

Mexichem S.A.B. de C.V.  
First Quarter Earnings Call  
April 27, 2017 at 11:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Marcela Munoz** – *Investor Relations*

**Antonio Carrillo Rule** – *Chief Executive Officer*

**Rodrigo Guzman** – *Chief Financial Officer*

## PRESENTATION

### **Operator**

Good morning, and welcome to the Mexichem First Quarter 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. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note today's event is being recorded.

I would now like to turn the conference over to Marcela Munoz of Investor Relations. Please go ahead.

### **Marcela Munoz**

Thank you, operator. Good morning and welcome to our conference call. We are pleased to be here today to present our first quarter results. We appreciate your time and your participation in this conference call. Our speakers today will be Mr. Antonio Carrillo Rule, CEO, and Mr. Rodrigo Guzman, CFO.

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

### **Antonio Carrillo Rule**

Thank you, Marcela, and thank you, all, for joining us this morning to review Mexichem's first quarter performance and discuss our outlook for 2017. First quarter results represented a strong start for the year and have put us on track to achieve significant EBITDA growth in 2017.

We reported double-digit revenue growth for the first quarter along with year-on-year EBITDA growth, primarily reflecting the positive impact of better pricing conditions in our vinyl business. As you know, we began to see an upturn in PVC prices at the end of last year and they are now higher than they have been in the last several years.

Supply-demand factors support the view that although there will be volatility there will also be a positive trend in pricing over the short and medium-term. Improved PVC pricing has the most immediate positive impact on our Vinyl business group which is amongst the world's largest producers. In fact, 11% consolidated revenue increase that we reported for this year's first quarter was led by 20% increase in our Vinyl business group sales.

It was primarily due to higher prices but also held by higher volumes as well as strategic acquisition we made in the UK for our compounds business unit. This was the first quarter in almost two years in which revenues increased at a faster pace than EBITDA as our focus has been on prioritizing margin over volume. In this case, however, the disparaging growth rate is primarily a timing issue caused by several factors specific to the first quarter.

On the plus side, higher PVC prices drove double-digit EBITDA growth in the resin business unit of our Vinyl group. Partially offsetting that growth was the lower EBITDA performance of our Fluent group which in large part, reflected the lag time associated with passing through raw material price increases to customers. Fortunately, the latter is a short-term impact which we expect will resolve itself in the second quarter.

However, the relationship of these two large business groups actually demonstrates one of Mexichem's strengths, mainly the vertical integration has significantly reduced our volatility as a company and has given us both additional flexibility to respond to changing market dynamics as well as the resilience to

better withstand cyclical downturns. While pricing was a key factor in our results for the period there were other elements worth noting, several of which were specific to the first quarter.

In the Vinyl group, the cracker came on line on time and on budget and during the second quarter is ramping up better than we originally expected, but it is important to remember that crackers are complex systems and that we're still in the start-up phase.

Despite higher input cost, the Fluent business group USA, Canada, and European operations were able to report year-on-year growth in both sales and EBITDA. This was not the case for our Latin operations because PVC prices went up too fast for these businesses to be able to fully pass through the increase to the market. This will be resolved in the second quarter. It is important to note that our Latin business is the most exposed to PVC within Mexichem. The rest of the regions have a different mix of materials in their portfolio.

Also, in LATAM we had certain restructuring charges. Fluent's EBITDA performance is positioned to rebound in the second quarter as higher raw material cost has passed through to our customers and we continue to emphasize sales of specialty products.

In Fluor we had a combination of several factors affecting the two parts of our business, upstream and downstream. First, our upstream Fluorspar business had higher volumes and they were especially high in metallurgical fluorspar which is a low-priced but high-margin product. This product mix gives the appearance of low prices.

In downstream the story is quite different. We have slightly lower volumes but significantly higher refrigerant prices for the portion of our business that is sold in the sport market. This growth of 23% increasing EBITDA, a good indication of the upside we have in a competitive pricing environment. In fact, we expect this improvement in pricing trend to continue over the next 12 months as inventories of low price refrigerants are consumed and existing contracts expire.

