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

Fourth Quarter Earnings Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, and welcome to the Mexichem Fourth 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 this event is being recorded.

I would now like to turn the conference over to Fabiola Molina. Please go ahead, ma'am.

Fabiola Molina del Valle
Thank you, operator. Good morning, and welcome to our conference call. We are pleased to be here today to present our full year 2017 results. We appreciate your time and your participation in this conference call. Our speakers today will be Antonio Carrillo, our outgoing CEO; Daniel Martinez-Valle, our incoming CEO; and Rodrigo Guzman, our CFO.

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

Antonio Carrillo Rule
Thank you, Fabiola, and thank you all for joining us this morning to review Mexichem's fourth quarter and full year 2017 results, which I will do with Rodrigo's help, and then disclose our outlook for 2018, which Daniel will present.

Throughout 2017, our Vinyl Business Group was an outstanding performer, reflecting better market conditions, higher PVC pricing, a more favorable product mix, and a significant benefit of our investment in the ethylene cracker, which became operational during the first quarter of this year. As you know the vertical integration of our commodity PVC production has been a key element of our strategy. Not only was the cracker on schedule and budget, but the ramp up exceeded our expectations. It was an incredible achievement to be able to commission the first ethylene cracker in North America to be built in decades.

With such efficiency, the benefits to Mexichem has been substantial. In the fourth quarter, our Vinyl Group's EBITDA increased by more than two-and-a-half times, bringing full year EBITDA growth for this business to 79%.

We also experienced very strong performance in our Fluor Business Group, where several factors combined to strengthen our market position. A key accomplishment in 2017 was the favorable ruling by the US International Trade Commission made in March, which found that imports of refrigerant gases were being dumped in the US market at prices below fair value. As a consequence of the anti-dumping duties imposed by the ITC, refrigerant gas prices are now reflective of supply/demand factors in this market and have been rising ever since the ruling.

At the same time, we have worked over the past two years to diversify our revenue sources for fluorspar. In this year's fourth quarter, the Fluor Group succeeded in reporting 26% year-on-year EBITDA growth, reflecting increased demand for fluorspar from both our traditional steel industry market and from our newer cement industry customer, as well as higher refrigerant gas prices, bringing its full year 2017 EBITDA results 14% ahead of last year's levels.

Another key element of our strategy has been our major move into specialty products serving high-growth markets, which have taken place over the last several years through organic and acquisition growth in our Fluent Business Group and our Compounds Business Units, which together account for 58% of our total 2017 revenues. In 2017, Mexichem continued to increase building a specialty product portfolio and prioritize margins over volume.

Keep in mind that in contrast to our Resins and Derivatives business unit within Vinyl and our Fluor Business Group, higher PVC prices translate into higher input cost for our Fluent and Compounds businesses, and as you know, Fluent is the most sensitive to foreign currency fluctuations. Within this context, Fluent turned in mixed results in 2017. On the positive side, margins in Fluent US and Canada and Europe, which accounted for approximately 60% of Fluent sales, continued to climb. Also, while the reported EBITDA results for the full year were 9% below 2016 levels, if you exclude the quarter specific items that Rodrigo will discuss in a moment, EBITDA would be only slightly down year-on-year pressured by tougher economic conditions in Colombia and Brazil, and the last time associated with passing through higher input PVC costs to our customers.

It is important to note that the trend in LatAm is positive. Since September, we have seen a significant improvement in the region, and while our Brazil operations continue to be affected by this slow economic recovery there, we did see a fourth quarter pickup in overall Fluent LatAm sales and adjusted EBITDA. Also encouraging is the fact that the innovation driving our new higher margin products in Fluent is cross-pollinating across the group.

In fact, this is what gives us so much confidence since what the Netafim acquisition has to offer to Mexichem. As you know, we see this as a transformation of transaction for the company and for Fluent, where it will be consolidated. This acquisition will move Mexichem even further into solutions for the fast-growing irrigation market. Precision irrigation, which is at the core of Netafim, addresses the high growth global trends, water scarcity, and increased food demand. Netafim also brings significant smart technology, which Mexichem can leverage in other businesses.

