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

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning and welcome to the Mexichem First Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1) on your touchtone phone. To withdraw your question, please press star (*), then two (2). 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
Thank you, operator. Good morning and welcome to our conference call. We are pleased to be here today to present our first quarter 2018 results. We appreciate your time and your participation in this conference. Our speakers today will be Daniel Martinez-Valle, Mexichem's CEO; and Rodrigo Guzman, our CFO. I will turn now the call over to Daniel for opening comments.

Daniel Martinez-Valle
Thank you, Fabiola, and thank you all for joining us this morning to review Mexichem's first quarter results and to discuss our business outlook. This was an excellent quarter for Mexichem. Each of our three business groups posted strong EBITDA results supported by a mix of organic and acquisition growth. We completed the largest and most transformative acquisition of our history with Israel-based Netafim. The contribution to our results since early February day's closing were in line with our expectations. And, as we look across our businesses, we continue to see tailwinds that underpin our full-year 2018 guidance for 20% to 25% EBITDA growth on the heels of a 24% EBITDA growth that we reported in 2017.

Our performance in the first quarter demonstrated Mexichem's leadership in serving our diversified group of vertical markets, mainly building an infrastructure, Datacom, agriculture, automotive, and healthcare. More importantly, many of our products and solutions are addressing high-growth sectors of these markets, and we're building out our global footprint and investing in our internal infrastructure to fully address these opportunities.

Looking at our first quarter results by segment, Fluent is now our largest business group, accounting for 53% of total sales for the period. Once we consolidate Netafim for a full quarter, that percentage will climb to about 56%. In terms of scale, Mexichem is one of the largest producers of plastic pipes and fittings and a leading manufacturer of conduits for data in the US and micro ducts worldwide. Thanks to Netafim, we are now also the global leader in precise irrigation.

Fluent's first quarter EBITDA increased 30% compared to last year's first quarter, reflecting both organic and acquisition growth. Organically, Fluent's business performed very well in each of its key regions. Specifically, we had double-digit year-on-year EBITDA growth from Fluent Europe and Fluent US/Canada and exclusive of CADE and Netafim acquisition expenses, Fluent LatAm's EBITDA would have grown 2.6% compared to last year's first quarter, showing signs of recovery in the region.

Netafim's results were consolidated in Fluent's first quarter figures for the 52 days following the completion of the acquisition on February 7th and I am pleased to report that they were on budget and that integration is well underway. In addition to supporting the growth for the global platform, our objective is to leverage Netafim's advanced technological capabilities to transform our products into smart solutions for customers across the different verticals where we operate globally today. Additionally, the more we get to know the company, the greater the opportunity we see to bring the most compelling assets of Netafim's entrepreneurial customer-centric culture to the entire Mexichem organization. To accelerate this process, I have named two of Netafim's top executives to co-lead important internal initiatives at Mexichem around world-wide talent development and innovation across our different business groups.

Our Vinyl business group accounted for 36% of first quarter sales and is the world's largest producer of specialty PVC resin and the fifth largest resin producer globally. At the same time, we're among the most cost-efficient producers globally, which allows us to profitably export PVC to important markets of the world. This was an exceptionally strong quarter for Vinyl, with year-on-year EBITDA growth of more than 80%, driven primarily by two factors. First, this year we had a full quarter's benefit from our increased vertical integration of ethane to PVC value chain thanks to two additional months of full production of our ethylene cracker, when compared with the first quarter of 2017. You will all recall that the cracker did not become operational until the last week of February of last year and it was in a ramp-up phase for most of March and during that second quarter. Therefore, we would caution you not to use Vinyl's exceptional first quarter EBITDA growth as a proxy for the rest of the year. Second, Vinyl's results benefitted from improved caustics and PVC market prices and based on today's visibility, we do expect these prices to remain around current levels during 2018.

Our Fluor business group, the world's largest producer of fluorspar accounted for 11% of this year's first quarter sales. Fluor also reported exceptional EBITDA growth in the first quarter, mainly thanks to increased demand for metspar from cement industry customers, a market we have developed over the last two years. Fluor's results also benefitted from higher downstream prices, particularly in Europe where we experienced increased demand as a result of expected restrictions on imports to the European Union. Again, the first quarter represented an exceptional EBITDA growth rate that should not be extrapolated for the remainder of the year.

Last year we began negotiations to acquire a small US compounds business as part of our strategy to consider alternate acquisitions that add specialty products or new geographies. This acquisition was completed in January of this year, and we acquired a company in the niche compounds manufacturing space called Sylvin Technologies with a complementary product and application portfolio serving the wire and cable, construction, medical, and automotive industries. Sylvin has been consolidated in our compounds business unit, which is part of our Vinyl group.

