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PRESENTATION

Operator

Good morning, and welcome to the Orbia Fourth Quarter and Full Year 2019 Earnings Results Conference Call. (Operator Instructions) Please note this event is being recorded.

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

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

Thank you, Chad. Good morning, and welcome to our earnings results conference call. We are pleased to be here today to present our fourth quarter and full year 2019 results. We appreciate your time and your participation in this call.

Our speakers today will be Daniel Martínez-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. Today, I'm looking forward to detailing our financial performance from Q4 2019 and 2019 overall, the stories behind our performance and to painting a picture for how we intend to see success in the years ahead.

2019 was indeed a pivotal year for Orbia. Notwithstanding continuing headwinds in several of our verticals, sluggish market conditions and overall macroeconomic uncertainty, I am happy to report that Orbia reached its full year guidance for 2019 in line with our expectations. And I reiterate that though many of our verticals were facing challenging context influenced by, for example, the illegal import of refrigerant gases into the European Union, our fundamental business drivers are strong and healthy. Our earnings power is there, our market penetration is growing, and we are making strides in terms of sustainable growth and value creation.

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

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

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

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

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

Turning to Slide 2. 2019 was an important year for Orbia. After having grown through acquisitions and expanded into new markets over the course of several decades, we recognize that we had reached a critical juncture. We needed to define our existence as we have become a global enterprise with ambitions beyond manufacturing commodities. This led us to unveil a new name, purpose and identity, which you can see here in a snapshot.

In 2019, we evolved into Orbia from Mexichem, reflecting our momentum as a force for the world. We bound ourselves as a team of 22,000 to a common purpose, to advance life around the world. We introduced the first-of-its-kind living logo mark or ImpactMark, to hold us accountable and track our year-over-year performance across key metrics touching profit, people and planet, from ROIC to percentage of women in management, to greenhouse gas emissions.

We identified the core values that could help us move on this purpose. And we recognized the need to reorganize into 5 business groups focused on providing customer-centered solutions across our Data Communications, Dura-Line; Precision Agriculture, Netafim; Building and Infrastructure, Wavin; Fluor, Koura; and Polymer Solutions, Vestolit.

Turning to Slide 3. This fundamental evolution, our ambition, assets and the capabilities we had accrued over 30 years, put us in the perfect position to make an impact on the toughest challenges of our time, from food and security to rapid urbanization, wireless scarcity to data access, human health to the health of the planet. These are the issues that touch our global economy and our communities, the ones that demand solutions for our existence as a company and occupants of this planet. To rise to these challenges, we started acting on our play-to-win strategy to capitalize on organic growth opportunities across our 5 verticals in challenged areas. In over 110 markets and more than 40 countries, our community of businesses is providing solutions that demonstrate that a future where profits, people and planet thrive is within our sight line. Our businesses are playing to win. Here are a few examples from 3 of our 4 -- 5 business groups.

Let's start with Koura. Turning to Slide 4. Koura has been a pioneer in the development of fluor products that play a fundamental role in enhancing life with applications in sectors from building and infrastructure to medicine. In fact, Koura currently provides the propellents that power over 75 of the world's metered-dose inhalers, which are used by more than 100 million people daily.

In 2019, Koura introduced Zephex 152a, a new, low-carbon footprint medical propellent that improves patient choice by providing a safer therapeutic option, while significantly lightening the environmental impact of the compound to a degree of a 90% reduction in global warming potential.

Today, Koura is embarking on clinical trials in the United States to validate applications of Zephex 152a for an array of respiratory conditions and is expanding its pharmaceutical-grade laboratory facilities in the U.K. to accelerate commercial development.

One of the most recent successes that we've had at Koura is a licensing deal with Chiesi. This is a very significant milestone for us in strengthening our position in the global pharmaceutical industry. It is early yet, but the anticipated EBITDA impact of the Zephex 152a will be significant, in the tens of millions of dollars.

Turning to Slide 5. Dura-Line is leading the connected revolution, providing the conduits that carry vital information and services to the half of the population in the globe that still lacks access.

Anticipating the 50 billion devices expected to come online in the next few years and the shift to 5G, Dura-Line invested in 2019 in evolving its sales coverage and developing a product mix with customer centricity, with smarter technologies, more reliability and scalability from multiple dwelling units to rail systems, cellular networks and smart cities. Over the years, we have developed long-lasting, close relationships based on our customer-centric approach and R&D capabilities to provide tailor-made solutions to major telecoms and global technology clients.

