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ORBIA.MX - Orbia Advance Corporation SAB de CV to Discuss Strategy Update Call

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PRESENTATION

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

Hello, everyone. Good morning, good afternoon and good evening. Welcome to Orbia's strategic update webcast. We're delighted to have you join us today. We share the latest developments and progress about Orbia today throughout this webcast. First, Sameer will walk us through a comprehensive overview of our strategic initiatives. And in the spirit of transparency, Jim will discuss our financial performance, highlighting key metrics and demonstrating our commitment to financial discipline and long-term value creation.

We are confident that at the end of this webcast, you will be kind of having a clear understanding of our strategic direction, the progress we've made and the opportunities that lie ahead of us. Moreover, this webcast serves as a platform for open dialogue and engagement. We highly value your feedback and insights.

To that end, we have set aside dedicated time for a Q&A session, where you can ask questions and share your thoughts with our executive team. So please feel free to raise your hand as we will be taking your questions as they come in. For those unable to attend the webcast, a recording of today's session will be made available. Details on how to access a recording will be shared with you through the Investor Relations team.

Before we proceed further, we would like to draw your attention to the safe harbor statement. Through this webcast, we may make forward-looking statements that are based on our current expectations, projections and assumptions. These statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Please review the safe harbor language in the first slide of today's presentation related to forward-looking statements for additional information. Thank you for your attention to this matter. Thank you and enjoy the webcast.

With this, I will now pass the mic over to Sameer. Please go ahead, Sameer.

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Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you, Gerardo, and good morning, good afternoon and good evening to everyone who are joining from various parts of the world. Last year, on May 17, we held an Investor Day, a half-day session, in-person session to introduce Orbia to the world. And there, we discussed about the evolution of Orbia over the last 10 years and had each of the business groups talk about their growth strategies and the opportunities that lie ahead of us.

Today, I'm here with Jim to provide you an update on the progress we have made towards our long-term objectives. And this presentation is intended to complement what was presented at Investor Day. But for the benefit of the new investors who've joined the call today, I will go over an overview of Orbia in the beginning before I get into specific project updates.

Let me start with a reminder of the key messages that we shared last year here. Orbia is a company that harnesses the power of material science and innovation to serve customer needs, addressing key world challenges and providing sustainable solutions. Last year, we said that we will invest in profitable growth, leveraging our uniquely advantaged position to bring differentiated solutions to market.

We talked about the value of vertical integration across our value chains and the benefits that it brings to our businesses. We also talked about being good stewards of capital and disciplined operators. And finally, we talked about our long-term goals of delivering double-digit earnings growth and returns to shareholders through stable growing dividends.

Moving on to the next slide, Gerardo. Let me briefly spend time on the name Orbia and why we chose Orbia. The word Orb is Latin for globe or sphere. And the word Bia is Greek for force. Put together, Orbia is a global force. We are united by a purpose, which is to advance life around the world. We are driven by our core values, which is to be brave, take responsibility and embrace diversity. Together, we choose to work on the world's toughest challenges from mine to market, ground to home, field to table and lab to everyday life, we rely on our ingenuity and integration across our value chains to transform materials into greener, smarter and more efficient solutions.

To go on. Now before I go further into the presentation, I'm going to talk about safety because the #1 priority for us is to make sure everybody comes to work safely and goes home safely and it's a critical part of Orbia's DNA. And what I'd like to highlight is our massive improvement in safety record and performance over the last several years, where we've gone from a TRIR of 1.7 in 2017 to 0.56 in 2022. And today, we stand 70% below the industry benchmark. And we will continue on this journey and our goal is to be in the top quartile, best-in-class.

And of course, the goal always remains to have zero injuries or incidents. You go on, Gerardo? Now stepping back, what started as a roughly $200 million business in 2002, operating out of Mexico and to some extent in Latin America is today a truly global business. Orbia has revenues of $9.6 billion, with 37% of revenues coming from North America, 32% from Europe, 20% from South America, 8% Asia and 3% Africa. We operate in over 50 countries around the world and have a commercial footprint in over 100 countries. Orbia has over 24,000 employees and in 2022, at an EBITDA of $1.9 billion.

Next slide. Now the best way to understand Orbia is along the lines of the themes we operate in. If you step back and look at the various businesses within Orbia, you can categorize them into 3 themes: the first theme is water and food security, where we are closely involved in addressing world challenges of clean water and sanitation, city-scale water management solutions as well as solutions for agriculture.

The second theme is decarbonization and energy transition. And our fluorinated solutions business, along with components of other businesses are intimately involved in this theme. And the third theme is around information access and connectivity.

Today, roughly 50% of our earnings come from water and food security, about 15% from decarbonization and energy transition and 20% from information access and connectivity. And as I will share with you over the next hour, we expect to grow the contribution of decarbonization and energy transition to 25% over the course of the decade.

Moving on to the next slide. Now to deliver upon these themes of water and food security, decarbonization and energy transition and information access and connectivity, we are organized into 5 business groups. The first 3 business groups, Polymer Solutions, Building and Infrastructure and Precision Agriculture are squarely aligned around water and food security. Our Polymer Solutions business is one of the leading providers of PVC

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in the world, both general purpose PVC resin, 72% of which ends up in pipe and fittings for clean water and sanitation, specialty resins and then specialty compounds for wire and cable and medical applications.

Our Building and Infrastructure business is one of the leaders in the world in providing city-scale water management solutions for climate-resilient construction. And finally, our Precision Agriculture business is a leader in drip irrigation systems and has enabled the world's farmers to grow more with less for the last 50 years. The second theme, decarbonization and energy transition is largely linked with the fluorinated solutions business. We are the world's largest producer of fluorspar and fluorine intermediates.

And today, our applications range from steel, cement, aluminum, where the functionality of fluorine is to lower the energy consumption in those applications. And we are a big player in refrigerant gases and medical propellants. The big opportunity there is to transition to the next-generation refrigerant gases and medical propellants with a far lower global warming potential, hence the decarbonization theme. The future of the fluorinated solutions business is squarely linked with the energy transition and the world's transition to sustainable energy and the electrification of the world's transportation fleet.

And I'll talk about this later in the presentation. It's one of the most exciting parts of Orbia story and it's very important to understand this piece of Orbia story going forward. The final theme is around information access and connectivity. Our Connectivity Solutions business is the leader, particularly in the United States, providing conduit accessories and services to deploy telecom networks and these telecom networks are connecting fiber to the homes of people, providing cloud scale computing and web storage services applications.

If you move on to the next slide, Gerardo. Let me remind everyone about the value creation strategy that we shared last year. And that hasn't changed. We said there would be 3 focus areas. The first is that we're going to invest in profitable growth and innovation, taking advantage of our unique positions in the value chains we participate in both the water and food value chain as well as the decarbon energy transition value chain and serve our customers with differentiated solutions. We said we would maximize the value of integration across Orbia and the value chains we participate in. And as I go through the presentation, I'll provide examples of this.

And finally, we said that we would be creating shareholder value by being thoughtful stewards of capital and disciplined operators. Now last year, when we had each of the business group presidents present and describe each of the businesses and share the high-level opportunities, there was a lot of excitement around the opportunities in each of the businesses. What I would like to do today is to give you specifics around some of the largest opportunities. This is not intended to be comprehensive, but it will give you a flavor for the types of opportunities we are working on and the material progress we have made in each of these opportunities.

The first one I will talk about is around providing clean water and sanitation to the world, and this is investment in a cost-advantaged integrated chlor-alkali PVC expansion in Polymer Solutions. The second one will be around how we are optimizing performance and investing in growth in our Building and Infrastructure and Precision Agriculture business. Third, and one of the most exciting pieces is how we are pivoting fluorinated solutions to be a critical player in the North American battery value chain. And finally, we'll talk about our capacity expansion and connectivity solutions to address the rapidly growing market.

Let me start with the Polymer Solutions business. And again, for the benefit of the new investors on the call, I'll provide a brief description of each of these businesses before talking about the specific opportunities. Our Polymer Solutions business is an industry leader in the production of PVC resins. We are the #6 producer of general-purpose PVC resins globally. And as I said before, much of this ends up in pipe and fittings for clean water and sanitation. We are the #1 producer of specialty PVC resins globally. We are also a leader in specialty compounds where our primary applications are focused on wire and cable for building safety and this includes power and Datacom cables as well as medical applications in the hospital.

The business today has revenues of $3.7 billion and contributed $804 million in EBITDA in 2022. And the brands under which we operate include Vestolit for general resin, specialty resins and derivatives and Alphagary for specialty compounds.

