

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

Q1 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Gerardo Lozoya - *Investor Relations Director*

Rodrigo Guzmán – *Chief Financial Officer*

Daniel Martínez-Valle – *Chief Executive Officer*

PRESENTATION

Operator

Good morning and welcome to the Mexichem First Quarter 2019 Earnings Conference Call.

As we turn to slide 2, 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 Mr. Gerardo Lozoya, Investor Relations Director of Mexichem. Please go ahead.

Gerardo Lozoya

We're now on slide 3. Thank you, operator. Good morning and welcome to our earnings results conference call. We are pleased to be here today to present our first quarter 2019 results. We appreciate your time and your participation in this conference. Our speakers today will be Daniel Martínez-Valle, Mexichem's CEO and Rodrigo Guzman, our CFO.

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

Daniel Martínez-Valle

Thank you, Gerardo, and welcome, everyone, to our first quarter 2019 conference call. Operator, please move to slide 4.

I'd like to start by saying how incredibly proud I am of how our global team and how we have been executing in these dynamic, changing markets. As we mentioned in the press release, our results are in line with expectations. Overall, revenue increased 1% above the same quarter last year to \$1.8 billion, or 6% on a constant currency basis. Revenue for our Fluent Business Group increased 6%, or 13% on a constant currency basis, due mainly to double-digit growth in Netafim, related in part to adding a full quarter of its revenue into our consolidated numbers. We are encouraged by the momentum in our Datacom, Precision Agriculture, and Building and Infrastructure businesses within Fluent. Our revenues in Fluor remained flat. We'll talk about the financials in more detail later.

Our Vinyl business remained challenging. Revenue declined this quarter by 8%, or 5% on a constant currency basis, due mainly to lower volumes and tighter conditions in PVC and caustic soda prices, and we expect this environment to possibly continue throughout the year. However, we are taking operational efficiency and cost control measures, as we are more laser-focused approach to our supplier management and sales efforts. We're doing everything under our control and in addition, we're starting to see some positive indications in the market such as the new ethane cracking ethylene capacity additions, which continue to be delayed in the U.S. And finally, I'd like to emphasize that our Vinyl business operates in a global PVC market with very strong fundamentals associated to supply and demand dynamics.

As you see on slide 5, our EBITDA declined by 4% year-over-year, mainly driven by the tougher PVC, caustic soda and ethane/ethylene market conditions, which pressured the ethane-to-PVC value chain. Helping to drive our success is how Mexichem has diversified today as a global company, both in terms of our geographies and our products.

Our largest country today is the U.S., which represents 17% of our global business, and includes our Datacom, Precision Agriculture, Fluor, and Vinyl businesses. Our second largest country is Mexico, which represents 9%, followed by Germany, with 8%. Europe is our largest region with 38% of global sales.

To add to our diversification, the company has continuously focused on downstream growth. In particular, in more specialty solutions that carry higher margins, which in the first quarter of 2019 represented 66% of our total EBITDA. Thus, Mexichem is increasingly more global, more diversified and more solutions focused.

Looking now at slide 6, and as I mentioned on our previous calls, we are increasingly transitioning to a returns-driven model. Our return on invested capital continues to be above our weighted average cost of capital, something that has not been the case in past years.

We'll discuss our first quarter results further in a few minutes. But as we do every quarter, I would like to highlight some examples of our innovative solutions and how they're helping to bring about a more livable future for people around the world.

Turning to slide 7. In March, Netafim launched the Streamline X ReGen™ drip line for use in short-cycle, single-use crop applications, and containing material from recycled drip lines. The introduction of this ReGen™ product to the agricultural market is a direct result of listening to growers express their need for an irrigation solution that not only delivers water and nutrient efficiencies, but also fills a void in the sustainable supply chain. This human-centered innovative solution bolsters our commitment to sustainable agriculture that already includes a drip line removal and collection service, as well as the industry's first wholly-owned recycling facility.

