Orbia

Third Quarter 2021 Earnings Call

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CORPORATE PARTICIPANTS

Sameer Bharadwaj- *Chief Executive Officer*

Jim Kelly - *Chief Financial Officer*

Gerardo Lozoya - *Director of Investor Relations*

PRESENTATION

Operator
Good day, and welcome to the Orbia third-quarter 2021 earnings results conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by 0.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press * then 1 on your telephone keypad. To withdraw your question, please press * then 2. Please note this event is being recorded.

I would now like to turn the conference over to Gerardo Lozoya, Director of Investor Relations. Please go ahead.

Gerardo Lozoya
Thank you, operator. Good morning, and welcome to Orbia's third-quarter 2021 earnings conference call. We appreciate your time and participation today. Joining me are Sameer Bharadwaj, CEO, and Jim Kelly, our recently appointed CFO.

A friendly reminder before we continue. 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 in our most recent Bolsa Mexicana de Valores report. The company disclaims any obligation to update or revise any such forward-looking statements.

With that, let me now turn the call over to Sameer. Sameer?

Sameer Bharadwaj
Thank you, Gerardo, and good morning, everyone. I'm on slide three. First, I want to take this opportunity to introduce Jim Kelly and welcome him into the role of Chief Financial Officer of Orbia. Jim brings over 30 years of global leadership experience and an extensive track record of transforming finance organizations to world-class levels.

I have known Jim for over 17 years, and I'm confident that his strategic mindset, passion for operational excellence, and track record for delivering results will support Orbia's growth, profitability, and value creation. I'm excited to have Jim on board and here to share details of our third-quarter results later on in this call. We both look forward to responding to your questions.

Second, let me recognize our 21,500+ associates for their dedication to Orbia and serving our customers, despite COVID-19 in a challenging global environment. While the pandemic continues to impact our communities and business, we remain optimistic about the future as vaccination rates improve among our employees working around the world. At Orbia, we continue to be committed to the health and well-being of our team members and their families. We have implemented rigorous safety and sanitation protocols at all of our sites. As a purpose-driven company seeking to advance life around the world, we have taken numerous steps to improve vaccination rates, including making vaccines available to our teams and communities wherever possible.

Let me now provide a high-level overview of our third-quarter business performance. I'm on slide four. Orbia delivered a third consecutive quarter of impressive results, building on the positive momentum that started in the second half of last year. Revenues and EBITDA reached their highest levels ever on a trailing 12-month basis, supported by organic growth and gains from our recent acquisitions. EBITDA growth of 47% year-over-year was driven by strong contributions from Vestolit and Wavin. Their performance more than compensated for the pressures experienced by our other businesses, which were challenged by raw material and other cost increases.

Our EBITDA margin of 23.3% improved 118 basis points year-over-year. As expected, we continued to experience increased costs, driven by higher raw material and freight prices, labor shortages, and ongoing supply chain disruptions. With these challenges as a backdrop, our diversified portfolio enhanced our results, and demand remains very healthy across all our businesses.

We generated strong free cash flow of $90 million during the quarter, and with our low leverage ratio we have significant liquidity available to fund our strategic growth initiatives. We are executing on our growth strategy by investing in geographic expansion, innovation, and bolt-on acquisitions across our businesses. Beyond our remarkable performance in 2021, I am confident that our strategy will sustain our long-term growth and profitability.

I'd like to now turn over to Jim to go through this quarter's financial performance in further detail. Jim?

Jim Kelly
Turning to slide five. Thank you, and good morning. Before we go into the financial details, I'd like to thank Sameer and the board for their confidence. I'm thrilled to be joining Orbia's leadership team and guiding its global finance organization. Building on the strong foundation that ECHA (PH) created, I intend to focus on the ongoing development of a world-class finance team, enhancement of our underlying systems, and processes and alignment on a functional vision to support Orbia's long-term growth and creation of shareholder value.

Turning to the third quarter's big picture view, we again delivered a strong set of both top and bottom line results. On a consolidated basis, our net revenues for the third quarter were $2.3 billion, up 40% year-over-year, with robust growth across all businesses. EBITDA was up by 47%, with margins increasing by 118 basis points.