As a result, Dura-Line is today a highly profitable business with nearly 20% EBITDA margins and exceptional growth prospects. Our business has expanded outward from its major markets in the U.S., Europe and India and is now moving into the emerging Middle East, Africa, Asia and Latin American markets.

Turning to Slide 6. Netafim is a recognized leader in precise agricultural solution that enables farmers worldwide to grow substantially more with far fewer resources to feed the world's growing appetite, expected to increase 60% by 2050.

In 2019, Netafim was able both to grow within the market and grow the market. Specifically, Netafim made significant inroads into its target market of Africa. The business was able to secure 3 large-scale projects crossing the continent located in Rwanda, Tanzania and Gabon. These projects added to more than $100 million in revenue, and are being implemented now with Netafim delivering end-to-end agronomic to intelligent irrigation services to growers, looking to maximize yields across 33,000 hectares of sugarcane and palm crops.

I will briefly share our strategic action plan for ensuring operational excellence and superior financial performance in a bit. But now I'd like to hand it over to Edgardo Carlos, our CFO, to take you through a deep dive into our Q4 and full year 2019 numbers. Edga?

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

Thank you, Daniel. Good morning, everybody. Now moving on to Slide #7, please. I'll briefly go over the financial performance for the fourth quarter of 2019 and the full year 2019. As you have already seen the numbers in the press release, so I try to be brief, so you all have more time for the Q&A.

First, let me start with the fourth quarter 2019. We reached normalized EBITDA of $303 million without IFRS 16 and other onetime effects, representing a significant increase of 13% over last year. This was mainly driven by strong performance, supported by a significantly higher profitability in the Dura-Line business, which doubled the EBITDA reached in the fourth quarter of 2018, as a consequence of a better product mix and lower raw material costs as well as the high-performance of the Netafim business spurred by similar trend.

On the negative side, we were affected by lower activity in the Wavin Lat Am as well as the continued significant impact of illegal import of refrigerant gases in Europe in our Koura business.

Revenues decreased by 3% to $1.6 billion, mainly driven by lower sales in our Wavin, Koura and Dura-Line business, the latter of which is resulting from lower sales in India and those in our natural gas distribution business in the U.S. However, as pointed out before, Dura-Line is shifting to a much higher value-added mix in the portfolio.

In addition, improvement in our working capital drove higher cash generation in the quarter to reach $312 million, with a strong free cash flow conversion rate of 75.2%.

Now let me give you a few full year highlights. In 2019, overall, our normalized EBITDA without IFRS and onetime effect decreased by roughly 6%. This was mainly due to the challenging market conditions faced by Vestolit and Koura, as mentioned in our press release.

However, we saw a significant improvement in profitability in the Fluent business, primarily in Dura-Line and in Netafim. For the full year, revenue decreased by 3% year-over-year from $7.2 billion to $7 billion, mainly driven by lower sales in Vestolit, Wavin and Dura-Line business, impacted by lower prices of PVC and caustic soda, sluggish market condition and illegal imports in Europe.

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

Now turning to Slide #8, please. As previously mentioned in the highlights, I want to emphasize the strong cash flow generation in the quarter and for the full year as well, as a result of maintaining a very disciplined approach on how we allocate capital across all of our operations.

Getting into the detailed numbers. Our free cash flow for the quarter increased by 18% to reach $221 million, reflecting a strong conversion rate of 75.2%. In this current and challenging environment, we maintain a disciplined capital deployment approach, focusing our efforts around better working capital management and a rigorous CapEx investment during the period, as we saw in the previous quarter.

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

(technical difficulty)

Operator

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

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

Hello? Okay. I will start back from Slide #8. So as previously mentioned in the highlights, I want to emphasize the strong generation of free cash flow for the quarter and for the full year, as a result of maintaining a disciplined approach in how we allocate capital across our operations.

Getting into the detailed numbers. Our free cash flow for the quarter increased by 18%, reaching $221 million, reflecting a strong conversion rate of 75.2%. In this current and challenging environment, we maintain a disciplined capital deployment approach focusing our efforts around better working capital management and a rigorous CapEx investment during the period, as we saw in the previous quarter.