We are pleased to report that the 52 million net majority income in the first quarter equated to a trailing 12-month adjusted ROE of 7.9% and ROIC of 6.3%. I would like to emphasize that 2017 marks the end of the high capital expenditure cycle that we have been as a result of our investment in the ethylene cracker joint venture in Texas. With 96% of our total equity investment completed we expect 2017 to be a year of significant free cash flow generation for Mexichem.

Also, we continue to be in a strong financial position with a manageable net debt to EBITDA ratio of 1.9 and a substantial cash position of almost \$600 million at the end of first quarter. It's important to mention that the increasing working capital and the negative cash flow in the first quarter reflect the increases in volumes and pricing as well as the seasonality of our business. We expect that once the seasonal inventory is built and the normal collection cycle starts, cash flow should improve significantly.

Before I conclude, I want to recall that one year ago on our first quarter conference call we addressed the tragic accident that had taken place at PMV just a week earlier. At the time of the call we were still in the emergency phase responding to the people most affected.

With that phase we handled, we engaged outside experts to investigate the cause of the accident and to develop additional process and protocols to reduce the likelihood of such accident ever happening again. This was a very difficult period for all who were affected, but I am proud to say that Mexichem has emerged from this experience as a safer, stronger company.

I would like to turn the call over to Rodrigo, our CFO for our financial review.

### **Rodrigo Guzman**

Thank you, Antonio, and thank you, all, for joining us. First of all, I want to add to Antonio's comment on the tragic accident we had in PMV a year ago. This has been a very difficult year for those of us at Mexichem who have been working on issues and priorities related to the accident. I am very proud to be part of a company that prioritizes its people and shows by its actions that the safety and security of its workers and the communities in which it operates are what matters most. At the same time, I want to express my gratitude to all the Mexichem team because together we have demonstrated that this is a strong and resilient company.

On the financial side, we are pleased with this solid start for 2017. First quarter 2017 consolidated revenues increased by 11% to \$1.4 billion and were up 13% on a constant currency basis. As Antonio explained earlier, this sales growth was driven by the strong performance of our Vinyl business group reflecting the substantial benefit the higher PVC prices had on the group's first quarter results, as well, as better PVC volumes sales to Asia and Europe.

Total Vinyl business group revenue increased 20% to \$599 million on a 2% pickup in volume. The resin, compounds [indiscernible] business unit which accounted for 97% of the Vinyl group sales have similar trends with revenues increasing 20% to \$583 million and volume growth of 5%.

In Fluent we reported a 6% increase or \$41 million in sales to \$703 [ph] million driven mostly by growth in Latin America, USA, and Canada, and Europe regions. On a constant currency basis, Fluent sales were \$52 million higher than in the first quarter of 2016 representing an 8% year-on-year increase. The \$11 million differential was primarily due to the appreciation of the US dollar against the euro and the British pound.

Our Fluor business group reported stable sales of \$138 million for the quarter reflecting higher volumes and lower prices in the upstream part of the business and lower volumes and higher prices in the downstream business, as Antonio noted.

Sales in our region for the first quarter of 2017 were as follows. North American accounted for 38% of total sales, up 100 basis points from the first quarter of 2016. The United States, which is included in North America represented 16%. Europe remained stable at 37% of total sales with Germany and the UK representing 14% and 8% respectively. South America was also stable at 22% with Brazil accounting for 6% of total sales.

For the first quarter of 2017 our EBITDA was \$207 million, an increase of 3% year on year and EBITDA margin was 14.8% which was 120 basis points lower than the 16% reported in the first quarter of '16. This was due to several first quarter 2017-specific items, most of which will be resolved in the second quarter.

Our Vinyl business group's EBITDA increased to 12% to \$88 million while EBITDA margin was 14.7%. This improvement in EBITDA resulted from, in order of importance, PVC prices and the strategic acquisition of vinyl compounds in the UK which is consolidated on our compounds business unit. In addition, this business group recorded \$17.2 million from business interruption insurance coverage related to the PMV accident.

