitoring and assessing the situation daily. This team is implementing measures, guidelines and best practices that empower us to make informed decisions for our business continuity and navigate changing circumstances responsibly and swiftly, and to maintain our position we are responding across 3 crucial areas. One, our team's health and safety. 2, our business strength and capabilities. And 3, our financial resilience.

Turning to slide 4, as our fundamental reason for being is to advance life around the world, the health and safety of our people come first. We have put in place the following health and safety measures to protect our employees, customers, and the communities in which we operate as we continue to conduct essential business activities. To ensure our employees' health, we have instituted health monitoring, sanitation guidelines and shift protocols to support social distancing, hygiene best practices, and employees' health and safety in essential operating plant facilities and sites.

We have restricted plant access to essential personnel and isolated their activities. We are also regularly monitoring the health of all plant personnel and have provided handwashing stations and disinfectant supplies in our plants. We have made teleworking mandatory for all employees who can effectively work from home across all appropriate locations, in compliance with regional policies. And we have implemented travel restrictions to reduce nonessential travel to highly-impacted areas and reduced cross-site travel.



To support those who are or may be infected, we have introduced an employee self-quarantining policy based on travel history, health status and any known exposure risks. We have created a secured channel for infection notification and reporting, and we have established a physician and health institution network to help provide access to healthcare services and support for our employees.

To manage stress and boost morale, we have issued frequent internal communications around business impact, actions taken, and supporting resources. We have organized information sessions and launched an information platform to respond to employees' questions and provide timely and relevant health and safety concepts, and we have prepared a return-to-work protocol which is soon to be distributed.

To ensure compliance with revolving regulatory requirements, we have created regional councils with health, safety and environment representatives and business group leaders to ensure adherence to local regulations and guidelines, and we are refining these measures by the day as they are of critical importance.

Turning to Slide 5, to maintain our operational continuity we are presently keeping most of our manufacturing plants, facilities and sites running while we monitor the situation in each country where we operate. We also have put in place robust continuity plans for all our facilities and sites inclusive of the aforementioned health and safety protocols, and we are maintaining close contact with our customers and suppliers to ensure we are meeting their needs today and tomorrow. To preserve our top line and build trust with our existing customers, we are continuing to reach out to our customers to understand their needs and to communicate our plans for operations and solutions delivery. To reinforce our ability to supply, we have improved communication frequency between our supply chain teams, suppliers and logistic partners to manage ahead of any potential disruption.

To adapt resources to meet customer needs and business needs, we have mobilized and repurposed resources to help in crisis response and relief efforts, whether through generating new PPE from existing materials or adapting existing products for high-need constituencies. To monitor and respond to market and competitive dynamics, we have refined and redefined budget and targets as necessary to reflect our new reality, a business landscape that changes by the day. And to prepare our teams and businesses for bounce-back scenarios, we are working to identify market opportunities that we can seize in an opportunistic way. We are continuing to work on a daily basis to fortify our reputation for customer centricity in everything we do.

Turning to slide 6, as I mentioned previously, we entered the first quarter with strong business performance and in a healthy financial position. But with ample uncertainty on the horizon in terms of our capital markets and our projections for further coronavirus-related impacts in the second quarter and beyond, we have been doubling down in the following ways to ensure financial resilience.

To manage cash and liquidity efficiency, we have maintained our strict discipline in controlling costs, reassessing all capital expenditures, prioritizing long-term strategic projects that are critical in our play-to-win strategy, and proactively freeing up resources. To ensure cost discipline we have cut all nonessential costs across all business groups, and to sustain our business through disruptions we have performed scenario-based stress tests and prepared short and medium-term action plans and have caused company leaders to mobilize them.

Turning to slide 7, I am confident that these actions will continue to allow us to respond with agility, face the challenges ahead and execute effectively through coordinating our responses and planning adaptively across our leadership team and the organization. Furthermore, we are engaging in and empowering our employees by transparently communicating changes in our operating needs, boundaries and expectations. We are leading with purpose and integrity by showing up in our work to make a difference for people and planet, and by stepping up to help our key constituencies get through this crisis.

