Mexichem S.A.B. de C.V.

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning and welcome to the Mexichem Third Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1) on your touchtone phone. To withdraw that question, please press star (*), then two (2). Please note today's this event is being recorded.

I would now like to turn the conference over to Fabiola Molina, Investor Relations Officer. Please go ahead.

Fabiola Molina
Thank you, operator. Good morning, and welcome to our conference call. We are pleased to be here today to present our third quarter results. We appreciate your time and your participation in this conference call. Our speakers today will be Mr. Antonio Carrillo, CEO of Mexichem; and Mr. Rodrigo Guzman, our CFO. I will turn now the call over to Antonio for opening comments.

Antonio Carrillo
Thank you, Fabiola, and thank you all for joining the call this morning to review Mexichem's third quarter 2017 results and to discuss our outlook for the remainder of this year and into 2018. This was an extremely busy period for Mexichem and a very rewarding one, as well. We announced the acquisition of Netafim in early August, and by late September we had completed a $1 billion global bond offering to fund the transaction.

At around the same time we were faced with the prospect of Hurricane Harvey making landfall on the Texas Gulf Coast, which caused significant short-term issues across many areas of our operations. I am pleased to report that throughout this period Mexichem's performance demonstrated the strength and resilience of our strategies. It is clear that from a financial perspective as well, this was an outstanding quarter for Mexichem, one that sets the stage for us to achieve the high end of our guidance range for 2017 EBITDA, reflecting year-on-year growth of between 20% and 25%. Also for the second consecutive quarter, we achieved a consolidated EBITDA margin of about 20%, reaching a goal that we had set for the company three years ago when we took actions to prioritize margin expansion over volume growth.

The stand-out performer again for this quarter was our Vinyl business group, which continued to benefit from the improved pricing compared to last year's levels and the vertical integration across the ethane-to-PVC value chain that we gained as a result of our multi-year investment in the ethylene cracker in Texas. Thanks to the effective business continuity planning and execution, the company's 50/50 joint venture ethylene cracker in Ingleside, Texas was shut down safely before Hurricane Harvey made landfall and it is back up to operating at full capacity following its 18-day closure. The hurricane's impact caused Mexichem's main VCM supplier as well as many other suppliers to declare force majeure condition. As a consequence of this, Mexichem declared a force majeure condition related to certain PVC, resins, and other products that we were able to lift in early October. This resulted in a spike in PVC prices, which had been trending higher throughout 2017 due to the global supply and demand factors.

This was another quarter of 20% EBITDA margin performance for our Vinyl business group, a level we expect to maintain in the fourth quarter. Also, we are pleased to report that PMV posted modest but positive EBITDA results in the period, delivered from our chlorine and caustic operations as business interruption insurance expired after the second quarter. Once the future of PMV is determined together with our partner, we believe that there are significant improvements to PMV's financial performance that can be made.

Fluor was another ray of EBITDA strength in the third quarter following the trend that we have seen throughout the year. The difference is that for the first time since the first quarter of 2015, we saw enough pick in EBITDA in our upstream business, thanks to the recovery in demand from the steel and cement industries--two key end markets that we have been targeting for the last few quarters.

It is important to remember that fluorspar for the cement and steel industries is Mexichem's highest margin product, and there are significant opportunities to increase volumes in these markets. In the downstream business, refrigerant gas prices continue to remain solid ahead of last year's levels both in the US and Europe. The only business group that reported mixed results in the third quarter was Fluent. In the periods of abrupt price increases in PVC resin, Fluent's margins and volumes suffered a lag time in passing through these price increases to the market. This is especially true in Latin America. During the third quarter as we have mentioned, PVC prices increased substantially due to the hurricane impact. This means that our Fluent LatAm business was not only impacted by higher input prices, but also by a reduction in supply due to the force majeure we issued. This situation has been resolved and the price most likely will be fully passed through in the next few months.

Sales increased across all regions except LatAm, and despite higher input costs, Fluent US and Canada improved its EBITDA margin to 19%. Keep in mind that in 2014, when we acquired Dura-Line, which forms the core of Fluent US Canada region, their EBITDA margin was 11%. Also, Fluent Europe maintained its EBITDA margin at 14%. Both regions benefit from strong demand for the energy industry.