Turning to slide 8. The earlier part of this year was marked by record rainfall in many parts of the world. Our Building and Infrastructure business in Europe deploys its Q-bic Plus Infiltration Crates underground to store rainwater to help prevent street flooding in cities. Now the crates are being used as a second purpose. Turned upside down, these crates are constructed around tree roots in cities to protect them as they grow next to concrete, giving the roots optimum support and aeration. In May, a municipality in Belgium will be our first customer to use this dual-purpose product.

Now on slide 9, we'd like to highlight what we've been doing in datacom. All companies, as you know, are moving parts of their businesses to the cloud, and we are playing an important role in this. This past quarter, we brought on a major social media company as a customer who has engaged with us to help secure fiber connections between several of their U.S. data centers. Our conduits are what carry and secure the high-speed fiber optic cables.

Turning to slide 10 now. At our mine in San Luis Potosi, Mexico, the world's largest fluor spar mine, our innovations improved the quality and the productivity of our production facility by reducing fresh water used in the production of acid spar by up to 20%. This translates to a savings of 50,000 gallons of water per day that are no longer needed in our operations.

Moving to slide 11. I'd like to stress that we're very focused on safety at our mines and all our plants. At the San Luis Potosi mine, we have installed guard rails and earthen berms on 90% of our internal roadways to ensure transportation safety. At all our plants, we continue to invest in several initiatives. More than 95% of our chemical facilities are fully on track with our Process Safety Management implementation schedule, with the remaining facility to be included in the coming months. We continue to actively reduce our Total Recordable Incident Rate, and safety studies and specific action on the transportation of hazardous materials were initiated in 2018 and will continue in 2019.

We're now on slide 12. We're proud how Mexichem is helping to solve global problems as we evolve into a more purpose-driven, future fit organization, continuing to innovate and showing our strength in relevant areas. We are transitioning from a manufacturing-focused company to one that is much more customer-centric. We are convinced that our five distinct global businesses groups will help us better understand our customer needs to provide them with more relevant solutions.

For example, our Building and Infrastructure business provides innovative solutions in water management for municipalities and real estate developers. Our Datacom business is playing an important role in connecting cities around the world by partnering with major service providers to roll out their 5G technology. Our Precision Agriculture business is taking a leading position in the digital revolution of this sector. Our Fluor business is helping 100 million asthmatics breathe easier thanks to the use of our fluorine-based propellants in medical inhalers. And, our Vinyl business is making buildings safer as we are the world leader in flame retardant solutions for wires and cables.

Now moving to slide 13. Continuing with our focus on innovation, earlier this month we officially opened our Lighthouse lab in San Francisco, which serves as home base to our global teams who are developing new ventures. The Lighthouse is already working on new solutions and new business models that will be eventually be commercialized.

I am extremely proud of what the 22,000-member team is accomplishing, and I have never been more optimistic about the future of this company. We're both optimizing for today and cultivating for tomorrow. We are unremittingly improving operational efficiencies and controlling costs in all our businesses, especially ones that are facing challenging environments. We're optimizing our working capital management across all our businesses, and we are doubling down on safety and security.

I will now turn the call over to Rodrigo, our CFO, to review our financial results. Rodrigo?

Rodrigo Guzmán

Thank you, Daniel. As mentioned by Daniel earlier, slide 14 shows that the results are in line with our beginning of the year expectations. In Q1 2019, revenues reached \$1.8 billion, up 10%, or 1% from Q1 2018. EBITDA was \$318 million, a decrease of 4% and net majority income was \$48 million, down 39%.

As we mentioned during our third and fourth quarter calls, we expected a very challenging environment in our Vinyl business but also expected, at the beginning of the year, that our Precision Agriculture, Datacom and Building and Infrastructure businesses would improve and partially offset the impacts in Vinyl. During the first quarter, the decline in our Vinyl's EBITDA of \$44 million was roughly offset mainly by Fluent's increase of 30%, or \$29 million and Fluor's increase of 4%, or \$4 million.

