THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MEXCHEM*.MX - Q3 2019 Orbia Advance Corporation SAB de CV Earnings Call

EVENT DATE/TIME: OCTOBER 24, 2019 / 3:00PM GMT

THOMSON REUTERS

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

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

Christian C. Landi *Scotiabank Global Banking and Markets, Research Division - Deputy Director of Metals and Mining & Analyst*

Joao Victor Lorenzi *BofA Merrill Lynch, Research Division - Research Analyst*

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

Pedro Medeiros *Citigroup Inc, Research Division - Director and 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 Third Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

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

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

Thank you, Ben. Good morning and welcome to our earnings results conference call. We're pleased to be here today to present our third quarter 2019 results. We appreciate your time and your participation in this conference. Our speakers today will be Daniel Martínez-Valle, Orbia's CEO; and Edgardo Carlos, our CFO, who joined us in August.

I will now turn the call over to Daniel for opening comments.

Please, Daniel?

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

Thank you, Gerardo, and welcome everyone to our third quarter 2019 conference call. In this call, we will start with the financial highlights of this quarter. We'll then describe the key elements of our strategy to ensure strong and sustainable value creation. And finally, our new CFO, Edgardo Carlos, and I will go into our quarterly financial results.

I want to take this opportunity to warmly welcome Edgardo into his new role as CFO of Orbia. He comes from more than 30 years of experience in finance, and I'm sure he will actively contribute to further building an organization marked by superior operational and financial performance. Welcome, Edgardo.

Turning to Slide 2. For a third conservative quarter, we showed an improvement in our consolidated EBITDA. This was driven by a strong performance of our Netafim and Dura-Line businesses, whilst our Vinyls business also showed a third consecutive quarter of improvement, given wider spreads within the ethylene chain. In our Fluor downstream business, we continue to see a negative impact from the illegal imports of refrigerant gases into the European Union, which was partially offset by a sound performance in our upstream business.

When compared to the previous quarter, we are still seeing some pressures associated to where we are in the cycle as well as a slowdown in the global economy, particularly in Europe and in some emerging markets where we are present. Despite some headwinds, we continue to work on improving company sales as well as our operational and financial performance. We are focusing on markets, products, services and solutions where we have higher profitability and will continue to control costs to better manage our working capital across all our businesses and with a very disciplined capital allocation policy.

On the sustainability front, I have good news that I would like to share with you. Orbia is now a component of the Dow Jones Sustainability Index. We adopted a task force on climate-related financial disclosures. And finally, we signed the United Nations CEO Water Mandate. Before we go into the numbers and trends for the quarter, let me share with you where we are in terms of the 3 key elements of our strategy to ensure strong and sustainable value creation.

Looking now at Slide 3. Early last year, we asked ourselves a very relevant question. How can we accomplish and what can we accomplish as an organization today? This company began as a very different business back in the 1950s, before many of us were even born. Through the years, we have grown and acquired new companies and new technologies. We have entered new markets, we have expanded our offerings and have changed our name. Today, as a truly global company with a proud history and huge aspirations, we came to this conclusion: it is now time for us to evolve. It is time to elevate our ambitions and to transcend with a new identity that reflects our ability to be a force for the world, and we have a clear strategy to accomplish this.

The 3 key elements of our strategy for strong and sustainable value creation are: organizing for success; optimizing for today; and cultivating for tomorrow. The first element has to do with defining our name, articulating our purpose and values, rolling out our new brand architecture and defining our place to win strategy. The second element optimizing for today means essentially running the business in a way in which we can move the needle on all metrics that can ultimately result in superior performance and greater shareholders' value. And finally, cultivating for tomorrow is about ensuring that our company is resilient and relevant 10, 20 and 50 years from now based on our human-centered innovation efforts.

Moving to Slide 4. A significant part of this elevated ambition has to do with a new identity that reflects our ability to be a force for the world. This is why today, we are Orbia.

Turning to Slide 5. "Orb" is a Latin word for spherical globe and "bia" is a word from the Greek mythology for the personification of force. We put these 2 together to mean a force for the world. Whenever you name something new, the name takes on meaning with time and context. In this case, our 22,000 colleagues will give our new name its meaning to truly be a force for positive change in this world.