To sum up, our first quarter operating results represented a strong start to 2018 and we ended the period with a robust financial position that will support future growth. Additionally, we have been able to resolve our planning issues, the most important of which was the settlement we have reached with insurers for PMV in mid-April. The final settlement amounts for the property damages for the 2016 accident at PMV was $323 million. Additionally, we figured up our financial liability to CADE in Brazil, incurred a number of years ago by a subsidiary there and we have implemented procedures to ensure future compliance with regulatory authorities in Brazil and in every jurisdiction in which we operate.

Now I will turn it over to Rodrigo, our CFO, to review our financial results. Rodrigo?

Rodrigo Guzman
Thank you, Daniel, and thank you all for joining us today. We are pleased and very excited with the strong start to 2018, which supports the EBITDA guidance we provided two months ago. First, I will go over the income statement for the first quarter of 2018, then I will give you more color on this financial performance of each business group, and finish with financial statement and the balance sheet highlights. Before I begin, I would like to bring your attention to the expenses registered in the first quarter related with CADE and Netafim acquisition of $18.8 million. When measuring EBITDA and operating income, on an organic basis we exclude these expenses as well as the eight-week contribution of Netafim to our financial results. Now, with respect to the income statement. First quarter 2018 consolidated net sales increased 26% to $1.75 billion. This positive comparison was driven by robust performance across our business groups. In Fluent, we reported a 35% sales increase driven by the 52-day consolidation of Netafim and improved market conditions in Europe and US-Canada, mainly in telecom and oil and gas markets. Additionally, in Vinyl, we had a variable environment and in Fluor we benefitted from strong demand for metspar from new cement clients in response to our strategy to concentrate more of our efforts in that industry due to the high barriers to entry. And from there the respective pricing in Europe in our downstream business resulting from expected more restrictive environmental regulations.

FX translations benefitted consolidated sales by $90 million, mainly due to the devaluation of the euro and pound against the US dollar, which together represented 74% of that FX impact. It is important to highlight that even without this benefit, sales increased a solid 19%. Organic sales grew 13.2% compared to the first quarter of 2017. Excluding the FX impact, it increased 7%.

First quarter consolidated EBITDA increased 63% or $128 million year over year, mainly resulting from greater cost efficiencies and profitability from vertical integration. Thanks to full-quarter contribution from the ethylene cracker, the consolidation of Netafim, and better than expected refrigerant gas pricing in Europe. Special attention should be given to our Fluent LatAm business unit, which without the impact of the CADE and Netafim acquisition-related expenses, grew 2.6%, when compared with first quarter of 2017. And as Daniel previously mentioned, this was the first quarter in which EBITDA grew since the fourth quarter of 2016. Consolidated EBITDA margin was 18.8%, a 428 basis-point improvement over last year's first quarter.

On an organic basis, EBITDA in the first quarter of 2018 amounted to $320 million, implying a 58% increase from the year-ago quarter and about 20% EBITDA margin. The impact of foreign exchange translation was nonmaterial this quarter in EBITDA but had a 600 basis-point effect in the growth of revenues, showing the relevance of the company's strategy to focus its effort on specialty products with higher margins rather than on volumes, and as a consequence, benefitting our ROIC.

Our operating income increased 88% to $227 million. On an organic basis, operating income increased 83% to $221 million. The debt issuance in September of last year and the bilateral loan agreement we took for financing the Netafim acquisition [unintelligible] increase of $20 million in financial expenses while the usage of one of the [unintelligible] the ethylene cracker reduced the cash tax rate from 38% a year ago to 32% this year. First quarter consolidated net income amounted $111 million while majority income was $79 million, representing year-over-year increase of 109% and 52% respectively. Now, let me give you more color on the financial performance of our three business groups as we go over key P&L metrics for each one.

In Fluent, revenues increased by $244 million, or 35% year over year, with Netafim representing 73% of the increase and 20%, or $49 million coming from Europe basically because of the devaluation of the euro against the dollar, which benefitted revenues by $42 million and $14 million coming from USA and Canada due to a strong demand from the telecom and oil and gas industries. On an organic basis, and without the FX benefit of $55 million, revenues grew 1.7%. In terms of EBITDA, Fluent grew 30%, mainly due to the consolidation of Netafim, 41% increase in Fluent Europe EBITDA, and 29% growth in US and Canada, which was offset by the CADE and Netafim acquisition-related expenses. EBITDA margin was about 11%. On an organic basis and without the FX impact of $5 million, EBITDA would have increased 25% with an implied EBITDA margin of 13.8%, representing an expansion of 247 basis points versus the first quarter of 2017. On an organic basis, revenues and EBITDA growth without the FX impact of 1.7% and 13.8% respectively and the expansion of the EBITDA margin on that basis is the result of the company’s focus over the last several years on specialties with higher margins rather than volumes, which has been contributing in Mexichem’s increasing ROIC.