Turning to slide 8, I am very proud of what Orbia is doing on the ground to provide coronavirus response relief and recovery solutions to some of our highest-need populations. A select few of these efforts on the way include launching a company-wide employee giving campaign to collect, pool and distribute resources to coronavirus response, relief and recovery efforts in vulnerable regions around the globe; donating 65,000 inhalers to help authorities to meet increased patient need for these life-saving devices that contain our medical-grade propellant gases; and rapidly developing, manufacturing and donating 100,000 face shields, produced in our European facilities, to healthcare workers and additionally supplying at cost 10,000 shields per day, 7 days a week, to meet global demand. Additional production capacity is coming in Brazil and Mexico soon.

In addition, we are actively partnering with local authorities, NGOs and partner organizations to expand and accelerate the delivery of key resources that we are generating, from PPE to sanitation materials, response infrastructure to new technology to monetary aid. And by the day we are bringing ingenuity to developing innovative products that will aid the world in the fight against the coronavirus.

Now I'd like to hand it over to Edgar, our CFO, to take you through the financial performance for the quarter. Edgar.

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

Thank you, Daniel, and Good morning, everybody. First, I want to thank our employees around the world who are all adapting to a new way of working. I will explain our financial performance for the first quarter as well as measures we are taking to protect our financial health in the wake of the coronavirus.

As you had read in our quarterly press release with a detail of our performance, I want to be very brief so we have additional time today for your questions.

Operator, please turn on slide number 9.

Despite the sudden change in the dynamics in several of our markets, driven by the outbreak of the global pandemic, Orbia achieved a strong profitability and cash flow generation in the first quarter. Our diversification by business and geography has proven to be a source of strength. While our performance in January and February was in line with our expectations, in March we started to see some pressures from the coronavirus pandemic impacted in our financials. Our top-line and profitability was affected by lower activities in Wavin Lat-Am, Netafim and Koura.

Let me give you some additional colors in terms of our revenues and EBITDA performance for the quarter. Revenues in general decreased by 8% to \$1.6 billion as compared to first quarter of 2019, mainly due to lower sales in Netafim and timing of delivery of megaprojects in 2019, combining with some impact of coronavirus in some markets in Asia, Europe and Lat-Am. This decline, however, in Netafim, was partially compensated by the strong performance in North America and Turkey.

In the case of Wavin, we had a very strong performance in Europe during the quarter and a good start of the year in Lat-Am. However, the coronavirus had an important impact on the sales in Latin markets in March due to its severe country lockdown measures compounded with the depreciation of the Real.

Koura downstream, top-line and EBITDA continue to be challenged by the illegal imports in Europe. This was not a factor in the first quarter of 2019.

Our EBITA margin expanded by 100 basis points to reach a 19% margin in spite of a challenging market environment. Our consolidated EBITDA reached \$309 million for the quarter, down 3% as compared to the first quarter of 2019.

Our strong profitability of the quarter has been driven primarily by solid performance in our VESTOLIT business supported by higher sales volume, improved industrial cost efficiencies and a strong containment of expenses, while absent the impact of 2 negative one-off effects in the last-year results. However, headwinds continue adding pressure in price in all of our products in this segment.

In Dura-Line, we had a very strong start of the year. Coronavirus pandemic has proven the need for robust communication networks globally. Network construction has been and will continue to be an important driver of demand for our portfolio of high-end solution, such as the future family in North America. The U.S. and Canada have seen an important increase in demand versus last year that were partially upset by lower sales in countries in Europe and in India, where the strict slowdown measures affected our demand.

In summary, our better mix of sales boosted our profitability by 230 basis points compared to the same period last year.

In spite of Netafim's lower sales, as a result of the timing of megaprojects mainly in Africa and India, as compared to the first quarter of 2019, Netafim continued to improve in terms of profitability due to a varied mix of products and regions served, combining with lower resin costs. As a result, Netafim was able to expand its EBITDA margin by 80 basis points.

Netafim is part of the food value chain, and our offering to support food security worldwide. We are deemed critical industry in all countries in which we operate, and we continue to operate fully to supply our customer demand.

Although demand is lower in areas severely impacted by the pandemic, we have seen the significant bounce-back in China already in March. The trend of self-dependency of food supply and expected continuing farm labor shortage are expected to positively impact our digital farming offering, consolidating our strong position as a market leader.

Now turning to slide 10 please. In this slide, I want to highlight our very strong free cash flow generation of \$105 million, reflecting a conversion rate of 34%. After 3 consecutive quarters of working capital improvements while sustaining EBITDA in the current environment, we were able to generate \$188 million in the quarterly cash generation. This performance reflects our ability to respond efficiently to the sudden change to the demand in some of our main businesses.