Just as our Fluent Business Group has evolved over the last several years into a more specialty product business, so with the Netafim acquisition move this group from products into solutions. The performance and progress of our business groups is well documented. What is not as obvious to our investors and analysts are the actions we have taken internally to develop our talent and to build the structure and process it needed to accelerate Mexichem's future growth.

Of course, developing our talent is an ongoing priority, but I'm pleased with what we have accomplished in this area so far, and I'm proud of the high-performing and diverse culture we have at the company today. In 2017, we made significant strides in improving our safety record by reducing our time lost due to incidents and accidents by over 63% since 2012. In 2017 alone, this figure declined 6% from prior year. This was a milestone year for us enrolling our compliance programs that are aligned with Mexichem's expanded global footprint.

Mexichem also made significant progress in receiving insurance payments related to the tragic accident at PMV, and at the end of year, Mexichem is determined that given the changes in PMV's business conditions, the companies would not rebuild the VCM plant where the accident occurred.

In summary, 2017 was a great year in which we started off Mexichem's largest organic project ever, increased margins by focusing on specialty products, continue to improve return on invested capital, close the year with a strong balance sheet, grew our EBITDA over 25% from last year's reported EBITDA, developed internally, and acquired Netafim.

I would like now to turn over the call to Rodrigo Guzman, our Chief Financial Officer, for a detailed financial review. Rodrigo?

Rodrigo Guzman Perera
Thank you, Antonio, and thank you all for joining us today. We are pleased with our record financial performance in 2017 and with a positive momentum we had in the fourth quarter, which provides the foundation for future growth in 2018. First, I will cover P&L for the fourth quarter ’17 and the full year 2017, and after that our cash flow and balance sheet highlights.

Fourth quarter 2017 consolidated net sales increased 15% year-over-year to $1.5 billion, driven by solid performance across all of our business groups, particularly the Vinyl and Fluor Business Groups, where the sales increased 15% and 40%, respectively, associated with better PVC and refrigerant gas prices and our higher volumes in our Fluor upstream business.

Fourth quarter consolidated EBITDA increased 40% to $277 million from $198 million in the year-ago quarter, mainly due to the increased profitability from the vertical integration in our Vinyl Business Group, higher refrigerant gas prices in the US and the European Union, as well as strong sales in Fluent and higher EBITDA margins in Fluent USA/Canada and Europe. Consolidated EBITDA margin was 18.9%, a 337 basis points improvement over the last year’s fourth quarter.

It is worth mentioning that in the fourth quarter of 2017, Fluent LatAm’s EBITDA included a negative $24 million impact as a result of the accrual of certain expenses related to the acquisition of Netafim and our decision to provision a potential liability from CADE in Brazil. Without these items, consolidated EBITDA in the fourth quarter would have been up 52% to $301 million, translating into EBITDA margin of 20.5%, 500 basis points higher than the 15.5% we reported in the 2016 fourth quarter.

Foreign currency translation had a negative $35 million impact on EBITDA in the fourth quarter, but without Venezuela, where the inflationary effect on sales was much higher than the devaluation effect of the Venezuelan bolivar, due to the EPA inflationary environment, the FX would have represented a modest positive $5 million impact; thus, adjusting our reported EBITDA for the FX impacts excluding Venezuela, and for the Netafim expenses and CADE provision, EBITDA growth and implied EBITDA margin would be 49% and 20% respectively for the fourth quarter.

Our operating income also increased 40% to $162 million from $116 million in the year-ago quarter. While on similar adjusted basis, operating income would have been $186 million, a year-on-year increase of 60%.

Financial costs declined by 52% to $14 million compared to the fourth quarter of 2016, due to the $29 million profit originated by the inflationary effects of Venezuela, which we recognized in the fourth quarter, as the official accumulated inflation rate went from 500% to 2616%, partially offset by an increase of $13 million in interest expense related to the $1 billion bond we issued in September of last year to partially fund the Netafim acquisition.

Income from continuing operations before taxes increased 70% in the fourth quarter of 2016, while income from continuing operations after cash tax grew 450%, meaning that our cash tax rate declined from 70% in the fourth quarter of 2016 to 4% in the fourth quarter of 2017. These effects were mainly due to the change in the mix of Mexican subsidiaries that generate net earnings and those generating net losses. FX taxable gains that were compensated by tax net operating losses, and the fact the ethylene cracker generated higher income from continuing operations, that is not taxed due to the use of bond depreciation. Other factors that impacted our cash tax are detailed in the earnings release.