The Fluent business group's EBITDA declined 6% to \$79 million and EBITDA margin was 11.2%. This was mainly as a result of a lag time in passing through PVC cost increases to the market, restructuring charges and increasing reserves. This factor was specific to the first quarter as we expect it to pass through higher PVC prices to our customers beginning in the second quarter.

On a constant currency basis, EBITDA decreased 3% to \$81 million and EBITDA margin was 11.4%. We are pleased to report that our strategic initiatives in Europe and the US have already yielded improvements, operating efficiencies, and this is an ongoing initiative throughout the group.

Our Fluor business group reported a 4% increase in EBITDA to \$51 million with an EBITDA margin of 36.6%, benefiting primarily from volume increase in Medpar [ph], our more profitable downstream product and significantly higher bespoke prices for refrigerant and gasses. Additionally EBITDA growth is expected for the remainder of the year as spot refrigerant and gas prices continue to climb and existing contracts are re-priced.

Consolidated operating income for the first quarter of 2017 was \$123 million, up 1% from the first quarter of 2016, mainly the result of the factors I just mentioned. Financial cost increased by 4% to \$45 million in the first quarter. This increase was mainly due to a \$14 million FX losses which resulted from Mexican peso-denominated debt. This loss was mostly offset by an FX gain of \$6 million related to our net liabilities held in non-US denominated currencies and a \$6 million hyperinflationary effect from our Venezuelan operations.

Our effective tax rate was 31% compared to 27% in the same quarter last year. This increase was mainly the result of our reduction, and therefore, taxes charges from \$18 million in the first quarter last year to \$5 million this quarter.

Non-majority income was \$52 million down from \$58 million in the first quarter last year. Adjusted for the effect of the PMV write off, ROE improved to 7.9% from 5.8% while adjusted ROIC was down slightly to 6.3% from 6.5% last year.

The working capital balance increased to \$326 million at the end of the first quarter of '17 from \$141 million at December 31, 2016, mainly due to the considerably higher accounts receivable than in the previous year reflected through Mexichem's increased sales.

Operating cash flow before cap ex was \$5 million reflecting the increase in our working capital due to the higher sales. Our capital expenditure from the quarter totaled \$82 million down 25% from the first quarter of 2016. Of this, \$28 million was invested in the ethylene cracker, \$6 million was a carryover from PMV, and \$48 million was allocated for organic projects.

At March 31, 2017 our total liquidity investment in the ethylene cracker reached \$716 million which represents 96% of the total liquidity investment we contracted from OxyChem in order to gain a 50% stake in the JV.

In summary, we are pleased with the progress we have made to date and we look forward to capitalizing on the improving market conditions and pricing environment that we see ahead. Thank you, everyone.

I would like to turn the call back to Antonio for closing remarks. Antonio.

### **Antonio Carrillo Rule**

Thank you, Rodrigo. In summary, the positive operating trends underline the first quarter results, support our expectations for double-digit EBITDA growth in 2017, 10% to 20% above 2016 reported EBITDA. In Vinyl, we expect to see continuation of better market conditions. There will be some volatility, but based on the fundamentals of supply and demand, the trends should be positive over both the short and medium term.

We also expect to benefit on the cost side from the improvement in our structure due to the cracker's increased operating rate. The cracker is ramping up faster than we originally expected but it remains in the stabilization phase so our estimate of production of 70% of its capacity in 2017 still holds. Also, there should be a positive effect from the pass through of higher raw material costs to our compounds customers.

As mentioned earlier, higher refrigerant gas prices and increased volumes are the key drivers of revenue and EBITDA growth in our Fluor group along with a more favorable product mix and higher volumes in our metallurgical fluorspar. In the Fluent, the positive impact of a pass through to our customers of increased raw material cost support our expectation of improved margin performance.

We're also bullish about expansion opportunities of our business in India. Our business in that region is still small, as you can see from our press release. Therefore, the potential is huge. We recently approved two additional plants there, one of them for plastic pipes and the other one for compounds. In 2018 we will start producing compounds for the local market using existing Dura-Line assets. This illustrates our strategy of creating platforms that all Mexichem businesses can share is starting to pay off.

