Orbia

Third Quarter 2022 Earnings Results

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CORPORATE PARTICIPANTS

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Sameer Bharadwaj – *Chief Executive Officer*

Jim Kelly – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to Orbia's Third Quarter 2022 Earnings Conference Call. As we turn to slide 1, 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, press star then two. Please note that this event is being recorded.

I will now turn the conference over to Gerardo Lozoya, Orbia's Investor Relations Director. Please go ahead, sir.

Gerardo Lozoya
Thank you, operator. Good morning, and welcome to Orbia's third quarter 2022 earnings conference call. We appreciate your time and participation today. Joining me today are Sameer Bharadwaj, CEO; and Jim Kelly, CFO.

Before we continue, a friendly reminder that some of our comments today will contain forward-looking statements based on our current view of our business and actual future results may differ materially. Today's call should be considered in conjunction with cautionary statements contained in our earnings release and in our most recent Bolsa Mexicana de Valores report. The company disclaims any obligation to update or revise any such forward-looking statements.

Now I would like to turn the call over to Sameer. Sameer?

Sameer Bharadwaj
Thank you, Gerardo, and good morning, everyone. I would like to take this opportunity to thank our 23,000 dedicated employees. Though our teams are spread across the globe, they are unified by our common values and driven by our purpose to address the world's toughest challenges.

Now turning to slide 3, I would like to share a high level overview of our third quarter 2022 performance. Orbia had a challenging third quarter due to ongoing macroeconomic turbulence, including effects from the war in Ukraine, increased input costs, inflation, the energy crisis in Europe, COVID lockdowns in China and unfavorable currency translation. This resulted in lower profitability for the quarter with decreases in Polymer Solutions, Building and Infrastructure and Precision Agriculture partially offset by strength in Fluorinated Solutions and Connectivity Solutions, which was previously referred to as Data Communications. Orbia continues to demonstrate resilience in its businesses and maintains a very strong balance sheet with robust long-term fundamentals for its business.

Revenues for the quarter totaled $2.3 billion, which were roughly flat compared to the prior year and EBITDA totaled $381 million, decreasing 28% compared to the prior year. Our EBITDA margin of 16.6% declined by roughly 660 basis points. Finally, we generated $101 million of free cash flow, which improved by $11 million from the prior year, reflecting effective working capital management which more than offset lower EBITDA, an increase in capital expenditures and higher taxes paid.

Despite the near term headwinds, Orbia continued to execute on its long-term strategy for value creation, as outlined at our Investor Day in May, with three key focus areas: investing in profitable growth and innovation, maximizing the value of integration and creating shareholder value by being thoughtful stewards of capital and disciplined operators.

To that end, I would like to highlight a few key steps we took during the quarter as we continue to invest through the cycle for long-term growth. Our connectivity solutions business Dura-Line acquired Biarri Networks, a leading technology-enabled service provider specializing in fiber optic network design solutions. This strategic acquisition facilitates expansion into customized network solutions that offer improved scalability, reliability and efficiency, as the business broadens to a full suite solution service provider.

Our Building and Infrastructure business Wavin acquired Bow Plumbing Group, a leading North American manufacturer of plastic pipes and fittings for the residential and commercial construction industry. This acquisition strengthens and extends Wavin's presence in North America through both commercial reach and deep understanding of this important market, as well as its reputation for excellence in plastic pipes and fittings.

Building and infrastructure also broke ground on a greenfield site in Indonesia with the President of Indonesia, his Excellency, Joko Widodo himself leading the ceremony, underscoring the importance of our investment to the Indonesian economy.

Our Fluorinated Solutions business, Koura received a $100 million award from the U.S. Department of Energy as part of the first set of projects funded by the President's bipartisan infrastructure law to expand domestic manufacturing of batteries for electric vehicles and materials and components currently imported from other countries. The $100 million award will be combined with an additional investment by Koura to construct and start up a dedicated LiPF6 process line.

In addition, our Orbia ventures investment, Ascend Elements, also received two grants from the Department of Energy totaling $480 million for the production of sustainable lithium-ion battery cathode materials made from recycled batteries. Orbia is also partnering with Ascend Elements on further innovation in the recycling of battery materials. Orbia has also backed the company through several investment rounds. We remain committed to creating value and remaining resilient through economic cycles as we implement our long-term strategy.

At this time, I will turn the call over to Jim to go over our financial performance in further detail.

Jim Kelly
Thank you, Sameer, and good morning, everyone. Turning to slide 4. On a consolidated basis, net revenues were $2.3 billion, roughly flat year-over-year, with higher sales in Connectivity Solutions and Fluorinated Solutions offset by lower sales in Polymer Solutions, Building and Infrastructure and Precision Agriculture. The foreign exchange impact on revenue during the quarter was $163 million. Excluding this impact, revenue increased by approximately 7% year-over-year.