It's noteworthy to mention that our outstanding performance for the last 12 months saw revenues exceeding $8.1 billion and EBITDA of $1.9 billion, while our free cash flow was $573 million for that period. Our return on invested capital reached 12.1%.

As mentioned in the last quarter, we continued to take additional actions to mitigate rising input costs through an effective commercial strategy, and inventory and supply chain management. We delivered strong free cash flow of $90 million during the quarter, despite an increase in working capital tied to significantly higher sales activity and higher prices associated with increased raw material costs.

Net debt was $2.8 billion, and the net debt to EBITDA ratio was 1.48 times, representing one of the lowest leverage levels in years. During the quarter, we also paid the outstanding balance of our 2022 $750 million senior note. In total, over the past two quarters we have reduced our average cost of debt to 4.2% and extended our average debt maturity to 14.2 years, with our next significant maturity extending to 2026. Capital expenditures of $73 million were up 69% compared to a low base last year.

Finally, during the quarter, we returned $100 million in dividends to shareholders and repurchased $37 million worth of shares. Pursuant to the approval granted by its shareholders, the company has taken all necessary steps to cancel 90 million of its shares held in treasury, and the Mexico Securities Authority is expected to complete the administrative process to update the company's share count in due course.

In summary, we have a very healthy balance sheet that provides us with broad options to invest our growth organically and via bolt-on acquisitions, as well as to return cash to shareholders.

Now, let me go through our performance by business in more detail. Please turn to slide six. In Polymer Solutions, we delivered another quarter of exceptional results, fueled by strong topline growth and margin expansion. Revenues were up 67% due to high PVC demand, and pricing which remains at historically high levels from continuing demand in the building and construction markets and limited global supply.

EBITDA was up by 155%, with a margin of 33.4%. We expect PVC demand to continue to be strong for the remainder of the year, while market reports suggest that PVC prices may ease somewhat toward the end of the year. However, as we've been saying for some time, we anticipate PVC prices settling at a comparatively higher level until more capacity is added in the coming years. Our view is that announced capacity additions in the PVC supply chain will be insufficient to meet long-term demand, creating an environment that is supportive of investment.

Finally, Shakun Polymers, in which Alphagary acquired a majority ownership interest in Q2, is performing well, further boosting our results.

Wavin posted another strong quarter, supported by demand in the building and infrastructure markets both in Europe and LatAm. Revenues were up by 32%, mainly driven by higher pricing to offset cost increases. Market demand normalized compared to an extraordinarily high second-quarter level, but remain solid across the footprint in both above and below ground applications.

EBITDA totaled $106 million, up 12%, representing a margin of 14.1%. While we fully recovered cost increases through introducing higher selling prices, our margin percent declined year-over-year due to an unfavorable mix and the inclusion of higher selling prices in the denominator of the ratio. Looking forward, the next two quarters normally represent seasonal lows for volumes. We continue to take actions to address headwinds related to material availability, labor, and supply chain disruptions, and increases in raw material and logistics costs.

Now, let me turn to Netafim. Revenues increased 22% due to broad-based geographic demand, with strength across the U.S., Europe, Brazil, and Turkey more than offsetting weakness in India due to COVID-19. Additionally, the Gakon integration had a positive impact on the top line. EBITDA decreased by 16%, and the EBITDA margin was 12.3%. We have been facing unprecedented levels of cost inflation, particularly in raw materials and transportation, for some months now. We expect demand to continue to remain robust as we continue to see long-term positive trends in local food security and production, as well as global growth opportunities in existing and new markets. Furthermore, prices of most key commodity crops such as cotton, coffee, and sugar have risen, driving incremental demand for our products and solutions.

In Dura-Line, revenues increased by 42% due to higher volume and expansions in our geographic sales coverage. Government funding and new projects for fiber infrastructure in the

U.S., Canada, and some countries in Europe continued customer demand for our value-added products, and more favorable pricing also contributed to our strong revenue performance. However, EBITDA decreased by 40% and the EBITDA margin was 12.2% as we continued to see rapid increases in raw material and freight costs.