Also, the two bolt-on acquisitions that we completed in 2016 have been both fully integrated, one into our Fluent group and the second one into our Compounds group, adding to our customer base, [indiscernible] potential, and geographic presence.

To summarize, Mexichem's first quarter results were a good start to the year and have positioned us well for continued progress in each of our business groups.

Operator, I will like to turn over 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 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star two. At this time, we will pause momentarily to assemble the roster.

The first question comes from Frank McGann of Bank of America Merrill Lynch. Please go ahead.

### **Frank McGann**

Hello. Thank you. Just a couple questions if I could. The first one would be just in terms of tubes pricing and passing on raw material costs, you seem quite confident that you will see, it appears, a good part of that in the second quarter, or maybe all of that. I was wondering if you can say, at this stage, that all of the raw material costs have been passed through throughout Latin America, particularly, and what issues do you have, perhaps, because of competition or because of weak economies that may limit those increases.

Then, the second question is related to the restructuring charges and other issues and costs that you took in the first quarter that you did not quantify. I was just wondering if you could give an indication of how big those were, the restructuring costs and the [indiscernible] accounts.

**Antonio Carrillo Rule**

Thank you, Frank. Let me expand on the two questions. In fact, they're very valid questions of what we're seeing. Let me start with the pricing one. First, I mentioned in my remarks that Latin America, specifically, very exposed to PVC. In Europe we have a lot of PVC production in pipes but we also have polyethylene, polypropylene, and other materials. The US is mainly a polyethylene market, our Asia operations is also mainly a polyethylene market. So, Latin America is the most exposed, so that's why we saw the impact mainly in Latin America.

Second, it's also the one that has the most customers. We have various small customers throughout Latin America, we have about 55,000 customers.

The third factor that happened which is difficult to explain but if you look at the price increases of PVC they were not—let's say, January 1, in January you had a small increase, February was a slightly higher increase, but the big increase was in March. So, that's one of the big issues.

In March we saw the big price increase happening and if you look at our businesses today and I've had conference with most of them, the prices [ph] are going through relative well. Of course, there's always a give and take here and there, but we are confident that throughout the second quarter we will be able to pass them through. As you know, in Latin America we have a significant market share in many of the countries so we have a good, let's say, power to pass through the prices. We are not extremely concerned about that.

It is true that the economy is not very strong in many of the countries, but we're confident we can pass through the prices.

On the restructuring front the concept is a little bigger than the first quarter. And Rodrigo mentioned in the US and in Europe we have done significant progress, but as a company it has to be a continued effort to be able to reduce our cost to become more efficient, and what you're seeing in Latin America in the first quarter is that. It's not a big chunk, most of the reduction in EBITDA really came from PVC, however, we wanted to mention that we have some restructuring there, it's a very small amount, it's really not material.

But, basically what we're doing in Latin America and in Europe is reducing the levels between our final customer and the heads of the business. Basically, what we're doing is eliminating levels of administration in the company. I want a very lean company and that's what you're seeing here. It won't be the only one throughout the year, but based on the numbers we see, the restructuring should be something that within the same year we get a payback on it, meaning that we should not be seen as an impact for the year for the total year. I'm not sure if I answered your questions.

**Frank McGann**

No, that was very clear, thank you. Thank you very much.

**Operator**

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

**Vanessa Quiroga**

Hi, thank you. The answers, the comments are coming very clear but I guess I have a question regarding a more granular to you regarding the pricing and volume trends within the Fluor segments. I would like to understand how you are seeing the different volume and pricing trends in fluorspar and in refrigerant gasses by region. Thank you.

**Antonio Carrillo Rule**

Sure, thank you, Vanessa. So, let me start with the upstream part of Fluor. As you know in Fluor in the upstream, we basically have three products: fluorspar, metallurgical fluorspar; acid-grade fluorspar; and HF, hydrofluoric acid. The fluorspar prices have been relatively flat, so we are not seeing either let's say big changes in fluorspar pricing. For the first time in several quarters, we did see, if you look at the pricing environment in China it's changing, it's improving. But I cannot tell you with the full confidence that it's a positive trend and that it will continue. We have seen some positive trends in the short-term in pricing in China, which is the main driver of price for fluorspar.