At the end of March, we will draw \$1 billion from our revolving credit line facility as a precautionary measure to ensure strong liquidity and provide financial flexibility through the coronavirus pandemic. This increase our financial debt to \$4.4 billion while cash and cash equivalents also increase to \$1.5 billion, resulting in a net debt of \$2.9 billion, pretty much in line with our views at the end of the year.

As shown here, we maintain a healthy financial structure of our debt. We lower our weighted average cost of debt to 4.1% from 4.9% in December 2019, with an average maturity life of 12 years. It is important to highlight that the next relevant maturity of our debt will occur in 2022.

In summary, our strong first quarter performance allowed us to get through this uncertain environment with a very solid balance sheet and liquidity.

Please, can you turn now to slide 11. The extent of the impact from the pandemic is difficult to assess at this point, given our standing question of its duration and magnitude. It is therefore very difficult at this point in time to provide accurate guidance for the remainder of 2020. In this uncertain environment, and as Daniel mentioned previously, we have implemented several actions to preserve liquidity and ensure our healthy financial performance, such as developing a business continuity plan from all -- for all of our operations; shutting down some inefficient facilities; recessing CapEx and selling idle and noncore assets; applying a zero-base approach in key areas; hiring freeze; eliminating nonessential traveling and reducing discretionary expenses; redefining inventory sector stock levels; renegotiating contracts for raw material, transportation and all relevant supplies; closely monitoring credit risk, among other actions.

In this context, we are preserving our internal core capabilities to take advantage of opportunities as bounce-back scenarios materialize. We are continuing to revise and adapt our financial plans on almost a weekly basis while performing stress tests, defining 3 years for further actions to be taken in the near- and medium-term horizons.

While times continue to be challenging, fundamentally our business remains strong and resilient, and we feel confident about our ability to continue to provide essential solutions in a very profitable way in the long term.

Please, move to the next slide. And now, I will turn the call back over to Daniel for closing remarks. Daniel.

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

Thank you, Edgar. I will provide now a quick wrap-up and then we'll open the call for questions.

As we navigate through the coronavirus pandemic, I want to take a moment to remember our esteemed director, Jaime Ruiz Sacristan, who sadly passed away earlier this month. As a board member and a chairman of the finance committee, Jaime contributed his talent, guidance and advice to build the company Orbia is today. Jaime's example of life endures among us. We are indeed facing unprecedented, uncertain and volatile times,

but we have the business strength, the balance sheets, the right assets, and most important, the team to navigate them resolutely and successfully. We will continue to execute for our customers and stakeholders, exercising responsibility and empathy during this difficult period.

In the upcoming quarter and months beyond, we will focus on maintaining strict cost and capital management discipline for our financial resilience while delivering our essential solutions. We will be taking care to protect and support the health of our people and our communities. We will build on our strengths to realize maintenance opportunities as we seek to advance life around the world, and we will get through whatever today and tomorrow bring, becoming ever-more future-fit in the process.

Thank you for participating on this call today. Operator, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today will come from Nikolaj Lippmann of Morgan Stanley.

Nikolaj Lippmann - Morgan Stanley, Research Division - Equity Analyst

2 questions, if I may. First of all, congratulations on the strong performance in the Vinyl's division. EBITDA return appears to have increased substantially, 33% by my estimate. Can you comment a little bit on the drivers of that? It seems to be a very strong performance in a difficult quarter. If there are any extraordinary drivers of that, number one. Number 2, prior to the crisis, you entered a strategic review of your Europe portfolio and investments and speculation about (inaudible). Can you provide an update on how you're doing, if you think that there's -- if it's in cost, like there's actually reasons to be optimistic that that could be progress on that front? Thank you very much and congratulations on the numbers.

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

Thank you so much for your kind words, Nik, and thank you for the questions. I'll take the second one, and I'll pass the first one to Edgar. So regarding our strategic review of our portfolio's assets, we continue to actively work with our financial advisors, with our team members, and with potential buyers. As we commented in previous calls, at this point in time we still cannot sort of share with you any details, but I can share with you that we are continuing this process and we will be able to share details as soon as we move along in the next phases of this transaction, potential transaction. Edgar, you want to comment on the VESTOLIT additional color?