In Vinyls, sales were up $646 million in the first quarter of 2018, representing an 8% increase on stable volumes reflecting better PVC prices globally because of higher oil prices and issues with supply constraints and an FX benefit of $30 million coming from the 15% devaluation of the euro against the US dollar when comparing the first quarter of 2018 when compared with the first quarter of 2017. Without the FX benefit, revenues would have increased 3%. The resins, compounds, and derivatives business unit, which accounted for 97% of Vinyl group sales in the first quarter, reported a 2% revenue increase without the FX impact and a 2.7 volume decline, increasing the profitability of the company. This is mainly because during this first quarter, our Germany-based business [unintelligible] since it was acquired in 2014, operational of company, which is dedicated to specialty resins.

In terms of EBITDA, Vinyls grew 69% or 81% for an EBITDA margin of about 24%, which represents an expansion of 1300 basis points from a year-ago quarter of 13%. This increase in profitability was the result of better PVC market conditions, product mix, and operating efficiencies coming from the vertical integration across the value change from ethane to PVC due to the ethylene cracker, which was fully operational in the first quarter of this year while in the first quarter of 2017 it was operational one month in a ramp-up basis.

In the first quarter, we had a $3.7 million FX benefit in EBITDA. Excluding this benefit, EBITDA would have grown by 77% with the same implied EBITDA margin. It is important to highlight that, as mentioned, Vinyl EBITDA growth was significantly higher due to the cracker’s full operation in this year’s first quarter, growth that will not be replicated in the months to come due to the basis of comparison.

And finally, in Fluor, we reported the fourth consecutive quarter of sales growth in this segment with significant growth in both the upstream and downstream parts of the business, driving a 48% revenue increase. This substantial improvement was mainly due to the higher demand for metspar from new cement customers along with higher refrigerant gas prices in Europe. Certain first quarter specific factors considerably increased volumes and prices of some of the main products in downstream. As Daniel mentioned, we expect pricing and volumes to evolve at the more normalized levels during the rest of the year. EBITDA in Fluor was up 65% and amounted $84 million, equivalent to an EBITDA margin of 41%, a 400 basis-point expansion compared to last year's first quarter. It is important to confirm that the company's EBITDA guidance for 2018 will remain unchanged considering the FX I mentioned previously in relation with the cracker and the Fluor prices in Europe.

Now, let's move to the cash flow statement. In the first quarter, operating cash flow before Capex was negatively impacted by an 86% and 81% increase in taxes and interest paid respectively related to higher debt and higher income from continued operations before taxes and an increase in working capital as explained in the press release. Increase in the dividends paid also contributed to negative cash flow of $168 million. As in any year, operating cash flow during the first half became negative due to seasonal factors but it returns to positive during the second half. Now, let's turn to the balance sheet. Net financial debt as of March 31, 2018, amounted to $3.1 billion, representing 2.3 times trailing 12 months net debt to EBITDA, which is slightly below our expected 2.4 times after the Netafim closing.

Finally, I want to remark that after 22 months of apprisals and analysis of the causes of the unfortunate explosion at the VCM plant inside the Pemex petrochemical complex from independent experts and authorities, we reached an agreement and settlement with our property damage insurer through which we are recovering 100% of what we have as an account receivable in PNV related to the damage covered by that policy. I want to thank our insurers, reinsurers, partners, external advisors, and employees for all of their efforts in reaching this important milestone.

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

Daniel Martinez-Valle
Thank you, Rodrigo. Mexichem's first quarter performance has put us firmly on track to achieve our full-year EBITDA guidance. The assumptions underlying our expectations for another year of exceptional EBITDA growth remain unchanged. In Fluent, our positioning in high-growth markets has been enhanced by Netafim and conditions in Latin America are improving. In Vinyl, we're expecting pricing to continue to be strong and we retain cost leadership. And in Fluor, higher demand and stable pricing should drive positive comparisons in 2018. The successful integration of Netafim is a key operating priority for this year. Netafim continues to expand in high-growth irrigation business and the growing replacement market and will increasingly leverage Mexichem's global platform to accelerate its growth. This was an acquisition based on growth and technology transfer and with the two Netafim executives co-leading important corporate mandates within Mexichem shortly, we believe we are advancing our objective of leveraging Netafim's technological know-how to move from a product leader to a solutions provider.