Moving to Slide 6. Today, Orbia is a community of companies bound by a common purpose: to advance life around the world.

As you can see on Slide 7, we used to be organized in 3 distinct groups: Fluor, Vinyl and Fluent.

Going on to Slide 8. As Orbia, we started to think about our business units in a more deliberate and streamlined way. So we changed the structure to work more effectively. Today, we are organized in 5 business groups: Precision Agriculture, Building & Infrastructure, Data Communication, Polymer Solutions and Fluor. In other words, we are structured in a way that is more customer-focused based on the reasons our customers come to do business with us.

Turning to Slide 9. Moving forward, each business will be represented by a single brand. In Building & Infrastructure, Wavin will be the final customer-facing brand. Data Communication will be represented by Dura-Line. Precision Agriculture will be represented by Netafim. When it comes to Polymer Solutions, we used to have different brands and now, we will be reviving our strong heritage brand Vestolit. Our Fluor group also had different brand names, so we are launching a new brand altogether called Koura. All this change is happening for a very, very important reason. This transformation is about becoming a future-fit, customer-centric and purpose-driven company, working together to tackle some of the world's most complex challenges.

Now on Slide 10. The biggest challenges in the world show up everywhere across the globe and the solutions will only arrive through a concentrated global effort. Our new structure will help us work together, giving power to our global brands and helping us engage customers all around the world as we tackle some of these global challenges facing humanity today: leading a global-growing population; access to clean water; the future of cities; data access; health, wellness and safety; and finally, moving from being an extractive company and starting to make a dent into the circular economy. These are not small problems. Every single one of us has a role to play in addressing them and the choices we make day-to-day matter.

Looking now at Slide 11, which shows our impact mark. We are all excited about delivering on our promise to advance life around the world. How are we going to hold ourselves accountable to this admittedly ambitious purpose? One way is to bake our intentions into our brand. You may have noticed the series of imperfect circles next to our name in our new logo. This is a symbol we're calling our impact mark. This mark wasn't drawn randomly, it's actually a representation of how our business is doing against several important metrics, which represent our impact in terms of profit, people and planet. Our impact mark will be updated every year with our performance. The 3 loops indicate the past 3 years and as we do better, these lines will progress outward. We're constantly striving, trying to make a perfect circle knowing we'll never reach perfection.

Let me now turn it over to our CFO, Edgardo Carlos, so that he can explain how we're going to deliver superior operational and financial performance and unlock value to our shareholders.

Please now move on to Slide 12.

Edga, the floor is yours.

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

Okay. Thank you very much, Daniel, for introduction, and good morning. It's really a pleasure for me to be part of this amazing transformation process with a very talented group of people that are very strongly motivated to contribute to get the best of all of us.

Based on my previous experience, I'll be very much focused on a very granular approach of management control to unlock full potential of all of our existing asset base. Following Daniel's comments, we are now expanding our focus on an enhanced set of KPIs which will track our transformation journey and translate into higher value creation for all of our stakeholders.

I would like to share with you some of specific examples on how we can make a substantial progress to improve our financial performance. I will start with a market intelligence-driven focus, aiming to gain market share and expand our existing market position through further geographical expansion. We will continue consolidating a healthy EBITDA margin by continue reducing our exposure to commodity products and expanding to higher differentiated solution to all of our customers.

Becoming best-in-class in operational excellence is a must, and we will tackle this in several areas: safety, quality, capacity utilization, optimization of our current footprint in industrial sites, and getting economy of scale for global sourcing.

Additionally, we will be much focused on gaining efficiency to reduce our SG&A through synergy across all businesses, expanding our shared service concept for supporting area, improving logistics and freight that are a relevant component of our cost structure as well as leveraging existing global footprint to make additional inroads for other businesses.

Leveraging our existing R&D capabilities together with our enhanced view on innovation through programs fund by the corporate venture capital fund that will bring new revenue streams. Our target annual free cash flow conversion should be reached at least 30%, with a strong cash generation through effective management of our working capital. Laser focus on capital allocation, spending in 3 critical categories: investment to maintain the business to avoid unexpected interruption in our operations; investment in growth projects with very short payback; while also funding transformational growth within our play-to-win initiatives for new products and services. A very disciplined execution on these initiatives over the coming years will allow us to live our transformational growth strategy and drive significant value creation for our businesses. That will translate into higher organic top line growth, while maintaining a very healthy EBITDA margin, consequently improving our return on invested capital to reach low double-digit figures in the coming years.