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

Sure. Yes, basically, I mean the good performance, I will point out 3 different components. The first one is volume-related. We experienced a very good volume this quarter in several regions that we are already serving. Second, we will be able to -- we were able to also improve significantly the efficiency in the plans, and also to enhance the capability of the production in the cracker. And the third one is that clearly in 2019, we had 2 one-off events of force majeure, in VESTOLIT plant in Germany and also in the cracker that really affected by \$12 million to \$15 million the EBITDA last year.

Operator

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



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

I just wanted to discuss perhaps the -- what facilities you see being most impacted by this. You mentioned you were closing some inefficient ones. I was wondering, perhaps where those are located. And I also had -- I was wondering -- are you under any requirements by any governments to stop operations in any of your mines, or in any of your plants because of the coronavirus situation? Or are you still for the most part operating?

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

So in a nutshell, we're operating in most of our plants. Most of our supply chain activities are operating normally as well, and some regions as you know, we had to close or reduce capacity as a precautionary measure or at the request of local authorities. The main regions that have been affected are South America -- Colombia, Peru, Argentina and Ecuador; Central America, all countries except for Costa Rica; South Asia, which was primary India but we started to open up our manufacturing facilities in the last 10 days or so; and some countries in Europe like France, U.K., Italy, Ireland and Russia. Most of these are related to our Wavin businesses, and others --- and other of our businesses have been considered essential. So therefore, we have the, quote-unquote, permission to operate. I would say in general we are, as I said in my initial statement, we're operating almost 90% of our plants. The most important thing that we are complying with every single local regulation. We are enforcing every single health and safety measure to protect our employees, and we're continuing to have ongoing dialogues with health authorities in every country where we operate. And we're working on sort of making sure that we're ready for the continuation of our business and once the lockdowns finish in certain countries, we are ready to resume operations at 100%.

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

If I could follow up, maybe with just another question. In terms of -- there was mention in 2 of the segments, in Netafim apparently it was a major project that had ended, and so that had some effect on the level of sales. And the same in Dura-Line, where there was a large project in India that had ended. How -- in terms of the mix of business, how often do you have these kinds of major projects that come and, you know, can have a -- add to the lumpiness of the business, say? Or is that something that's just part of the business, you expect to have always a series of large projects and sometimes the timing isn't perfect to have smooth revenue?

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

So in the case of Netafim, this was a project in Africa where we expected this kind of lumpiness, as you mentioned. In general, we can say that this is not sort of a normal way in which we see this, especially given that today we are seeing more than 50% increase in the backlog versus the same period of last year in the case of large transformational projects for Netafim. So that gives us a more sort of balanced, sort of flow of revenues in the next several quarters. In the case of Dura-Line, we could say that it was a one-off. It was in one place in particular, in India, where we were actively working on a large transformational project in one digital city. Dura-Line is not sort of marked by these kinds of projects so we should not expect this kind of lumpiness in the future for Dura-Line either.

Operator

The next question is from Leonardo Marcondes of Itau.

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

I have 2 questions. The first is on the VESTOLIT and the Fluent segments. I was wondering if you could provide a bit more color on how have been the sales perform for these segments over April, amid the coronavirus segment. And also my second question is, on the Fluor segment, Koura segment, it has been almost 1 year that illegal importing into Europe has been impacting the company's result. So I would like to hear, and how has been the company's approach to through this situation and what could we expect the new future regarding this, thank you.

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

Okay. So let me take the first one. Regarding the impact that we've seen in the first part of the quarter, in VESTOLIT and our Fluent business division and let me remind everyone, that we are no longer talking about Fluent from a financial disclosure perspective. We want to provide all of you additional granularity in terms of our financials and in terms of our really understanding the equity story for each one of our business groups. So let me take first in the case of Dura-Line, Edgar mentioned in his comments, Dura-Line has proven to be a very resilient business. We have seen strong demand from our customers in the U.S. and in the rest of the world where we operate our Dura-Line business. We are seeing our relatively strong results, given sort of the situation that has affected both the supply and the demand in general for most of our businesses. But again, for most businesses, outside of (inaudible) but in the particular case of Dura-Line, we're very pleased to see how resilient this business is proving to be. The same thing as Edgar was mentioning is the case for Netafim, given our position globally, as one of the key players in the drip irrigation space and given food security and the relevance of food security all across the world. All of our businesses and our business operations in the case of Netafim have been deemed by governments as essential. So we operated all of our plants globally except for our plant in India, which was a complete shutdown. And as I mentioned to Frank, that plant is operating as we speak.