For the first quarter 2019, as you see on slide 15, the 1% revenue growth was led by higher sales in our Fluent Business Group, again, mainly driven by Precision Agriculture's better performance and its consolidation for the full first quarter of 2019 into Mexichem's financials, as well as higher sales in our Fluor Upstream and Datacom businesses in the U.S. and Canada and EMEA regions.

The FX effect for Q1 2019 in sales had a negative impact on a consolidated basis compared to Q1 2018. On a constant currency basis, revenue would have been roughly \$1.9 billion, an increase of 6% versus Q1 2018.

Within the Fluent Business Group an increase in sales were due to a stronger performance in Precision Agriculture, in Datacom in the U.S. and Canada and EMEA, and the consolidation of Netafim for the full

first quarter. Our Fluor Upstream business increased its sales in double-digits and more than offset the decrease in our downstream business. This was driven largely, as we announced during our Q1 2018 call, by price stabilization in F-gas rights and refrigerants experienced during the last three quarters of 2018, as well as the impact observed in prices and volumes associated to the illegal imports in Europe. We are working hard on this issue, together with the European Carbons Technical Committee, to solve it as fast as possible, given the impacts we are seeing, which as of the first quarter of 2019, were offset by our Fluor Upstream business. In Vinyl, revenues declined mainly due to tighter market conditions in PVC and caustic soda.

For the first quarter of 2019, EBITDA was \$318 million, a 4% decrease compared to the \$330 million reported in the same period of last year, and with an EBITDA margin of 18%. During the quarter, we had a positive effect of \$18.6 million in our reported consolidated figures due to the effects coming from the adoption of IFRS16 and the FX effect on consolidated EBITDA of negative \$11 million.

We are now on slide 16. Mexichem Q1 2019 operating cash flow before CapEx, share buybacks and dividends were negatively affected by: one, \$12 million lower EBITDA; two, higher financial costs due mainly to the renewal of Netafim credit facilities at much better conditions because of its integration into Mexichem's structure and the \$200 million bilateral loan we took out for the Netafim acquisition at the end of January 2018; and three, lower interest earned of \$3 million due to lower average cash balances in Q1 2019 versus Q1 2018. These effects were partly offset by lower FX losses and working capital. Capital expenditures decreased 9% to \$60 million.

As shown here on slide 17, our total financial debt as of March 31 was \$3.6 billion, while cash and cash equivalents totaled \$589 million, resulting in net financial debt of \$3 billion. We are still committed to our investment grade and our net debt to EBITDA, and interest coverage ratios closed the first quarter at 2.16x, or 2.19x without IFRS and 5.23x, respectively.

Going on to slide 18, we continue with a very sound balance sheet and with a very healthy financial structure in our debt. Due to Netafim's financial facilities renegotiation, we improved our weighted average cost of debt to 4.9% from 5.12%, leaving the tenor stable at 14.2 years, which will mean lower interest, and consequently, could increase cash flow.

I will now turn the call back over to Daniel for some remarks before we open up the call for questions. Daniel?

Daniel Martinez-Valle

Thank you, Rodrigo. Our expectations for the full year remain unchanged. In our Vinyl Business Group, we are starting to see some positive signs, which may impact the second half of the year, and we remain optimistic on the outlook for the rest of our businesses.

We are increasingly relevant as Mexichem in the role we play in helping to solve today's biggest challenges, in everything from food security to water scarcity to making cities more livable to connecting them over the internet. We'll continue to work closely with our partners and customers across all our business groups and strive to exceed their expectations by providing innovative and best-for-the-world solutions. Furthermore, we are a resilient company with a strong balance sheet, a healthy debt profile, strong cash conversion, and world-class safety and security measures.

Once again, I want to thank you for being on the call today. Andrea, we're open and ready for questions.

QUESTIONS AND ANSWERS

Operator

We will now take any questions. To ask a question, you may press star, then one on your touchtone phone. To withdraw your question, please press star, then two. If you are using a speakerphone, you may need to pick up the handset before pressing the keys. At this time we will pause momentarily to assemble our roster.