As a reminder, Q2 and Q3 of 2020 were extraordinarily high performing quarters for Dura-Line, as we benefited from record-setting low costs of resin. Lag times and revising prices to reflect the impact of rising raw material costs extended lead times, and a tight labor market have delayed pricing realization actions. We remain positive as to Dura-Line's performance and fundamentals, as major infrastructure initiatives are unfolding. This includes digital infrastructure development plans aimed at improving economic competitiveness, closing the rural digital divide, and opening access to 5G and other network technologies.

Koura revenues increased by 3% due to strong pricing. This was partially offset by lower volumes in our acid grade fluorspar, given lower demand in China. EBITDA decreased by 16%, resulting in an EBITDA margin of 30.6%, primarily driven by lower acid grade fluorospar volumes, rising raw material and transportation costs, and investments to support the growth of the business. Koura also incurred a one-time unfavorable impact of $3 million from hurricane Ida during the quarter.

Earlier this month, we announced that Koura led a $70 million funding round in Battery Resourcers, a high potential startup with leading technology for recycling lithium ion batteries. Koura is also working with Battery Resourcers to integrate recycled materials into the battery supply chain. In addition, Koura was selected to receive a U.S. government grant to develop next-generation electrolytes for electric vehicles. Koura's collaboration with Battery Resourcers and development of next-generation electrolytes are two important components of the business's comprehensive energy materials strategy.

In summary, we closed another quarter with solid financial performance, continuing our focus on operational and commercial excellence and adherence to our growth strategy. Let me turn it back to Sameer now. Thank you. Sameer?

Sameer Bharadwaj
Thank you, Jim. I'm on slide seven. I'd like to round out the picture related to sustainability progress in our business groups during the quarter. Sustainability remains a primary focus for our investments and operations. We continue to emphasize process improvements, extending our circular offerings, and looking to new geographies and partnerships to help deliver better, smarter, cleaner solutions that advance life around the world.

In Vestolit, our decarbonization team has been launched with an aim to reduce scope 1 and scope 2 emissions at all plants and operating facilities by 5% versus 2020. In addition, we have been successful in reducing our year-to-date solid waste to landfill by almost 20% versus 2020.

In Wavin, sales of products utilizing recycled materials continued to increase. Zero waste to landfill projects were scaled at manufacturing sites. Contracts with energy providers were audited for efficiency, and the transition to renewable sources is underway, with a target to use 100% renewable energy within two years in our Europe, Middle East, and Africa regional facilities.

In Netafim, earlier this year we established aggressive growth targets for the eruption of our drip irrigation system in rice. Rice production is a significant contributor to methane emissions globally, accounting for over 10% of anthropogenic emissions annually. We have made excellent progress in meeting our targets and expect to continue to grow in the coming years. The Netafim system virtually eliminates methane emissions and groundwater contamination associated with rice production and reduces the presence of arsenic in the grain by 90%.

Netafim also launched a circular business model in Europe. We have begun reclaiming used driplines from farmers in the region. We process the reclaimed driplines and use them for the manufacture of new drip lines. Our expansion into Europe follows the successful implementation of a similar program in the United States.

In Dura-Line, the business completed the installation of solar panels at its Goa facility to generate 1 million kilowatt hours yearly, and increase energy efficiency and cost savings for the plant. As part of the US Department of Energy's Better Buildings, Better Plants Program, each of our plants is conducting a third-party energy audit to determine areas for improvement, and a sustainability committee at each plant will continue to drive waste reductions through waste stream mapping.

In Koura, we continue to invest in the development and commercialization of low global warming potential refrigerants and propellants. Koura's Klea 473A launched earlier this year, for instance, has a global warming potential that is 85% lower than the incumbent material R23. Koura also continued its efforts to scale up and commercialize its medical propellant Zephex 152a, which reduces the carbon footprint of metered dose inhalers by 90%. These products are examples of materials we have launched and continue to commercialize. Koura has several additional products in its pipeline that will help significantly reduce scope 3 emissions in the future.

Now, on to our expectations for the rest of 2021, and capital allocation plans. Clearly, our businesses are experiencing strong demand and performing well, with some performing better than expected. We are maintaining our daily focus on operational and commercial excellence and investing in digital transformation for long-term value creation.