In the case of VESTOLIT, we are seeing a difficult beginning of Q2. As you know, the low oil prices have shifted the U.S. cost advantage to Asia and the E.U., and have generated lower PVC prices worldwide. We are seeing PVC prices decreasing by more than \$300 per ton in the second quarter of this year, but we expect this to gradually recover at normal levels by the end of the year. Today, we're seeing levels in the 500s in the U.S. I think it's important to remind everyone that the long-term prospects, given the supply/demand dynamic of a PVC resin business, are very, very positive. We are seeing demands in both China and India recovering. As we speak, we are starting to service our Chinese and our Indian customers out of our VESTOLIT plants worldwide and we see other sort of important markets recovering in the latter part of 2020. Regarding the question on Koura, and in particular on the illegal imports, we are waiting to see if the lockdowns and the tighter border controls, especially between the E.U. countries and non-E. U. countries like Turkey and Ukraine, have actually reduced the cross-border smuggling of illegal refrigerants. We will actually know if the supply becomes tight and pricing goes up, but at this point both demand and prices are down due to COVID-19 impacts. And I think it's important to note that the F-Gas quota steps down again in January 2021, and at this point it is very hard for the industry to predict what impact that will have on the market in the latter part of Q3 and Q4. Regarding what we do to contain sort of this negative impact associated to the illegal imports in the E.U., we think that while E.U. and non-E. U. cross-border smuggling may have reduced, we still don't see hard evidence. Other channels are still active and we continue to very actively work with E.U. authorities and member states to take forcible actions in every single front.

Operator

The next question is from Alejandro Chavelas of Credit Suisse.

Alejandro Chavelas - *Crédit Suisse AG, Research Division - Research Analyst*

Could you comment a little bit more with regards to the fluorite mine? We understand that it is still operational. How has been discussions with the government regarding keeping this operation essential? And second, could we expect an increase in demand for fluorine products with COVID-19, or how will you see the relationship there? You mentioned that demand is actually down, right, just on those 2 points.

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

Yes. So regarding the operation of the mine, we are as in any other country and any other sort of states, whether it's India, China, Europe or the Americas, we are in very, very close contact with health authorities, regulatory authorities, with unions. That is not the exception for the state of San Luis Potosi where we operate the mine. We have a very close relationship at every level with health authorities, state authorities and local authorities. The authorities understand that the importance of the operation of the mine is only higher given our position in the inhaler business. Let me remind everyone that based on the fluorites that we extract from the mine in San Luis Potosi, 100 million people use our inhalers that use the propellant gas that is produced in the U.K. That has proven to be, as we speak, very important to treat COVID-19 patients. So every single authority across the world is very much aware of the situation, but the most important thing is that health and safety of every single worker that



operates in the more than 44 countries where we have manufacturing facilities, that is our number one concern and we will maintain that as our number one priority throughout the crisis.

Regarding the prices of refrigerants, we are seeing obviously increased demand, especially in the sort of propelling gases associated to the inhalers I just mentioned. Again, as mentioned before, as we see sort of the shutdowns finishing in certain countries, we expect demands to increase. But at this point in time it's difficult to predict the nature of the price performance in the next few quarters. But we benefit in general, as you know, from the supply/demand dynamics given that we have 20% of the world's reserves of fluorspar and we do have a very, very strong position along the value chain ranging from the mine to aluminum fluoride to HF all the way to refrigerant gases and propellant bases in the global supply chains.

Alejandro Chavelas - *Crédit Suisse AG, Research Division - Research Analyst*

Just a follow-up question then. Can we confirm that the mine has been deemed an essential operation by the state of San Luis Potosi?

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

We are making sure that it's deemed an essential operation.

Operator

The next question today comes from Gabriel Barra of UBS.

Gabriel Barra - *UBS Investment Bank, Research Division - Associate Analyst*

I have 2 here. One on divestments. We understand that M&A movements not likely to happen in the short term. However, the end of this downturn, do you think that there would be a large M&A at play here, rather than just designer business? And could you please share your thoughts on final divestments? And the second one on the OXY agreement. Given the oil and gas spread compression, my understanding is that the agreement to (inaudible) on the cracker is unfavorable to Orbia at this moment. Correct me if I'm wrong here, but if not, should we expect any rebalance on the agreement moving forward?