So, pricing has not been a factor in this quarter. What I mentioned in my remarks was we had a significant increase in volume in metallurgical fluorspar. Metallurgical fluorspar is the highest margin product that we have in Mexichem. As you know, Fluor is a strange business, the less you touch them, the higher margin you have. So as it comes out of the mine, it has the highest margin and that's the one that grew in the quarter.

But Fluor is a business that's driven by large shipments, so you will see volumes fluctuate throughout quarters basically because of the timing of the shipments. We did not see a significant increase in metallurgical fluorspar for cement this quarter but we are expecting significant increases in metallurgical fluorspar volumes throughout 2017. Our model is based on increased cement producers buying fluorspar in the second, third, and fourth quarter and we have, let's say, the fundamentals to do that.

So, to answer your question shortly, there's really no big thing happening in either volume or pricing in upstream. In downstream it's a different issue. Both in Europe because the fluor gas regulations—in fact most of the positive effect in the quarter came from Europe. In Europe we've had a significant positive effect from regulations coming in place. As you know when you put regulations on restrictions on volumes normally there's some scarcity and prices go up, and we've seen that happen in Europe.

In the US, in the first quarter, the decision from the ITC came in unanimously. But we really didn't see much effect in the first quarter yet because the final determination was just published two weeks ago. So, we will see our market split in two, spot market which about 50% of our business, and contract business which is with larger consumers, that is about 50% of our business. Spot prices are starting to climb up fast and we expect significant price increases in the second and third quarter, and the contracts will be re-priced as they expire or are completed, and that will happen over the next 12 months.

I'm not sure if I got all your question answered, Vanessa.

**Vanessa Quiroga**

Yes, Antonio. These trends that you mentioned for refrigerant gasses part in contract, do they apply for all your main regions or only US?

**Antonio Carrillo Rule**

It's mainly in the US but the US—in the UK most of our business today is just distribution. We don't have a significant portion of our business being produced in Europe. The base region for us is the US in terms of production and market is the largest part of our business.

**Vanessa Quiroga**

Okay, that's clear. Thanks, Antonio, thank you.

**Operator**

The next question comes from Philip Desantos of J.P. Morgan. Please go ahead.

**Felipe Dos Santos**

Yes, good morning. Just one question, actually two questions. First one, did I have an impression that the quarter had some one-off expenses because of the start-up of the plant in Texas? Is that right? Can you share with us if these expenses were material or they had an impact that could have reduced the potential of EBITDA of the company in the quarter?

And second, what's your expectations for this plant's operation going forward and what's the contribution, [indiscernible] say EBITDA because this is an integrated plant? The contribution of this plant for this year and the next in terms of EBITDA and the cash flow generation. Thank you.

**Antonio Carrillo Rule**

Let me start with the first one. So, the first one, as you know, we are still in the start-up phase as I mentioned in my remarks. And that creates different accounting policies while you're in the start-up phase. What I'm trying to say is we are still—there was not a significant impact on our results during the first quarter because of the cracker, neither positive nor negative. We did have some but it's not any significant number that we have to disclose yet. It's a small amount.

We are, since I mentioned, we are still in the start-up phase, there might be some variations on how we account for it as the plan becomes more stable and we finish the start-up phase we'll determine that. But there's no significant number.

On the effect of the cracker, the way you will see that is as a reduction in our cost of raw material in PVC and our expansion on the margins over PVC Vinyl business. A large portion of our increase of the guidance of growth in EBITDA between 10% and 20% this year, a large portion comes from the cracker, from the reduction of the cost in PVC coming from the cracker. So, in all of the business we expect organic growth, but a big chunk of the growth between 10% and 20% on what will drive either being closer to 10% or closer to 20% in the guidance is going to be how fast and how stable the cracker becomes over the next few months.

**Felipe Dos Santos**

Excellent. Thanks so much.