That being said, we have identified operating synergies around economies of scale in raw material procurement, logistics costs, and the consolidation of warehouse and distribution facilities. Once we are rolled out, we would expect the synergies to amount to approximately $20 million for next year, being 2018, the transitional period. Based on revenue growth estimates and these cost savings, we originally targeted EBITDA of around $200 million for Netafim in 2020 with a margin of 16% to 17%.

As we move along in the integration process, we are hopeful to raise this bar. With respect to capital allocation, our priorities include fast return, organic projects that drive operating efficiency and a return on invested capital and deleveraging to return to a ratio of below 2, which we said we would achieve within 18 months after the close of the Netafim acquisition. Also, we significantly increased our dividend payable in 2018.

Let me close by saying this. In the last 80 days, I have been in the field talking to our employees and listening to our customers. I have visited some of our manufacturing sites and one of our mines. I have also had the chance to spend time with all of our board members and enjoyed discussions with some of your investors and analysts. This is a great company. We have great assets. We have great people. And we have amazing products and formulations with tremendous potential.

As I said in our last call, we are embarking on a journey to transform Mexichem into a purpose-led, future-fit organization. I am convinced that our products can significantly improve the lives of people worldwide by sponsoring a more customer-centered, go-to-market approach in our company. Let me give you a couple of examples.

First, we can shift ruralization trends by helping farmers grow more with less, thus addressing major global challenges associated to food safety and water scarcity. Second, we can improve urbanization trends on a couple of fronts, on the above and below ground space are solutions for cities and buildings ranging from storm and drain water products to smart cooling and heating solutions can help address water challenges and improve quality of life in cities. On the information and communication technology side, by connecting people and cities through fiber to the home and wire and cable applications. These are just a couple of examples. As we embark on this journey, we embrace our present and we look forward to a very bright future. I am confident that we have the commitment, the leadership, and the employee and shareholder support to move forward on this very exciting task. I also want to thank you, our investors and analysts, for being part of this.

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

QUESTIONS AND ANSWERS

Operator
Thank you, sir. We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star (*), then two (2). At this time, we will pause momentarily to assemble our roster.

The first question will come from Nicolaj Lippmann with Morgan Stanley. Please go ahead.

Nicolaj Lippmann
Thank you and good morning. Thanks for taking my questions and of course, congrats on the very strong quarter. Three questions. First, a couple of really quick questions on

Vinyl. Could you give us a sense of the outlook and importance on caustic soda for you guys and if you see any risk to the market there due to the [unintelligible] situation. And, also, if you could just give a little bit of color on the outlook for PVC in LatAm, if you should think about the Chinese limitations of US imports as a bit of a risk for LatAm, if some of that product could come your way?

Second question, on pricing in Fluent, if you can provide further color on when we should expect to see better pricing momentum in LatAm in particular and finally, and sorry for all these questions. Daniel, thanks for the comments on what's next. A nice open question for you-–when you look at your agenda, if you can just share sort of top three points on your agenda for the remaining couple of years, or the remaining part of the year. Thank you very much.

Rodrigo Guzman
Ah, Nic, so Daniel is going to answer you.

Daniel Martinez-Valle
So yes, let me tackle all of your very good questions, Nic. Thank you for joining the call. So, regarding caustic soda, we believe that for the remainder of the year we can expect the same behavior that we saw during the first quarter. We don't expect major changes on this front. The same thing for PVC pricing in LatAm. At this point in time we don't see signals that should concern us in terms of the Chinese imports, imports that you were mentioning. And in the case of the pricing for Fluent, we are starting to see initial signs of recovery in the market. We're being cautious in terms of what to expect in the following quarters along 2018. But we do start to see positive signs in terms of pricing behavior moving forward.

Nicolaj Lippmann
Daniel, would you, thanks for that. Would you be prepared to give us, and I know you guys are not crazy about breaking up the chain, but caustic is a little bit outside of the PVC, if you will. Could you give us a sense at least of the importance of caustic in the first quarter of '18?

Rodrigo Guzman
Yes, I don't have the specific numbers for the caustic, but it was not so important. Let me try to explain why. Except in the cracker if you remember, we have our own plant of caustic soda in Coatzacoalcos. That plant is producing at 40% capacity. And then the amount of, or the volume we are selling in caustic soda is not so important. In Europe, we also produce caustic soda in our Vestolit plant, but it is roughly at the same size as the Coatzacoalcos plant, but in Europe we are having 100% capacity today. Why I said that is more important for the cracker. It is more important for the cracker because one, when PVC is not so profitable, then we receive a caustic soda credit. And as high as the price of caustic soda is, we receive better credits from caustic soda. During the quarter, even though during the quarter, caustic soda in the cracker or in the integration of PVC was relevant, I don't have the specific numbers, Nic, at this moment, but that is roughly the size we have in caustic.