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

Thank you. Regarding M&A and potential divestments, we don't expect as we've mentioned over the last almost couple of years, major acquisitions. As we mentioned throughout the call, both Edgar and I, we will make sure that we have the right capabilities and the right flexibilities to seize any opportunity as we see in the market. We are currently monitoring our competitors across all our business groups. Again, we don't think that we will see any major acquisition, but if there's opportunities out there that are accretive to the company and have the right impact in terms of our strategic positioning and the right return on invested capital, we will monitor those closely and we will allocate capital with surgical precision again, having return on invested capital as our key focus area. Regarding other assets that might be divested, we're talking about a few assets there and then mostly sort of real estate assets that today are not productive. We're actively working with Edgar and the team on that front, and as I mentioned to Nik's question, we continue to actively work on the potential divestiture of our VESTOLIT global business. Regarding the OXY deal and our partnership with them, as you well know we have a longstanding partnership with Oxy that has proven to be very, very profitable for both Oxy and Orbia. We continue to have an ongoing dialogue with them. I would not say that the situation today is not favorable to Orbia's interest. We have sort of secure access to raw materials all the way from the ethylene to the PVC that we produce in our plants in the Americas and in Europe. That gives us a significant advantage in the short-, in the medium-, and in the long term and we continue to see this asset as a very strategic asset for the company.



Operator

The next question is from Vanessa Quiroga of Credit Suisse.

Vanessa Quiroga - *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

So I would like to ask you about working capital, just to understand because the improvements, it has been impressive. So I wonder if you can provide more details about what, exactly, is improving in each of the divisions? Maybe you can tell us which division is improving the most in terms of working capital cycle. And if you think that you can continue to make improvements into the coming quarter. And also more specifically about the outlook for VESTOLIT and Netafim, so far what you have seen in April, do you think that the positive performance of VESTOLIT will continue in the second quarter? And regarding Netafim, do you think that we will see growth in the second quarter?

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

Yes. I mean, remember when we started discussing probably a couple of quarters ago, our focus was after significant investment in working capital in several of our business, how can we to some extent rethink about the way of working. And what we do, we had done so far that we had continued, because this is not the process that has already been finished -- we focus in different aspects. We have a significant concentration of the inventory and we clearly define with all the business group, several targets that we need to -- we need to comply with. And we are measuring and benchmarking every single facility around the world, and we can identify which are the best-in-class. And we tried to really leverage on about this. In terms of account receivables, that was also something that we try, especially in the businesses in which we have been extending payment transport wide. We have been also renegotiating and getting conditions to more normal payment terms. Of course today in the middle of this crisis we do experience some delays in the account receivables. But I will say that the 2 business in which we have been focusing more in terms of the working capital was Netafim and Koura, both are in a number close to 24%, 25% on sales. And those are the numbers that we need to continue reducing and this is the part of the target that we have. In terms of the second quarter, we will see probably -- I mean, still very early to say how we're going to be doing with the final working capital for the quarter, but we do see that the business are still -- I mean, as I mentioned, we reacted very quickly when we started this crisis. We have a meeting at the end of February, one meeting at the very beginning of March. And we set up different strategies to reduce the consumption. We stopped procurements on many things very quickly and this help us to reach the number that we show. So moving forward, I see that this is -- this is the way that we should continue doing. Of course there are some places in which today we are reaching a level of inventory that we had never seen in the past. And also from the operation point of view, all the safety stock inventory level has been reconsidered based on the new demand. And so those are the kind of things that I will say are the most important ones. And then your question was in terms of the dynamics for -- repeat the second question?

Vanessa Quiroga - *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

Basically the Netafim.

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

Yes. Netafim, as I commented, we do see that it's improving the -- I will state the second quarter is going to be better than first quarter. We see that China, which is not a significant portion of our sales of Netafim, just opened up and we are selling to them again. We do see that the demand in the U.S. continued to be very strong. So I'm very confident that in this quarter we're going to have a better performance. Regarding VESTOLIT as I mentioned also in my remarks, we have finished a very good quarter in which January and February the performance of the prices, also the PVC, were very good. Now after the crisis started and with the price of the oil going significantly lower, the PVC prices also has been going down significantly. So we are expecting a much weak performance of VESTOLIT in the second quarter.