**Operator**

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

**Vicente Falanga**

Hi, Antonio, Rodrigo, and Marcela, thank you. If I may, I have three questions. First of all, when does Mexichem expect to see the benefits of the anti-dumping tariffs reflected in its results? Second question, it seemed to us that the results for PMV they have deteriorated a bit quarter over quarter. Just wondering if that's the case and why did that happen. When we exclude insurance gains, last quarter's EBITDA was around \$20 million, this quarter it has dropped to more or less minus \$4 million, excluding the gains. And then finally, my last question is it possible to disclose how many terms of PVC is the Fluent business currently buying per year? Thank you very much.

**Antonio Carrillo Rule**

Let me answer your questions. The anti-dumping, I mentioned in Vanessa's question that there's two steps to it. On the spot price we should see price increases starting in the second quarter. It doesn't mean that you do all of it at once. You're doing it step by step as inventories of material are consumed throughout—there was significant amount of material imported from China before the anti-dumping. When I mean significant it's not years of supply but it depends on the region of the US, several months

in some cases. So, depending on the region and the customer, you will have different expectations for price increases, but the second quarter you will see an improvement in pricing and EBITDA coming from the ITC ruling and then it will improve on the third and fourth quarter more.

On the contract side, which I mentioned is about 50% of the business, as the contracts roll out, you will see a second wave of improvement over the next 12 months. I think you will see a consistent improvement over the next 12 months in pricing for the whole refrigerant business.

On your second question, I think you're absolutely right. PMV continues to have some expenses related to the accident. We continue finalizing the clean-up of the site and disposal of some of the chemicals, etc. We are done, in the month of April we're going to be finished with that. So, expenses should start to come down. And then as soon as the investigations of the government are done, which we expect should be in the next few weeks, we have done a lot of progress in this quarter and in the next few weeks we should have a final decision on the government, how that's going to play out. We are very positive on the outcome that we're seeing. We have to sit down with our partner to make decisions on the business and that will probably be the important phase in reducing the expenses for PMV. So, I think you should expect that during second quarter you should see another PMV with the high expenses, and then it will improve in the third and fourth quarter and will become profitable by itself without insurance.

Finally, on the amount of PVC that the fluent consumes, let me make two comments. First of all, fluent does not only use PVC coming from internal production. We only consume about 30% of what we use from internal production, from our own plants. The rest of our production comes from outside suppliers. The total amount of PVC that we use is close to a million tons a year.

### **Vicente Falanga**

These were very helpful, Antonio. Thank you very much.

### **Operator**

The next question comes from Diego Mendes of Itau. Please go ahead.

### **Diego Mendez**

Yes, good morning. I have two questions. The first one is actually related to the business interruption that you have been receiving or accounting from the secure [ph] of the PMV. So, for how long should we expect you to continue to receive this amount for business interruption?

And the second one is related to the PVC spreads and margins that we have seen. As you mentioned, March we have already seen a pretty relevant increase in prices. So, what is the outlook that you're considering in the guidance and how does this compare to the price increase that we saw now in March and April? Thank you.

### **Antonio Carrillo Rule**

So, on the first one, on the insurance policy, the business interruption ends basically this quarter, both of the PMV and the Vinyl level, which is a very small portion. So, this is the final leg of that. As I mentioned, just to expand on the question because it's very relevant, based on the investigation and the progress on the investigation, every day we are more and more comfortable with the results that we are seeing from the investigation and we're very, very confident that the insurance companies will pay for this. They just have to finalize their own investigation. They have not been able to get into the plant completely because it's still in lock-up by the government. So, we are very positive on that side.

**Rodrigo Guzman**

And I want to complement what Antonio is commenting it's in relation with the recurring of the account receivable. Until now, we haven't received anything from the insurance companies or almost anything, and this is important to clarify because if you look at our cash flow, that is reflected in the cash flow. So, it will come as soon as we can start entering in the [indiscernible] of explosion, and then we can adjust the size of the input that we have in the plant.

**Antonio Carrillo Rule**

And also the last comment on that is the government has to come up with their final determination for everything to start, let's say a fast wind down of the whole process. And we expect this will happen probably in the second quarter.