Deferred tax expense increased from a benefit of $25 million in the fourth quarter of 2016 to an expense of $20 million, mostly due to the use of net operating losses from certain Mexichem subsidiaries to offset taxable income associated with the foreign exchange gains. This was partially offset by the reduction in the US corporate tax rate enacted in the 2017 fourth quarter, which reduced our passive deferred tax position. As a result, total income taxes for the fourth quarter of 2017 declined to $27 million from $37 million in the year-ago quarter, or from an effective tax rate of 41% to 18%.

For the fourth quarter 2017, we reported a consolidated net loss of $22 million, compared to consolidated net income of $83 million in the fourth quarter of 2016, as a result of the classification of PMV's VCM and Ethylene businesses as discontinued operations, following the PMV board of directors' decision at the end of December to not rebuild its VCM production capacity.

It is very important to highlight that deferred taxes and the classification of PMV's business, I just mentioned as discontinued operations, do not impact our cash flow.

Net majority income decreased 81% to $14 million from $72 million one year ago as a result of the discontinued operations classification that I just mentioned.

Now, I'd like to give you more color on the financial performance of each business group.

Our Vinyl Business Group reported $568 million in sales for the fourth quarter of 2017, a 15% increase on a 2% pickup in volume, reflecting higher PVC prices globally and supply constraints in nation, as well as integration of Vinyl Compounds Ltd. into our Compound business. The Resins, Compounds, and Derivatives business unit, which accounted for 97% of Vinyl group sales during the year in the fourth quarter, reported a 13% revenue increase to $551 million.

Our Vinyl Business Group's EBITDA amounted to $150 million, up 154% from $59 million in the year-ago quarter, as a result of better PVC market conditions and product mix, operating efficiencies, and the benefits of vertical integration across the ethane to PVC value chain due to the operation of the JV ethylene cracker in Texas. EBITDA margin was 26.4% for the fourth quarter, a 1,400 basis point expansion from the fourth quarter of 2016. The Vinyl Business Group's operating income increased 227% to $98 million.

Net sales in the Fluent Business Group was up $76 million or 11% above last year's fourth quarter, reflecting sales increase in US/Canada and Europe of 27% and 13% respectively, and 8% higher sales in LatAm, where operations are progressively improving. This top-line growth was partially offset by an 18% sales decline in the EMEA region. We also have $80 million of foreign currency translation effect, due to the values recently detailed in the annual release. On a constant currency basis, total sales in the Fluent Business Groups would have been $846 million, while without the Venezuelan impact, sales would have been $733 million.

Fluent Business Group's fourth quarter EBITDA was $76 million, an 18% year-on-year decline, mainly due to the accrual of certain acquisition expenses related to Netafim and the CADE investigation-related provision. Fluent's consolidated EBITDA margin was 9.9%, compared to 13.6% in the fourth quarter a year ago. Without this impact, EBITDA would have been $100 million, up 8% when compared with the last year's fourth quarter, and EBITDA margin would have been 13%.

Also impacting Fluent's LatAm results in the fourth quarter was the lag-time in the passing rising PVC cost to customers. On the plus side, Fluent USA/Canada and Europe posted EBITDA margins of 14.7%

and 11.6%, respectively, both up 90 basis points from last year's levels. Reported operating income amounting to $31 million, while adjusted for the Netafim acquisition expense and the CADE provision operating income would have amounted to $55 million, almost flat with the year-ago reports of operating income.

Our Fluor Business Groups reported a 40% year-on-year net sales increase to $186 million, the third consecutive quarter of higher revenue in this segment. This performance reflected significant growth in both the upstream and downstream parts of the business due to improved demand for fluorspar, as well as higher refrigerant gas prices in the US and Europe. As Antonio mentioned, EBITDA in our Fluor Business Group was up 26% and amounted to $68 million, equivalent to an EBITDA margin of 36.6%. Operating income increased 29% to $53 million from the year-ago quarter.