LatAm was a laggard in the quarter, basically as a result of quarter-specific issues that we have discussed. We expect to see a turnaround in Fluent LatAm's performance in the fourth quarter of this year and throughout 2018. And while the economy recovery in Brazil is slow, we are pleased to see the economic conditions in Colombia are recovering nicely.

In summary, we ended the first nine months of 2017 with excellent year-on-year comparisons, reflective of the strategy that we've put in place almost four years ago to improve profitability across the entire organization.

Our investments in organic and acquisition growth have changed the complexion of Mexichem. Acquisitions like Dura-Line, Vestolit, Gravenhurst, and Vinyl Compounds have significantly expanded our specialty portfolio and have enabled us to shift culturally from a commodity producer to a provider of value-added products selling an expanded universe of end markets. At the same time, investments we have made, we made in order to reduce one of our major raw material costs has allowed us to achieve over 70% vertical integration in our Vinyl group. The results have been apparent in our adjusted returns on equity and invested capital, which were 8% and 7.3% respectively for the trailing 12 months ended September 30th.

While we still have a ways to go to reach our objectives, this represents improvements of 170 basis points and 80 basis points respectively over where we stood one year ago. The next inflection point for Mexichem will take place when we complete the acquisition of Netafim. We have spoken about the transformational nature of this transaction when we announced it in follow-up calls with analysts and investors and during the bond offering in September, which was more than eight times oversubscribed. The more we get to know the company, the more convinced we are that their technology and capabilities will accelerate our drive into specialty products and industrial solutions for many of key end markets--namely infrastructure, housing, Datacom, and further enhancing our resilience. While this will be a progressive transformation from day one we will benefit from Netafim's leadership position in irrigation and especially in the high-growth micro irrigation market. We understand that they are on plan to achieve their 2017 expected results.

As you know, Netafim offers a full range of driplines, sprinklers, and system components used in their digital form in the large-scale turnkey project, including some products that can be manufactured by Mexichem. We will consolidate our irritation product line under Netafim, which should bring this category's sales to close to $1.2 billion next year. With this scale, we will be well positioned in the worldwide agricultural sector and Netafim's acquisition extends Mexichem's reach in high-growth geographies. Most important, Netafim brings us R&D and technology that we can utilize across our company to create solutions for our customers.

While there are restrictions in the preparation work that we can do prior to closing, we have started a clean team between both companies with the supervision of our lawyers and the coordination by Boston Consulting Group to be able to hit the ground running on day one after the closing. We are confident that the integration will go smoothly and that the synergies will be substantial. What is important to remember is that while the integration of Netafim will bring operating synergies, the goal is to have an integration that accelerates Netafim's growth by allowing them to use Mexichem's global platform. I am convinced that the potential for growth in Netafim is many times higher than the potential for synergies.

To sum up, our year-to-date result represents excellent execution across our organization and have laid the foundation for a strong showing in 2017 and 2018. Now I will turn over the call to Rodrigo, our CFO, for a detailed review of our third quarter and 9-month financial results. Rodrigo?

Rodrigo Guzman
Thank you Antonio, and thank you all for joining us today. We are pleased with the strong performance that Mexichem reported for the third quarter and first nine months of this year, positioning us very well for significant year-on-year growth for the full year. As usual, we will start with the key financial highlights for the third quarter 2017. Please note that for comparative purposes, I will be comparing against third quarter 2016 adjusted numbers that exclude the one-time impacts related to PMV accident that occurred in April of last year.

Third quarter 2017 consolidated net sales increased 8% year-over-year to $1.5 billion, driven by solid progress across our business groups, particularly Fluor and Vinyl, where sales increased 22% and 8% respectively. In contrast to recent periods, in the third quarter exchange rate valuation benefitted sales by $14 million, mainly due to the opposition of the euro and real against the US dollar. On a constant currency basis, net sales were up 7%.