For 2019 and driven by our focus on operational excellence in managing and controlling our business, in this environment, we saw similar trends in how we generated positive free cash flow that translated to a strong conversion rate of 30.4% in 2019 compared to 21 -- 29.1% during last year.

Clearly, we will continue our efforts to focus on delivering strong cash generation in 2020. During the quarter, our total financial debt declined to $3.5 billion, while cash and cash equivalents were $586 million, resulting in a net financial debt of $2.9 billion. It is our aim to continue focusing on using our free cash flow to continue reducing our debt.

As shown in this slide, we maintain a very sound balance sheet with a healthy financial structure of our debt. We kept our weighted average cost of debt below 5%, with an average maturity life close to 14 years.

Finally, I'm pleased to announce that starting in the first quarter of 2020, we will provide a more comprehensive view in our financial reporting, eliminating our former Fluent segment, and reporting information on each of the 5 vertical segments add to EBITDA, so you can have a better visibility and understanding of evolution of each of our key segments.

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

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

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

Turning to Slide 9. Our play-to-win strategy focuses on organizing for success, optimizing for today and cultivating for tomorrow. Unlocking new levels of operational excellence will only come from aligning the strategic choices of our business groups and functional teams working as one engine to ensure that we continue to meet customer demands and advance life together with every choice we make.

From sustainability to human-centered innovation, health and safety to ethics and compliance to governance and people, our functional teams are working today with our business groups for a better tomorrow. Our newly established critical risk committee set clear roles, responsibilities and accountability for how we manage risk, providing an enterprise risk management framework to determine risk appetite and set associated limits for all of our activities. And our newly established critical risk -- doing good as we do well is critical. And we maintain a foundational commitment to fostering an ethical culture led by integrity, transparency and compliance.

In 2019, Orbia's new ethics and compliance team continued to invest in programming and compliance governance infrastructure to enhance the procedures that will help us conduct our business activities in full adherence with local and global laws. I have been personally invested in building an ethics and compliance team, systems and processes that will keep us aboveboard and avoiding any preventable violation in our activities.

Turning to Slide 10. 2019 has been a high momentum year for all of us at Orbia, as we keep moving forward to become a purpose-driven, customer-centric, future-fit force for the world.

I want to conclude by emphasizing that we have what it takes to deliver on our purpose. And we remain focused in our commitment to increase shareholder value by improving customer centricity, maintaining strict cost management to support top line growth and margin expansion and enacting our disciplined capital allocation strategy.

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

Thank you all for joining us on the call today. Chad, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Luiz Carvalho with UBS.

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

It's Luiz here. First of all, thanks for the additional clarity that you will provide in the business lines looking forward. I think it's going to help us a lot on trying actually to have a better visibility in each of the business lines.

I would have basically 3 questions here. The first one is about the capital allocation. If you can give a bit more color on the -- on business segments and how we should think looking forward? It seems that the company has been really into the strategy, maybe I don't know in the vinyl business when you provide a bit more details on. I would say, this path towards more a customer-centric and less a commoditized company. So how should we think about this?

Second, it's more about the organic growth -- CapEx growth. So where do you see ideal capacity to grow within all business lines. Obviously, I'd say the spreads volatility and the recent coronavirus outbreak.

And the third, I mean do you have any visibility you can share with us about potential dividend policy? And how should we think about that looking forward?

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

Thank you, Luiz. So let me take the 3 questions. First one is related to capital allocation in general and specifically to vinyls in the consumer-centric environment. Again, our play-to-win strategy is a very clear framework that enables us to have a very disciplined capital allocation policy to ensure that every time we've decided and we've made explicit choices about where to play and where not to play and how to win, we will direct our capital, we will direct our people, and we will manage our risks in a very aligned way with our conscious choices, meaning we've identified every single investment that we need to make for our 5 business groups for the next 3 to 5 years in order to have a play-to-win position in every market, in every segment, in every geography that we've operated and that we will be operating moving forward. We're tapping into new markets and new opportunities across our 5 business groups, specifically, for example, in the case of Dura-Line, I mentioned during my introductory remarks that we're entering into the Middle East. We're entering more aggressively into Latin American markets, and we're also entering into Africa. Same thing with Netafim and other business groups.