Now, I will give you a brief overview of our performance for full year 2017, which was a record year for Mexichem. Our consolidated net sales topped $5.8 billion, up 9% from full year 2016, even on a constant currency basis without the Venezuelan effect.

For the breakdown of regional sales by destination for the year, Europe and North America accounted for 38% and 31%, respectively, of total sales. The United States and Mexico, which are included in North America, represented 16% and 12% of total sales, respectively, while Germany and the UK represented 8% and 6%, respectively. Sales in South America were 22% of total sales, with Brazil contributing 7% to total sales.

EBITDA for full year 2017 increased 25% to $1.1 billion, compared to $884 million in EBITDA reported a year ago, coming in at the high end of our guidance range. The 2017 EBITDA increased 24% from $895 million, which represented EBITDA adjusted for the classification of PMV's VCM, Ethylene plants, and auxiliary services related to those plants' classification as discontinued operations.

EBITDA margin was 19%, representing 223 basis points of margin expansion. Without the $27 million expenses and our provisions coming from Netafim acquisitions-related expenses and CADE investigation, EBITDA growth and EBITDA margin will be 27% and 19.4%, respectively, even adjusted for FX without the Venezuelan effect.

Operating income increased 22% to $708 million. Our trending 12-month adjusted returns from equity and invested capital from continuing operations were 9.8% and 8.2%, respectively, up from 8.7% and 6.7% a year ago.

Turning now to our working capital balance sheet and cash position, in the fourth quarter, operating cash flow before Capex increased 53% to $339 million as a result of higher EBITDA, lower cash taxes, and lower net interest costs. While our free cash flow increased 73% to $197 million due to the factors mentioned above, and also because lower Capex even when dividends paid to our shareholders and the [indiscernible] share from the cracker increased 408% from $12 million to $61 million.

For the year, operating cash flow before Capex amounted to $683 million, a 26% year-over-year improvement, while our free cash flow grew 123% to $201 million from $9 million. For the year, our working capital needs increased by $103 million compared to December 2016. This increase is mainly due to the start-up of the cracker in February 2017, and higher PVC and refrigerant gas prices in 2017 compared to geographical levels, which increased our accounts receivable and inventories.

Capital expenditures in the fourth quarter declined by 15% to $81 million, of which $14 million was allocated for PMV and $66 million to organic projects. Full year 2017 Capex declined 30% to $289 million due to lower investments in the cracker JV in Texas.

Total financial debt at 2017 year end was $3.2 billion. Our cash and cash equivalents amounted to $1.9 billion, resulting in net financial debt of $1.3 billion or 1.2 times EBITDA year-over-year and sequential improvement. The $1.9 billion in cash and cash equivalents includes $1 billion representing the proceeds of the international bond offering completed on September 27, 2017, which we used to partially finance Netafim acquisition which closed in early February 2018. The interest coverage was 5.7 times.

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

Antonio Carrillo Rule
Thank you, Rodrigo. In my conclusion, I would like to thank our investors and analysts for the tremendous support they have given me during my tenure as CEO of Mexichem. I am pleased to be handing over the stewardship of this great company to Daniel Martinez-Valle.

This transition process follows the succession plan that the board reviews on an ongoing basis. Daniel brings a different set of resources and capabilities that will take Mexichem to the next level. I am sure our incredibly professional and dedicated team will support him in his new responsibilities.

I leave Mexichem with three deep feelings: gratitude to our board, the del Valle family; Mexichem's employees; and our investors for the support shown to me in these six years, pride in what we have accomplished together, and most importantly, excitement about the future of this great company. Daniel?

Daniel Martinez-Valle
Thank you, Antonio. This is a special company, and I am honored to be taking over as its CEO. As you have heard, we are very pleased by Mexichem's accomplishments in 2017 and are equally enthusiastic about our growth prospects. There are not many companies that are in a position to guide to EBITDA growth of 20% to 25% in 2018, after a year like the one we had in 2017 when EBITDA increased 24% year-over-year.

Let me spend a moment sharing our thinking. First, we expect EBITDA growth in 2018 to be about evenly split between organic and acquisition contributions. With respect to organic growth, the main driver will be a full-year benefit of our ethylene cracker, which as you recall became operational in February of last year. The cracker positions Mexichem on the lowest part of the cost curve globally and therefore, allows us to continue to profitably export PVC from the America's to the most important markets of the world.