As Antonio noted, the force majeure that came on September 1, 2017, due to the effect of Hurricane Harvey on the coastal area of Texas affected the supply of raw material and abruptly increased PVC input prices in our Fluent business group and compounds business unit. Despite this, our third quarter consolidated EBITDA increased 21% to $297 million from $245 million in the year-ago third quarter. This positive result is due to several factors. Higher PVC prices, excluding the significant Hurricane Harvey effect, increased profitability from the vertical integration in our Vinyl business group, and improved refrigerant gas process in the US and in Europe. EBITDA margin was 19.7%, a 218 basis point increase from last year's levels. On a constant currency basis, reported EBITDA will have been the same because currency devaluations and revaluations in the country where the functional and reporting currency is not the US dollar offset each other.

Due to the same reasons I just mentioned, our operating income increased 21% to $196 million.

Our financial costs were lower by $6 million, or 12%, compared to last year's quarter due to gain of $5 million related to the net obligations booked in currencies other than functional currency of each country, and $1 million related to inflationary benefits from Venezuela. Cash taxes decreased 5% or $2 million and deferred taxes were up $34 million, which increased the effective tax rate to 41% from 29% in the comparable period last year for the reasons we stated in our earnings release.

Earnings before income taxes increased 37% to $152 million from $111 million in the third quarter of 2016 while consolidated net income increased by 24% to $91 million. The difference of $61 million reflects the higher effective tax rate in this year's third quarter compared to last year's comparable period. However, income from continuing operations after cash tax increased 57%, mainly due to the use of bonds depreciation in our cracker JV in Texas. Consolidated net income increased $18 million to $91 million while majority net income was $61 million, a year-on-year decline of 17% mainly due to higher non-cash deferred taxes and the minority interest we have in 2017 related to the cracker that we did not have in 2016. With that deferred tax impact, net income this quarter will have increased more than 20%. As Antonio mentioned, trailing 12 months adjusted returns on equity and capital employed were 8% and 7.3% respectively, up from 6.3% and 6.5% recorded in the comparable period last year.

Now let's go over the financial performance of each business group in more detail. We reported an 8% revenue increase in our Vinyl business group to $581 million on a 1% pickup in volume, reflecting better PVC prices globally as well as in the US where prices increased even further this September due to the impact of Hurricane Harvey. This top-line growth also benefitted from the integration of Vinyl Compounds into our compounds business. The Resins, Compounds, and Derivatives business unit, which accounted for 97% of the Vinyl Group sales this quarter, reported a 7% revenue increase to $562 million. Our Vinyl Business Group's EBITDA was up 73% to $130 million from $75 million in the year-ago quarter as a result of higher PVC prices and volumes, better product mix, operating efficiencies, and the benefits of our increased vertical integration across the methane-to-PVC value chain due to the start of commercial operations of our JV ethylene cracker in Texas.

EBITDA margin was 22.4% for the third quarter, an 840 basis-point increase from last year's adjusted levels. The Vinyl Business Group's operating income increased 82% to $79 million.

Net sales in the Fluent Business Group totaled $785 million, $35 million or 5% above last year's quarter due to sales increase in Europe and US and Canada of 9% and 8% respectively, and a 10% sales increase in India. This top-line growth was partially offset by a 2% sales decline in LatAm region, relating mainly to the challenging economic environment in Brazil. On a constant currency basis, Fluent sales will have been $778 million, 4% higher year-over-year. A 5% depreciation of the euro was offset by the position of the Turkish lira.

Fluent's third quarter EBITDA was $107 million, a 10% decline mainly due to the abrupt increase in PVC prices in September that Fluent was not able to pass through to customers in the third quarter, and lower volumes related mainly to the economic environment in Brazil, a situation that was offset by a clear recovery of the Colombian economy now that the main impact of the tax reform there has passed.

Consolidated EBITDA margin was 13.6%. Operating income amounted to $71 million. It is worth mentioning that Fluent Europe and USA and Canada remain very solid on track with respect to increasing EBITDA margin. Fluent Europe posted a 14% EBITDA margin in the third quarter of 2017, 220 basis points higher than the one posted back in the third quarter of 2013, while Fluent USA and Canada posted a 19% EBITDA margin coming from 11% when Mexichem acquired Dura-Line in 2014.