On the PVC prices, the way I see this is, as I mentioned, in the first quarter you saw an increase. We have seen a small increase in the fourth quarter. Based on demand and supply factors that I see globally, the three main factors being global demand, which is growing, the Chinese output which has two things tied to it. One is, it's based on coal and coal has gone up in price significantly. That's not a long-term thing, so it's a short-term impact. But more importantly, 80% of the PVC produced in China comes from coal and the environmental regulations are probably one of the big or the biggest source of uncertainty on prices. I am a firm believer that the environmental protection and environmental policies are long-term factor around the world and if you believe that, there will be a reduction in PVC capacity in China coming in the next few years.

And the third big driver of demand is going to be India. India is growing at high—close to 15% in demand for PVC and there's a significant—they have a big deficit. So, they're importing a significant amount of PVC. The expectations are that the demand in India is accelerating a significant factor. India will be the main driver of demand around the world over the next few years.

If you put those three things together with the fact that there's no additional capacity being brought online in the next few years, what I see is some volatility, meaning you will some quarters where prices go up and next quarter it might come down a little bit, but the floor is going up. Meaning, you will see positive trend over the short and medium term and there's a floor being set on pricing that should start pricing over the next few months. That's our view on PVC pricing.

**Diego Mendez**

Okay, thank you very much.

**Operator**

The next question comes from Pablo Carrillo from BVDA. Please go ahead.

**Pablo Carrillo**

Thank you. I just wanted to ask if you could offer a little bit more color on the EBITDA guidance for the year. I know you said between 10% and 20%. I just wanted to see if you had anything further to add to that. Thank you.

**Antonio Carrillo Rule**

As I mentioned, the main driver is going to be all of the businesses have to grow organically and then how fast the cracker ramps up. As I mentioned, the cracker is ramping up much faster than we expected, and probably if I had to add a little color, if we are on the bottom side of that guidance, all the incentive [ph] systems in Mexichem don't get any payments. So, our guidance is based on conservative assumptions and we are targeting the top side of the guidance, of course, but we have to make sure that we are confident with the start-up of the cracker.

**Pablo Carrillo**

Alright, thank you very much.

**Operator**

As a reminder, if you have a question, please hit star one. The next question comes from Damien Midot from BNP. Please go ahead.

**Damien Midot**

Yes, hello, thank you for taking my question. While most of my questions were answered regarding the PMV investigation, just to make sure you do not expect any additional liabilities regarding this accident.

**Antonio Carrillo Rule**

So, again, that will be driven by the final investigation of the government. There's three main areas of investigation. One was the Labor investigation, the Labor Department. That has been closed and the total fine that we received is about \$30,000, so it's a very small amount.

Then we have, of course, the environmental investigation. All of our reports, all of the investigation we've done shows that there has been absolutely no pollution outside the site. We were required to do about a three mile radius around the plant on water, soil, walls, roofs, etc., and we did not find any residues that were above any limits set by the government, so we should be okay. Inside the plant, we have to do some clean up and we have to do some clean up but we don't know the extent because the plant is still shut down. But, we don't expect it to be much. Most of the clean-up of the liquids that were left inside the plant is in the expenses you've seen in PMV, we've been disposing of it, incinerating them and disposing of them, so the plant is clean at the moment. We don't expect a significant amount there either.

And then the criminal investigation, which is the one that drives the rest and that is the one that we—as I mentioned, we're very positive on the way it's going. It's just taking very, very long. So, I cannot tell you, we don't expect much, there will be a small amount in the environmental side, but maybe to give you some comfort, we don't expect any material impact. It's a relatively small amount throughout.

But, also it's very important to remember that we have a coverage, a third-party coverage, for the environmental issues. So if there is something to remedy or to do something in the environmental side that is covered by the insurance policy, except for fines. And we are dealing with that thing in a very positive way and we do not expect any big fine because of the explosion.

**Damien Midot**

Very good. Thank you.

**CONCLUSION****Antonio Carrillo Rule**

Thank you very much for joining the call. I look forward to talking to you in three months. Thank you.

**Operator**

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