While the continued impact of COVID-19 is still uncertain, we remain optimistic about the long-term growth fundamentals of our businesses. We now expect 2021 EBITDA growth in the range of 44% to 48%, up from the 32% to 35% we estimated on our last earnings call. This revised outlook assumes no pandemic-related or other material disruptions to Orbia's businesses.

Looking ahead to 2022, market reports suggest that PVC prices will soften, but will remain above historic averages. We believe that our downstream businesses will recapture the majority of cost increases through pricing initiatives over the course of the year. For the fourth quarter and full year, we continue to expect strong cash generation as global markets continue to recover and traditional investments in working capital normalize.

We will continue to prioritize organic growth and strategic bolt-on acquisitions, while maintaining our day-to-day investments in operational excellence and ESG. We will remain disciplined in navigating short-term issues, while coming through to deliver sustainable growth for all those we serve.

Operator, we are ready to take questions.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press * then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press * then 2. At this time, we will pause materially to assemble our roster.

And our first question comes from Nikolaj Lippmann of Morgan Stanley. Please go ahead.

Nikolaj Lippmann
(INAUDIBLE), gentlemen. Congratulations on the stellar results. Thanks for taking my questions. Jim, congratulations on your new role. Two questions, if I may. First on working capital, how should we think about it? Can you maybe give us some color on which divisions are seeing that increase in working capital, to what degree you believe this is permanent, as potentially it could be--if it's a way to drive sales in Netafim? So that's question number one, just help--color on the nature of the increase in working capital.

The second question is the headquarter question. I saw that you changed the language slightly in the release, mentioned that you're headquartered in Mexico City, Boston, Amsterdam and Tel Aviv (INAUDIBLE). But joking aside, you have much of the management team sitting in the U.S. My question is, what could be the fiscal risk of consideration around whether you are a US-based or Mexico-based company. Thank you very much, and again, congrats on the numbers.

Jim Kelly
Hi Nik, this is Jim. Very nice to meet you, thanks for the questions. I'll address the working capital one at least. And we've seen over the course of the year, I would say, relatively broad-based increases in working capital, largely driven by what we've seen as raw material cost increases have driven our inventory costs up, which then translates as well to receivable dollars going up as we increase prices.

Within the last quarter, I'd say the increases in those areas were relatively moderate, and actually the majority of the increase that we saw in working capital over this most recent quarter was attributable to a bit of a timing issue in accounts payable, where one particular business just had lower purchases than they had had in the prior quarter. And also, from one particular vendor that had shorter payment terms than another vendor that they had been using.

Another factor in driving the increase in the quarter was that we have a long-term plan to pay down our letters of credit, and that was a significant contributing factor in the quarter as well. So that was a planned decrease in those letters of credit.

Looking forward, right now these things are somewhat hard to predict, because it's a snapshot in time, right? You don't know what's going to happen on a particular day as you get to that snapshot at the end of the year. But generally speaking, our forecast at this point in time is for a flattening of the working capital number over the course of Q4.

Nikolaj Lippmann
Got it. Can you--

Sameer Bharadwaj
Thank you, Jim--

Nikolaj Lippmann

Can I just follow up, sorry? A follow-up, is any of this specifically related to Netafim? Netafim has--, and the business model can sometimes be somewhat intensive in terms of working capital, or is it really not a big issue? Thank you.

Jim Kelly
No, there is nothing specific to Netafim related to the increase as it relates to other businesses. Netafim was not an extraordinary driver.

Sameer Bharadwaj
Thank you, Jim, and good morning, Nik. Great to have you on the call and, as always, we appreciate your depth of understanding and coverage of Orbia. Let me briefly quickly address your second question. Look, I won't read too much into that statement. We continue to remain a Mexico listed company with global operations and a global management team. So, I think, you know, that's it.

Nikolaj Lippmann
Got it, thanks a lot.