Also benefiting this segment of our business is our forecast for continued strength in PVC pricing. While it is always difficult to project the behavior of Chinese competitors, their government's enforcement of environmental regulations is expected to continue in 2018, which supports the expectations for a favorable supply/demand situation.

Also, we the outlook is favorable for continued strength in refrigerant gas prices in 2018. With demand increasing for fluorspar and our customer base expanding, we're expecting this year to be another growth period for our Fluor Business Group.

Now that the Netafim acquisition is completed, our Fluent Business Group or industrial products will increase proportionately with the rest of Mexichem's revenues. Looking first at the organic growth opportunity for the group in 2018, there were several points I would like to consider.

First, we're getting increasingly more efficient at passing through higher PVC prices to customers. Our

European and US/Canada Fluent operations continued to show positive momentum and some of the economies in LatAm which weighed on our results in 2017 have shown signs of improvement entering this year.

This speaks well to the Netafim acquisition, which we will consolidate for roughly 11 months in 2018. The 2017 financials were in line with expectations with EBITDA of $133 million and an EBITDA margin of about 14%. Once we combine our irrigation product line on Netafim, we will have a sizeable irrigation products and solutions business with our Fluent Business Group giving us significant scale and a very strong position in the global agricultural market.

The revenue synergies that we are targeting will come from Netafim's continued penetration of the high growth irrigation business, the growing replacement market, and the opportunity to leverage Mexichem's existing platform to accelerate Netafim's sales growth. At the same time, we have identified operating synergies that we can gain through economies of scale in raw material packaging and procurement, freight and other logistics costs, consolidation of warehouses and distribution centers. All this will take time, but our mid-term target is for Netafim to generate around $200 million in EBITDA in 2020 with a margin of around 16% to 17%.

Let me remind you that this is in line with what we have done with our Wavin, Vestolit and Duraline acquisitions in the past. In the case of Wavin, EBITDA margin increased from about 8% in 2012 to 12% in 2017. In the case of Vestolit, we increased EBITDA margin from 11% in 2014 to close to 14% in 2017. And for Duraline, we increased this margin from 10% to 17% in the same time periods.

In addition to significantly increasing our portfolio of specialty products with the Netafim acquisition, Mexichem is now positioned to address two of the most important long-term global trends, mainly water scarcity and food shortages. And Netafim's strengths in R&D and cutting-edge technologies can be leveraged across the entire Mexichem organization, moving us from a product leader to a developer of smart solutions for our customers.

As all global companies of the size and scope of Mexichem, we are sensitive to the political developments and the economic conditions that effect the markets we serve, factors that are beyond our control. However, when we look ahead to the product in our markets, the leadership of our business groups and the commitment of our more than 22,000 employees, we are confident in Mexichem's ability to continue to grow and prosper in 2018 and beyond.

Operator, I would now like to open the call for questions.

Operator
Thank you, sir. 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, we ask you to please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Today's first question comes from Alejandra Obregon of Morgan Stanley. Please go ahead.

Alejandra Obregon
Hi, good morning, everyone. Congratulations on the results.

A couple of questions, the first one being on your guidance. If you could help us understand the 20 to 25 percent EBITDA growth that you're guiding and maybe break it to us by division. And more importantly, if you could help us understand Netafim and what you're expecting on the growth there and maybe returns on the margins that would be very helpful.

Rodrigo Guzman Perera
Alejandra, it's Rodrigo speaking. We regularly do not guide on a business by business. We regularly guide on a consolidated basis. But that guidance includes the growth in the PVC price market, also in the increase on the refrigerant gas prices, and at the same time we should remember that we are going to have the cracker operational in 12 months rather than in only nine. So, basically that guidance includes Netafim, of course, it includes the cracker and it includes the better conditions in prices to market. And also, you should remember that during 2017, we didn't have a very good year in LatAm, because of some issues we had in Colombia and Brazil, but today the economies over there are better. And in fact, in the third quarter we saw an increase in the results of LatAm and that guided us that we are going to have a very substantive 2018.