Our Fluor business group reported a 22% net sales increase, reflecting significant growth to improve demand for fluorspar from the cement and steel industries as well as higher refrigerant gas prices following the IPC resolution announced by Mexichem in March of 2017 and better than expected refrigerant gas prices in Europe. EBITDA in our Fluor business group was up 15%, and amounted to $68 million--a growth rate lower than the sales due to the greater percentage of operating expenses denominated in Mexican pesos, which appreciated against the US dollar in the third quarter. EBITDA margin was 38.4%. Operating income was up 20% to $56 million from the year-ago quarter.

Now, I will give you a brief overview of our performance for the first nine months of 2017. Our consolidated net sales totaled $4.4 billion, up 7% from the same period last year. On a constant currency basis, net sales will have increased 8% year-on-year. Foreign currency translation reduced total sales by $29 million, mainly coming from the Turkish lira and British pound devaluations that were partially offset by the real reevaluation in Brazil.

For the breakdown in regional sales by destination, for the first nine months of 2017, Europe and North America accounted for 38% and 31% respectively of total sales. The United States, which is included in North America, represented 16% of total sales while Germany and UK represents 8% and 6% respectively. Sales in South America were 22% of total sales, with Brazil accounting for 7% of total sales. EBITDA for the first nine months of 2017 increased 19% to $838 million on an adjusted basis, while on a reported basis, it increased 30% from $643 million. EBITDA margin was 19.2%. This put us on track to achieve the higher end of our EBITDA guidance range, which we have narrowed from a 15% to 25% increase to a 20% to 25% increase from last year's reported levels of $884 million. Operating income also increased 19% to $548 million in adjusted basis.

In the third quarter, operating capital before Capex increased 29% to $215 million as a result of higher EBITDA, lower cash taxes, and lower net interest costs, and exchange rate losses. This helped to affect a $10 million increase in working capital needs, mainly due to a startup of the cracker JV in Texas and higher PVC and refrigerant gas prices, which increased accounts receivable and inventories.

Capital expenditures in the third quarter decreased by 23% to $67 million, $6 million of which was invested in the ethylene cracker, $7 million as carryover in PMV, and $53 million allocated to organic projects. Total financial debt as of September 30, 2017, was $2.3 billion, cash and cash equivalents totaled $740 million, resulting in net financial debt of $1.6 billion. The net debt to adjusted EBITDA ratio was 1.5 times and adjusted interest coverage was 5.5 times.

At the end of September, we completed a very successful $1 billion bond offering, proceeds of which will be used to finance the recently announced acquisition of Netafim and for other corporate purposes. The offering was comprised of two tranches, a $500 million bond carrying a coupon of 4% and a 10-year maturity, and $500 million bond with a coupon of 5.50% and a 30-year maturity. It is important to mention that both tranches were issued within the benchmark Mexichem's spread core and at the same time flattened the slope of its core. The competitive spread at which the bonds were placed and the fact that the offering was more than 8 times oversubscribed demonstrates the market's confidence in Mexichem's growth strategy.

Thanks to our strong operating capital generation, Mexichem has a track record of paying down acquisition-related debt quickly.

I will now turn the call back over to Antonio for closing remarks. Thank you.

Antonio Carrillo
Thank you, Rodrigo. In short, the trends we have experienced year-to-date point to continued progress in the fourth quarter. Our Vinyl group stands to benefit from its vertical integration and better pricing compared to last year, and in the fourth quarter our compounds business will not have the negative effect of the abrupt price increases in PVC that they experienced in the third quarter. Fluor is positioned to capture improved demand in its upstream operations and higher refrigerant gas prices. And Fluent will continue performing well in the US and in Europe while we will see better performance in Latin America.

Our main goals over the next few quarters will be the smooth integration of Netafim, start generating operating synergies, and improve margins, and accelerate its growth. At the same time, we will focus on delivering on our objective of bringing Mexichem's net debt-to-EBITDA to below 2 times in 18 months or less.