EBITDA of $381 million was down 28% year-over-year, driven by higher input costs, lower volumes in certain segments and currency headwinds, partially offset by higher profitability in Connectivity Solutions and Fluorinated Solutions. EBITDA margin was 16.6%, reflecting a decrease of approximately 660 basis points. The foreign exchange impact on EBITDA during the quarter was $18 million.

Operating cash flow and free cash flow were $225 million and $101 million during the quarter respectively, reflecting effective management of working capital, which more than offset an increase in capital expenditures and higher taxes paid. Capital expenditures of $118 million were up 63% in the quarter compared to the prior year, including ongoing maintenance spending and investments in support of the company's growth initiatives.

We closed the third quarter with net debt of $3.3 billion and our net debt to EBITDA ratio was 1.57 times. The increase from the level of 1.39 times at the end of the second quarter reflects approximately $150 million in short-term borrowings that we executed during the quarter as well as the impact of lower EBITDA in the quarter as compared to the comparable period in the prior year.

Our effective tax rate for the quarter was 18.9%, which is a decrease of approximately 1,010 basis points compared to the prior year period. This was largely driven by a tax benefit related to foreign exchange losses and the release of valuation allowances, partly offset by the tax effect of an adjustment for inflation in Mexico. We continued to return cash to our shareholders during the third quarter in the form of dividends and share buybacks. Dividend payouts totaled $75 million while share buybacks totaled $16 million.

Turning to slide number 5, I'll go through our quarterly performance in more detail by business. In Polymer Solutions, revenue was $837 million, a decrease of 8% year-over-year, largely driven by lower volumes reflecting softening demand and lower prices in general resins due to increased availability of low-cost supply in key markets. COVID lockdowns in China resulted in a slowdown in domestic consumption and large exports to other parts of the world depressing prices.

In addition, high prices for caustic soda have encouraged U.S. operators with integration into both caustic and PVC to operate at high rates. This results in increased supply of PVC and we're seeing higher U.S. exports at lower prices while domestic prices remain stable. This was partially offset by higher prices in specialty resins and derivatives. EBITDA of $117 million was down 62% year-over-year due to lower volumes as well as higher feedstock costs, particularly in Europe. EBITDA margin decreased approximately 1,940 basis points to 13.9%.

In Building and Infrastructure, revenues of $700 million were down 7% compared to a strong prior-year quarter, driven by lower volumes, particularly in Europe due to destocking of inventories in the customer value chain as well as the impact of currency devaluation. EBITDA was $70 million, a decrease of 34%, with a margin of 9.9% down approximately 415 basis points year-over-year. This was primarily driven by the decrease in volumes, continued input cost increases and currency depreciation, partly offset by solid pricing.

Turning to Precision Agriculture, revenue was $224 million, a decrease of 17% year-over-year, primarily due to a slowdown in demand in most markets, except for Latin America, Turkey and China. The slowdown in Europe was directly related to economic weakness related to the war in Ukraine and high energy costs affecting key market segments. In the United States, the slowdown was partly related to destocking in the customer value chain after inventory buildup in the first half of the year.

EBITDA of $12 million was down 64% year-over-year driven by lower demand, higher raw material and transportation costs, as well as currency devaluation. In addition, the adoption of accounting standard IAS 29 related to hyperinflation in Turkey had a cumulative year-to-date negative impact of approximately $9 million, or 400 basis points for the quarter. EBITDA margin, including the impact of IAS 29, was 5.4%, a decrease of approximately 690 basis points compared to the prior year period. Excluding the hyperinflation impact, the margin was 9.4%.

Connectivity Solutions achieved strong performance this quarter, with revenue of $368 million, a 35% increase year-over-year. Revenues increased primarily in North America, supported by our investments to increase production capacity along with the growing need for fiber infrastructure combined with favorable pricing. EBITDA of $104 million increased 214% year-over-year, with a margin of 28.3%, an increase of approximately 1,615 basis points year-over-year. This significant EBITDA growth was due to higher revenues combined with the stabilization of material costs.

In Fluorinated Solutions, revenue was up 30% year-over-year at $223 million, primarily due to strong pricing across our product portfolio, including upstream minerals, chemical intermediates and downstream products such as refrigerants and propellants. EBITDA was $78 million, an increase of 49% year-over-year, with a 35% EBITDA margin, an increase of approximately 445 basis points year-over-year. Increased EBITDA was driven by revenue growth, improved pricing and a better product mix, which helped to offset higher input and logistics costs.