Our first question comes from Vanessa Quiroga of Credit Suisse. Please go ahead.

Vanessa Quiroga

Thank you, Daniel, Rodrigo and Geraldo for the call. My first question is regarding the Vinyl division and the comments you made on caustic soda. Can you explain the outlook that you have for caustic soda and the impact that it could have on results? Also, whether there is anything you can do on your side to mitigate the impact of that on the business?

Secondly, also, if you can provide some color on how volumes performed for the Vinyl division? And also, regarding the overhauls that you mentioned, if it's possible to quantify the impact or the effect that the overhauls had on the EBITDA performance for the quarter. Thank you.

Daniel Martínez-Valle

Thank you, Vanessa. So let me give you some color in terms of prices that impact either positively or negatively our Vinyl business in general. I'll provide you some publication numbers for the average monthly variation in prices in Q1. For ethane the price increased 17%; ethylene decreased 16%; caustic soda prices decreased 43%; and PVC resin decreased 8%.

You mentioned the interest in getting some color in terms of our outlook for the caustic soda prices. We're starting, as I mentioned in my remarks, to see some initial indications that would reverse this trend. We haven't seen very significant indications, but just initial indications. The first one could be the restart of the Alunorte plant in Brazil. The second one the resolution of limitation on imports of caustic soda into India. And we are starting to talk to someone else that sees more and more optimism in the caustic soda and the PVC market for the second half of this year. But again, we remain unchanged in terms of how we see the full year moving forward vis-à-vis what we mentioned in our previous calls.

Gerardo Lozoya

In terms of volumes from chlorine from the Vinyl business, they decreased by 5% in the quarter. We will release after this call the table for Vinyl in order to let all of you know what happened with the volumes.

Vanessa Quiroga

Okay. Is there anything that you can do to mitigate that this temporary impact of the caustic soda prices? Exactly how does that affect the business? I mean, does that impact the formula that you have with Oxy on their joint venture?

Gerardo Lozoya

Yes. As you know, we have our own business of caustic soda and chlorine. As I said in the last three conference calls, caustic soda directly affected us by 5% of our total revenues as Mexichem. That is the amount of our delivered business. But also, the caustic soda impacts to the formula of the PCM that we are buying from Oxy in order to produce PVC.

As I have been explaining in the last year, caustic soda is a buffer that reduces if there is some loss in

the margins when you compare PVC to ethylene. And then as the caustic soda today, it's lower than in the last year. That has not given us more benefits or they are not stopping necessarily what we are having on a PVC, on the change from ethylene to PVC.

Only to give you color and perhaps Daniel already mentioned, I think, if you look at the prices in the quarter for all the buyables in Vinyl business, it's higher than 17%, PVC is lower than 8%, caustic soda is lower than 43%, and ethylene is lower than 26%. All of those buyables are the ones that are affecting our numbers.

Vanessa Quiroga

Great. And if I can go back to the second question that I had regarding the overhauls and if there's quantification of how much that impacted.

Daniel Martínez-Valle

So when I said it's not a major impact, I can say that the plants, all of our plants in the Vinyl business are now operating at capacity. You also mentioned the fact that you were interested in getting some additional color in terms of the mitigation measures that we're taking. We're working very diligently with the Vinyl team in terms of cost optimization in every single aspect, ranging from electricity to rationalization of every single supplier. We're optimizing our sales management in terms of really finding every single opportunity to optimize our sales operations globally, and we're very optimistic that all these measures on the cost side and on the top line will significantly mitigate the impact of these prices moving forward.

Vanessa Quiroga

Okay, great. Thank you.

Daniel Martínez-Valle

Thank you, Vanessa.

Operator

Our next question comes from Nikolaj Lippmann of Morgan Stanley. Please go ahead.

Nikolaj Lippmann

Thank you very much. Good morning, everyone. Thanks for the call and for taking my questions.