Now I want to talk about the planned investment in PVC expansion. And before we do that, I would like to get all of us aligned around the fundamentals of supply and demand. Our fundamental thesis is, over the long-term, PVC is critical to the growth of the world. There are few substitutes for PVC and pipe and fitting applications and steel and cement are not sustainable solutions.

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And over the -- and our key thesis is that over the course of the decade, the supply-demand imbalance will continue to grow. And this is validated by some of the expert reports out there. The data we share here comes from the leading industry experts in this field CMA. And what they're showing here is an operating rate of 79% and relatively staying flat between '20 and '25 and then growing to 89% by the end of the decade.

Now demand continues to grow monotonically and is expected to grow at around 2.5% to 3% over the course of the decade. But let me spend a few minutes on supply. These operating rates, it's important to note is based on nameplate capacity. It is very hard to tell how much of this nameplate capacity is truly available because if operating rates in 2021 were truly around 80%, one cannot explain why prices went from $800 a ton to over $2,000 a ton.

The reality on the ground is the industry has been operating at pretty high utilizations and even the smallest of disruptions and in 2021, we had significant disruptions affecting about 5% of world capacity either due to unplanned shutdowns or due to weather-related events. And that was enough. That, in combination with the post-pandemic demand rebound was enough to send prices soaring.

Now of course, in the near term, the economic slowdown and the zero COVID policy in China has moderated demand, resulting in pricing coming back to historic levels. However, that does not change the long-term industry fundamentals and supply growth is expected to continue to lag demand growth over the course of the decade. The other point I would like to make here is that this industry has been under-invested in, in the last 20 years. The barriers to entry are pretty high and there are very few global players with the capability and appetite to invest on the far left of the supply curve.

The most advantaged locations to have an integrated caustic soda chlorine PVC investment are either the U.S. Gulf Coast or the Middle East. China is also an important part of this equation. And much of the China capacity is tied to the more expensive and environmentally unfriendly coal-based production process. And there has been a lot of discussion around some of this capacity coming out over the next several years.

Now we believe this is an important part of the equation and we will be spending time over the next several months with teams on the ground in China, validating this thesis and understanding the supply and demand situation in China better so that we can take a more informed investment decision.

So let me update you on the specific progress we've made towards this project. What we are looking at is a -- up to a 1 million ton potential expansion of an integrated chlor-alkali PVC facility on the U.S. Gulf Coast. This is anticipated to be a 4-year phased investment beginning at the end of 2024 until 2028. The U.S. Gulf Coast is especially advantaged from the point of view of the lowest cost raw materials, whether it is energy, natural gas, ethylene and brine.

We plan to maximize the use of clean energy, particularly for the caustic soda chlorine part of the process and note that hydrogen is a co-product of that process and there's the possibility of qualifying that as green hydrogen. We are simultaneously pursuing significant government incentives and have made progress along those lines. This investment will be capital-efficient and the annual EBITDA contribution, as we shared last year, is expected to be around $650 million, assuming PVC prices in the range of $1,000 to $1,100 per ton and caustic soda prices of around $400 a ton. And the investment to EBITDA multiple is in the range of 4x.

Most importantly, this provides security of supply to our downstream Building and Infrastructure and Precision Agriculture businesses, which was evidenced during the extreme shortage of PVC in 2021 and early part of 2022. Our current focus is to monitor the market conditions and validate the supply-demand imbalance thesis. We are also focused on engineering for the next 12 to 18 months and we have the ability to adjust the timing of this project based on market conditions. We are working towards a decision point and substantial capital commitments towards the end of 2024.

Let me now move to the second component of our water theme, which is our Building and Infrastructure business. This business operates under the brands of Wavin and Amanco and is a leader in providing city-scale water management solutions, which are enabling the world to adapt to changing climate conditions. Before the kitchen sink and before the bathroom wall, we are leaders in providing solutions for hot and cold water. After the kitchen sink and after the bathroom wall, we are leaders in providing soil and waste solutions and foul water solutions.

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In addition, two of our highest growth businesses provide a portfolio of solutions that provide urban climate resilience and indoor climate systems for improved building energy efficiency. We are #1 in Europe, #1 in Latin America. And as I talk about our geographic footprint expansion, we have opened new frontiers in the United States, Canada, India and Indonesia. This is a $2.9 billion business, which in 2022 contributed $321 million.

Now we encounter challenging market conditions in the second half of 2022. And we continue to do so in the early part of '23, subsequent to the war in Ukraine, rising interest rates, which has slowed down building and construction activity. Having said that, the longer-term outlook for building and construction is positive because there is low housing stock in many of the geographies we operate in. At this time, we are focusing on improving the efficiency and profitability of this business. And we are pursuing disciplined growth investments in high-value segments and new geographies.

In the next couple of slides, I'll provide some more details on those. As I had mentioned before, two of our most exciting businesses are urban climate resilience and indoor climate solutions. Our urban climate resilience portfolio of solutions include storm water management, which is the largest piece. It includes blue roofs, green roofs, rainwater collection and reuse, tree bunkers and a few other solutions. Combined, these solutions enable cities to deal with the impacts of climate change and this is a high-growth business for us.

Today, this business -- the size of this business is roughly in the range of $120 million and we expect to grow it significantly over the next several years, both organically and inorganically. The second business, which is squarely aligned with climate adaptation is indoor climate systems. This is where we provide a solution for under-floor and in sealing pipes that provide heating and cooling solutions combined with the heat pump and the hardware and software to control the whole system. This is squarely aligned with the new regulations in Europe and once again, we are seeing significant growth in the business. This business is close to $90 million today and is expected to grow significantly over the next several years.

Let me now talk about our geographic footprint expansion and the specific progress we've made along those lines. We shared this at a high-level last year, but we have some specifics to share today. In North America, we acquired Bow Plastics as a platform for growth. The North American market is a $10 billion-plus market and is attractive from a margin standpoint. We are targeting this market with the best-in-class Orbia products and solutions, leveraging Bow Plastics' distribution network. And it also provides us a beachhead and a launch pad for future organic growth investments.

The second frontier we have opened in is in India. The pipe and fittings market in India is growing at 9% to 10% a year with significant government directives to provide clean water in every tap. Towards that end, we acquired Vectus Plastics in 2022 and combined their footprint with Orbia's -- Orbia B&I's 2 sites in India. We are now working on integrating that acquisition and we see potential for substantial synergies, both from an operational standpoint and a commercial standpoint. India's high-growth market is driven by urbanization as well as improving the infrastructure in rural areas. The third frontier we made substantial progress on is Indonesia.

And back in October, I was at our site near Semarang for the groundbreaking ceremony. And this project is so important to Indonesia that the president of Indonesia himself came for the groundbreaking ceremony. We have launched the construction of this plant and expect to start production in the second quarter of 2024. Note that Orbia B&I's brand, Wavin was already a well-recognized brand in Indonesia. The leading company in Indonesia operated under the Wavin brand for a long time. And a couple of years ago, we made the decision to revoke the brand, take it back in-house and go organically in Indonesia.

I'll now switch gears and talk about the third business, which is aligned with the water plus food theme, with significant water shortages around the world and the need to feed a growing population, which is going to go from 8 billion to 10 billion in the next 20 years. Providing food security has become more and more important. Our Precision Agriculture business was the pioneer in the development of drip irrigation systems and expanding it around the world, and Netafim has been synonymous with drip irrigation.

Our solutions enable farmers to grow more with less water, less fertilizer, less energy and less labor and this plays a critical role in ensuring a food-secure future. The revenues of our Precision Agriculture business in 2022 were around $1.1 billion and the EBITDA contribution was $144 million. Our focus today is to reinvigorate growth and create demand. Our Precision Agriculture business was affected by challenging market conditions in the second half of 2022, which included the war, high interest rates and volatile high-value crop prices and weather events.

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In the short term, farmers are also subject to many other pressures, particularly the increase in input costs and the volatility of output prices. However, in the long term, drip irrigation is critical to address water and food security. Our focus has been on creating demand by working with customers and institutions to drive adoption. And this demand creation is along 4 growth vectors and I'll talk about it momentarily on the next slide. And the biggest area of focus today is to build the channels to market and the regional capabilities to execute along these 4 growth vectors.

Let me talk to you about what these 4 growth vectors are. The first one is extensive crops. Historically, our precision agriculture business had been focused on high-value crops. And these high-value crops include orchards, wine yards, grapes, strawberries, fruits and vegetables, nuts such as almonds and cashews, avocados and we are well penetrated in the high-value segment. However, there's a significant growth opportunity in what are called extensive crops or cash crops. And these include corn, wheat, rice, soybean, sugarcane, alfalfa.