Operator

The next question comes from Jean Bruny of BBVA Bancomer.

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

I just have a couple of questions. Basically the first one, the one on capital allocation in terms of dividend, you voted your dividend at the end of last year. Do you have any plan on this? Can you postpone it or you maintain? The other question is on the share buyback program. You bought about \$30 million of shares in the quarter, just to see if it's a policy, if you want to maintain it. Or it was just a one-off. And after that, I would like to rebound on Daniel's first comments. Daniel, you mentioned seeing some opportunities in the current environment, understood pretty well it was not time on M&A. But much smaller buy businesses. If you can bring some color on that, thank you very much.

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

In terms of the dividend, we do not consider this point in time any extraordinary measure with the dividend payments. The company has a very strong financial situation and we're going to be respecting our dividend. In terms of the buyback shares, truly we were active in the first quarter, taking advantage to some extent of the very low price of the stock at the end of February and starting in March. But just to be sure that it's clear that in our capital allocation, our progress is invested in our business. How can we grow organically, while continue looking for selective opportunities that we may see out there, especially after this crisis that clearly there are going to be several opportunities that can help us to complement or to expand our reach in similar way that Daniel was mentioning.

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

Thank you. And maybe Daniel, on the opportunities, you're seeing the market, in current market?

(technical difficulty)

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

We will call you after the call, Jean. I apologize for this inconvenience. Thanks.

(technical difficulty)

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

I'm here. I'm here.

Operator

The next question comes from Andres Cardona of Citigroup.

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

2 questions. The first one is, understanding there is a high degree of uncertainty, would like to understand what is the main reason for you guys doubt the guidance -- is it about oil prices? Is it about how do you see demand coming back? So trying to understand here, what is the main driver for it. And the second one is, if you can please break down the revenues of the Fluent business, per region, for Lat-Am, Europe, USA, Canada, and EMEA, please.

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

Okay. Let me answer your first question. As I mentioned in my opening remarks, we are today dealing with different scenarios, and there is still very, very uncertain how deep and how long can be the recovery of our -- I mean, activities and economies all around the world. And we -- in our set of business, portfolio business that we are running into, we really have the different degrees of impact. There are some business that has to some extent very marginally been impacted by the coronavirus, which is basically Dura-Line and Netafim, while others like VESTOLIT and Wavin has been much more affected because of a sudden reduction in demand, in which our -- from our 1 month to another, total demand went down by 50%, 60%. And it still, even though there are some signs that economies are start opening up, still are several economies that are maintaining the lockdown. So it's still very difficult to predict. And therefore, we decided to continue updating, and hopefully by the next conference call, we will have more color for the rest of the year. In terms of the Fluor, we tried not to bring this information on the regional basis because of the competitive reasons. So for the time being, what we have discussed, the plan is to bring the 5 business today as we are eliminating the Fluent, but we will maintain this, the breakdown only in terms of the business and in the total revenues by regions.

Operator

The next question is from [Albert Almon] of Morgan Stanley.

Unidentified Analyst

I have one question regarding the cash expenses in the following quarters that the company's expecting, and part 2 of that question is, if the \$1 billion that you'll take off the credit lines will be sufficient to with you -- for the full year or do you expect another withdrawal of the available lines?

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

No. We consider that with the cash that we have today, and with the different scenarios we are running, we do not need to withdraw additional cash. We continue monitoring any potential lines that we may target because of some efficient way of getting financing in this time, for incentives for different governments. But for the time being, we are not aiming to increase our total gross debt.

Unidentified Analyst

Okay. And how much cash do you expect to be burned during the following quarters?

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

It will depend very much on the evolution of the different scenarios that we have, but we try to preserve as much as possible our cash, as I mentioned. So our estimation is that probably in the next 2 quarters, especially in the second quarter and in the third quarter, we're going to be burning probably \$200 million to \$250 million, depending very much the recovery of the activities in the different business.

Operator

At this time we are not showing any additional questions. This concludes our question-and-answer session and I would like to turn the call back over to management for closing remarks.

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

Thank you very much, all, for participating in the conference call. Again, this is -- this is a very uncertain scenario and the company really has taken all the measures needed to really overcome the situation. And we are very confident that we're going to be getting out of this crisis, because crisis always represent opportunities. And this is the way that we are really looking into our future. Thank you very much, and stay safe.

Operator

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

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