In summary, our team continues to navigate the ongoing macroeconomic turbulence by remaining focused on commercial and operational excellence, as well as diligent cost management.

I'll now turn the call back to Sameer.

Sameer Bharadwaj
Thank you, Jim. I'm on slide 6. Given the challenging macroeconomic environment, we are continuing to exercise strong financial discipline. We always take an owner's mindset in managing costs, but we have been even more diligent during this period to conserve cash and to maintain a strong balance sheet to support our future growth.

At our Investor Day in May, we elaborated on our strategy for value creation, and I want to take some time to provide an update on how each business has been executing from a position of strength to attain our long-term goals. We continue to believe in the resilience of our businesses over time and are balancing the short-term needs to closely manage costs with our long-term commitment to grow the businesses and create value for both customers and shareholders.

Starting with Polymer Solutions, the team has been actively working to optimize our production volumes to reflect the temporary market softening in the case of general resins while maximizing derivatives production to take advantage of the positive market environment for those products. We continue to believe that the supply/demand environment will be tight over the long term and we are placing the activities associated with our intended capacity expansion to balance near-term and long-term priorities.

The business case for capacity expansion remains attractive given our conservative assumptions. Currently, the teams are working on engineering and capital cost optimization and the key decision point for beginning significant capital commitments for the 2024 to 2026 timeline will be towards the end of 2023. We retain the ability to time our investments with a close eye on evolving market conditions.

In Building and Infrastructure, the integrations of Vectus in India and the newly acquired Bow plumbing in North America are ongoing. We have continued to see momentum for our fully integrated indoor climate systems as well as our urban climate resilience program and are seeing increased interest in our value-added services such as our innovative building information modeling package.

Wavin also accomplished the acquisition of MetroPolder, a Dutch startup that will add specific expertise and solutions for urban flood control, taking the business closer to its goal of closing the water cycle in cities and making cities future proof. Lastly, Wavin announced the construction of a new production plant in Indonesia to provide the Asia Pacific region with sustainable sanitation and water management solutions.

In Precision Agriculture, the team is focused on implementing growth projects in target geographies to support market demand in the coming years as long-term market fundamentals remain strong globally. We continue to expand our growth and penetration in extensive crops such as corn, rice and cotton.

In Connectivity Solutions, we focused on deepening our customer relationships by providing specialized product and service offerings supported by the recent Biarri acquisition, which will bolster the long-term growth of the business. Additionally, during the quarter Dura-Line announced the construction of three new production facilities across the U.S. and Canada in order to meet growing demand for fiber optic network infrastructure.

Finally, in Fluorinated Solutions, our team's innovation was recognized at the 2022 cooling industry awards, where our refrigerant, Koura Klea 473A won the Refrigeration Innovation of the Year Award. Klea 473A is a high performance refrigerant with a significantly lower global warming potential than existing refrigerants in ultra-low temperature cooling applications such as vaccine storage. We continue to advance our efforts in the energy storage market as we have continued discussions with potential partners to address this high growth market.

Now on slide 7, we remain fully committed to supporting a sustainable future by progressing our science-based commitments to net zero and beyond, by helping our customers achieve their own sustainability goals through our products and solutions. As part of the sustainability strategy detailed at Investor Day, we have stayed focused on developing detailed roadmaps to meet our long-term commitments while making progress across our three key sustainability pillars: low impact operations, sustainable solutions and impactful ventures.

As part of our efforts to achieve low impact operations, our Polymer Solutions business Vestolit started a partnership to divert calcium carbonate from landfill, reducing Orbia's total waste sent to landfill by approximately 25%. Our Wavin site in Sweden started the installation of 4,000 meter square of solar panels that will contribute to reducing Scope 2 greenhouse gas emissions.

As part of our Sustainable Solutions efforts, Vestolit began to see its PVC recycling projects gain traction with customers and has just unveiled its future fit PVC range, while Wavin continued to expand its use of recycled materials and water solutions for buildings and cities and began to offer verified lifecycle assessments for customers in EMEA. Also Netafim just opened Mexico's largest agricultural plastic recycling facility in Culiacan, Mexico.

In addition to offering customers in one of its top five markets the option to give driplines a second life, the plant will incorporate a water recirculation system in all processes, affordable take setup for 100% clean energy source and a state of the art laboratory to ensure the strictest standards in the manufacturing of drip irrigation line.

Supporting a sustainable future also guides the way we invest. Orbia participated in the most recent funding round of Ascend Elements in line with our strategy of investing in impactful ventures. At the Investor Day meeting in May, Orbia committed to supporting an initiative related to our corporate social responsibility strategy by making a gift donation of $50,000 on behalf of the investors. We are pleased to share that 160 young Mexican girls will attend UNICEF’s STEM Boot Camp in the following months.