Nicolaj Lippmann
Got it. Thank you very much.

Daniel Martinez-Valle

And to address your fourth question, Nic, basically there's three points for my agenda for the next couple of years. The first one is capital allocation. I'm going to be very focused on having a very disciplined capital allocation policy for Mexichem. We need to drive organic growth in the future. We really need to extract all the value associated to the assets that we've been acquiring in the past decade or so. We're working today with a team on this purpose-led, future fit transformation. We will be, and that's my second point, delivering very strongly on the basis of a strategy focused on the customer with a very clear focus on addressing our customer needs. I will highlight a few of the verticals associated to my closing remarks. One of them is related to ruralization and the huge potential associated to our irrigation business. The second one is associated to urbanization, and that's on the back of our very strong product and solutions offering associated to Wavin and Amanco, and third, which is also associated to the urbanization trends, is the Datacom business. That's the second point, our purpose-led future-fit strategy with a very strong sense of customer centricity.

And then the third point in my agenda is to really drive return on invested capital. The company has been working very diligently over the past few years in terms of driving a return on capital, on invested capital upwards, but again, I think we have to be very, very focused in terms of the capital allocation decisions that we make. This year, as I said in my statements, we will be focused on integrating Netafim and deleveraging the company and moving forward. We have to be very disciplined in terms of really driving a very strong and robust organic growth for the company and once we integrate Netafim and delever the company, we will be open to consider potential acquisitions but we will have to make sure that they are fully aligned with our vertical go-to-market approach, that they drive very strong synergies, and they increase our strategic positioning for the company moving forward.

Rodrigo Guzman
Nic, only to add to your first question in relation with caustics, during the first quarter, our derivatives business and our caustic and chlorine business, which is basically based on caustic and chlorine, only represents 5% of our total revenues, of our total EBITDA or 10.9% of our Vinyls compounds EBITDA. So, it's not so relevant for us at this point, except as I mentioned, in the cracker.

Nicolaj Lippmann
Thank you very much.

Daniel Martinez-Valle
Thank you.

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

Vanessa Quiroga
Thank you very much for the call and congratulations on the results. The first question that I have is regarding the Fluent performance. Can you explain why it was weak for Latin America in the first quarter and driving to a 5% year-over-year decline for that region in specific. And the second question that I have is if you could provide more details on the performance in Fluor. What were the one-offs that drove volumes and pricings so much and how much should this normalize in the coming quarters? Thank you.

Rodrigo Guzman
Yes, the first, how are you? It's Rodrigo, Vanessa.

Vanessa Quiroga
Hi Rodrigo.

Rodrigo Guzman
Hi, how are you? In the case of LatAm, this is the first quarter after the last quarter of 2016 in which EBITDA grew due to LatAm. It grows 2.6%. The main issue is that we record the CADE impact, which was for $14 million and also Netafim acquisition expenses for $4 million, so $18.8 million at one time. If you exclude those amounts from the LatAm business, then you get the 2.6% growth, which is good news for us because if you remember during the last year, in each quarter we declined EBITDA, first quarter, second quarter, up to fourth quarter. So it is good news.

The recovery comes basically from Mexico and Brazil, and the rest of our Latin American business it is going okay, and that's what I can say from LatAm. To the case of Fluor, basically we have a reaction in the European market in refrigerant gases because this year, there is an expected increase in the environmental regulation. And that creates an overreaction of the market and that increase the prices and so aggressively. That's basically why we have a very good downstream result during the first quarter. In the case of metspar or upstream, you should remember that we have been working very hard in order to focus our efforts in metspar to cement industry due to the barriers to entry in that market. And that's from where we receive the highest growth in production.

Vanessa Quiroga
Okay, that's very clear. Can I have another question about Netafim? Daniel, could you repeat what you said about synergies. I may have missed some of the details that you provided regarding the synergies that, or the growth that you are expecting for Netafim and if you think that at this point you can increase EBITDA guidance for the consolidated Mexichem in 2018?

Daniel Martinez-Valle
Yes, so let me restate what I said, Vanessa, hi. So basically, we continue to see EBITDA for 2020 for Netafim at $200 million. If and when we start seeing as the year moves along, positive signs, we may be able to raise that bar. In terms of synergies, what we expect is to have around $20 million of synergies to be realized during next year. We're ramping up that number as we move along throughout the integration process. But we are very, very positive about the prospects of the company and the tremendous opportunities that we're seeing, both in developed and in developing countries worldwide.

Rodrigo Guzman
Vanessa, it is important to mention that that ramp-up process is already included in our full-year guidance. So, in other words, for the full year, we have the number that Daniel says, but during this year we are going to be in the ramp-up process in order to get to those between $15 to $20 million. But everything, it's included in our guidance for this year.