Specifically related to vinyls. Vinyls has a very, very huge component associated to customer centricity. Specifically related to our specialty resins business, let me remind everyone that we hold our #1 position globally in terms of the specialty resins space in PVC globally. And also, our compounding business is highly customer-centric, focused on developing formulations on a tailor-made context for each one of our customers globally. So again, vinyls is not the exception. We have been customer-centric for quite some time now, and we will continue to invest in this business, which is very profitable and where we hold a very strong position globally.

In terms of growth CapEx moving forward in the context of coronavirus. As you know, uncertainty is increasing and moving by the minutes. As we speak, we have a very clear understanding of what is our traditional exposure, in particular, to China, which is today very insignificant. We have an understanding of what is the impact of the coronavirus in the context of potential global supply chain disruptions for each one of our global businesses. And we are operating accordingly, reacting with very disciplined cost management, very disciplined capital allocation and with a very strong balance sheet that will enable us to continue to be resilient as uncertainty may increase over the next several weeks and months.

Finally, our dividend policy will remain constant, very similar to what we have seen in the past couple of years, in line with our ordinary dividends that have been paid out in the last 24 months.

Operator

Our next question will come from Vanessa Quiroga with Crédit Suisse.

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

Congrats on the improvement in margins in Fluent. Actually, that brings my first question. Can you quantify more or less how much of the EBITDA improvement was from a reduction in raw material prices? And how much was from strategies related to improving the sales mix?

And the other question I would have is regarding your outlook by each of the subsidiaries in Fluent. So for Dura-Line, what can we expect in terms of growth for the U.S., Europe and any other relevant markets? What about in the case of Wavin, the growth that you expect for the different markets?

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

So in the case of our Fluent business, we were actually benefited by lower raw materials, as you mentioned, Vanessa. But that was actually a combination of both enhancing our product mix and moving to higher profitability products and at the same time, the combination of lower raw materials. I would say it was 60-40, 60% associated to moving on -- moving to higher profitability products and 40% related to the raw material decrease in cost.

In terms of the Dura-Line, Wavin and Netafim business moving forward and our outlook for the next year. In very general terms, I could share with you, all of you that Dura-Line expects to have stable growth in countries like the U.S. from a top line perspective, but we are focusing on higher-profitability products, in particular, in the U.S. We are increasing, in a very significant way, our sales coverage in regions like Lat Am, Middle East and certain countries in Europe, like Germany and the Nordic countries. We believe that by moving to products that have higher profitability, we can see an improvement in top line growth, but a higher improvement in profitability.

In the case of Wavin, we see growth prospects for Lat Am, in particular, for Brazil. We see stable growth in Europe. We are optimistic in terms of what's coming up in 2020 after a lot of uncertainty associated to Brexit, in particular, in the U.K. We are executing our play-to-win strategy in regions like Asia, in particular, India, Indonesia and other countries from an organic perspective.

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

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

Great. So regarding India, is -- what's going on in terms of the Orbia strategy in India in the more medium term?

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

That's a great question, Vanessa. We are actually leveraging the fact that there are very significant opportunities across all our business groups in India. As you know, we have thousands of employees, just from a Netafim perspective, operating and helping farmers grow more with less day-by-day in India. We're leveraging our significant position, thanks to our Netafim footprint, to really sort of drive an Orbia position that will enable us to capture opportunities in the Datacom space. We've done very interesting projects in smart cities over the last 3 years. But we want to continue to capture growth opportunities in the 5G deployment space in that country in particular. Wavin is actively exploring opportunities in the organic space, building capabilities that will help us have a significant position in the high-end part of our products, services and solutions in the building and infrastructure space. And the rest of our business groups also have been actively, not only identifying but also capturing opportunities in the 0 halogen space, specifically for our vinyls/compounding business. And we are very keen to develop an Orbia position that will probably transform India in a $1 billion-plus operation, 3 years, 4 years, 5 years from now.

Operator

The next question comes from Leonardo Marcondes with Itaú BBA.

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

Actually, I have 2 questions. First about the EBITDA guidance. I would like to know if you guys could provide more color on the guidance by breaking down by segment?

My second question is on the Fluor segment. Is there any update on the illegal imports in Europe? That's my question.