Now can we turn to Slide #13? I will go very briefly on the financial performance since most of these has already been commented and presented in the press release, just in order to allow more time for the Q&A.

In spite of the continued headwinds affecting some of our businesses such as the illegal imports of refrigerant gases into the European Union and lower prices of caustic soda, condition that were not present last year, we were able to deliver a strong financial performance while maintaining a very healthy profitability.

As previously mentioned in the highlights, we achieved a third consecutive quarter of improvement in our EBITDA, driven by a strong performance supported by double-digit growth in Netafim and Dura-Line profitability, which partially compensate lower activities in our Wavin Europe operation as well as a significant decrease in the caustic soda market affecting our Vestolit business.

Operator, can we move to Slide 14, please?

Our free cash flow increased by 96% to reach $151 million, reflecting a strong conversion rate of 39.5%. In this context, we maintained a disciplined capital deployment, reflected a contained CapEx investment during the period. After several quarters of investment in working capital, we reached a turning point, recording an improvement of almost $50 million. This strong free cash flow allow us to repurchase shares for a total amount of $42 million. During the quarter, our total financial debt remained practically unchanged at $3.6 billion, while our cash and cash equivalent were $593 million, resulting in a net financial debt of $3 billion.

We will continue focusing on using our free cash flow to reduce our debt to maintain our investment-grade rating. As shown in the slides, we continue with a very sound balance sheet and a healthy financial structure of our debt. We keep our weighted average cost of debt below 5%, with an average maturity life close to 14 years.

Now I will turn back to Daniel for closing remarks and open up for Q&A.

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

Thank you, Edga. Please move on to Slide 15. I want to conclude by emphasizing that we have what it takes to deliver on our promise to advance life around the world. We remain focused on our commitment to increase customer centricity, to maintaining strict cost management that will support top line growth and margin expansion, and a very disciplined capital allocation that will continuously deliver high return on invested capital and strong cash generation.

I want to thank you all for being on the call today. Ben, we can open for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Luiz Carvalho with UBS.

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

Thanks for the presentation and the data that you just made available to us. It's important to understand the changes you have been promoting. However, I'd like you to try to help me to translate the more qualitative data into some quantitative figures. So I think that Edgardo mentioned some of the targets in terms of free cash flow and ROIC. So if you can give us a bit more color on when do you expect to reach these targets and how sustainable they are in terms of at least the next, let's say, a year or 2 years? I mean regarding all the changes that you are promoting in the company, you probably have some extraordinary costs that are included or impacted by this transition. And second question, it's -- if you can provide a bit more details on the Fluor business mainly in Europe due to the illegal imports that you're facing. What is the outlook that you have for the business looking forward?

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

Okay, Luiz. Yes, coming back to your first question. As I said, we are targeting to increase our return on invested capital and our free cash flow, as -- I would say, the pillars of our profitability and turnaround of the result of the company. We are flying today close to $8.4 million on an annual basis, return on invested capital. We are really aiming to improve this for next year, probably trying to reach close to $10 million and then going forward. And in this, it will be dependent how fast we can move to the restructuring of some of the operations in terms of reducing costs, probably consolidating some of the facilities that we are operating today, and at the same time, working very extensively in reducing our working capital. Just to make -- to give you some flavor, even though in our cash flow, we presented only $48 million reduction in working capital, the true reduction was close to $87 million because in the middle, we were canceling part of the trade financing. So it was starting with a very good improvement in working capital. We are expecting an additional improvement in working capital in the fourth quarter, and there is significant actions to be launched next year to be able to maintain this kind of contained working capital or efficiency based on the last 12 months' sales.

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

And just if I can make a follow-up just on this question. I mean how do you think in terms of capital allocation, you mentioned about potential investments, maintenance investments and also growth investments. But you're targeting -- I mean you mentioned this quarter close to 40% free cash flow. So how should we think about the company looking forward in terms of, let's say, acquisitions, like dividend payments, the high returns? So how should we look to Orbia looking forward in this sense?