And finally, to continue with our strategy to improve returns by focusing on margins rather than volumes and cross selling to accelerate Mexichem's organic growth. As we look to 2018, we continue to focus on increasing returns and rolling out cross-selling initiatives and operating efficiencies across the organization. We believe Mexichem is well positioned to continue to drive organic growth and that the synergies and opportunities provided by Netafim will make this an excellent acquisition for the company. We have tailwinds in most of our businesses and at the same time our strategies are yielding positive results. This combination underpins our expectations for Mexichem's strong performance in 2018.

Operator, I will now open the call for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your touchtone phone. We do ask that if you are using a speakerphone, to please pick up your handset before pressing the keys. To withdraw that question, please press star (*), then two (2).

Our first question comes from Nikolaj Lippmann with Morgan Stanley. Please go ahead.

Nikolaj Lippmann
Good morning and thanks. Congratulation on the numbers and thank you very much for taking my questions. I have three questions. First on the PVC, the Vinyl group. I know you don't like breaking out the cracker economics, however, when I look at the minority line it looks like you had an absolutely outstanding quarter there. Is there anything else going on that is material in that line and is that something that we could think of being sort of the run rate, given current ethane and ethylene prices, so that's question number one. Question number two, on Fluent, in Europe you had a strong quarter; that's a lower margin business. Can you comment on how you're doing in terms of improving margins in that region and also in South America you, or Latin America, your comment on demand; is there anything going on in terms of supply? And then finally, the third question, in Netafim, you mentioned thanks for the $1.2 billion sort of revenue target? Can you just remind us how much irrigation Mexichem has prior to the acquisition of Netafim in terms of revenue? Thank you very much.

Antonio Carrillo
Yes. Thank you, Nikolaj. So I'll start with your questions. Let me start with the PVC. There was nothing abnormal really in this quarter's cracker, except the shutdown that we had for 18 days that affected the operation of the cracker. So, you're right. I think the cracker is doing very well. And as I mentioned, we've mentioned before, we don't break the cracker per se, but you can see the minority and you can get a good idea of what the cracker is doing, but remember that the cracker is not a standalone project. The economics of Mexichem are built around vertical integration, so the minority you see there is a combination that between Oxy and ourselves generating the economics of the cracker to make it look like that. So it's not, if you make the numbers ethane to ethylene, you will never get to the numbers of minority profit that you see there. It's a combination of all of the formulas we have in the chain that allow the cracker to be performing so well. Hopefully, I didn't confuse you more than I, than you were initially.

The second question on Europe, as Rodrigo mentioned on the margins in Europe, they are quite above last year in the third quarter. We continue to see, this is the first year really, the second half of last year and 2017 is the first period since we bought Wavin where apart from cutting costs, we are seeing positive demand and that is absolutely helping our team. The team has done a fantastic job in restructuring, in aligning the company with the markets, in eliminating low margin products, and introducing new products. Not only about eliminating products with low margin, but the introduction rate of new products that they have done have accelerated a lot over the last few years.

So we are excited about the work that the team in Europe is doing and at the same time, as I said, we have some positive demand from the market itself helping us. So we are confident that we have tailwinds at the moment that will help us continue to transform Wavin and Fluent Europe into a huge success story. They, I think we've talked in the past about the delayer in exercise that we did starting last year and this year. We've had throughout 2017 significant demand of restructuring costs because what we have tried to do in all the companies to flatten the organization, so we reduced a full level of management throughout the organization. And that is also going to materialize next year in terms of margins and in terms of hopefully speed and less bureaucracy, not in Europe per se, but the whole Mexichem. As you know, my biggest fear is bureaucracy in this company.

LatAm supply, there's really nothing major in supply except of course in this quarter we have most, two problems in supply. One is prices of PVC went up significantly and at the same time, we did hit some of our business, especially in Mexico and Central America, with lack of supply of raw material because we simply had to put on a location all of our customers, including internal customers. So that's already solved. And we expect, let's say LatAm to not have so many one-time issues in the fourth quarter. The forecast I see for the fourth quarter seems to show some pretty good recovery in many of our markets, especially Colombia, Mexico, Central America, so things are looking better for the fourth quarter.