I will now turn the call back to Jim to discuss our full year 2022 outlook and business assumptions.

Jim Kelly
Thank you, Sameer. Turning to slide 8 and our 2022 outlook, based on our year-to-date performance and ongoing macroeconomic uncertainty, we are reaffirming our previously established guidance. Our assumptions remain largely unchanged from the information communicated in our last earnings call. We anticipate full year EBITDA in the range of $1.8 billion to $1.9 billion, trending towards the high end of the range, with a tax rate between 29% and 32% and capital expenditures in the range of $400 million to $450 million.

For the remainder of the year, we expect to see additional impacts to our results from the challenging macroeconomic environment. We are being proactive in managing costs and cash under the current circumstances. However, our business has proven to be resilient through economic cycles and we're staying diligent and focused on balancing short-term needs with executing our strategy and delivering long-term value to our shareholders and customers.

Beginning with Polymer Solutions, lower PVC prices driven by short-term excess supply may continue until recovery in China and cooling of the caustic markets. This may cause continued pressure on general resins margins in the near term, while specialty resins markets are expected to be stable and the derivatives business is expected to remain strong.

In Building and Infrastructure, softening demand is expected to continue as a result of geopolitical uncertainty, particularly in our European markets, and unfavorable currency translation is expected to continue to impact results. These impacts may be partly offset by benefit from sales of lower cost inventories and continued success in higher value added applications.

In Precision Agriculture, the macroeconomic environment and high energy costs are expected to continue to impact demand.

In Connectivity Solutions, we expect growth in North America will continue to be driven by demand for additional bandwidth, fiber connectivity and the adoption of or conversion to advanced products continuing the tight supply/demand environment for our products.

And finally in Fluorinated Solutions, demand is expected to remain strong in our downstream sectors, with continued strong pricing from refrigerants and medical products offsetting increased input costs.

Operator, we're now ready to begin the question-and-answer session.

QUESTIONS AND ANSWERS

Operator
Thank you. At this time, we will begin our Q&A session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

And the first question will come from Nik Lippmann with Morgan Stanley. Please go ahead.

Nik Lippmann
Thank you very much. Good morning, thanks for taking my question. I have three questions, if I may. First a bit on Netafim and what's going on in that market, clearly breaking I think the trends that we've seen of some growth. And it appears, it may be early stage, but it appears that they are losing share in irrigation versus peers. Can you provide a bit of color on what's happening or to what degree this is maybe a higher cost of capital for farmers and it’s affecting decisions if it is, in fact potentially market share loss? So that's question number one. Just more color on what's going on with Netafim.

The second question, and congratulations on that DOE award. As far as we understand from the DOE announcement, you guys are committing about $300 million to that, and thanks for providing more color. Could you provide a little bit more information about how should we think about this business model, what is it that you have in terms of IP, your patents, and then what is the timing of the rollout of this business model?

And then finally, thanks for providing more color on that FID on the PVC expansion. If I could ask, is it related to the choice of partner, is it permitting or something else that is causing the small delay in that decision? Thank you very much.

Sameer Bharadwaj
Nik, good morning, and thanks for your questions. Let me start with Netafim. What I can clearly say is that we are not losing market share. This is economic weakness, particularly in Europe, right? And it's driven by the war in Ukraine and the resulting softening in demand. And specifically with the high energy costs, it's impacting our significant traditional business sales to greenhouses, drip irrigation lines to greenhouses, when many of these have slowed down or shut down because of the high energy costs, and that has impacted our business in Europe.

We've had some other country-specific issues in some countries, with some delays in start-up business in India. In the U.S., we had a very strong quarter in the first half of the year and what we're now seeing is dealers are pausing and waiting to see in which direction the world goes. And so it's essentially a pause in buying behavior waiting to see what happens. Having said that, we are seeing good adoption in commodity crops in the U.S. and so we hope to see that trend continue. we've had strength in our Latin American markets in Netafim and we have very good strength in Turkey and China in Netafim. We've had some challenges in Australia due to floods.

So it's a number of factors that have come together to affect Netafim's performance in this quarter. What I would like to emphasize is our long-term fundamentals are intact. And so we remain committed to our growth platforms, which are basically enabling the penetration of drip irrigation in extensive crops, expanding our services business model, expanding our digital offering and then when the markets are better, the pent-up demand for greenhouse solutions. So hopefully that addresses your concerns on Netafim.

Let me talk a little bit about our efforts in battery materials. So the announcement you saw is a very landmark announcement. The United States has created the American Battery Materials Initiative and they are investing $2.8 billion in 20 companies that will help localize the North American battery supply chain. Two hundred companies applied for these grants and only 20 companies were selected, with Orbia's Koura business being one of them.