I have two questions, if I may. First on Netafim. I was wondering if you could share with us — and congratulations on the numbers there. Did you add the legacy Mexichem Irrigation business to this reporting segment? And if so, what's the magnitude? And also, when we look at the working capital, I don't know if you can share if not anything else the magnitude of the relationship between how much of the additional working capital gets consumed in Netafim. So that's question one.

Question two relates to Colombia and LatAm profitability where there appears to be a big turnaround. All prices are very volatile, clearly going up at the moment. So how should we think about the margins and pricing in the LatAm markets going forward? Thank you very much.

Rodrigo Guzmán

Thank you, Nik, for the question. Netafim, the numbers of Mexichem into the Netafim are very negligent, they are not relevant on the numbers of Netafim. So basically the number that you are seeing on our press release is coming directly from the business of Netafim. So that growth basically is coming from Netafim.

In terms of working capital, as you may know and as you know, if you compare the first quarter of 2016, 2017, and 2018, there is a growth in our working capital in 2017 and 2018 and that comes mainly from Netafim. The structure of Netafim obliges them to have a little bit higher inventories on their balance sheet and they are having some issues on accounts receivable in some of their countries. But we believe that we are going to solve those issues in the coming quarter. That is for Netafim. Basically that effect of the [indiscernible] is in India, and also in revenues because today we have that new contract with India and then, the revenues are reflected on our numbers.

In the case of Latin America and in Colombia, we already passed the prices over the market, the increase in PVC prices over the last year. What we are waiting now is for volumes coming back, specifically in Colombia. So as the government there has been changing their fiscal law in order to expand the economy, we expect that during the year Colombia will give us very good surprises.

Nikolaj Lippmann

Got it. Very helpful. Thank you very much.

Operator

Our next question comes from Leonardo Olmos of Santander. Please go ahead.

Leonardo Olmos

Hi, good morning. My question is regarding [indiscernible] and Netafim. Could you discuss the relationship between growth and margins? I mean, is there any chance that if you accelerate growth you get an impact on margins because of the payback time of some large projects? I'm trying to understand if you're going to reach the guidance for 2020 or not, but just to understand if maybe going forward you are going to see an opportunity in the market and maybe focus on different types of projects, and maybe there's going to be possibility to have growth. Thank you.

Daniel Martínez-Valle

As we mentioned in previous calls, the strong growth opportunities as we see in front of Netafim lie basically on a very low penetration associated to precise irrigation methods in the world. Seventy percent of the water in the world is used for agriculture. Only 7% of that water is used with precise irrigation techniques, such as the ones that we deliver thanks to Netafim.

The huge potential that we have in terms of growth moving forward in both emerging and developed countries is associated to just capturing more and more of that gap between the 7% penetration and the 70% of the water that is used mostly inefficiently.

In terms of the margins and in terms of the guidance for 2020, I know that that was not the nature of the question, but we feel very confident that we will deliver on the numbers that we gave when we acquired Netafim last year in February. We believe that we will reach on a constant currency basis the EBITDA number of \$200 million by 2020. We're very optimistic in terms of our top line growth; we're very optimistic in terms of the EBITDA margins that we will see moving forward. And as we evolve our business model towards digital, towards irrigation as a service, we will continue to see increasing trends in terms of profitability, in Netafim in particular.

Leonardo Olmos

Okay. No harm done with the accelerated growth then in profitability. Just one follow up. I'm sorry if you have already mentioned it, but excluding January, which you didn't have last year, what was the growth in February and March year-over-year?

Rodrigo Guzmán

We cannot disclose our monthly number, Leonardo. What we can say is that the number we have for January, it's roughly \$5 million EBITDA level in general in Netafim.

Leonardo Olmos

Okay, that's fine. Thank you very much.

Operator

Our next question comes from Gabriel Barra of UBS. Please go ahead.

Gabriel Barra

Hi, thanks for the questions. I had one question on the guidance. During the previous conference call it was mentioned that 2019 managed to take into account oil price between \$50 to \$60 per barrel. Given the current increase in oil price, should we expect the numbers for 2019 or would the company continue with its previous guidance ranging a growth of -1% to 5.24%? Thank you.