Finally, on Netafim, the business Mexichem had in, it's around $170 million in sales, or $150 million to $170 million in sales in agricultural products in Latin America mainly. I can tell you that the both the products and the distribution channels were completely different. So that's not necessarily bad. I'm saying that in a positive note because, you know, when you complement product lines, it's something that adds value, and that's something we believe that combining the two businesses will, with the team now focused solely on growing that business, I think we will add significant value to Netafim's portfolio and to Netafim's distribution channels, to Netafim's operating platform. So, hopefully that, one additional comment on that. The margin that we had in Latin America is higher than Netafim, so the margin we had in Latin America is about 70% EBITDA margin on our agricultural products. Netafim, as you know, is around 14%.

Nikolaj Lippmann
Thank you, Antonio. And a follow up question, if I may. If I take that $1.2 billion at face value, and I know we don't have full-year numbers for Netafim in 2017, but I think we have looked at some targets. As far as I can see, it would imply only a roughly 5% growth. Am I looking at things into '18 for the combined business, Netafim plus what you have already? Am I looking at things right here?

Antonio Carrillo
Well, to be, the numbers I tried to give, and maybe that's was mistake in the way we presented it. What I tried to do to 2018 on the number I said, $1.2 billion, is really adding up only Netafim 2017 and Mexichem 2017 without adding any growth. I did not add the growth that we expect, so the number will be higher than that.

Nicolaj Lippmann
Got it. Thank you very much.

Operator
The next question comes from Vanessa Quiroga with Credit Suisse. Please go ahead.

Vanessa Quiroga
Hello, good morning Mexichem team. Congrats on the results. I have a question about the business of Fluent in LatAm and so, regarding your comments, the comments that you're making about initial results or trends that you are seeing in the fourth quarter, are you seeing that you are being able to pass through PVC price increases to customers thus far?

And as a second question that I have is regarding the status of the case of the explosion, of the Pemex JV, if, and apologies if I missed that in your earlier comments. I just--the status on the government entity actually closing the case of the accident. Thank you.

Antonio Carrillo
Okay. So let me start with the LatAm. Yes, we're seeing that prices are going through in LatAm and also I think there has been a few reports that I think are misinterpreting some data on PVC. PVC prices have come down a little bit in the last few weeks after the effects of the hurricane Harvey have gone, have passed, and people are interpreting that as, you know, PVC prices are coming down. Yes, they're coming down, but from--just from a one-time event that spiked them up. I think the trend will continue to go up, but at a moderate pace, so despite that they're coming down in the short term also helps our LatAm business be able to pass them through, and some are, yes, we believe that doing that this month and probably early November we'll be able to pass all the increases through.

On the explosion of PMV. As we've discussed and I think you've seen some comments from the head of Pemex, we continue discussing with them what's the future of the company. I think that's a discussion that should be resolved in the next six months or so. And at the same time, the authorities continue with their process. The head of Pemex already mentioned that the explosion, the investigation by the authorities was concluded. There was some time to inform the affected parties of the conclusion of the explosion. There is still some pending time in a few cases that we have to wait for them to respond to the conclusions of the authorities and hopefully over the next few weeks we will have a complete closure of this investigation in terms of the government agencies. We are finalizing the agreements with the environmental agencies to be able to, we will have to clean up internally, inside the plant. Outside of the plant we believe there is no impact, but inside the plant we will probably have to clean, do some cleanup. It's already covered in our financials that we have provided. It's already reserved, and it's also covered by insurance. So we feel comfortable. It's not going to be a huge amount or a huge process.

And finally, the insurance review has made huge progress with our insurance carriers. Initially, with the business interruption we are already have some agreements on the payments for the business interruption part. We are finalizing, as you know, we did not allow the, the authorities have decided to close for many, many months. We only allowed the insurance agencies to go into the plant maybe two months ago. So they're finalizing the report on their findings on the property insurance. It's not a question of whether it's covered or not, it's about the amount of that is covered, or the size of the explosion based on our estimates. We believe it is a complete loss.