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

Frank McGann
Okay, thank you very much. Two questions if I might, one just on costs and the pressures that you're seeing, particularly in Dura-Line and Netafim. How do you see those playing out perhaps over the next couple of quarters? Is it something that's sustainable and that you expect because of higher inflation expectations that you will not see a lot of reduction in those, and you'll be working to pass-through those cost increases on with prices? Or do you see some of this perhaps related to freight pressures that are causing short-term spikes in some prices that might be alleviated? I'm just wondering how you're seeing the mix of that.

And then secondly, in Wavin, if you could just perhaps comment on the relative strengths you're seeing in some of the key markets that you have there, both in Europe as well as in Latin America.

Jim Kelly
Hi Frank, this is Jim. Nice to meet you, look forward to meeting you face-to-face someday. So, on the first question related to the costs and particularly in--, you asked specifically about Dura-Line and Netafim. I'd say it's a similar situation in both cases, in terms of there having been rapid increases over the course of the year and raw materials. And certainly, as we've gone through the year, in transportation and logistics costs. And you could say in Dura-Line specifically as well, in some particular issues in labor costs. So those have certainly been putting pressure on margins as we've gone through the year.

We have done our best to increase prices to try to offset those cost increases, but we have been lagging to a certain degree. So, we have yet to fully catch up as we've gone through Q3. Progress has been made and we are continuing to make progress there. If you go under the assumption that there is a relative sort of stability of costs or slight increases here as we move forward as opposed to dramatic increases, then our expectation is that in Dura-Line we would be pretty close to having fully recaptured, if not more than fully recaptured, a lot of these costs as we move forward into Q4 and beyond.

And within Netafim, just because of the nature of the competitive environment and pricing structure, it will take a little bit more time as we go through Q4, Q1, and into 2022, to fully recapture those costs. I hope that answers your question.

Frank McGann
Yeah, terrific.

Jim Kelly
I'll move on to the second one--okay, I'll move on to the second one related to the Wavin markets. So, we've continued to see strength in the markets of Wavin over the course of the year. In Q3, I would say what we saw was a particularly strong LatAm market and a strong European market, although I would qualify that a little bit by saying toward the end of the quarter, we began to see some more competitive challenges in Europe, largely because of a couple of competitors that had claimed force majeure coming out of that and there being more supply available on the European market.

So fundamentally, the underlying markets are strong, but the European market has become a little bit more competitive recently, and we expect to see that trend continuing in Q4 in the European market for Wavin.

Frank McGann
Okay. Has there been any FX issues in terms of pricing in any of those markets?

Jim Kelly
So, the major markets, you may be aware, where we have exposure to FX are primarily in Mexico with the euro and in Brazil. So, we have seen some impact overall from--, from those exchanges or foreign exchanges, whatever, over the course of the quarter. Bottom line impact at an EBITDA level was, roughly speaking, $5 million for the total business.

Frank McGann
Okay, great. Thank you very much.

Jim Kelly
Welcome.

Sameer Bharadwaj
Thank you, Frank.

Operator
And her next question comes from Alejandro Zamacona of Credit Suisse. Please go ahead.

Alejandro Zamacona
Hi, Sameer; hi, Jim, nice to meet you. Thanks, Gerardo. Thank you for the call (INAUDIBLE). Just a quick question for Jim. On your remarks you mentioned that Wavin's challenge will be to increase pricing. So, what would be the timeline to make the pass-through from higher raw material prices?

Jim Kelly
So, within Wavin, they've actually been successful this year in passing their cost increases through. I would say the issue is what I just referred to in Frank's question more the competitive environment becoming a little tighter, particularly in Europe, late in Q3 and heading into Q4

because of several competitors coming out of force majeure and having raw materials available to them to compete in the market that they did not have previously.

Sameer Bharadwaj
Alejandro, pricing for Wavin has not been as much of a challenge as passing it through in Netafim and Dura-Line, and I think Jim addressed what's happening in Netafim and Dura-Line a little bit earlier.

Alejandro Zamacona
Okay, thank you. And then on-- my second question, if I may. On July, you announced that the Dura-Line division suspended the sales of natural gas pipes due to some quality issues. I know that it's probably not that significant, (INAUDIBLE) less than10% of Dura-Line revenues, but I just wanted to ask if you have any color or update on this topic. Thank you.