Now the reasons for this are manyfold. We have an existing footprint in North America with our mine in Mexico, our HF plant in Matamoros and a supply line of HF to Saint Gabriel, where we produce refrigerants, and that is where we plan to do the LiPF6 investment. In terms of technology, we've been working on acquiring access to technology for the last couple of years now, and I will not be able to share more details about that at this time for competitive reasons, but look to hear more about that in the coming months.

In terms of the investment required, the numbers that you see in the DOE announcement reflect both our contribution in cash in kind. Now, note that this is a brownfield investment in Saint Gabriel, so there's a lot we already bring to the table that counts towards our investment, and so we'll share more details about that as we go forward.

I would like to remind everyone the critical importance of fluorinated materials and lithium-ion batteries, and we've talked about this on Investor Day, and we intend to participate in LiPF6, the electrolyte salt. There are fluoropolymers that go into the cathode that we are interested in and there are a host of other additives that we are working on as well. And you'll hear more about these as we go along.

I would also like to share that our investment through Orbia ventures in Ascend Elements. And our

Ascend Elements has won $480 million of the Biden administration grant and they're focused on recycling of battery materials and we are also collaborating with them on innovation with respect to recycling of battery materials.

Now your third question is about the PVC expansion. So let me first, and I'm sure many of the other investors on the call have a similar question about PVC and it's important to understand what is happening in the market before I talk about the investment. PVC prices more than doubled in the last 24 months and so before we understand why PVC prices go down, it's very important to understand why they went up.

Now this industry has been historically under invested in and capacity additions lack demand growth for the past decade. Right after COVID, we had robust demand recovery and actual operating rates are significantly higher than industry capacity utilization figures indicate. So if nameplate utilizations, Nik, as in your reports you have quoted as to 82%, if that's the case, then there's no reason prices should double. The reality is much of that capacity on the far end of the spectrum doesn't exist and the industry was operating at very high utilization and then we had a series of forced measures and shutdowns that took out about 4% of world capacity, about 2 million tons, and that was enough to make prices double.

Now, what happened in the third quarter of 2022? So we have some slight demand softness on recession fears and the effects of the Ukraine conflict, but that's not the big factor here that's playing out in the reduction of PVC prices. It's the supply shock, particularly from COVID lockdowns in China, and the high pricing in caustic soda in the chlorovinyl chain in the U.S. which is leading operators to run at very high rates. And so the chlorine needs to find a home, it finds its home in PVC, and that PVC is exported at very low prices.

And so you can see that if you look at the external data, China, which typically exports about 200,000 tons a quarter was exporting 800,000 tons a quarter in the last quarter. Now, thankfully, that is now trending downwards. In the U.S., the U.S. historically exports about a million tons a year and you're seeing significant increases in exports as they operate the caustic capacity at high rates. So, in terms of the PVC prices, it's a short term supply shock that has made the prices go down and we expect stabilization once China [audio drop] the caustic markets.

Now coming back to the investment, I would not categorize that as a delay, Nik. This is our original timeline. It's a five-year project, and you don't turn these projects on and off on a dime. Our long-term fundamentals are absolutely intact. We have been very conservative on our business case right from the beginning. Our price assumptions for PVC and our business case are in less than less than $1,100 a ton, and so that was completely independent of prices doubling over the last couple of years.

And if anything, with caustic prices going up, our model looks actually better. And the timeframe that we're looking at, if you look at the fundamental supply and demand, and even your numbers show that, Nik, that it gets even tighter as we go into the '27, '28 timeframe. So in any case, our decision point, right now we're focused on value engineering, optimizing the capital cost, working on local state incentives. And once the engineering is done by September of next year or October of next year, that was the original timeline for a final decision, and at that point, we will evaluate what the market conditions are like. And we have the ability, if we choose, to delay the investment, we could think about six months to nine months delay at that point of time.

So hopefully, that addresses your questions, and maybe a lot of other analysts and investors on the call.

Nik Lippmann
Very clear. Thank you very much, Sameer.

Sameer Bharadwaj
Thank you, Nik.

Operator
And the next question will be from Diego Serrano from Credit Suisse. Please go ahead.

Diego Serrano
Hi, Sameer, Jim, Gerardo. Thank you for taking my questions. First, I wanted to ask about the potential strategies to limit cost pressures for PVC production. We have seen that in Europe some production capacity has been trimmed or reduced between 10% and 20% in the past month in order to cope with this margin contraction. So I know this is something you did during the pandemic, and so in that sense, is this strategy something you might consider with the current market trends?