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

Sure. I mean we're running different scenarios and that will depend very much also of the dynamics of the economy on the macroeconomic scenario for next year. We're not going to be committed a significant amount of CapEx, and we're going to be doing those on a stage quarter-by-quarter. But a rough number we are estimating to be in the range of $350 million. I will say that half of these will be devoted to the maintenance to keep the lights on and keep the operation in good shape and the rest of the other 50% is going to be a very significant process of prioritization in terms of the high return. And as I said in my prepared remarks, we're going to be splitting those that has a significant short payback, so we can get some impact on the EBITDA very close and the ones also that we're going to be included in the play-to-win. As we commented in the past, we are not in this stage looking for significant M&A. Our focus is on an organic growth. We consider that we have already a very good and unique set of assets that we need to make sure that we get the most of them. And for them, we're going to be increasing the return on invested capital.

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

Let's turn to the Fluor question, in terms of the illegal imports of refrigerant gases into Europe. Let me say that the situation is quite complex. The EU authorities are trying to deal with this issue. It was unexpected for them. And it appears that this is not a situation that will be fixed overnight. We are working very actively with the industry consortium and with our peers. And we're working hand-in-hand with the EU authorities. This illegal trade is now estimated to be over 25% of the European market. And in addition to the illegal import through ports, customs of the 28 member states, we're seeing an increase in smuggling through non-EU borders through countries like Turkey, Ukraine and Russia. We're concentrated on several efforts in terms of investigation, law enforcement. We're pressuring EU and non-EU members. We're working on the PR front. We're working on developing technology solutions that can help us move the needle in terms of this problem. And we're, obviously, trading -- exploring possible sort of trade leverage with the EU and China. At this point in time, we cannot mention any specifics in terms of when we can expect this trend to change. Most of the imports that are coming into Europe are coming from China, both through EU borders and non-EU borders. And in this context, 2020 from a situation associated to the illegal imports will be hard to predict. The good news is that we have been implementing value versus volume strategy on our Fluor business. That has been proving to be the right strategy. As you saw in the highlights and as you saw in the numbers, our upstream business has almost fully offset the negative impact of these illegal imports. We're working very heavily with the Koura team, who have a sound and a successful 2020 moving forward.

Operator

Our next question comes from Christian Landi with Scotiabank.

Christian C. Landi - *Scotiabank Global Banking and Markets, Research Division - Deputy Director of Metals and Mining & Analyst*

I have a couple of questions, if I may. The first one is that, in your press release, you mentioned a better performance at Netafim in the quarter. I was wondering if you could expand a little bit on that, give a few details. And the second question is, on the Vinyl segment, well, the Polymer Solutions segment now, it seems that the ethylene or the ethane prices have receded a little bit, but I was wondering what are your views there for the coming quarters? Say, is the volatility or the expected volatility between ethylene and ethane to disappear? And if that's the case, could we expect EBITDA margins for the Polymer Solutions segment of above 20% as we had this quarter?

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

Our Netafim business has performed very well, even better-than-expected in terms of both top line growth and EBITDA growth. We're very happy, and we're very pleased with the progress of the Netafim acquisition, not only in terms of its contribution, in terms of top line growth and profitability, but also in terms of the synergies.

In terms of the Vinyl part of the question, we see the spread in the ethylene, ethane space behaving in a very similar way, slightly better in the fourth quarter if compared to last year. Remember that we had a couple of one-offs associated to force majeures in the fourth quarter. So comparing the same period versus 2018, we do expect some improvement, but we're seeing the Vinyls market behaving in a very similar way in Q4 versus the last quarter of this year.

Operator

Our next question comes from Joao Lorenzi of Bank of America.

Joao Victor Lorenzi - *BofA Merrill Lynch, Research Division - Research Analyst*

(technical difficulty)

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

No, Joao, we cannot hear you.

Operator

I think we should go on to the next questioner. The next question comes from Pedro Medeiros of Citigroup.