Vanessa Quiroga
Okay, okay. That's, yes, maybe just a follow up on Fluor, just to have a better idea of how much the performance could normalize in the future quarters. Do you think that the

division as a whole could go back to 40% margin for the full year and, I mean, what quarter of last year could be a better reference of what we could expect for the coming quarters? Thank you.

Rodrigo Guzman
Okay. In relation with downstream, as I mentioned, it's an issue for the first quarter only, for this first quarter only. Why? Because as I mentioned, the more restrictive environmental regulation happened in the first quarter. And that's why we have picked up in the year the prices of refrigerant gasses in Europe will be normalized, because it was an overreaction of the market in this first quarter. In the case of the metspar and upstream, we believe that we will maintain the level of demand from the clients we just have. I want to let you know in this first quarter the demand of metspar for the cement industry was, it increased 58%. So, it was relevant. And we believe that we can maintain that volume along the year.

Vanessa Quiroga
Okay. That's useful color. Thank you both. Thank you.

Daniel Martinez-Valle
Thank you, Vanessa.

Operator
The next question comes from Luiz Carvalho with UBS. Please go ahead.

Luiz Carvalho
Hi Daniel, hi Rodrigo. Thanks very much. I have maybe three questions here and then if I may come back to your comment on the strategy and I just would like to put some numbers on that. You mentioned about capital allocation and of course focus on customers and so on, but talking about returns and profitability and leverage, ROE improved, we saw ROIC at quite sustainable levels over the past couple quarters, and leverage, as you mentioned, should start to drop with Netafim integration. So I'd like to get a better sense what you feel would be the ROIC and ROE levels you believe you would be able to reach within the next two years, assuming that leverage will be, I would say, below the company target of 2 times. So that's the first question.

Second question, also I would like to come back to one of your comments, talking about Netafim EBITDA guidance of $200 million by 2020. If you basically reconciliate the numbers that you presented, of $103 million of Fluent adding by the $18.8 million of CADE plus the $5 million of FX, I would reach to a total EBITDA of the Fluent segment of around $137 million. And you basically mentioned that organic growth, so I would read that as ex Netafim reaching 93, which would give us $33, $34 million for two month's contribution from Netafim in this quarter. If we basically, sort of for a full quarter, Netafim contribution for a full quarter would be $50 million, which basically exactly puts you in line with the $200 million that you mentioned before. I just would like to see if that number of $200 million is considering the $20 million synergies or if that number is a conservative number that potentially gets to $220 something by 2020. And the third question is basically related to the guidance review. I mean, first quarter was really strong, above our expectations and consensus, and so, could you expect a review of the guidance by the second half of the year? Thank you. Second quarter of the year? Thank you.

Daniel Martinez-Valle
Thank you, Luiz, for your questions. Regarding capital allocations, return on invested capital, and leverage, we expect to finish year end with a return on invested capital around 9. We expect to, as we said when we said at our close and acquisition of Netafim to take down our net debt to EBITDA level to 2 times by the end of this year, and we're well underway in terms of achieving those two targets. In the longer term, regarding return on invested capital, I would say that in the next couple of years our internal objective is to reach low double-digits ROIC figures.

Regarding your second question around Netafim, we have incorporated the $20 million synergy for 2018, for 2019 that I mentioned in my introductory statements and in answering Vanessa's question. We are aware that the $200 million EBITDA figure for 2020 might seem a little bit conservative, given the tremendous opportunity that we see ahead for the company and that you guys see ahead for this company. And again, as per my previous statement, as we move along in the integration process we're hopeful to raise that bar.

Luiz Carvalho
Okay. Thank you. And related to the guidance review, by second quarter?

Daniel Martinez-Valle
I mean, it's very important to consider the two factors that were extraordinary in the first quarter of this year, both in the Fluent side and then the Fluor side. One is associated to Netafim, the other is associated to factors that were described on the downstream side of our Fluor business by Rodrigo. We would caution you not to extrapolate the figures out for the rest of the year. At this point in time we don't see signals that should make us move our guidance to where it is today. Let us move and let us see how the rest of the second quarter evolves, but at this point in time were sticking to our guidance.

Luiz Carvalho
Okay, perfect. Thank you very much.

Daniel Martinez-Valle
Thank you, Luiz.

Operator
Thank you. The next question comes from Frank McGann with Bank of America Merrill Lynch. Please go ahead.