Jim Kelly
Sure, I can provide a little bit of color on that. So, again, going back through a little bit of the history. So, we discussed earlier that the company's Dura-Line business paused shipments and sales of the small diameter natural gas distribution pipe in April, and that was in order to investigate a potential quality issue. First of all, this issue does not impact Dura-Line's conduit product, so I want to make sure that is clear. The matter has--you know, it's high priority for Dura-Line, has their highest level of attention.

They've been proactively sharing information about this with the NGD customers and regulators. We'll continue to share additional information as the analysis progresses and as they are able to do so. And Orbia is coordinating with Dura-Line, and Orbia will also share additional information as it becomes available. I will say from a financial side, we have a very small reserve set up for this--at this point in time because we just don't have an ability to assume that there are probable and estimable liabilities. So, it's not advanced to a stage where it requires any significant reserve.

Alejandro Zamacona
Okay, thank you, Jim.

Jim Kelly
Welcome.

Operator
Our next question comes from Andres Cardona of Citibank. Please proceed.

Andres Cardona
Good morning, everyone. Jim, congratulations on your new challenge, and hope to meet you soon. Two questions from my side. When looking at your expectations or outlook for 2022, how has it changed for--since the second quarter conference call? It seems (INAUDIBLE) margins remain very strong. Also, I would like to understand if higher gas prices could hurt margins eventually, understanding that the margins had a function of several components. But we'd like to understand if your outlook for next year for Polymer Solutions in particular have changed for good or maybe for bad.

And the second one is (INAUDIBLE) Orbia has generated very strong cash flow year to date and the outlook, at least in our view, remains very strong. What should we expect from Orbia in terms of capital allocation? Are you evaluating many opportunities? And maybe the last one very short is, last conference call you mentioned the possibility to one investor day. Have you made any progress on that front? Are you getting close to engage in a potential date for that event? Thanks, and congratulations for the results.

Sameer Bharadwaj
Andres, good morning. This is Sameer. So first of all, I really appreciate your coverage of the company, and continue to be impressed with your understanding of the business, and thank you for that. To address your first question on the outlook for Polymer Solutions for next year. So let me address it in a couple of different ways. So first of all, we follow the same market publications that everybody looks at. And if you look at the outlook out there from the market publications, they are forecasting a softening in PVC prices next year, increase in gas prices. And so, of course, we base our projections and estimates on those numbers as well.

Having said that, if you look at the short-term and the long-term context for this business, in the short term you can see what's going on in China with the cutbacks in energy production as well as the shortage of coal that China is experiencing which is leading to further short-term pressures in terms of supply of PVC.

Second, given the shipping and logistics challenges around the world and the high cost of shipping, there's very little material flowing from China and all the way to North America. That's been helping PVC prices as well. And third, if you now see what's happening with oil prices. Oil prices are now approaching $80 a barrel, and given the marginal producer of ethylene is typically oil and naphtha-based, that is helping keep prices high. Now, that's the near-term context that you need to overlay on top of what the market experts are saying.

Long-term, I have always maintained that this industry has been massively underinvested in over the past decade, and the rate at which supply will come online or the supply will be added is much slower than the rate at which the market is growing. And so, from a--from a three to five-year standpoint, we continue to believe that this market environment will be favorable for PVC. Prices of course will not stay at the high peak levels as they are today. But when they do settle down, it is our belief that they will settle down at levels much above the levels people were used to in the past. But hopefully, a mix of this--the external market expert's view, the short-term context as well as the long-term context, helps you put a picture together for Polymer Solutions.

Your second question was on capital allocation. So today, as you can all see, we have a very healthy balance sheet. A good amount of cash on the balance sheet, relatively low leverage. And as I had indicated before from a strategy standpoint, we have made a choice to focus on value creation. And what that means is thinking through carefully about investments in each of our businesses, and this will be a combination of accelerating organic growth investments, given the demand fundamentals are strong across all of our businesses. It will be looking at selective bolt-on acquisitions in each of our businesses, and looking at joint ventures and partnerships.