Now historically, drip irrigation systems costed around $3,000 a hectare and were well suited to the high-value crops. What we've done through significant product innovation and system-level integration and innovation is to lower the cost of drip irrigation systems and we have come up with fit-for-purpose solutions. And these fit-for-purpose solutions vary from geography to geography and crop to crop. But we've managed to get the cost of the system down to $750 per hectare to $1,500 per hectare and this is driving significant adoption.

So as I said before, much of our focus is to develop the channels to market, putting boots on the ground as well as the capabilities to support the adoption. The other 3 growth vectors, the second one is irrigation as a service. And this is the model -- business model in which we provide the irrigation system and the operations and maintenance and manage the optimum irrigation and fertigation of the field for large farmers. And we've run over 10 pilots to validate the business model and it's a highly profitable business model. And once again, we are building the capability to scale this model.

The third growth vector for Precision Agriculture is providing turnkey greenhouse solutions. Unfortunately, this business was significantly affected by high inflation and high energy costs in 2022. This is now recovering and we have a strong pipeline of opportunities in the United States, China and Australia. Our final growth vector for Precision Agriculture is digital farming. We have just launched our next-generation digital farming product GrowSphere. This is a very robust solution directed at large complex farms where they are growing multiple crops and the complexity of managing irrigation and fertigation is quite high.

And our GrowSphere systems deploy sensors in the field, measure key parameters such as moisture, temperature, humidity and combine it with meteorological information from the cloud to provide optimized recommendations for managing the entire farm. And we see significant potential for growth over the next several years. The point I would like to make is, while the past couple of years have been challenging, we remain convinced of the long-term potential of this business. It will take a few years to fully develop these opportunities.

But if you look at the needs of the world from a food security standpoint over the next 2 decades, we are extremely well-positioned to grow in that space. One of the most exciting areas that I haven't yet talked about with our Precision Agriculture business, which has a huge impact on the decarbonization on the planet is our solution for rice irrigation. Rice today contributes to 10% of the world's anthropogenic methane emissions. And with drip irrigation, we can virtually eliminate all of those emissions.

And today, we are focused on conducting the pilots in this application and working with institutions and government to encourage adoption and developing a business model for accumulating the carbon credits associated with the avoided emissions and sharing those with players along the value chain.

I want to now talk about our Fluorinated Solutions business. And I'll take some time to do this because this is a less understood part of the business, especially from a future opportunity standpoint. And I really want everybody to truly appreciate the potential that is ahead of us here. Now there's 2 parts to this business. Our existing business, we provide metallurgical fluorspar for steel and cement applications. We provide aluminum fluoride for aluminum production. And the primary function of these materials is first, I mean, they are critical in the production of steel, cement and aluminum.

But more importantly, they enable these production processes to run at lower temperatures, resulting in lower energy consumption and therefore, help decarbonize these industries. The other piece of our current business is refrigerants and medical propellants.

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I would like to remind everyone that it was Orbia's Fluorinated Solutions business back in the '80s and '90s that developed the HFCs, the current generation refrigerants that solved the ozone layer problem. If you remember the Montreal protocol when CFCs were banned and they were causing a hole in the ozone layer, it was ICI, which is now part of Orbia's Fluorinated Solutions business that invented the HFCs that eventually led to solving the ozone layer problem.

And similarly, we want to lead the way towards the next generation of refrigerants that have a much lower global warming potential than the current generation of refrigerants and this can have a significant impact on the world. However, the future growth in Fluorinated Solutions is going to come from our significant play in energy transition. And the energy transition play is around lithium-ion batteries and I'll talk about it momentarily on the next slide. And this is where our vertical integration from mine to market will allow Orbia's Fluorinated Solutions business to secure the value chain, not only for lithium-ion batteries, but also for semiconductors in North America.

To date, this is a roughly $852 million business with $305 million in EBITDA operating under the Koura brand, with high EBITDA margins. Let me spend some time on sharing with you how fluorine plays an important role in the energy transition. And if you look at the adoption of EVs over the course of the decade, there's a range of estimates around how fast this adoption will be and what the required lithium-ion battery capacity will be between now and the end of the decade. Of course, you have seen all the announcements around the giga factories that are being built all over the world, particularly in the United States as well as the plans of all of the large automakers to transition to EVs.

There are a range of estimates out there from 3 terawatt hours of lithium-ion battery storage capacity going up to 10 terawatt hours of lithium-ion battery storage capacity by the end of the decade. Now we've been working with conservative assumptions of around 3.5 terawatt hours and I'll come back to that.

Now people have been worried about critical -- the availability of critical materials to meet demand for lithium-ion batteries. And the whole conversation has been around lithium and cobalt and nickel. I think one of the most important components of a lithium-ion battery that hasn't been fully appreciated so far is fluorine. Fluorine shows up in 3 different places in a lithium-ion battery. First, the electrolyte that is used to transport the lithium-ions from the cathode to the anode is a fluorinated salt called LiPF6. It has 6 fluorine atoms, 75% by weight of LiPF6 is fluorine.

The second and third areas where fluorine shows up in a lithium-ion battery are the cathode and the separator and the material that's used there is a fluoropolymer called PVDF, polyvinylidene fluoride. Now it's not that complicated to understand PVDF. If you take polyethylene, which is based of the ethylene molecule C2H4, and you replace 2 hydrogens with 2 fluorines, that's PVDF.

Now given the properties of fluorine, this is absolutely critical to the performance of a lithium-ion battery. Now keep in mind, both of these materials are specialty -- truly specialty materials with high performance requirements and especially if you're going to put it in an automobile, it needs to last for 10 years and give high performance for that period of time. So the barriers of entry into this industry are very high.

Now when you put all of these together, the LiPF6, the PVDF and a few other specialty fluorinated additives that go into a battery and you convert that to how much fluorspar is needed, it's roughly around 30 to 40 kilograms of fluorspar per electric vehicle. And if you assume 3 terawatt hours of lithium-ion battery capacity by the end of the decade, that's 1.4 million tons of Acidspar. Today's production is roughly 5 million tons, which means more than 25% of the current Acidspar supply will have to go to lithium-ion batteries.

And I'm not even counting the growth in the current applications of fluorine or the growth in semiconductors or the growth in green hydrogen because the membranes that are used in green hydrogen electrolytic cells are also fluoropolymers. So now this is where Orbia's secure supply to fluorine with its full integration with the mine plays a very important role.

And to better understand that context, today, about 60% to 65% of the world's fluorine comes from China and Chinese supply is limited and has been steadily declining while that growth continues. Outside of China, Orbia is more than 50%. We provide 20% of the world's fluorine, more than 50% outside of China and we are the only player that can secure North America's value chain for lithium-ion batteries.

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Let me share you specifics about the 2 projects that we are working on that will create significant value for Orbia over the course of the decade. The first investment that we are looking at is a joint venture with Solvay to produce the binder PVDF. We announced this in November of 2022. We signed a memorandum of understanding with Solvay back then. And today, we are working towards a definitive agreement.

As announced, this is a roughly $850 million investment with 51% ownership from Solvay and 49% ownership from Orbia. We will begin the engineering and the deployment of the investment beginning late 2023 and the project is expected to be complete by the middle of 2026. This is the only battery-grade suspension PVDF plant in North America. The capacity is expected to be 20,000 metric tons.

Now why did Solvay choose to partner with Orbia? They did the analysis and realized that having a secure access to the critical materials needed for the battery value chain in North America is absolutely critical and Orbia is the only one that can provide not only hydrofluoric acid, vinyl chloride monomer and chlorine. Solvay is the global leader in PVDF with over 20 years of experience, unparalleled technology, global market knowledge and qualified with all the major battery producers.

As I had said before, the technical barriers to entry are high. The other important point to note is the near-shoring angle here. According to the U.S. IRA Act, it places -- and as they give out the subsidies of about $7,500 per vehicle, the U.S. automakers have to demonstrate that critical materials did not come from China. Today, China dominates the supply of many of these materials. And so to secure the North American supply chain, demonstrating non-Chinese origin is critical for qualifying for these subsidies. And so that's going to benefit us.

I'd also like to point out that under the Infrastructure Reduction Act, there's the American Battery Materials Initiative, under which $2.8 billion in grants were given out by the Department of Energy in the second half of 2022. And Solvay was the recipient of one of these grants or $178 million for this project and it will partially benefit this project. And Orbia was the recipient of a $100 million grant for LiPF6, which will benefit the next project I will just talk about.

The second project is a 10,000-ton investment in LiPF6 in North America. And this will be based in the United States. And this will be on our own, but we have secured the best-in-class technology from the Japanese leader Kanto-Denka, which significantly derisks the project and allows us to be qualified with all of the major electrolyte producers and battery producers.