Alejandra Obregon
Thank you, Rodrigo. And perhaps going back to the cracker, maybe if you could walk us through the bonus depreciation treatment. I guess my question is, how should we think of taxes for the cracker going forward?

Rodrigo Guzman Perera
The cracker has a bonus depreciation, which means that you can accelerate the provision from the asset for tax purposes in no more than four years. So we start the cracker in March of the last year and these provisions will remain in the cracker for the following three years from now. So that means that you can depreciate accelerate and then there's no cash tax impact on the cracker.

Alejandra Obregon
Okay, thank you. Understood. And then a last question, if I may, on the CADE provisions that you made on Brazil. Wondering if you could explain what this is about and if this is just a provision you might be expecting to recover at some point? Any color here would be great.

Rodrigo Guzman Perera
We should remember that back in the second quarter of 2016, we announced that an investigation was started because of some of the antitrust issues the local government believe we have. They started the investigation on that date and as of the end of the year, we have much more color on what they have on the investigation, and then we decided to provision some impact that we could have because of that.

Antonio Carrillo Rule
Alejandra, let me just add to what Rodrigo mentioned. This investigation covers a timeframe that starts in 2003, way before Mexichem acquired this company in Brazil. So when you're dealing with a competition authority, there's always a lot of uncertainty, but by the end of the year we thought that there was going to be some relative certainty according to our lawyers that there would be some settlement going there, so that's why we provisioned this.

Alejandra Obregon
Understood. Perhaps just a final one. On the Fluent division, you were mentioning in the press release that you're shifting towards higher margin products on the Datacom. If you could walk us through your strategy in this division. Is this something that we should be expecting in another region or perhaps shifting away from other products that are in the pressure pipes?

Antonio Carrillo Rule
This is something we've been working on for several years already. If you remember the fourth quarter

of 2016, we announced that we were refocusing all the capacity we had in the US, or most of the capacity, from low margin water pipe into Datacom. Datacom is a product that we really were interested when we acquired Netafim and it's one of the big global trends that Mexichem has been wanting to attach its demand for its products. Datacom, we believe, is going to be a sustainable growth market for us. So that's why we are focusing on that, but that doesn't mean that we will stop manufacturing pressure pipe or water pipe or irrigation. It just means that we are refocusing the portfolio into higher margin products that have strong growth demands and that's basically the strategy that we've been following.

Alejandra Obregon
Thank you very much, Rodrigo and Antonio. And congratulations again.

Antonio Carrillo Rule
Thank you.

Operator
And our next question comes from Frank McGann, Bank of America Merrill Lynch. Please go ahead.

Frank McGann
Hello, good day. Thank you. Two questions, if I might. One just related to the guidance. Any synergies that incorporated there related to Netafim? You did mention some solid increase that you're expecting at Netafim, but how much of the guidance growth could we attribute to the synergies that you're expecting in the acquisition?

Then secondly, regionally looking at the Fluent business right now, what are the areas for 2018 that you think will be the key drivers of improvement?

Daniel Martinez-Valle
Thank you for the question. This year's synergies as we expect and that are included in the guidance are not substantial; however, we expect synergies to start kicking in the next couple of years. And as I said in my remarks, we expect the EBITDA to move to $200 million by 2020. And again, I want to remind you of the very successful track record that the company has had in the previous acquisitions, namely Wavin, Duraline and Vestolit in terms of margin expansion. We're working on the integration strategy with the Netafim team, and I think we will see good numbers in the next few years.

Antonio Carrillo Rule
Frank, this is Antonio. Just talking about the synergies, if you remember what we said when we announced Netafim, probably the first year will be a year where there's going to be some cost to generate the synergies. The process of integrating Netafim's irrigation business with Mexichem's irrigation business is going to be happening. It's starting to happen now, and there's some costs associated with that. As we've mentioned, the idea of Netafim is not only to generate synergies, but more importantly we will both have company because we believe in the growth potential, the team that they have. The fundamentals of the company are tied to very strong global trends, and that's the main focus that we're going to be having in Netafim, that's what Daniel is doing. And Rand, the CEO, is very committed to going forward with it.