Frank McGann
Yes, good day. Thank you very much. Just in terms of volume trends. I was wondering if you could talk about the, maybe regionally in the Fluent business exactly what you're seeing in terms of overall volumes? Secondly, in terms of the insurance recovery, just, exactly what is the timing of when you receive the payments? And then, in terms of the growth that you're talking about from irrigation urbanization, which of course, has from the beginning been a key driver here, I think, in Netafim particularly. What, who do you actually deal with mostly? Is it mostly with governments who are planning infrastructure projects? Are you dealing mostly with the private sector? Or, I assume it's some sort of combination. But exactly how does the sale process work as you grow that business?

Daniel Martinez-Valle
Thank you. So let me take the final last one of your four questions first. In terms of Netafim, it's definitely driven by the ruralization trends and by the food scarcity issue that we will be facing globally for the next 30 to 40 years and also related to the water scarcity. It's actually a combination of both private and governments. We have huge private sector-led transformational projects on the agricultural side and there is a few government-related in which we work with private channels or private companies that work as partners to Netafim throughout the implementation processes. Regarding the volumes in Fluent and the specifics on the insurance payments, let me turn it to Rodrigo.

Rodrigo Guzman
Okay, in terms of insurance recovery, Frank, we expected to receive the money at the end of this month. The agreement was signed on April 16th and that agreement says they should pay no longer than 30 days after the signing of that business. In the case of Fluent business, it depends on the region. In Europe, you have to remember that we are not selling products, we are selling solutions. And within the solutions, it's not only about products, it's about engineering, about systems, about many things. That happened in Europe. If you are talking about Latin America, that is more guided by products and then volumes are irrelevant. Volumes have been recovering, as I mentioned in my speech, basically Mexico and Brazil, and, sorry, and [unintelligible]. We are seeing better volumes this quarter and we expect to see much more better volumes in the near future.

In the case of the US and Canada, volumes do not represent too much because, as you may know, the pipe they produce is so light, so even when they increase the production in that pipe, the volume is not so relevant. You should remember that volumes are measured in tons, so as they increase their future plant production, the profitability of the business increases but not in the same relation as volumes. So, and also they are selling solutions. In the case of Netafim, roughly everything is solutions. So volumes from them is not so relevant.

Daniel Martinez-Valle
And just to complement on the last of your four questions, Frank, you mentioned both the urbanization driver as well as the ruralization driver. It's very important for everyone on the call to consider that the urbanization drivers are key for Fluent's business ex Netafim, namely Wavin, Amanco, and Dura-Line as well. And we have significant positioning that are associated to other business groups within Mexichem that are also associated to this organization's strength, such as our specialty resin business and our compounds business that serves the wire and cable and datacom spaces as well.

Frank McGann
Okay. Thank you very much. Very helpful.

Daniel Martinez-Valle
Thank you, Frank.

Operator
The next question comes from Eduardo Altamirano with HSBC. Please go ahead.

Eduardo Altamirano
Thank you, gentlemen, for taking my question. Basically, what I wanted to say is we're seeing a lot of development within the ethylene capacity in the US and if not the world in

general. In terms of any visibility that you might have, how do you see this kind of playing out over the next two to three years in terms of raw materials, costs, locating in terms of natural gas for you and also how this would potentially affect your margins if you have any sort of pricing power to be able to pass this through?

Daniel Martinez-Valle
Thank you, Eduardo. We don't actually expect major changes in the performance of the ethylene market in the US. We basically see current performance behaving in the same way throughout 2021 basically.

Rodrigo Guzman
Yes, I want to complement that answer. According with IHS, which is the best company which forecasts these kind of things, they believe that methane today, there is an oversupply in the US and that, even when many type of crackers are going to come on line, they do not believe that the price in methane will go up so aggressively. They in fact, they believe that the prices of PVC and the prices of ethylene could move faster than the ethane prices.

Eduardo Altamirano
Thank you. Okay. Another, I appreciate that. In that vein as well, basically a lot of this capacity is coming from the oil majors. There has been chatter of these groups looking at some sort of downstream assets. Mexichem has historically been an acquirer rather than a target, but however, would there be an open opportunity for this to happen and would management be open or to kind of entertaining any offers by outside parties?

Daniel Martinez-Valle
So, related to the answer to Nic's question, we are going to be driving value out of the existing asset base within Mexichem and that asset base includes our downstream business, our upstream business. We have phenomenal assets, both on the upstream side and on the downstream side. We have very, very interesting products that will drive significant growth both on the ruralization side and then the urbanization side. We have a few additional spaces on the automotive space as well as in the medical space, but at this point in time, our keen and strong focus will be to deliver value and to increase return on invested capital with our existing asset base. We have a significant runway going forward, and we see tremendous opportunity associated with our existing asset base. Having said that, if there's small assets that do not fit within the strategy and within this capital allocation policy, we may at some point at the right price divest, but we're very strongly committed to our major assets both within our downstream business and our upstream business.