So those discussions will happen over the next few weeks also. So overall, I'm pretty pleased with the progress. As I mentioned in my script, PMV is running a little above breakeven, even though it's carrying a significant amount of cost from the shutdown plant still that has to be resolved. But overall, a good progress in PMV. And finally…

Vanessa Quiroga
Thank you. I, yes?

Antonio Carrilllo
Go ahead, go ahead.

Vanessa Quiroga
Just very quickly on Netafim, if there is any chance that the approvals process with antitrust authorities are delayed?

Antonio Carrillo
Well, you know, we have to do antitrust in 14 countries; most of them have been cleared. I can tell you that the bottleneck at the moment is Brazil. We have dates for, that they have given us for estimates for the last week of November to be finished the approval process. That's the status I have today. I can tell you that it's not a very comfortable position, depending on an authority in Brazil to clear you up, so, hopefully we don't get delayed. The dates we have are for late November. If it gets delayed, then we'll have to close in early January, but hopefully it doesn't happen. We are doing all the efforts from the company side to accelerate that.

Vanessa Quiroga
Okay. Thank you, Antonio for all the helpful answers.

Operator
The next question comes from Vicente Falanga with Bank of America. Please go ahead.

Vicente Falanga
Hi Antonio, Rodrigo. Thank you very much. Antonio, you mentioned that you'll pass through PVC prices in early November in Latin America. Does this include Brazil and is this a full pass through of PVC prices so far, or is this a partial pass through?

And then, Rodrigo, you mentioned that the bond issue was 8 times oversubscribed, which is obviously a very, very good sign. On the other hand, were there any main concerns discussed by debt investors regarding the proceeds of these funds and the acquisition itself that you might possibly share with us? Thank you very much.

Antonio Carrillo
This is Antonio. I'll answer the first question and then I'll let Rodrigo answer your second question. The pass through is not an overnight thing. As you know, the hurricane happened. Already there's been several weeks since the hurricane, so the pass trough has started since let's say September, October, and what I believe is that by early November we should have all the prices passed through, including Brazil. And it is happening. There is market that are more competitive than others or competition reacts differently than others, so that depends. That is, I would say, the critical factor in passing through prices. As you know, in Brazil we are not number one, we are number two in the market, so we sometimes, many times the leader in the market is the one that marks the

speed at which the prices are passed through. In Brazil, that would be our main competitor, the one that does it. I think we show--our goal is to pass them through as soon as possible and hopefully Brazil happens also, no. But I, from the numbers I've seen, and we track this weekly, things are looking good.

Rodrigo Guzman
And the second question, regarding the bond issuance, I have a couple of comments. First of all, this is the first time in which Mexichem hasn't seen demand for non-emerging markets funds. They, the market behavior in the road show was mainly, put a lot of focus on the, let's say the geographical footprint of Mexichem and realized that Mexichem is not, is no longer an emerging market company. It is increasing its exposure to all regions like Europe and India and also in the US, so we received a lot of attention from non-emerging market funds.

In relation with concerns, the main concern they have is in relation with the visibility of reducing net debt-to-EBITDA ratio, or the leverage of the company. And in doing the road show, we explained very clear that we are seeing a very, a fast way of deleveraging the company, we say in no longer than 18 months. But really we believe that we can do that in no longer than between 12 to 15 months. And that is mainly the concern of the market.

Antonio Carrillo
This is Antonio. I would add that the other prevalent question that we had during the road show is NAFTA. There was a significant amount concern from investors about NAFTA and as you, as we've discussed, NAFTA is really not an issue for Mexichem. We are not a big exporter or importer of things that could be affected by NAFTA. So I think that was something that was discussed almost in every meeting--the NAFTA issue that Mexichem could have.

Rodrigo Guzman
And only to add internal numbers to that, over the 2016 numbers, Mexichem only exported 3.6% of their top sales from Mexico into the US and the biggest amount of that is in fluorspar. And in the US, it's absolutely deficient in fluorspar production. And roughly we supply them 80% of their total demand. When I said us, I mean Mexichem. Additional 10% it's coming from other suppliers from Mexico and another 10% it's coming from other suppliers in India.