Sameer Bharadwaj
Diego, thank you for the question. So let me explain what's going on in Europe. We have a fully integrated asset in Marl, Germany, where we focus our production on specialty resins, and there was a period of time, a couple of months ago, when the energy cost went up to as high as $700 a megawatt hour. And of course when energy prices go to those levels, you do think hard about shutting down for a few days and managing the cost.

Thankfully, I'm pleased to say that the energy costs have come back down to more reasonable levels. The $700 did not last for long. It's now back to $200 per megawatt hour range and compared to what historical prices were, in the range of $80 to $100 a megawatt hour, the incremental energy costs, we can pass that on to our customers because we are in specialty applications and we've successfully been able to do so. So hopefully that helps.

Now, of course we manage our utilization levels and optimize those for a variety of reasons, maintenance turnarounds, et cetera. But, since we are in the specialty business, we do have the ability to pass on certain energy cost increases to customers.

Diego Serrano
Okay, perfect. Thank you. And just another quick one. You mentioned these investments in production capacity for Dura-Line, so could you give some more color on those? Are these related to these three new facilities you mentioned when you talked about the strategy execution or are these extra?

Sameer Bharadwaj
Absolutely. So we talked about this at Investor Day, we see incredibly robust demand fundamentals in Dura-Line in North America and this is driven by the telecommunications infrastructure rollout plans related to rural deployment of fiber, 5G telecom, cloud computing, the hyperscalers, data storage and that continues unabated at this point of time. And in that context, we need to increase our capacity as soon as possible. And we are looking at three sites, one in Canada, and two in the western part of the United States. And then we have initiated the projects and they are well underway. So our risk right now is, can we get those projects done quickly enough to keep up with demand, which is a good problem to have right now.

Diego Serrano
Okay, perfect. Thank you.

Operator
The next question will be from Frank McGann from Bank of America. Please go ahead.

Frank McGann
Okay. Thank you very much. I was just wondering if you could just go into a little bit more detail in Europe in terms of demand. Are there particular countries that are more affected, are there some that have been a little bit more resilient? Just to see how that business has overall been performing. Also, maybe you could do the same in the U.S. in terms of what specific parts of the business might be stronger and weaker.

And then lastly, just in terms of the Turkey hyperinflation charge, part of that would be recurring, I assume. It's fairly small, but I was wondering if you could give us an estimate of the range of what we could expect if we were going to adjust that down and say what's recurring, what was related to prior periods, how much that would be?

Sameer Bharadwaj
Very good, Frank. Good to hear from you. We haven't spoken to you for a while. Let me start with Europe, it's a bit of a different picture in the different businesses. And so we're doing fine in Europe when it comes to Dura-Line and Koura business, but we've seen a slowdown in Netafim, absolutely, and this is a lot in the Netherlands because of the greenhouse business. We've seen a slowdown in Spain. We've seen a slowdown in Eastern Europe. And so with Netafim, it's a more broad slowdown across the board.

Wavin has seen a slowdown, but the thing is that fundamentally there's a shortage of housing in Europe. So the fundamentals are still intact. And if you look at Wavin performance in this quarter, much of the impact was related to the inventory revaluations and foreign exchange. So if you look at the $70 million they earned this quarter, when you correct for inventory adjustments and foreign exchange, we get back to $95 million. You add the impact of the Ukraine war, you're at $97 million to $98 million. And if we didn't have any volume impact, we would have been at $105 million. So hopefully that gives you a sense for the extent of the volume impact in Europe.

The volume impact is less in Latin America. So like I said, the Netafim business is doing fine, Wavin is also doing okay. In the United States, much of the impact we have seen is a pause in buying in the Netafim business. The company that we acquired, Bow Plastics, which is with Wavin, that's doing incredibly well in the U.S. right now. And Dura-Line, as you can see from the numbers, is doing very well. Koura is doing incredibly well in the U.S. as well. So, in specialty resins, those markets are stable. But that's the picture in the United States.

Jim, do you want to answer Frank's question on the hyperinflation in Turkey?

Jim Kelly
Sure. I'd be happy to do that. Thanks, Sameer. Thanks, Frank, for the question. So stepping back, Turkey has been a very good market for us and particularly in two businesses, both Netafim and Wavin, are active in that market, in particular, they're the ones with the highest volumes at least, and it's been a very good year for us in that business. So despite the fact that there's been high inflation and some exchange difficulties, et cetera, our underlying business has remained very strong.

In terms of the impact, so what you see in the quarter is there's a total of about $10 million. So $9 million of that is coming from Netafim, another million or so in Wavin, that is a year-to-date catchup, so a nine-month catchup. It's very hard to predict, honestly, what the future impacts would be. It will depend on what inflation and FX changes are in Turkey. So, you'll have to, I guess, go with either your own intuitions or what indices are saying one would expect for those adjustments in the future. You could start, I guess, by taking the nine month impact divided by three, and start with that and take it from there. But it will really depend on where markets go in the future, Frank. So I apologize. It's hard to be very specific about that.