Daniel Martínez-Valle

Thank you for the question, Gabriel. As I mentioned in my remarks, our expectation for the full year remains unchanged. We are very actively monitoring every single variable that can move the needle. At this point in time, we do not expect any changes in the guidance, we're keeping the guidance as we announced it in our last quarter call.

Gabriel Barra

Okay, thank you.

Operator

Our next question comes from Frank McGann of Bank of America. Please go ahead.

Frank McGann

Yes, good day. Thank you. Just to go back to the Vinyl situation, you mentioned in your remarks that you were seeing signs that things were going to improve and then in an answer to one of the questions you mentioned some early indications may be on caustic soda, but I got the impression that you were seeing other factors that could lead to an improvement in Vinyl as you go into the second half of the year. I was wondering if you could go into a little bit more detail on what you're seeing.

Gerardo Lozoya

We have been looking at the reports of different analysts in the market and also our own expectations. If you go to what is happening in caustic soda, it is expected that the Alunorte plant in Brazil will start in the second quarter. Of course, that thing will improve the conditions on the caustic soda market, because today what the U.S. used to sell to that plant in Brazil, today it's living in the market and then that thing is reducing the prices in the caustic soda market in mainly North America.

Also, there is some news coming from India and their limitations to import caustic soda in that market. If that is solving, then the caustic soda prices will go up and that is what we are seeing.

In the ethane and ethylene markets, what we are seeing today is that crackers has been delayed a little bit. The new crackers has been delayed a little bit. And then, we believe that that will reduce the pressure on the ethane markets and in the solution markets, at the same time as that will increase a little bit the price of ethylene. That's why we said that we are seeing right now some signs of recovery in that market.

Frank McGann

Okay, great. And if I can follow just a little bit on what you're seeing in Latin America and maybe Europe in terms of demand trends in Fluent, in particular. I was just wondering how you're seeing the pricing environment. You mentioned, I believe, in the release that you had seen some of the weakness in market PVC prices and other being translated into your market prices. But, I was wondering, particularly with currency weakness a possibility, how you are seeing [indiscernible] price in some of these key markets.

Gerardo Lozoya

In terms of volumes, in Latin America in general, in Fluent, they are coming on line as expected. Of course the low [indiscernible] prices has been benefiting us in the first quarter and we see that in the following months the demand on those places, on Colombia, on Brazil, will remain as expected. We do not foresee any reduction on volumes as we expect at the beginning of the year, Frank.

Frank McGann

Okay, thank you very much.

Operator

Our next question comes Petr Grishchenko of Barclays. Please go ahead.

Petr Grishchenko

Good afternoon, and thanks for taking my questions. First, I'm just curious, given the large declines in Pemex production this year, I think in January and February volumes dropped by about 15% and 9% year-over-year. I'm just curious what you're seeing in terms of impacts on your ethane feedstock there, and if you have set the import some more. I'm just curious impact on margins.

Daniel Martínez-Valle

Hi, Petr, thank you for your question. So, we have zero dependency on Pemex. In none of our operations do we see any dependency today. That has been the case for many, many months. As you know, we're virtually vertically-integrated, thanks to our cracker operation in Texas, and we, again, have no dependency on Pemex production of ethane.

Petr Grishchenko

Okay, and in terms of PE and PVC spreads performance this year versus your initial expectations, just hearing from a lot of participants they're surprised by the spread weakness, I think particularly in the PE market where imports in the U.S. are increasing given domestic ore capacity. I'm just curious how the spreads are trending versus your forecast earlier this year.

Gerardo Lozoya

If you were talking about PE, that does not have an impact on our upstream business, mainly Vinyl. On the contrary, on our Fluent business in particular [indiscernible] in Europe, Datacom in the U.S. and worldwide and Netafim worldwide, we are benefited by declines in PE prices, given that there's basic raw material mostly HEPE [ph].

Petr Grishchenko

And then PVC?