Vicente Falanga
Great, so…

Rodrigo Guzman
So roughly, we don't have so large exposure into the US.

Vicente Falanga
Great. Fantastic. Thank you very much. Congratulations.

Operator
The next question comes from Julia Ozenda with UBS. Please go ahead.

Julia Ozenda
Hi guys, thanks for the call. I'm sorry if you already addressed this earlier today. I had a problem with the call. So just regarding the Netafim acquisition, you already mentioned

the company should deliver around $130 million of [unintelligible] with the average margin of 14%. And looking into the coming years, can you provide the margin target that you have for this company? It is possible to reach the same 17% margin that you already have in your LatAm operations?

And then the second question would be, when you mentioned you were [unintelligible] net debt-to-EBITDA in the next coming 18 months, can you provide input of additional contribution from Netafim, or maybe the margins implicit? Thanks. That's it.

Antonio Carrillo
Yes. So, I think the Netafim question is very, very important. If you look at the complexity of the product and the, I would say the technological aspect of Netafim, I think that the margin that they have today does not represent the quality of company that they are and the potential that the company has. And this is a discussion I even had with the Netafim folks.

And I think they are, you know, when they saw the Mexichem numbers regionally and by product when we were presenting Mexichem during the acquisition, I think the first surprise they got is, you know, the concept of, you know, we make PVC pipe and it's a very simple project and product and they make a very complex and a very technified system and delivery solutions and they have a lower margin, let's say the audio and the video don't match. And I believe the reason for that is several.

First, they have a very large footprint; they are present in 14 countries. But they're not very big in this country so, the structure that they have forces them, let's say creates additional weight on them to reduce their margin, and that's why I mentioned that if we can accelerate the growth of the company using the Mexichem platform to reduce their costs, I think that's a winning scenario to improve margins significantly.

The second thing is they buy a lot of products that they don't produce, mostly PVC, and they can also not compete in many crops because the PVC sales are too big. And when you don't make money on 20%, 30%, 40% of what you supply, then your margins are contracted. So, I think that's the second source of significant margin increase that we can provide.

The third one is of course raw materials. We have a much larger acquisition of polyethylene, so we will bring some synergies there. And then, if we are able to fix those three things and accelerate the growth, then the margins should be, my goal would be to be this should be the highest margin Mexichem produces in the Fluent business, because it's the most technical product that Mexichem would producing in the Fluent business together with some heating and cooling that we produce in Europe and some other products, but it should reflect the complexity of the product and the value-added of the product to their customer.

And the answer to the relation of net debt-to-EBITDA ratio calculation and expectation for the following months really is not relying on any single number of Netafim. Only if you use the numbers within the Vinyl business group with the cracker inside operating 12 months instead of nine, and if you add up what we expect from refrigerant gasses and from Fluor business, and the benefits coming from the IPC process, then you'll realize that the number will be lower than 2 without taking into account Netafim.

Julia Ozenda
Okay. Perfect. Thanks. And just following up on the first question, so if we consider that Netafim would be the best margin in the Fluent segment, can we consider that you could jump to at least 16% or so? Like, ah…

Antonio Carrillo
Yes, yes. I think if we cannot achieve that, we failed. And, just going back to Rodrigo's comment. We are seeing, based on initial forecasts, strong organic growth in all of the businesses for 2018, independent of Netafim, so Netafim will be additional to the organic growth that we expect in all of the businesses. So that's why we are so optimistic about the reduction in the leverage, and that's why we say that the best is yet to come for 2018 in terms of simply organic growth.

Julia Ozenda
Okay. Thanks a lot.

Operator
Again, if you have a question, please press star (*), then one (1). At this time, this concludes our question-and-answer session.

I'd like to turn the conference back over to Antonio Carrillo for any closing remarks.

CONCLUSION

Antonio Carrillo
I just want to thank you for participating in today's call, and I look forward to talking to you in a few months. Thank you.

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