Frank McGann
Okay. No, that's very helpful. Just if I could do one follow-up, in terms of the JV with caustic soda prices being stronger in the way that contract works, I'm just wondering how the profitability in Texas, how the profitability of that JV has perhaps benefited from that?

Sameer Bharadwaj
Frank, the way our arrangement works is, we have the joint venture, the JV with Oxy is a cracker JV, right? And so the cracker is doing fine. The cracker is doing very well. And in terms of the VCM that we get from Oxy, the caustic chlorine and chlorovinyl assets belong to Oxy. We do get some credit for the chlorovinyl participation, and that helps us lower our VCM cost. And in addition, we have our caustic and chlorine assets and [indiscernible], which we are now operating at higher utilizations because of the attractive pricing of both caustic and chlorine, which is providing us a hedge in that business. But that's how it works with the integration.

Frank McGann
Okay, great. Thank you.

Operator
And the next question will be from Fatima Benitez from Compass Group. Please go ahead.

Fatima Benitez
Hi. Good morning. I have two questions. The first one is, do you expect the same volume trends in Wavin, Vestolit and Dura-Line? Does this affect your mix and consolidated EBITDA margin? And the second question is, when do you expect to be at normalized EBITDA levels?

Sameer Bharadwaj
Fatima, thank you for your question. Let me take it business by business, right? Now in terms of volume in Wavin, the slowdown that we're seeing, hopefully that normalizes itself over the next couple of quarters. It's very hard to predict. It depends a lot on the macroeconomic situation, the geopolitical situation, the war and I would just stay focused on the long-term fundamentals there.

In terms of Vestolit, we try to operate our assets at highest utilizations and so we'll expect to see normalization of volumes in the fourth quarter and in the first quarter of next year. And so the way our assets work, it is in our interest to maximize our volumes because we are on the lower left of the supply curve.

And then finally with Dura-Line, with Dura-Line, we are completely maxed out and we have a very significant backlog in terms of demand, over six months, and so we'll be trying to optimize our operations and trying to get the most out of our assets over the next year.

Operator
Thank you. And the next question will come from Basso Sousa with UBS. Please go ahead.

Basso Sousa
Hi, everyone. Thanks for taking my questions. Two questions here on my side, one probably a bit opposite from the other. With the challenging scenario ahead we're broadly discussing here, are there any risks of changing the 2027 plan you guys gave before? I know it's a long-term plan, but maybe there could be a delay on the investments. Anything you could share with [indiscernible] there will be helpful.

The second question, as I mentioned, probably the opposite direction from the first one, we know that [indiscernible] environments some acquisition opportunities come up mainly for those companies from a robust balance sheet such as [indiscernible]. Are you guys seeing any opportunities on this front or is it still too early to say there will be any opportunistic M&A possibilities? Those are my questions. Thank you.

Sameer Bharadwaj
Yes. Very good, Basso. Let me answer your question on the PVC investment. So, it's a long-term project with very sound fundamentals, a very strong business case. Supply/demand will be tight long term. Having said that, you cannot ignore the near-term economic situation. And so if we are in the exact same situation a year from now, the sensible thing to do would be to consider delaying the timeline by six months or nine months. And we're not in that situation yet and we don't have any significant capital commitments because much of the capital commitments for this project are in the 2024 to 2026 timeline.

So as we have indicated, our ‘27 goals, we don't see those being impacted in a significant way because we have a diversified set of projects across the whole company. And so the Vestolit project may be delayed by six months or nine months, there are many other projects in the company that offset what's happening in that part of the business and which is why I come back to Orbia's resilience in its various business groups. And so we remain confident in our long term growth plans.

On M&A, as you can see that we have continued focusing on opportunistic M&A where we can enter a new geography or acquire a specific technology, and you've seen that with the acquisition of Vectus in India this year, Shakun Polymer last year in India, then Bow in the United States and Canada, and then with Biarri Network for Dura-Line. Now, these are all relatively small acquisitions, but adding a very significant way to the growth of the company and we will continuously look at potentially small acquisitions that can be additive in a very significant way and add disproportionate value.

Operator
Thank you. And then the next question will be from Ben Isaacson with Scotia. Please go ahead.

Victor
Hi. This is Victor stepping in for Ben. I have two questions around cost management. One, do you expect more headwinds in terms of input costs, are you hedging any exposure going forward? Could you kindly talk specifics on Polymer Solutions?