As I've said before, this is a $325 million investment, and we've already secured a DOE grant of $100 million towards this project. And the license terms allow us to build as much capacity as is needed to meet growth. Now what I'd like to point out is these are the very first investments and the only investments in North America and the barriers to entry for these materials are high. And both of these industries are important to the U.S. Government.

And in that context, while we have announced only 20,000 tons for PVDF and 10,000 tons for LiPF6, if you actually do the math for the amount of lithium-ion battery capacity required by the end of the decade, the demand for both LiPF6 and PVDF by the end of the decade is well over 60,000 metric tons. And so as EV adoption continues, we will need to scale these businesses as that happens. But in the numbers that Jim will share with you later on, we've only included the first investment as part of our growth plans for the next 5 or 6 years.

Let me now talk about our Connectivity Solutions business. Orbia's Connectivity Solutions business is the leader in both standard and advanced conduit and accessories for telecommunications -- for passive telecommunications infrastructure. We have a leadership position in North America and a position both in Europe and Asia as well. This today is a $1.4 billion business with $357 million of EBITDA and is positioned for significant growth over the decade.

Now let me share with you what these tailwinds are. We are seeing significant government monies going towards deployment of rural deployment of fiber, bringing fiber to the home. And simultaneously, we are seeing significant growth in 5G telecom infrastructure. And the 5G telecom, it's a larger number of towers that need to be connected and require fiber optic cable and consequently require conduit.

And then cloud computing and especially the hyperscalers such as Amazon Web Services, Microsoft Azure, Google, Facebook, that cloud computing is driving significant growth over the next several years. Much of the growth we've seen in the past couple of years has come from private investment,

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but these government funds are kicking in just about now and we expect to see sustained growth over the next 7 to 8 years, driving strong performance in our Connectivity Solutions business.

Now not only do we provide both the standard conduits as well as the advanced conduits, which we call microduct and future path, the carriers and telecom providers greatly value the services and the advice we provide to them and a one-stop shop for all components that they need for passive network infrastructure, which has allowed us to maintain and grow our market share.

Let me talk about the growth plans for our Connectivity Solutions business over the next several years. Today, demand is so strong. And in order to keep up with demand, we are executing on 4 footprint expansions, which will be completed this year. And these include 2 new facilities in Salt Lake City, 1 new facility in St. Albert, Canada and the expansion of our Gainesville, Texas facility.

And we will be announcing more investments as they are better defined in '23 and '24. And as I have said to you before, the customers in this space, they not only value the product that we provide, but what's more important to them is the advice and the services we provide around deployment of network infrastructure. And so to grow along those lines, we acquired Biarri Networks and this is a software and service provider that assist carriers in the planning and deploying of networks. And this is very complementary to our conduit business.

And so we start with first providing the services on how to plan their networks. And then the customers go ahead and then buy our products, both for conduits as well as accessories. And we are quite excited about the growth opportunities in this business. And as Jim will talk about it, the returns on these investments are quite incredible.

Before I hand it over to Jim, I want to share with you our sustainability strategy. As you can see from the description of our businesses and our growth opportunities, we are squarely on the supply side of sustainability solutions, okay? And again, I want to remind you of the 3 themes. We participate in water plus food. We participate in decarbonization and energy transition, and we participate in information access and connectivity.

We have 3 pillars to our strategy. Most companies out there are concerned, especially in the oil and gas and chemical industry, are concerned about meeting their -- managing their impact. And what does that mean? Managing impact is how are you doing on Scope 1, 2 and 3 emissions? How are you doing on water usage, waste to landfill, how are you doing on recycling and renewable energy use?

So our first pillar is low-impact and resilient operations. And I firmly believe that -- and I've shared this before in our analyst calls, decarbonization of this planet is one of the single largest opportunities and one of the single largest responsibilities for people of our generation. And so for me, going to net zero is not enough. We need to be net positive. And as we go through this decade, you'll hear more from Orbia around what we intend to do in that direction.

The second pillar of our sustainability strategy is providing sustainable solutions. And I've talked about many of these throughout the presentation earlier in the earlier parts of the presentation, how we provide sustainable solutions, whether it's in a Building and Infrastructure business, in our Polymer Solutions business, in our Precision Agriculture business and in our Fluorinated Solutions business.

The third pillar of our strategy is investing in impactful ventures, where we are focused on 2 key areas. One is decarbonization and two is AgTech, where the intent is to invest in companies that are solving critical problems that will then lead to disproportionate growth in those sectors. And so combined these 3 pillars position Orbia squarely at addressing key world challenges and having a substantial impact on the world.

So let me share with you a little bit about what we have accomplished along those 3 pillars. Our 2030 targets have been validated by SBTi, science-based target initiatives. We have committed to reducing our Scope 1 and 2 emissions by 47% by 2030 and net zero by 2050. And we are on target.

As of today, we are on target and well on the way to achieving those goals. We are also one of the very few companies out there that has set a hard Scope 3 reduction target of 30% reduction by 2030. We continue to increase the use of renewable energy in our facilities. We grew that by 150% versus 2021. And we continue to increase the use of recycled polymer in our downstream businesses.

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A few examples of the sustainable solutions that we offer include what I talked about in terms of our materials, fluorinated materials that enable the energy transition. I talked about the solutions in our Precision Agriculture business for rice farming. I've also talked about the low global warming potential refrigerants and medical propellants.

And finally, even today, our metallurgical fluorspar and cement enables the reduction of almost 2 million metric tons of carbon dioxide, which in a way pretty much offsets our entire Scope 1 and Scope 2 emissions. 61% of Orbia's revenues contribute directly to the UN SDGs.

Let me talk a little bit about what we're doing with Orbia Ventures and one of our marquee investments there is in Ascend Elements. Ascend Elements is a leader in the recycling of lithium-ion batteries. We saw this as a very strategic early on, 2 or 3 years ago, we led the initial rounds of investments and have the chairman seat on the Board there.

Today, we own a little less than 10%, but are closely involved in the growth strategy. And we have joint development and intellectual property development along with Ascend Elements, where we are developing technologies to recycle anode materials. So these venture investments are not purely financial investments. There's a strong strategic angle where our Fluorinated Solutions business is working with them to develop -- on joint R&D to develop new products and technologies.

The second investment there is in Verdagy. Verdagy is developing the world's largest alkaline cells for the production of green hydrogen. And this is a sector that we are closely interested in. A lesser-known fact is that many of these electrolyzers for green hydrogen, whether they are alkaline or based on proton exchange membranes, the PEM cells, they use membranes, many of the membranes used are fluoropolymers, which once again links to security of supply for the fluorine chain and this could be a future area of interest that we will look to get into, fluoropolymers that are aligned with green hydrogen.

We have invested in Greeneye. Greeneye is a company that does precision application of pesticides in agriculture using imaging technology and artificial intelligence to deploy pesticides only on weeds and not on the crop, which significantly reduces the use of pesticides in the production of crops.

And finally, we have invested alongside Breakthrough Energy Ventures in Type One Energy. This is a very small investment, but it shows our long-term commitment to decarbonization. Type One Energy is developing some of the most advanced stellarator technologies for nuclear fusion. Now while this is a long-term play, being in the game allows us to stay in touch with the advancing technologies in the field and look at connections with our business groups.

Our ESG accomplishments have been recognized by the ratings agencies. Most notably, we have improved our MSCI rating from CCC to B to now BB and we will continue the process of engaging and communicating and showing progress, all of the key dimensions of ESG to show the improvements with Sustainalytics, we've been upgraded to -- from medium risk to low risk. And in all of the other key metrics, we have shown consistent improvement in performance over the last several years.

Innovation and material science are at the heart of Orbia. And as I started the entire presentation with who we are, right? I mean our lifeblood is harnessing the power of material science and innovation to address key world challenges. And along those lines, we have significantly ramped up our investment in R&D. We have over 280 R&D professionals, 13% of our revenues came from new products and services and we have a strong portfolio of patents. And I already talked about what we are doing with Orbia Ventures.

I will now hand it over to Jim to talk about our financial outlook.

James P. Kelly - *Orbia Advance Corporation, S.A.B. de C.V. - Senior VP & CFO*

Thanks, Sameer. Thank you, everyone, for joining us today. We very much appreciate your attendance and taking time. I'd like to spend a few minutes to address our long-term financial targets and how the initiatives that Sameer's covered support their achievement.