Eduardo Altamirano
Understood. Thank you very much. I appreciate it.

Daniel Martinez-Valle
Thank you.

Operator
The next question comes from Pedro Medeiros with Citigroup. Please go ahead.

Pedro Medeiros

Hi, good morning guys. Congratulations on the results and thanks for taking the questions. I think most of mine were already answered, so I have a couple more objective questions here. The first one, and based on the comments made regarding the demand trends for the Fluent business in terms of organic growth this year, are we at a point, or do you envisage a point of which you would consider turning back on any of the facilities that were hibernated over the past few years? My second question is related to working capital. So, we have had the integration of Netafim. There were a couple of one-off events regarding price and volumes in the course of the business in the first quarter, but I just wanted to understand your view towards working capital consumption in this year and whether there are any potential efficiency gains we could expect coming out of that line as well. My last question is I know you have discussed Netafim on previous questions, but can you actually share if possible how is capacity utilization today in Netafim and how will Capex work for that business going forward, maybe with a two- or three-year outlook? Thank you.

Daniel Martinez-Valle
Well, let me take the first question, Pedro. Basically, we do not expect to take the [unintelligible] plants into full operation. We have sufficient capacity utilization going forward to address the customer needs within our expectations and within sort of the numbers that we have in our budget. We actually have tremendous opportunity to really drive synergies associated to Wavin products in places where we're not operating commercially today. Same thing for Amanco and the same thing would go for Dura-Line and for Netafim. Let me pass it on to Rodrigo for the working capital question and then I'll take the Netafim question.

Rodrigo Guzman
Yes, only to complement Daniel's answer, you should remember that we closed some plants in Europe, when we took over them, and many of them are already sold, so we have not a possibility to start up again those plants. All of the asset base we have today, as Daniel mentioned, is enough to cover with the future demand that we expect. If there is an extra demand, then we can take it into account if we wanted to invest in new plants or not. In terms of working capital, we expect that this year, working capital would increase $100 million from the number we had at the end of the year of the last year, and that is including our cash.

Daniel Martinez-Valle
Regarding the Netafim question and the capacity, as we see capacity today and the opportunity that we face moving forward, let me remind you, Pedro, and all on the call. Today Netafim has 17 plants that are operating at very good capacity levels. We're serving customers across 110 countries globally. Having said that, we are making some small investments to increase capacity in relevant countries such as Brazil, Turkey, and Mexico, to serve both Mexico and the US market. Our key markets for Netafim are included in the list that I just mentioned, Brazil, Turkey, Mexico, the US, and we're very keen on sort of capturing the opportunities that we're seeing today with significant projects in places like India, China, and some specific countries in the Africa region.

Pedro Medeiros
Okay. And maybe this is just like a silly follow up. And regarding the capacity of Fluent, I thought, and maybe I'm wrong on this, that you had hibernated capacity in Brazil in the past, in the recent past. Can you just confirm that?

Rodrigo Guzman
As we mentioned, back in 2014, 2015, we closed plants there. Those plants are not longer inside the company. The plant we have had enough capacity to cover what we expect from the demand in the near future.

Pedro Medeiros
All right. Okay. Thank you so much. Now understood. Okay. Thank you. Thank you for taking the questions, okay? Congratulations once again.

Daniel Martinez-Valle
Thank you so much, Pedro.

Operator
Ladies and gentlemen, once again if you would like to ask a question please press star (*), then one (1).

The next question comes from Damien Midot with BNP Paribas. Please go ahead.

Damien Midot
Hello, thank you for the questions. I had a quick question regarding the investigation of the authorities. I would like to know if you already received the conclusion on that and if perhaps you can share it with us? Thank you.

Rodrigo Guzman
It's, so it's about PNV?

Damien Midot
Yes, yes. Exactly. PNV, the accident.

Rodrigo Guzman
Yes. As I mentioned in my speech, all of the authorities have concluded except the environmental one. They already concluded it was an accident and no one is blamed for that accident. And in fact, that is the basis of the settlement we have with the insurers. So the insurance settlement also is proof that this was a terrible accident.

Damien Midot
Okay, thank you.

Operator
Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference aback over to Daniel Martinez-Valle for any closing remarks.

CONCLUSION

Daniel Martinez-Valle
Thank you, operator. Thank you all for joining the call and thank you for all your questions. Let me just finish by giving a big thanks to all the employees at Mexichem that made these extraordinary results for Q1 possible. We're very much looking forward to the rest of the year. Again, we're seeing very interesting opportunities for all our businesses within all our regions, and we look forward to our next call. Thank you all.

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