And then, secondly on Building and Infrastructure, can you walk us through a little bit more on the outlook in terms of European Union demand and similarly on the impact of feedstock costs in the European Union and globally, and any kind of things that you're doing to hedge the exposure going forward?

Sameer Bharadwaj
So good questions, Victor. We don't engage in hedging, particularly on feedstocks and raw materials. That's a very risky endeavor. And what I can tell you is, in terms of the input costs for Polymer Solutions, we are seeing ethane, ethylene spreads stabilizing, in fact improving a little bit. We are seeing energy costs retreat so that should help over the next couple of quarters. And then, hopefully, we'll see some softening of caustic and chlorine cost as well, which also helps us. And so while it's very hard to predict, those are the trends, and you can also take a look at external publications such as IHS that talk about those trends. And yes, but we do not engage in hedging on raw materials.

In Wavin, in terms of demand, we've already talked about this before, much of the impact in Wavin this quarter was a function of the inventory correction and foreign exchange. And yes, there was some volume softening. And look, it's hard to have a crystal ball, given the macroeconomic environment, what's going to happen. So I don't want to venture to guess when it will definitively bounce back, but we are doing everything we can from a cost control standpoint to restore profitability to all of our businesses. And so it's in uncertain times like these when one needs to exercise financial discipline, commercial discipline and operational discipline, and we are totally focused on that.

Now the softening of raw material prices across the board, polymer prices, PVC, polyethylene, that will benefit Wavin over the next couple of quarters and we should see some of that flow through as well.

Victor
Thank you.

Operator
And the next question will be from Jean Baptiste Bruny from BBVA. Please go ahead.

Jean Baptiste Bruny
Hi, there. Thank you for taking my question. Just a couple for me. The first one probably you mentioned it many times in term of normalization of your performance. If we try to go to 2023, I know it's much too early for you to give a concrete guidance, but on our side, I shall re-read it, you have, maybe the end of first half of $1.2 billion, second half probably be between $600 million and $700 million. If we're looking into 2023, what should we be using in terms of, let's say normalizing [indiscernible] something between, something more on the upside, more on the down side? Just want an indication.

And there's some question is probably more on [indiscernible] in Mexico, which is quite sure in term of near shoring, you mentioned in various occasions what is happening in Europe with the spike in energy prices. There were some comments Sameer, into Europe, saying that it put at risk a lot of industries, such as the petrochemical industry. Is this something on the table for you, near shoring some activities you have in Europe back to Mexico to the U.S. or it's something that it cannot be done? I don't know if it's a logistical issue or some need to [indiscernible] the clients? Thank you very much.

Sameer Bharadwaj
Okay. Jean Baptiste, it's a good question in terms, and I'm sure it's on everyone's mind what would '23 look like. Now we normally issue guidance for the next year, typically after the year-end conference call, which is in February, because you still need a couple, three more months to get a better sense for where things will level out next year. Now in terms of long-term performance, if I look at the next two or three years, we are not worried because Orbia's businesses are resilient. We may go through a few tough quarters, but at the end of the day the world will normalize and the fundamentals of each of our businesses are still very intact.

So in Polymer Solutions, demand growth exceeds supply growth and so those fundamentals will play out. In Wavin, there is a fundamental shortage of housing in the world and aging infrastructure and strong demand for our sustainability solutions for storm water management, indoor climate resilience that will play out. In Netafim, if we are to feed a massively growing population. It is going to require more energy efficient food production and we expect to see those trends play out. Dura-Line is exceptionally strong and the feedback we have from all of our customers is, this is expected to continue for a significant amount of time. And then we have fantastic growth opportunities in Koura, as we get into energy materials securing the North American value chain, right?

So in that context, where we will land in 2023, will we repeat what we did in '21 and '22, it's unlikely, it might moderate a bit. But we'll be able to give you much better guidance after the year end, after we've seen how things evolve in the fourth quarter and during the next quarter earnings call.

CONCLUSION

Operator
And thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Sameer Bharadwaj for any closing remarks.

Sameer Bharadwaj
Thank you. So I want to say a couple of things about Orbia and its resilience, and both me and Jim and the Investor Relations team have been meeting with a number of investors around the world and we've had positive feedback. People appreciate the story we told on Investor Day, reintroducing Orbia to the world, a truly global company at the forefront of addressing key world challenges, and on the supply side of sustainability solutions. And they appreciate the strategy a lot better and they understand the projects that we are going to undertake and feel good about them, and above all, the discipline with which we run the company, the robust and strong dividends and the fact that today we are under appreciated. And so I feel quite encouraged, after my travels around the world and conversations with a number of investors. And once again, I would point everybody towards focusing on the long-term resilience of Orbia.

So I want to thank everybody for your continued interest in Orbia and look forward to talking to you at the year-end conference call in February.

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