And so, it's going to be a mix of all of the above. But as you rightly surmise, we are going to be in investment mode from a capital allocation standpoint while we maintain our healthy dividend. And then, of course, priority will go to growth investments. But as we see opportunities, we will continue to buy back stock at the same time. So hopefully, that gives you clarity on capital allocation.

And then the final question, I think Jim can address your last question.

Jim Kelly

Yes. On the question regarding investor day, we are in the midst of beginning planning that at this point. So, we expect to be holding one in the spring, and you should see a save-the-date coming out somewhere within the next couple of months, certainly by the end of the year.

Andres Cardona
Thank you both for very (INAUDIBLE) answers, and congratulations again.

Sameer Bharadwaj
Thank you, Andres.

Operator
And as a reminder, if you have a question, please press * then 1. The next question comes from Gustavo Cunha of UBS BB. Please go ahead.

Luiz Carvalho
Hi, everyone. It's Luiz here. Can you hear me?

Jim Kelly
Yes, we hear you.

Luiz Carvalho
Hello? Okay, thank you, sorry. It's Luiz Carvalho here.

Sameer Bharadwaj
Hello, Gustavo.

Luiz Carvalho
Basically, two questions if I may. Sameer, Jim, thanks for taking the questions and congrats on the results. Two questions here. You've heard me come back to the capital allocation (INAUDIBLE) correctly from your last answer. You're probably going to use the (INAUDIBLE) on your balance sheet and the cash generation to do--actually, how can I say--small movement in each of (INAUDIBLE). You can continue to do buybacks, you can continue to do a healthy dividend, (INAUDIBLE) organic and inorganic acquisitions; is that correct? And if yes, what kind of returns are you looking into potential M&A inorganic (PH) growth?

And also, on the (INAUDIBLE), geographically speaking or even from a product line perspective, would you consider actually to go to a new product line or different businesses, or should we expect something more related to the business lines that you already have?

And the second question is if you can provide somehow an update on the illegal imports (INAUDIBLE) into Europe. That has been quite of a challenge over the past couple of years, so just would like to hear your thoughts on that. Thank you.

Sameer Bharadwaj
Let me take your question on capital allocation, Gustavo. It's a very good question. And again, our goal is to generate sustained, long-term returns for our shareholders above the cost of capital. And to give you a flavor, we have good organic growth projects across all of our businesses, and I can give you multiple examples, where the EBITDA you would get at maturity, we are essentially getting EBITDA for 1 to 3 times, right? Now, of course, there's a time value of money and it takes--when you build a plant, it takes 9 to 12 months to set up lines, and then it

could be two to three years to filling up that line. But bottom line is we are looking at projects that are in the range of 1 to 3 times EBITDA. So very, very attractive and accretive projects.

As far as M&A is concerned, there has to be substantial synergies and growth to justify paying higher multiples for anything that we may buy. Let's say you're doing M&A in the range of 8 to 10 times EBITDA, you know, the way we think about it is to make it successful, you have to have growth and synergies that can substantially reduce the multiple in a reasonable amount of time. But that's the approach we take, and so we'll be very vigorous when we think through M&A opportunities along that dimension.

And in terms of areas of focus, absolutely we'll be looking to address our geographic gaps. We'll be looking to address our technology gaps in the businesses we are already in, and we will look at adjacent spaces. And so, it's a combination and it varies from business to business.

You asked a question on illegal imports. And what I can say is our concerted efforts along with the other industry participants working with the European Union and CFSP and the customs authorities and the enforcement authorities in Europe are finally beginning to bear some results, where there have been multiple reported seizures, fines imposed, the better training of the customs officials, they are catching more of these illegal import shipments.

Now, simultaneously, you also have a phenomenon where the prices of these refrigerants have gone up substantially in China, and you have shipping and logistics challenges. And then you have COVID-related border controls. So, all of these have helped. Has the problem disappeared? No, I can't say that with a lot of confidence. It's still there, but the efforts are beginning to bear fruit.

And was there a third question, Gustavo, that you had?

Luiz Carvalho
No, it was--actually, it's Luiz Carvalho here. Gustavo had me signed on my behalf, so sorry about that. No, that was pretty much it, mostly about the capital allocation and the illegal imports.