Operator
Our next question today is from Jean Bruny of BBVA. Please go ahead.

Jean Bruny
Hi, can you hear me?

Daniel Martinez-Valle
We can.

Jean Bruny
First of all, I want to wish farewell to Antonio and congratulations for the good job done at Mexichem, and also looking forward to working with Daniel. I just have a couple of questions.

The first one is on the seasonality. We used to see a lot of seasonality in the Mexichem results, but the fourth quarter is very strong. It's in line with the third quarter results excluding for the extraordinary items. So just would like to know if looking forward we will see that kind of [indiscernible] being reduced and a much flatter evolution of the EBITDA during the entire year?

The second question from the technology acquisition you just made, can you give us some color on the business integration, the timing, etc.? Thank you very much.

Rodrigo Guzman Perera
Thank you for the question this is Rodrigo Guzman speaking. First of all, we should remember that the seasonality we face is basically in our Fluent business and specifically in the US, Canada and Europe. But if you look at the numbers, at the consolidated numbers of Mexichem quarter by quarter, really the seasonality is not to be. It is more or less stable.

Of course, the reason why in Europe and the US seasonality is because of the weather. So, the last year seasonality in Europe and US was not too big. We have good results in the third quarter in those regions, but regularly in the third quarter in Europe and in the US, the company stopped a little bit and their sales are not so good. But in general, seasonality on a consolidated basis is not too big.

Daniel Martinez-Valle
Just to add up one thing Rodrigo was mentioning, Jean, let me just remind you that the company in the past several years has been pursuing a strategy to move it towards the specialty business. Today, our specialty business in 2017 represent around 58% to 60% of our consolidated sales. And not only this, but considering the Netafim acquisition, which is in terms of sales around $1 billion plus, this percentage is going to be proportionally higher.

In general, also on the Fluor side, given our vertical integration strategy, that creates a significant buffer in terms of seasonality. So we believe that the company, from a vinyl perspective, will be exposed to some seasonality, but in general the strategy that the company has pursued has proved to be the right one in terms of reducing significantly the exposure to general seasonality across all the divisions.

Operator
Our next question comes from Pedro Medeiros of Citi Group. Please go ahead.

Pedro Medeiros
Thank you so much for taking the questions. Congratulations on the results. I have a couple of questions.

I'd like to just start with the guidance itself. The main purpose of my question is just to understand how conservative or bullish are you on this guidance? When we talk about the EBITDA growth target and we remove Netafim numbers and take into consideration the currency adjustments that you reported in 2017, it seems that the implied growth on an organic basis is rather low and that is not considering that Oxychem was ramping up through the year. So, I just wanted to understand what's really into the target. Do you expect any drop of margins in any particular part of your business or will we see a guidance that is potentially a bit more conservative on that basis?

My second question is also related to the first quarter results outlook. We're seeing caustic soda prices running at very high rates at the moment and I just wanted to understand if that's embedded in your guidance and whether that should translate into a real benefit for the company in the first quarter as you have seen so far?

Last question, if you could update us on the business plan for PMV, what's the outlook for this asset? We have seen recently Pemex doing some pilots of importing ethylene into Veracruz. Is there anything new that we should take into consideration regarding PMV for the next maybe 24 months? Thank you.

Daniel Martinez-Valle
Thank you for your question, Pedro. In terms of the guidance, we feel very confident with the guidance that we provided to you of EBITDA growth of between 20% to 25%. Remember that the company has grown significantly in 2017 versus 2016. We do not expect any decreases in margins. There is some potential volatility to be expected during 2018. Let me remind you that we expect elections in relevant countries such as Brazil, Colombia, Mexico, and again, we feel confident in EBITDA growth guidance of 20% to 25% with no margin decreases. And we're working steadily with all the teams in all our business lines in terms not only of growth, but also margin expansion across every single one of our business lines.

Rodrigo Guzman Perera
The second question, Pedro, in relation to caustic soda, I know more or less about your question and you should remember that in the case of the cracker, when the caustic soda prices go up, also you should make sure you have enough profitability in the PVC side. And for the moment, as the profitability prices are ramping up, we are not receiving credits from caustic soda in the fourth quarter, basically. And this is basically because our PVC profitability is enough for the moment.