Pedro Medeiros - *Citigroup Inc, Research Division - Director and Analyst*

I have a couple of more strategic questions, following up the discussion on the presentation and the timing for revisiting the strategy, the name. So as part of the transformation process, can you comment on capital allocation around all of the company's business segments and how you're thinking about this? It was an emerging debate about potentially revisiting the strategy and your asset base in Polymer Solutions. So any extra color you can give on the strategy behind how you're allocating capital there? And second question, which is kind of linked to the first question is, if you can give extra color on your organic growth CapEx? Where are you allocating more capital to grow capacity? And where you see some capacity tightness or opportunity to grow capacity across all of your business lines? My last question is, Daniel, when you joined the company, you elaborated in a strategy to reposition Orbia's sales force around all of your business segments to become more product-centric and also consider adding services across the product offering. So would you mind commenting on how the journey has been so far? If I recall right, at the beginning, you were looking as a 3-year journey to complete the repositioning. And so where do you see the company in terms of stage of completing your regional targeted vision?

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

Thank you, Pedro. So regarding our strategy, as you know, we embarked on this journey, which was marked by defining, what we call, our play-to-win strategy. We have identified every single investment that we have to do in our 5 business groups for the next 3 to 5 years. And obviously, we'll be prioritizing them with surgical precision based on the incremental EBITDA that will be generated by each one of them, the incremental return on invested capital, the payback and the IRR. There's a lot of opportunities for all our businesses. I would say that the competition across the different sectors is quite intense in terms of the degree of returns that we see all across them. There's difference in terms of the capital that will need to be deployed in terms of regions, in terms of geographies and in terms of the different businesses. As part of our play-to-win, we have identified significant opportunities in countries and in markets where today we don't have a presence for some of our businesses. And just to give you a couple of examples, today, our Building & Infrastructure business is not operating in countries and in markets like the U.S. and India and Indonesia. That's on a significant market expansion opportunity that will drive not only higher top line growth, but higher profitability, given the nature of these markets. The same thing happens with our Datacom's business, which is today Dura-Line. There are significant opportunities in the Middle East and Asia and even Lat Am that we are not capturing -- have not been capturing in the past that will create significant opportunities for margin expansion and top line growth. So that's a significant part of our play-to-win strategy. We're actively sort of working, as Edga was saying, on an organic growth. We don't sort of see major acquisitions moving forward. We see a lot of opportunities in terms of operational excellence and really moving the needle based on being more efficient in SG&A and being more efficient in really capturing synergies across sort of different spaces such as global sourcing.

Regarding the organic part of the question, we're seeing, again, a combination of increasing capacity in certain countries, entering in new markets and really sort of leveraging the global footprint that we have across sort of 110 countries from a sales perspective, more than 40 countries from a manufacturing perspective and really leveraging the fact that we operate 5 different business groups across all these geographies.

Related to the repositioning and moving from being a manufacturing company, moving from products to solutions and eventually to services, we are moving in the right direction. As we've said in previous occasions, our different businesses are working not only in terms of their R&D efforts, but also in terms of our human-center efforts based on our innovation lab and collaboration with IDEO in San Francisco to leverage new capabilities to develop new business models. We have now several pilots of our irrigation-as-a-service business model being rolled out. We have been rolling out different products that have a significant digital component, both in our Building & Infrastructure business as well as in our NetBeat solution in the irrigation business. We will be sharing with you, as we move along in a transformation journey, more details around how this sort of transition from being a product manufacturer to a solution provider and eventually having a bigger dent in terms of a service-based business model. We'll share with you the details as we move along in the transformation journey, but we're very happy with the progress so far.

Operator

Our next question comes 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*

My first question is regarding your outlook for the different key parts of the Vestolit segment, your medium-term outlook for PVC global capacity mainly, and what are your expectations for caustic soda prices as well. And the second question would be, what explained reduction in Dura-Line performance? I think you mentioned that you are eliminating or reducing the sales of selected products that are not very profitable, but we cannot really see the effect that has on EBITDA and EBITDA margin. So if you could provide more color on the process in -- at Dura-Line? And like what are the sales -- what's the percentage of sales that you expect to reduce over time?