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But before doing that, though, I'd like to reaffirm the key financial messages that we shared in our 2022 Investor Day. At that time, you may recall, we prioritized creating value for all shareholders over the long-term, balancing our capital allocation model with investments in profitable growth while maintaining a strong and flexible balance sheet and finally, returning cash to shareholders through a consistent and growing dividend.

Today, we remain committed to those themes. To that end, you can see from the current slide that we're anticipating EBITDA from our base business and other ongoing projects to grow at a CAGR of 8% to 10%, with EBITDA progressing from the 2023 guidance of exceeding $1.65 billion to $3.2 billion to $3.5 billion by 2028, which aligns with last year's Investor Day targets and then increasing to over $3.7 billion in 2029 as the PVC expansion project is expected to become fully operational and also as we plan to continue to grow the energy materials initiatives that Sameer just spoke to.

We'll continue to exercise strong financial discipline as we progress through the investment period and the fact that approximately 90% of the growth is derived from our organic projects helps to ensure the certainty of their success. I'd like to note that the 90% represents an increase from the 70% to 80% of organic growth that we discussed last year as we now plan to deemphasize the higher-cost M&A-derived growth.

We expect to invest slightly over about $5 billion in growth and to approximately double our EBITDA in this period, generating large-scale growth and investment multiples that are between 3x and 4x of EBITDA, with some projects, particularly those as Sameer noted, in Connectivity Solutions being as low as potentially 1.5 to 2x EBITDA.

We can go to the next slide, Gerardo. From a capital allocation perspective, we target to maintain an investment-grade leverage position throughout the forecast period, targeting to stay at a net debt-to-EBITDA level of 2.5x or below. Although it's possible we could exceed this slightly for brief periods as long as we see a clearer path to return to that level over a short period of time, 2.5 remains our target.

We expect to grow annual operating cash flow from the current level of approximately $1.1 billion annually to over $2 billion annually over the period, targeting a 60% conversion rate of EBITDA to operating cash flow. This should generate close to $8 billion of cash through 2028, which is anticipated to fund about 75% of our cash requirements through the growth period.

In terms of the uses of cash, we expect to spend slightly over $2 billion in maintenance capital over the period with the current annual level of $300 million to $350 million, growing over time as the business grows. We plan to invest $5.1 billion to $5.4 billion in growth capital with the various initiatives that Sameer just discussed. We also expect to pay approximately $800 million to minority partners and we expect to return cash to shareholders through a stable dividend that starts with a base of $240 million through 2023 and grows with the underlying business over time, totaling about $1.5 billion over the period.

Note that at current valuations, this implies an annual dividend yield of close to 6%. These net flows would imply an increase in debt over the investment period of about $2 billion. The majority of where it would likely be taken on during the 2025 to 2027 time frame, matching the periods of our highest growth spending. This is a reduction in required debt from what you may recall from last year's Investor Day due to the greater focus on lower-cost organic growth rather than higher-cost M&A.

I'd also like to note that we've been meeting recently with our debt rating agencies over the course of the last month or so. And in recent weeks, 2 of them have reaffirmed our investment-grade rating with a stable outlook. We're awaiting results from the others.

Gerardo, can you go to the next slide, please? In terms of our long-term targets, they remain similar to those that we shared with you at last year's Investor Day. As a reminder, last year, we were focused on reintroducing Orbia to the market after a long period between Investor Day meetings. The information on targets presented today represent refinements to those discussed last year. And as you've heard, we'll considerably more specificity to potential content and timing of certain growth-related activities.

To that end, we continue to estimate revenue growth to be between $13 billion and $15 billion by 2028, EBITDA of $3.2 billion to $3.5 billion, EBITDA margins of 22% to 24%. Operating cash flow conversion of EBITDA of approximately 60%, as I mentioned just a minute ago. ROIC between 13% and 15% and our leverage of approximately 2.5x net debt-to-EBITDA or below and stable dividends beginning at $240 million for 2023 for a current yield of almost 6% and growing over time with the business growth.

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Thank you again for your attendance today. I continue to believe that Orbia has an incredible future ahead with significant opportunities to create shareholder value. I look forward to sharing those developments with you as they continue to unfold. And at this point, I'll turn it back to Sameer for concluding comments. Thank you.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Thank you, Jim. So let me pause here for a second and reflect. I've been in many investor meetings in the past couple of weeks and had the opportunity to talk to many of you face-to-face as well. I just want to help you take away some of the key messages here. First and foremost, I think helping many people find Orbia complicated to understand. And if you were to think of us in 3 themes, water plus food, decarbonization and energy transition and information and access and connectivity, that's the simplest way to understand Orbia.

And then what really stands out is the vertical integration across those chains, the water plus food chain, the decarbon energy transition chain and the information access and connectivity chain, right? So when you sum it all up, Orbia leads in water, food, climate resilience, energy transition and connectivity solutions and is poised to benefit from significant growth in these sectors, largely through organic investment between now and the end of the decade.

Our vertical integration on the supply side of sustainability solutions positions us very well to near shore critical materials. So not only does the vertical integration help us achieve the best economics along the chain, but with the new geopolitical situation in the world, especially with concerns around China and the need to be self-sufficient in batteries and semiconductors, we are very well-positioned to do that, particularly in North America and also in the Far East in Japan.

Our growth strategy is built upon largely organic expansions. And this growth comes at an EBITDA multiple of 2x to 4x at maturity. There's a mix of projects. And we talked about the PVC expansion, which is closer to 4x. We talked about the connectivity solutions growth, which comes around 1.5 to 2x. And I did not mention this, but it would be good to mention that much of the energy transition growth comes at a multiple of 2 to 2.5x. So this is incredibly compelling, right? Nowhere can you find the potential to grow at such a scale at this kind of multiple.

Finally, we will have a very disciplined approach to investing. And we strongly believe by keeping our leverage ratio, net debt-to-EBITDA less than 2.5, we want to maintain a strong balance sheet because the world is not devoid of risks. What we are sharing with you is a journey and this journey will have ups and downs. It will have periods of economic boom and economic slowdowns. There could be other concerns around how fast EV adoption takes place. But given how resilient Orbia's businesses are, we believe we are well-positioned to achieve our long-term growth targets, okay?

And if anything changes, our goal is to communicate, communicate, communicate and share things with you in an honest and transparent manner as things go along. And in many of my investor meetings over the last few weeks, one of the things I have come across is we have a very loyal base of long-term investors. And for them, the dividend yield is incredibly important, while they wait for us to execute successfully through this cycle. And that is a very compelling reason for many of them to be patient while we execute upon our strategy, right?

So with that, I'm super excited to be here to share the developments over the past year. And with that, we can -- Jim and I can open it up for questions.

QUESTIONS AND ANSWERS

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

Thank you very much, Sameer and Jim. Just to let the audience know, we have already the presentation in PDF on our website in case you want to take a look into it. We're going to open now the Q&A. Please, as a reminder, you can raise your hand on the Q&A or participants format, and we will start with that as questions are coming. We also have some questions through the Q&A, but we will prioritize kind of the live questions. We will open your mic, and you're going to be able to ask the question to Sameer or Jim.

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The first question will come from Leonardo Marcondes from Bank of America.

Leonardo Marcondes - *BofA Securities, Research Division - VP*

I have 2 questions from my end here. My first question is regarding the PVC segment. In your view, what are the main drivers for this demand growth for PVC? I mean, usually, we see PVC demand very attached to the construction segment, right? But is there any commitment from this segment in your view that will definitely push this demand? So that's my first question.

My second question is regarding the plan as a whole. I mean, it is very clear that there are a lot of opportunities for Orbia to grow in this decade. But just to try to address some of the risks here, what are the company's main concerns in regards this plan? I mean, what are the main risks for delivering all this growth?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Very good, Leonardo. Let me talk about PVC demand, right? So let's start with where does PVC go and what is it used for? About 72% of PVC worldwide is used in pipe and fittings. And keep in mind that today, 1 in 4 people in the world don't have access to clean water and 1 in 2 people in the world don't have access to sanitation. And that fundamentally, if you look at most geographies, they are short on housing.

And so much of this demand growth over the next, I would say, 10 or 20 years will be driven by fundamental needs for clean water and sanitation and consequently building and construction and then city-scale water management solutions, providing hot and cold water, soil and waste, foul water, sewer systems, storm water management systems. That's what the demand is going to be driven by over the long-term. And we strongly believe in the fundamentals for PVC demand because there are no good substitutes for PVC for that application.