But going back to PMV in caustic soda, you should remember that we are constrained about chlorine. At the moment the run rate of the plant is for no more than 40% because we cannot sell the chlorine and then we have some constraints in the production of caustic soda.

Antonio Carrillo Rule
Just to remind you a little bit of the, going back to Rodrigo's answer, if you remember our formula for the cracker and really for the PVC cost of Mexichem, it simulates the whole value chain of PVC, which includes caustic chlorine, ethylene, etc. So, I would say that the caustic soda you should see as a belts and suspenders for the economics of the cracker. Meaning, right now PVC prices are strong. In case the PVC prices were to drop, then we would get caustic soda increasing. So, I think it's always good to have caustic soda going up for our PVC business.

At the same time, we are a very small producer of chlorine and caustic in Mexico. We have two plants, one running at full capacity and PMV running at about half capacity, so that's our exposure. And, then we have a third exposure, which is Germany. In Germany, we are self-sufficient in chlorine and we are exposed to the caustic soda market in Germany, which also has been doing very, very well for us.

Rodrigo Guzman Perera
And the last question, could you repeat the one related with PMV?

Pedro Medeiros

Yes. Of course. By the way, thank you so much for the previous answers. It was a general question towards the strategy over PMV, if there's any update on that side, particularly because we have seen Pemex doing some pilot imports of ethylene recently. So I just wanted to understand what's the outlook for this asset over the course of the next two years.

Rodrigo Guzman Perera
As you know, we announced back in December that the Board of Directors of PMV decided to not rebuild the VCM capacity, which means that also the ethylene cracker we have there was stopped and then we accounted this as discontinued operations, everything that is happening inside the Pajaritos complex, that means that the ethylene business and the VCM business. But we continue with the joint venture. With the joint venture, you should remember that the joint venture also has a plant of chlorine and caustic soda, and we are working together with Pemex in that plant and also in the process that we are going to follow with the Pajaritos complex.

Pedro Medeiros
Okay, thank you so much. Congratulations once again for the results.

Daniel Martinez-Valle
Thank you, Pedro.

Operator
Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star then 1 at this time. The next question comes from Jose Vazquez from GBM. Please go ahead.

Jose Vazquez
Good morning, Antonio, Daniel and Rodrigo. My question relates to the charge that you are putting on the fourth quarter 2016 EBITDA. It's around $50 million. Could you explain more on that, where does it come from and if it's fully related to PMV? Can you provide some color on that, please? Thank you.

Rodrigo Guzman Perera
Again, what charges?

Jose Vazquez
We saw on the report the EBITDA reported for fourth quarter in 2016 was $50 million below the original number. We assume then, and maybe the explanation is over there, that charge is related to PMV, to its continued operations from PMV. So, could you explain on that, please?

Rodrigo Guzman Perera
You should remember that the accident happened back in 2016, in April of 2016. At that point in time we did not decide yet to discontinue the operations of VCM and ethylene. And then all the receivables in relation with the business interruption were in the numbers of 2016/17. Once you decide to discontinue something, you need to put in the same comparable conditions your balance sheet and your P&L. So roughly the reduction in the EBITDA, the movement in the EBITDA is coming from that point, in relation with the business interruption policies we already recovered in the accounts receivable.

Antonio Carrillo Rule
Let me expand a little bit on Rodrigo's comment. Last year in 2016, business interruption was considered EBITDA for the company. Basically, the insurance companies were paying for the business interruption we had after the accident. When we decided not to open the VCM plant, that we were not going to rebuild it, that was a decision also to say we're not restarting the cracker, etc., we had to take down normally the

asset value, but also to make it comparable take down the profits we have generated or recognized based on that asset the previous year. So that's what you see.

Jose Vazquez
Okay, perfect. Thank you very much.

Operator
Ladies and gentlemen, this concludes the question and answer session. I'd like to turn the call back over to management for any closing remarks.

Daniel Martinez-Valle
I would like to thank you all for your participation in today's call and I look forward to keeping you up-to-date for the team on the progress of Mexichem. Thank you and have a great day.

Operator
Thank you, sir. Today's conference has now concluded. We thank you all for attending today's presentation. You may now disconnect your lines.