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

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

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

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

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

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

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

Operator

The next question will come from Alejandra Obregon with Morgan Stanley.

Alejandra Obregon Martinez - *Morgan Stanley, Research Division - Research Associate*

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

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

Yes. That's a great question. These are transformational projects in India, in different sort of parts of India. Our first transformational project happened in Karnataka, where we today have more than 60,000 farmers that were connected in community irrigation projects. These projects take time from a business development perspective and take time from an implementation perspective, but have a long-term impact in terms of significantly increasing yields in terms of the different crops that these farmers operate and significantly reducing the water consumption.

The projects that we mentioned in Africa, in particular, Tanzania, Gabon, Rwanda, et cetera, are projects that have an infrastructure component in terms of building and giving access to water to farmers and to different companies that operate different crops. There's a huge services component to this business and a product component to this business.

So the way you should understand Netafim business is, a, we have the traditional drip irrigation technology business segment, if you will; b, we have transformational projects that could be both community irrigation projects like the one I described in Karnataka in India, but also transformational projects for specific crops like sugarcane, which is what we're doing in Ethiopia.

And then as we mentioned in previous calls, we're working on developing and strengthening and scaling what we call an irrigation-as-a-service business model, which, instead of selling products, drippers or systems, we partner with our customers, and we actually operate the drip irrigation technology with our high-end NetBeat digital solution. And we service the business in a multiyear sort of structure, where we stop being a product manufacturer and a product sort of delivery mechanism and we actually transform the Netafim traditional business model into what we articulate as a service provider business model, which has huge potential all over the world in every single crop and in every single country where we operate today.

Alejandra Obregon Martinez - *Morgan Stanley, Research Division - Research Associate*

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

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

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

Operator

The next question will come from Vicente Falanga with Bradesco.

Vicente Falanga Neto - *Banco Bradesco BBI S.A., Research Division - Research Analyst*

I had basically 2 questions. You mentioned how Brazil has been picking up. And as a matter of fact, we are seeing construction picking up here in Brazil. I just wanted to see, if you're already seeing orders for PVC pipes picking up or still not?

And can you remind us, if possible, what is the EBITDA of Brazil right now? I remember it used to be something close to $40 million, more or less. Historically, in better years for Brazil, it had been closer to $70 million.

And then you also mentioned, my second question, that you expect that India operations to add up to $1 billion-plus in 5 years. Just to check if this is top line? And if yes, I mean, if we assume a 15% EBITDA margin, then India could add about $150 million to your EBITDA?

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

Okay. In terms of Brazil, yes, we do see a better activity in Brazil in several of our business, particularly in -- for pipes in Wavin. We do see an increase expected for 2020 in the range of 5%. And -- I mean, we try not to disclose the EBITDA numbers for each country in particular, but it's a little bit lower than the numbers that you just mentioned.

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

And regarding India, it is top line. And that -- the expectation that I described was articulated by you very well. So...

Operator

And our next question will come from Alejandro Chavelas with Crédit Suisse.

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

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

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

Yes, for sure. I mean, you're right. I mean, we've been growing working capital in an environment in which the top line was not growing. That is a consequence of several factors. One was, as we mentioned in previous conference call, the impact of the delay in collection in India after the election in May that really, to some extent, increased our account receivables that are going slowly back to the normal, that we are expecting to be basically normalized during the first half of 2020. And at the same time, in particular cases, in which we -- depending of the situation of the creating inventory because we anticipated some shutdown in our facility for storage and maintenance. So both really contributed to increase our working capital.

As you see, in the last consecutive quarters, we have been working very strong to reduce the working capital, and we are really working with every single business group to review every day, the days of receivables, the days of inventories and also the days of payables.

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

Okay. Very clear. And regarding CapEx, do you have any specific target in mind for 2020 and a figure or something that you have in mind?

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

Yes. We -- as commented in the last conference call, we are -- I mean, we are coming from a CapEx of $270 million -- $260 million in 2019. We are expecting to invest approximately $360 million for 2020. $100 million out of this $360 million are very much related to the things that Daniel was mentioning. Our expansion -- regional expansion, some greenfield project based -- boosting our organic growth and very much focusing on the ones that are the play-to-win, in which we identify those that are with really very low -- very short payback and the ones that are very transformational for our business as a whole.

Operator

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

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

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

Operator

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