Now the rest of the PVC shows up about 15% of the PVC goes in wire and cable applications to keep buildings safe. This is both for power cables and data cables. And about 7% to 8% of PVC shows up in medical applications, where anything that is transparent and flexible that you see in a hospital, whether it is blood bags, oxygen, tubing, kidney dialysis equipment, that's all PVC because only PVC has the barrier properties for body fluids. And so we don't see demand in any of these sectors fundamentally changing over the years. So that's the demand side and what's going to -- that's what's going to drive demand growth in PVC.

In terms of risks to our plan, I talked about our fundamental thesis being for PVC being that demand growth will exceed supply growth. And when you're planning to make a large investment, you need to really make sure that the thesis is valid. And so in order to validate that thesis, we will be spending a lot of time, especially on the supply side, understanding what the various players are doing around the world and particularly the role of China when it comes to PVC supply and demand over the long-term, right?

As of today, all the market experts are projecting higher utilizations over the course of the decade and a supply crunch by the end of the decade. But we are going to rely on actual field research that we will do ourselves to better understand those risks and make a more informed investment decision. Now of course, the other risks are -- you always have macroeconomic risks in the short-term, demand may fluctuate and that could have a short-term impact on the business.

But as we have demonstrated both through the pandemic as well as through the periods of high inflation last year, Orbia's set of businesses are very resilient. And we feel quite -- together, we feel quite capable of managing those risks. And then, of course, you may have risks on potential timing of EV adoption. But we've been very conservative in our assumptions on the rate of adoption of EVs. And we are only announcing the very first plant for both LiPF6 and PVDF through this investment cycle.

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

Now the next question comes from Andres Cardona from Citibank.

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

I have 2 questions. The first one is for Jim. Correct me if I am wrong, but when I look at last year presentation, the growth capital was between $6.5 million and $6.8 million. It seems you are low-weighting this commitment or target to somewhere around $5.5 million. What explains the difference of -- if I'm understanding this in the wrong way?

And maybe for Sameer in terms for the very technical and illustrative presentation of the Fluorinated Solutions opportunities, you are being conservative, but it seems the opportunity even in that scenario is huge. Can you repeat the numbers that you are assuming for the growth because it seems the EBITDA for the segment can multiply by 3x?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Correct.

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

And also you can like help us to break down the CapEx opportunity because it seems like from the $5.5 million, maybe $3 million will be the Polymer Solutions. There may be some 700 associated to Fluorinated Solutions. So we are getting relatively close to the $5.5 million. It seems like you have the risk, most of the pipeline opportunities, right?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Yes. Jim, why don't you take the first question, and I'll take the second one, yes?

James P. Kelly - *Orbia Advance Corporation, S.A.B. de C.V. - Senior VP & CFO*

Sure. Thanks, Andres, for the question. So you are correct that those were the growth assumption numbers for capital last year and they have come down to this year.

As you may recall, last year, it was our first time coming back to the street after 10 years. And we are still formulating plans, honestly and those were the best plans that we had at that point in time and how we were seeing growth evolving. So we spent a lot of time working in much more detail. You heard many of the more specific plans today that we've derived for the growth.

And really the -- I'd say the largest factor and the reduction of the estimate of the growth capital comes from the fact that we are now expecting the growth to be much more organic. As I had mentioned previously, last year, we had estimated that about 70% to 80% of the growth would be organic and the rest could come from bolt-on M&A kinds of activities. Now we're saying that about that same level of growth is going to come from 90% organic and 10% or so M&A with the organic being at much lower cost. So that really is the driver. And as you can see from that, we end up having very strong returns in terms of the investment to EBITDA multiples involved.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Andres, let me talk about fluor, and that's a great question, right? As I said, there's varying estimates for EV adoption by the end of the decade resulting in lithium-ion battery capacity between 3 terawatt hours and 10 terawatt hours, right? So we are working -- our working assumption is 3 to 4 terawatt hours, let's call it 3.5 terawatt hours.

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Now just based on that alone, the demand for LiPF6 and PVDF would be well over 60,000 tons to 80,000 tons per year by 2032, okay, which is extraordinary, right? Now imagine if it was 7 terawatt hours, it would be double that. That is staggering.

Now we are only investing in the first 10,000 tons for LiPF6 and the first 20,000 tons for PVDF. And the reason, look, we are not -- I don't believe in hyping things up, right? I think you earn credibility by talking about things that are very specific. And today, our plans for investment in the first 10,000 tons are very specific. A year ago, we had an intent. Today, we have secured the technology. We have won a $100 million DOE grant and we have started the engineering. So that's very specific.

Similarly, a year ago, we had an intent to enter into PVDF. Today, we have a signed MoU with Solvay. We are working towards a definitive agreement and we are close to starting the engineering work on that project, right?

Having said that, we will need to absolutely scale these businesses in a very significant way over the course of this decade which is frankly a great problem to have. And as I've shared with you the economic impact of these both energy materials projects. We've shared the investment and our share of the investment. And in combination, these projects have returns in the range of 2 to 2.5x investment to EBITDA multiple, okay? So that gives you a sense for what we are expecting.

And just with these first investments, we would expect to double the earnings of the Fluorinated Solutions business. That does not take into account the growth potential of scaling these opportunities in a very significant way. It does not take into account the fact that next year, we may come back and talk to you about opportunities in securing the semiconductor value chain in North America or potentially making fluorinated materials for green hydrogen, right?

So our choice was to talk about specific things that lend credibility. And as things get more specific in the other areas, we'll share more with you as we go along.

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

So just clarify, between 6x to 8x, it could be the market by 2030 for these fluoride opportunities versus what you have been announced so far, right? It could be multiplied by 6 to 8x?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

I mean, look, take that with a big -- that's -- put a wide window on that one because nobody can predict how things will go. But that's what if you do the math with 3 to 5 terawatt hours, that's what the math would suggest.

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

Now we have Lincoln Webber from Fitch Ratings. Please, Lincoln, go ahead. Okay. So no, we have Nik from Morgan Stanley. I think Lincoln drop off.

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

I have a couple of questions. And just I'm sorry if I'm a little bit slow here. Did you announce a green light from the Board of Directors pertaining to the 1.1 million tons of PVC expansion? Is that green lighted by the Board of Directors? That's question number one.

Question number two, I was just looking at your historic EBITDA per ton which is around, including the cracker where you consolidate 100%, it's about $247 per ton. If I exclude the cracker on my estimates going back a decade, it's about $186 per ton.

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So I was wondering, it looks like as far as I could see, and it will happen a little quick, it looks like you're still sustaining about $600 to $650 per ton for the PVC investment. So that just sounds like a very high amount. PVC prices are not far from that at this stage. If you can address how you're going to get that? I also noticed that the devil in the detail that your minority investment is scheduled to or your forecast that's going to be rising kind of a run rate which is $90 million plus Netafim to I think you were mentioning $130 million to $150 million per annum if my numbers are correct.

So the question there is, are you thinking about using a similar payment structure where you book a lot of the EBITDA and then you pay below the line to whoever you're going to partner with? And can you just share anything about location of these projects and the path on this project in terms of the PVC project -- the PVC expansion? Those are my key questions to sustain -- pertaining to PVC.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Let me -- I'll take your first 2 questions. The last question was not very clear to understand, but let me address the first 2 questions first.

I think as we said in the presentation today, we are focused on conducting the engineering work, the permits, the working with the governments for the incentives. And there's -- you can't execute a project like this overnight. This takes 5 to 6 years. And there's a substantial phase of early stage engineering and then detailed engineering. We hope to complete what we call the (inaudible) engineering by January of next year and then initiate the (inaudible) engineering which we'll complete by the end of next year.

So we do not need to make substantial capital commitments until the next year. And that is when we will actually look at the market conditions, the supply-demand, validate the supply-demand thesis and then seek final approval from the Board, okay?

In terms of your analysis on profitability of the business, the numbers you look at are hard to analyze given the complex relationship we have with the JV with the cracker. I think the better way to understand our PVC business is we are on the left of the supply curve, but we are not quite all the way to the left because there is this -- there's still a component of the production of VCM that is done by OXY, okay?

Now we do participate in the caustic soda, chlorine business independently and that in a way creates a virtual integration. But today, we are not quite on the extreme left of the supply curve, which is why the levels of profitability are what they are today.

Now for the new investment, I wouldn't call that a PVC investment. That's a fully integrated caustic soda, chlorine, PVC investment with ethylene secured with producer economics, okay? So when you look at that entire value chain and as I shared before, our assumptions on pricing of PVC are pretty conservative, somewhere between $1,000 and $1,100 per ton and our resumption for caustic are $400 a ton. And with those numbers, the EBITDA anticipated is around $650 per metric ton. Now keep in mind, if PVC prices go back to $1,800 a ton or $1,000 a ton, essentially every $100 a ton is $100 million in EBITDA, okay? So hopefully, that helps you understand the economics of that project.