Sameer Bharadwaj
Great.

Luiz Carvalho
Thank you.

Operator
As a reminder--

Jim Kelly
So, before we close out, I--I don't believe there are further questions in the queue.

Sameer Bharadwaj
Are there any more questions in the queue?

Operator
At this time, we have no further questions.

Sameer Bharadwaj
Okay. So, Jim, do you want to give some color on the near term?

Jim Kelly
Yeah. So just before we close out, there were some questions in some of the reports that came out about both sequential results from Q2 to Q3, as well as looking forward. So, I just thought I'd provide a little bit of color on that, since I didn't have an opportunity to as a response to a question. So, overall, at the Orbia level, sequentially EBITDA declined by $28 million. Essentially, the margin percent related to that went from 25% down to 23%, with the primary reason being an ongoing squeezing margins. It was driven by continued increases in raw material and transportation costs, as we've discussed.

To a certain degree, volumes also drove that, with part of that being in Koura where it's honestly quite hard to make period-to-period volume comparisons because that business tends to have large shipments in one period of time versus another, and that can really drive the quarter-to-quarter or period-to-period volume. So, you have to be a little bit careful about looking at Koura volumes in that regard, but that was one of the drivers from Q2 to Q3. And then Netafim's India market was another one of the drivers on the volume, looking sequentially.

And then also if you look at just the inflation of revenue, through passing price increases through, naturally the denominator of the equation of EBITDA to sales goes up, and that had a 50 basis point impact on the margin quarter to quarter.

On some of the businesses, so looking at Polymer Solutions in particular, EBITDA increased by $16 million sequentially. As you've heard from Sameer, the market continues to be strong. Just a reminder as we look forward on that business, while we do expect the market to continue to be strong and pricing to continue to be in a favorable environment, Q4 is generally a seasonally slower quarter for that business. So, as you're looking at your models for Q4, just keep that normal seasonality in mind.

Koura decreased by $18 million sequentially, and that was really due to the acid-spar volumes. Again, very difficult to compare those necessarily period to period, but it was within that one small portion of the business that we saw the decrease in volumes. I will say that those volumes and the underlying prices appear to be improving as we go into Q4. So, we'd expect to see an upward trend in that part of the business as we go through the remainder of the year.

Within Wavin, EBITDA decreased by $34 million sequentially. So, we talked there about the tightening market situation with some of the competitors exiting their force majeure situations. Overall, however, the market remains very strong for Wavin and particularly in LatAm.

Looking at Dura-Line, there we had an improvement in EBITDA from Q2 to Q3 by $2 million. Very strong market demand and improvements made later in the quarter and recovering the cost increases, as I mentioned previously. The strong demand and continued recovery of cost increases are expected to continue in Q4 and into 2022.

Lastly on Netafim, EBITDA declined by $17 million sequentially, and that was really due primarily to ongoing market challenges in India related to COVID, as well as the impact of increasing raw material and transportation costs that we discussed earlier. Outside India, the market continues to be very strong, and we expect to gradually recover the cost increases that we've seen over the upcoming quarters.

So hopefully, that provides a little bit of perspective for you, both on the sequential Q2 to Q3, as well as what we are expecting to see as we go into Q4 and the remainder of the year here.

Sameer Bharadwaj
Thank you, Jim, and I think, again, this is in the spirit of being as transparent as possible with our--with our analysts and our investors, so that they have a better understanding of the company and its strategy.

Let me close by reinforcing that we are building an organization aligned to deliver strong, long-term growth. We remain focused on meeting and exceeding demand, to providing sustainable solutions, driving for commercial excellence in everything we do, and improving our cost position to generate greater cash flow. Orbia will invest this cash flow to generate value for our shareholders across our portfolio.

We see opportunities to deploy capital, both in our basic and specialty materials businesses, where supply/demand imbalances are creating a favorable investment environment. And in our rural and urban infrastructure businesses where demand for Orbia solutions that address water sustainability, food security, and data connectivity is extremely strong.

We are proud of the performance of our global team and continue to be optimistic about the future. Thank you very much.

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