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

Thank you, Vanessa. Thank you for the questions. So regarding the outlook for Vinyls, as you know, the industry is expecting, in general, the 2020 that will be relatively similar to 2019. In our case, in particular, we see our Vestolit business moving forward, which is again our Polymer Solutions business group. We could expect the same kind of margins moving forward, a slight improvement based on the one-offs that we don't expect to see in the rest of 2019 and, obviously, in 2020. So I think that the visibility will increase as we move along in the next several months. But for now, both the industry and us believe that we should expect, in our case, a slight improvement and for the industry, in general, a 2020 very similar to what we saw in 2019. As Edga mentioned, we are working very diligently on improving everything that is under our control, SG&A, global sourcing, really focusing on the right customers, really focusing on the right products and solutions. We do have a very diversified sort of Polymer Solutions business in terms of both geographies and businesses. We have a very interesting exposure to the Specialty Resins business, which as you know, has higher margins. Our compounding business is very interesting, both in terms of customer centricity as well as margin expansion moving forward. So that gives us a buffer in terms of the commodity exposure versus a non-commodity exposure. Again, in terms of Orbia, in general, I think it's important to remind everyone that our exposure to the commodity part of the business associated to the Vinyls component is less than 20% of the total. We are a diversified company, not only in terms of Orbia, in general, but more specifically in terms of our Vinyls business division. We have exposure to the Americas part of the business. We have exposure to Europe, thanks to our Vestolit asset, but we actually sort of operate on a global basis, selling in relevant sort of regions such as China, India, obviously, Lat Am, U.S. and Europe. So we feel confident that based on our operational excellence measures that we are undertaking with our business group presidents and with Edga and the rest of the team, we can see improvement vis-à-vis what we saw in the past, in an industry where we cannot expect at this point in time a significant improvement versus 2019.

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

Okay. In terms of the second question for Dura-Line performance, it's true. I mean the sales has been coming down, but it's very much related to the reduction of the sales of the natural gas pipeline that we are basically sourcing in the U.S. But if you see the profitability and it's clearly, it's not the core business for us. And the profitability quarter versus quarter sequentially and also for the last year increased more than 17% EBITDA ratio. And in reality, this business has a massive growth potential for very simple reasons. Half of the globe population is not connected yet. And we know that the fact that at least 50 billion devices will come online in the next couple of years. This is the main underlining force driving demand for our products. So our products are the cornerstone of the physical buildup of any next-generation network and fiber connectivity. So we are really very excited about this business. And clearly, we are concentrated in the mix of product that has a higher return. And as Daniel was mentioning, our next step is to expand this globally.

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

Excellent. Maybe just a last question. Can you provide more or less the EBITDA of Netafim? Or if basically the Netafim EBITDA increased year-over-year?

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

Yes. EBITDA year-over-year increased, as has been done in the last, probably 3 quarters. But we try not to disclose the exact figures, but increased over the last year.

Operator

Our next question comes from Joao Lorenzi from Bank of America.

Joao Victor Lorenzi - *BofA Merrill Lynch, Research Division - Research Analyst*

So the first one is about Netafim, is a little bit of a follow-up from Vanessa's question. Until when can we expect to see sequential improvements in the business, in your view? When you acquired the business, there was comments that you could increase margins, sequentially speaking, and that's what you've been doing, but until when can we see this? The second question is on ethylene in the U.S. Do you have any expectations in terms of ethylene prices going forward? We have been seeing ethylene prices improving, which can improve the results from your JV. And just the third question, just a very quick one, on SG&A improvement, what can you expect to see in the following quarters? Do you expect some improvement that we can see in numbers in the following months?

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

Okay. So regarding the Netafim question, as you well stated, we have seen continuous improvement in the margins. We're well in track in terms of the outlook that we shared with all of you the moment we closed this acquisition in terms of what we expect to see in 2020 and what we see in quarter-over-quarter, since we acquired this company in February of last year. So we're very optimistic in terms of how we see this company moving forward. In terms of how longer can we expect to see this margin expansion, I think there's a lot of opportunities moving forward in terms of moving into adjacent sort of business model such as irrigation-as-a-service. Again, our digital sort of platform, which is called NetBeat, is proving to be the right digital strategy for Netafim moving forward. So we're constantly working with Ran and the rest of the team in Netafim to explore opportunities for margin expansion. We feel that we're at the right level today based on the traditional drip irrigation sort of business model, but we are seeing significant opportunities for margin expansion, albeit sort of incrementally moving forward in terms of the irrigation-as-a-service business model and how digital can transform our businesses moving forward in a precise agro space.