Now it wasn't very clear to me -- your last question wasn't very clear to me. So if you don't mind repeating that...

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

Yes, let me just try again. So part of that potential PVC expansion, do you -- are you looking at doing a similar deal?

I noticed you mentioned in the minority interest that your payment -- your minority payment to OXY and to Netafim, you don't mention the third party, were to go up from the run rate close to $110 million to between, I think you mentioned $130 million to $156 million per annum. So are you -- is there a change embedded in that related to the PVC expansion? Or is that just based on improved profitability in existing in, say, Netafim?

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Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

I mean, let me make it clear. As of today, the PVC expansion we have talked about is going to be 100% owned by Orbia, okay? So then there are no minority payments related to those.

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

Now...

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Having said that, we don't rule out future JVs or partnerships, but today, that's the planning.

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

Thanks, Sameer. Now we will take a question from Vicente Falanga from Bradesco.

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

I had 2 questions here today. Could Orbia easily ramp up supply of fluorides in the mines of Mexico to attend the EV market potential if we get to the point of the, let's say, 6 to 8x demand that could be an upside year? What's the annual supply capacity today? And would you need to invest to expand that?

Second question, I think you were very clear about the headwinds for Netafim looking back with the cost of inputs, the volatility of prices and CapEx per hectare, which you guys were able to lower. That said, I mean, how could we expect the growth of Netafim EBITDA looking ahead?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

So let me first address your question about fluorine supply. And so we have the largest fluorspar mines in the world. We have many decades of reserves. And one of the key insights that has driven our strategy over the past few years is maximizing the value of the fluorine atom.

And now of course, you can sell fluorine as rocks, as minerals. You can sell it as acid. You can sell it as a downstream product like aluminum fluoride or refrigerant gases or you can sell it as truly specialty materials like lithium-ion battery additives, right? And just to give you a flavor for the value addition, when we sell rocks, we sell them for, say, $300, $400 a ton. When we sell hydrofluoric acid, it sells for roughly $2,000, $2,500 a ton. Refrigerant gases are sold for $10,000 a ton. Battery materials, we are talking about $30,000 to $40,000 a ton or more, right? So the value addition is significant.

So in that context, we don't -- our strategy is not to -- we will increase the amount of fluorspar needed as necessary. That's not a huge challenge. But we would rather get more value for the fluorine that we are already extracting by -- rather than sell rocks and acid. We would rather go all the way downstream in the value chain and make battery materials. And so in fact, we have made specific choices in the last few years where we have reduced our participation in the merchant HF market to make hydrofluoric acid available for our own battery materials when the time comes, right?

And so as of today, we are adequately covered when it comes to fluorine supply to support this growth. And then we will scale the mining as activity as well as hydrofluoric acid production to support the growth of battery materials as necessary.

Now your question about Netafim. And it's been challenging market conditions in the second half of last year. But the good news is revenues rebounded in a good way in the first quarter and we are seeing that momentum continue, right? And our short-term goal was to get Netafim back

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to a profitability level of around $180 million in EBITDA, which is a monthly run rate of around $15 million a month. And I think we are getting there, okay? And so I feel pretty good about restoring the profitability to its historic levels.

Our next frontier in the next 2 or 3 years is to take it to around $250 million in EBITDA. And for that, as I had said, we've identified the growth vectors, extensive crops, services, the greenhouses and digital farming. And we are taking a very local on-the-ground approach. So we have worked with the business teams in each of the regions to identify bottoms-up opportunities that we can go after. And we are investing in resources on the ground to deliver on these opportunities. And of course, they'll take time, but our goal is -- the next frontier is to take Netafim to $250 million over the next few years and then, of course, scale it substantially beyond that.

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

Now we will move on with Pablo Monsivais from Barclays. Please go ahead, Pablo. No, so it's Tasso. I think Pablo moved to the second position. Sorry, Pablo. So Tasso Vasconcellos from UBS.

Tasso Sousa Vasconcellos - *UBS Investment Bank, Research Division - Associate Analyst*

My first one, I would actually like to make a parallel with last year's presentations, right? You previously gave a guidance of $13 billion, $15 billion in revenues and $3.1 billion, $3.5 billion in EBITDA for 2027. And now you pretty much give me a similar guidance, but for 2028, right?

So just to get your view here on the (technical difficulty) year, what has been going as expected above or below expectations. And of course, also looking for where and which projects do you view greater uncertainties on and where are you more comfortable?

My second question, in terms of funding. The goal here is to go entirely with bank debt or are there any other possibilities on the table? A capital increase maybe of any of the business. Sameer just mentioned that for the PVC, you were going alone, but a JV could eventually be evaluated as well. So your view here in terms of the possibilities and also on timing, additional details on timing, if this $2 billion of additional funding is expect to be done gradually in the upcoming years of -- or if it is concentrated in a specific year? Those are my 2 questions.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Very good, Tasso. On the timing, like last year, we talked about meeting our long-term objectives. On the slides, we said '27. In the voiceover, we talked about '27, '28, right? And that's largely a function of the time it takes to execute these projects from an engineering standpoint and construction standpoint.

Now what has changed since then? Since then, we've had a significant prolonged war. We've had significant increase in interest rates, which has slowed down building and construction activity and which potentially could have an impact on long-term demand and the timing of the projects, right? So which is why we modified the timing of our long-term objectives to be more realistic, more in the time frame of '28, '29 because that's how long it's going to take.

So for example, if you take the energy transition projects, the PVDF and LiPF6, we'll do the engineering this year, start construction. And then hopefully, they'll be complete by middle of '26 to end of '26 and then they start contributing. On PVC, we are targeting -- finishing the engineering by end of next year and then starting the construction which could take another 3, 3.5 years.

So the timing could be variable by plus or minus, I would say, 6 months to 18 months. But at the end of the day, the long-term goals remain intact that those are the kinds of growth targets we are hoping to achieve at those investment to EBITDA multiples. And Jim, you can talk about the funding and when do we expect to see peak leverage and our alternative sources of funding besides debt.

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James P. Kelly - *Orbia Advance Corporation, S.A.B. de C.V. - Senior VP & CFO*

Sure. And let me start with the -- primarily the later part of the question first because that may help with the context and that's the timing. So I believe, Tasso, that where we're going to begin to need to access some funding would be really in line with the timing that Sameer just mentioned of the capital projects. So more likely starting kind of late in 2024. And then as our capital spending peaks in kind of the '25 to '27 period, likely doing some issuances gradually over that period of time.

So I wouldn't expect it to be one single opportunity to gather funds, it would be done in probably iteratively in several different instances. I would expect that it could start late in 2024 and continue on from there. I would expect that the peak net debt-to-EBITDA would be again in that kind of '25 to '27 period of time.

In terms of how we will do it, given that timing, I think we still have quite a bit of time to evaluate alternatives. So we will look to see whether bank debt is the most attractive alternative for us or if it's doing some international debt issuances, whether that be U.S., Europe or other parts of the world geography that match with where some of the investments are taking place. So we will evaluate that over time. I would guess that there would be some balancing of various mechanisms with various types of financing and certainly ensuring that the debt maturity, the periodicity of that is reasonable so that we don't have any very large maturities coming at any particular period of time, that those are well spread over time.

One thing I should mention just because you're probably going to see this in upcoming months and given this discussion, I don't want it to be a surprise. We will likely be seeking roughly $500 million of more short-term-oriented debt that really is replacing current bank debt that's coming due in the course of the next few months. So you will likely be seeing some activity in the debt market related to that. So this is bank debt that we've talked about actually coming due over the course of 2023 and we're actively pursuing alternatives as to how to refinance that.

And then also we're beginning discussions related to our revolving credit facility that matures next year and we're beginning to work with banks to update the terms and capacity potentially for that which would be announced some time later in this year as well.

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

Now we have Pablo Monsivais from Barclays.

Pablo Monsivais Mendoza - *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

I have 2 quick questions. The first one is on Connectivity Solutions. How can Orbia take advantage of its global footprint in other businesses to replicate the current sector having in the U.S. and Canada to other regions such as Europe, for example?

Also a question on Netafim. If you can share one example of how Netafim is more competitive on the drip irrigation business by being within Orbia. And if you also give us some examples of the internal synergies to speed up the micro irrigation adoption rate.