Gerardo Lozoya

And PVC, in our pipes and fittings business we're building an infrastructure. From a downstream perspective, we are benefited from declines in PVC resin supply system.

Petr Grishchenko

Okay. Just given where your, I guess, leverage is today and your forecast for cash generation this year, have you thought of any steps maybe to perhaps protect the balance sheet given leverage is above your threshold? I'm just curious if you're thinking CapEx and dividends or it should be unchanged this year?

Rodrigo Guzmán

As you may know, we already proved or we declared a couple of dividends last year, an extraordinary dividend and an ordinary dividend. The ordinary dividend and extraordinary dividends are going to be paid as approved by the general shareholders meeting. That will not change at all.

And, in terms of CapEx, our guidance is between \$400 million and \$450 million.

Daniel Martínez-Valle

And we will be very keen on making capital allocation decisions to ensure that we obviously maintain our investment grade status, and as you know, we have an internal rule not to exceed our net debt to EBITDA above 2x. We're a little bit above that but we expect to continue working in terms of capital allocation to maintain it as a 2x net debt to EBITDA level.

Petr Grishchenko

Okay, great. Thanks a lot and best of luck.

Daniel Martínez-Valle

Thank you, Petr.

Operator

Our next question comes from Nikolay Menteshashvili of Insight Investment. Please go ahead.

Nikolay Menteshashvili

Hi, many thanks for the call. Just a couple of questions. On the Fluent business with the 13% revenue growth on constant currency, what's the approximate breakdown between the volumes and the prices and do you expect that in the Fluent business the prices may come down as the raw materials go down or there's no risk of that?

And the second question I had on the announced litigation you see in Colombia, and what effect it may have on the company overall.

Gerardo Lozoya

Let's talk about first over the litigation. In the case of litigation, first of all it's an investigation that is ongoing, so then we cannot give more details on that because it's ongoing. But, at least, we believe that if it will have an impact that will be non-material. That's the only thing we can say, no?

And also in the case of raw materials, given our structure and given that in Latin America we are more closer to the final market, a decline on prices of raw material is not expected to have any impact on pricing to the final market basically in our emerging markets and given that we are very close to the final market.

Nikolay Menteshashvili

And in terms of the split between volumes and prices change for Fluent business?

Gerardo Lozoya

Yes, the issue with the Fluent business in terms of volumes is that in the Fluent business we have more than 40,000 SKUs in Europe and more than 9,000 SKUs in Latin America. And, the weights of everyone are different. And also, the profitability of each product is different. So, volumes really do not tell us nothing about how the markets are working or how the markets are evolving. So, that's why we do not release the volumes on Fluent. Basically they are irrelevant because we are giving solutions to the market, not specific products.

Nikolay Menteshashvili

Okay, thank you very much.

Operator

Our next question is a follow up from Vanessa Quiroga of Credit Suisse. Please go ahead.

Vanessa Quiroga

Thank you. It's regarding Fluent and the FX impacts that you mentioned on the press release. Do you expect to be able to pass-through on pricing these FX impacts?

Gerardo Lozoya

Always we work in that direction, Vanessa.

Vanessa Quiroga

Alright. Thanks.

Operator

Our next question is from Liliana Deleon of GBM. Please go ahead.

Liliana Deleon

Yes, thank you. My question is related with Netafim. You mentioned better conditions in terms of debt. Could you please share with us the net debt of Netafim?

Gerardo Lozoya

I don't have the number here but, it's much more lower than our own. I think they are at 1x EBITDA, net debt to EBITDA.

Liliana Deleon

Okay, perfect.

Operator

This concludes today's question-and-answer session. I would like to turn the conference back over to Daniel Martínez-Valle for any closing remarks.

CONCLUSION

Daniel Martínez-Valle

Thank you, Andrea. I want to close by saying how grateful we are to all our customers and partners around the world. I also want to thank our team members who drive our growth day to day, and thank you all for joining us today. We appreciate your time, and we do look forward to speaking with each one of you again. Thank you.

Operator

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

disconnect.