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

Okay. In terms of the ethylene value for the price, as you mentioned, I mean there has been very significant increase in the third quarter. We see some downward trend in the last couple of weeks. We are -- I mean based on the publications and where we see is that we're going to be returning -- the ethylene price is going to be going back to the upside position. So the gap or the margin with ethylene is going to be widening compared to what it is today into the first and the second quarter of next year. I don't know if it was the third question?

Joao Victor Lorenzi - *BofA Merrill Lynch, Research Division - Research Analyst*

My third question is about the SG&A improvements. When -- what can we see in the following months? Do you think this is going to be something to be felt in the numbers in the following quarters?

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

No, sorry. You are referring to what, sorry, Joao?

Joao Victor Lorenzi - *BofA Merrill Lynch, Research Division - Research Analyst*

SG&A improvement, sorry.

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

SG&A improvement, I mean we're launching all over the places a significant improvement of these. We will see probably some limited improvement in the fourth quarter, but we're going to be starting with a full deployment of this massive program in the first quarter of next year.

Operator

Our next question comes from Jose Ramirez with MUFG. Seems that we don't have Jose.

Our next question comes from Alejandra Obregon of Morgan Stanley.

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

Actually I have 2, if I may. So the first one is on your minority interest. I was wondering if you could help us to reconcile it and perhaps guide us on what's the contribution from Netafim in a ballpark way. And what's the contribution from the Oxy JV? It seems that, that's from where the spreads are today, it kind of looks high, so we're trying to understand that perspective from you. And then the second question would be with regards to the Vinyls. So last quarter and during the conference call, you were mentioning that all the alternatives were on the table for this division. So I was just trying to understand if there has been some update here. If you've moved forward with any of these alternatives and what's the timing for these? If there is any update here, that will be very helpful.

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

Okay. In terms of the minority interest, our performance in the quarter, as we mentioned, has been positively affected by the margin expansion in ethylene chain. So that contributed better results in the performance of our cracker joint venture, and therefore, this is partly reflected in the minority interest. Part of the minority interest is also comprising the dividend from Netafim. Again, as commented in previous call, we reflect in our financial the contractual condition of our agreement with Oxy that cannot fully disclose for competitive reason.

And the second question...

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

Yes. Regarding the strategic alternatives, we actually continue to explore every possibility from a strategic perspective for our Vinyls business. And at this point in time, we have not made any decision yet, but we'll keep you updating on this topic, Alejandra.

Operator

(Operator Instructions)

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

Okay. So if there's no further questions, let me just finish by restating what we see moving forward. We see significant opportunities to improve our financial and operational performance based on what Edgardo was saying. We have opportunities in all our businesses, specifically in our downstream businesses, to gain market share and to expand our market positions. We were talking about Netafim. I think Netafim is an excellent example in which today again 70% of the world's water is used in agriculture and only 7% is used with Precise Irrigation methodologies like drip irrigation. We have a significant opportunity, not only to expand marginally our margins, but more importantly, to gain market share and to really sort of move the needle in terms of what Precise Irrigation is in terms of water consumption and managing food security moving forward.

The rest of our downstream businesses have significant opportunities in terms of gaining market share. Building & Infrastructure is not the exception and Datacom, Dura-Line is not the exception either. We see our EBITDA margin at healthy levels, and we'll continue sort of to manage the company to see this 20-plus percent EBITDA margins moving forward. We are sort of poised to reach best-in-class operational excellence based on safety, quality, capacity utilization, et cetera. We have opportunities in terms of gaining efficiencies to reduce SG&A moving forward based on synergies and based on operational excellence. We will be leveraging not only our R&D capabilities, but our new innovation capabilities based on designed human-centered innovation, based on our innovation lab in San Francisco and our corporate venture capital fund. And again, we will have surgical, laser-focused precision on capital allocation moving forward to drive return on invested capital for our shareholders.

Operator

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