And maybe if I can squeeze one, third one, just out of curiosity on semiconductors on fluoride. Sameer, if you can give us, I don't know, a first look of what you're seeing on semiconductors for Koura?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Very good. Thank you for the questions, Pablo. So let me quickly address them. With Connectivity Solutions, today, much of the exponential growth we are seeing is a North American phenomenon. It's U.S. and Canada and because that's driven by the investment programs there. But simultaneously, we have invested in building our team on the ground in Europe and have made significant progress in winning business in the past 24 months in Europe as well, okay? We also have a footprint in Asia with plants in Oman and India. And we are looking to, over time, when the demand actually shows up in those parts of the world, we can scale production there as well.

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Now the nice thing about the Connectivity Solutions business is that the plants are very modular. And as demand shifts from one part of the world to the other, it's very easy to move our assets to where the demand is. And we will follow that evolution as that goes. So -- but that's the response on Connectivity Solutions.

On Netafim, that's a fantastic question. I come back to the water plus food theme, right? And of course, there are lots of stand-alone irrigation companies. And they, of course, have to source their -- the piping and systems from market players.

Now what is not well understood and appreciated is even though the drip lines and drippers are polyethylene-based, almost half of the cost of a drip irrigation system is PVC pipes and fittings bringing water from the source to the field. And so the pipes that bring water from the source to the field, the main lines and sub-lines in the field are all based on PVC.

And one of the marquee projects that we have been driving internally is to realize the full power of synergies right from our Polymer Solutions business which produces the resin to our building an infrastructure business that produces the pipe to our Precision Agriculture business that provides a drip irrigation solution.

So one specific example would be we are currently in our B&I business, the R&D teams in the Netherlands are developing fit-for-purpose PVC pipes and we are developing intellectual property around these pipe designs with material formulations that allow us to lower the cost of the PVC pipes for a Precision Agriculture business by up to 20%, right?

Now any player that is not vertically integrated will simply not have that advantage, okay? And this allows our Precision Agriculture business to compete more effectively in the marketplace realizing the full benefit of integration, intellectual property development with our B&I business as well as the most competitive resin supply from our Polymer Solutions business.

And then finally, on semiconductors. Let me talk about where fluorine is used in semiconductor manufacturing. And so for the etching of the silicon wafers, you need a very specialty material called ultra-high purity HF. And this is -- I'm talking about 9 9s. 99.99999, you go to 9 9s. It's extremely pure HF that is used for cleaning and etching of the semiconductor wafers, that's one.

A second important material used in semiconductor manufacturing is NF3, which is a specialty material that sells for a very high price. And then all the semiconductor gases that are used to deposit the [dopends], whether it is Germanium or Boron or Tantalum, these are the elements that give the semiconductor its properties. They're all fluorinated gases, okay?

So now today, we don't have a significant play in this space, but we are actively looking for technology joint ventures and partnerships, especially as the United States looks to secure its semiconductor value chain. And of course, simultaneously in Japan, we are evaluating a project. The Japanese government has -- is providing us a incentives to set up HF manufacturing in Japan to secure Japan's supply chain for semiconductors and batteries. And today, we are at early stages of evaluating that project. We'll share more as things go along. But that gives you a flavor for what we might share with you a year from now when things are better defined and we have very specific projects.

And then finally, the fourth one is, we are looking at potential technology and partnership -- partnering opportunities for fluoropolymers. For green hydrogen, I would say that's much further out. But once we secure the projects for batteries, the next focus will be semiconductors.

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

We might have time for 2 more questions. We have Regina Carrillo from GBM.

Regina Carrillo Villasana - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

I also have 3, if I may, they're really quick. The first one is, if the Polymer Solutions investment is to happen in the U.S. Gulf Coast, will we still see the integration benefiting all geographies or how should we think about this integration?

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My second question is about Dura-Line, the footprint expansion that you mentioned, can you tell by how much you are expanding your capacity? And how much will the additional investments in 2023 and 2024 will expand this capacity as well? I don't know if you have any CapEx amount for further expansions.

And finally, besides the dividend yield that you are expecting to maintain, will we have a strategy for buybacks to insure cancellations like the one we saw a few months ago?

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Very good. Regina, thank you for your questions and appreciate your coverage here. On Polymer Solutions, the way I think about our new capacity is because it's going to be fully integrated, it will position us further on the left in the supply curve from a cost competitiveness standpoint, which then gives us even more advantage as we send that PVC down our own value chain for building in -- for Building and Infrastructure, for specialty compounds and for Precision Agriculture. So that's a positive.

In terms of the investments in Connectivity Solutions, we are -- as of now we are looking at investments in the range of potentially $150 million. And of course, we'll update that as we go along. And as Jim shared with you, the returns on those investments are very compelling, sometimes in the range of 1.5 to 2x EBITDA.

And then -- and finally, on dividends and buybacks, look, we believe in maintaining a strong balance sheet. And given the resilience of Orbia's set of businesses, we expect to maintain and grow our dividends over this investment period. And now when it comes to buybacks, we will prioritize growth investments over buybacks during this period. And given the uncertainties that exist around the world and particularly our goal is to maintain net debt-to-EBITDA at less than 2.5 in the worst of times, maybe exceed that for short periods of times, buybacks will be deemphasized during this period.

James P. Kelly - *Orbia Advance Corporation, S.A.B. de C.V. - Senior VP & CFO*

If I can just add one comment on that in terms of the buybacks. Just to be clear, you may see us engaging in some shorter-term activity here sort of relates to your question as well about retirement of shares, but due to a phenomenon called [FEM] in Mexico, where -- which essentially allows us to pay dividends without tax ramifications to shareholders, you may see us being active up to now in recent days and to a certain degree going forward in non-blackout periods both selling and repurchasing shares. That is all around refreshing shares that are in our treasury pool right now. So that is not a long-term strategy for repurchasing or whatever. That is a refresh to maintain our [COOFEN] pool.

And then to your question, Regina, about share retirements, given that we will not be doing -- we don't expect to be doing any way significant share repurchasing, you may see some retirements of existing treasury shares, but -- and I would expect some of that may happen later on this year, but probably not significantly more than that in the near term.

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

And before we go into the last question, sorry for not taking questions from the Q&A section. Most of them were already answered. So please feel free to send us an e-mail to the Investor Relations team in case there were any questions being unanswered.

Now we will go for the last question from Andres Cardona from a follow-up from Citi.

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

I was still looking at the use of cash of the presentation of this year versus the last one and I see a reduction in terms of dividends. So I just wanted to understand what is the -- driving the difference? I see $1.5 billion to $1.6 billion for this year versus $2.3 billion to $2.7 billion 1 year ago. So just wanted to understand what is driving the difference?

James P. Kelly - *Orbia Advance Corporation, S.A.B. de C.V. - Senior VP & CFO*

To address the difference there, as you may recall last year, we were talking about there likely being some share repurchases taking place over time. And as Sameer just mentioned and I reinforced as well, we are not expecting share repurchases to be a significant part of our allocation -- capital allocation strategy here going forward. So the base dividend, we stated $240 million as a base last year and that remains consistent right now. And we stated last year growing with the business over time and that remains what our approach is planned to be right now. So the difference would all be around estimations in the past of share repurchases.

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

Perfect. So with that, Sameer, Jim, we conclude the event. Thank you very much for attending the webcast. I don't know, Sameer, if you want to give any closing remarks.

Sameer S. Bharadwaj - *Orbia Advance Corporation, S.A.B. de C.V. - CEO*

Sure. Thank you, Gerardo. So I would just like to give a parting message to our investors that today Orbia is incredibly well-positioned to address key world challenges. And I have talked about the 3 themes around water and food, decarbonization and energy transition and information access and connectivity. Our businesses are very resilient. And through disciplined investment in organic growth, largely organic growth, we plan to deploy roughly $5 billion to $5.5 billion in capital and grow our earnings 2x, roughly call it $1.7 billion, $1.8 billion. And that's securing earnings at a very attractive multiple.

And for investors who have faith in us and stick with us through this investment cycle, they'd be rewarded with a very strong dividend yield with the entry point right now being quite attractive with 5% to 6% dividend yields. But I think that's the key -- those are the key messages I'd like our investors to walk away with.

The other important factor to note is, it's not only the water and decarbonization and energy transition themes. The big theme will be near-shoring, right? And with the geopolitical situation with China, Mexico is going to gain significant prominence in United States, Canada, Mexico under the USMCA Agreement. The whole near-shoring phenomenon will play a very important role and we are already playing a significant role in the near-shoring of the battery supply chain and eventually for the semiconductor supply chain.

So I think those are the key messages I'd like to leave you with. Our goal is to remain grounded and credible and honest and transparent. And so we'll keep sharing our progress with you on a periodic basis and we'll be back next year with specific updates on the projects as we go along.

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

Thank you, Sameer and Jim. With that, we conclude the event. Thank you very much.

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