Orbia

Third Quarter 2019 Earnings Conference Call

October 24, 2019 at 11:00 a.m. Eastern

CORPORATE PARTICIPANTS

Daniel Martinez-Valle – *Chief Executive Officer*

Edgardo Carlos – *Chief Financial Officer*

Gerardo Lozoya – *Investor Relations Director*

PRESENTATION

Operator
Good morning, and welcome to the Orbia Third Quarter 2019 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 the star then one on your touchtone phone. To withdraw your question, please press the star then two. In the interest of time we will limit participants to one question only. Please note that this event is being recorded.

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

Gerardo Lozoya
Thank you, Ben. Good morning and welcome to our earnings results conference call. We are pleased to be here today
to present our third quarter 2019 results. We appreciate your time and your participation in this conference.

Our speakers today will be Daniel Martinez-Valle, Orbia's CEO; and Edgardo Carlos, our CFO who joined us in August. I will now turn the call over to Daniel for opening comments.

Daniel Martinez-Valle
Thank you, Gerardo. Welcome, everyone, to our third quarter 2019 conference call. In this call we will start with the financial highlights of this quarter. We'll then describe the key elements of our strategy to ensure strong and sustainable value creation. Finally, our new CFO, Edgardo Carlos, and I will go into our quarterly financial results.

I want to take this opportunity to warmly welcome Ricardo into his new role as CFO of Orbia. He comes with more than 30 years of experience and finance and I'm sure he will actively contribute to further building an organization marked by superior operational and financial performance. Welcome, Edgardo.

Turning to slide 2, for a third consecutive quarter we showed an improvement in our consolidated EBITDA. This was driven by a strong performance of our Netafim and Dura-Line businesses while our vinyl business also showed a third consecutive quarter of improvement given wider spreads within the ethylene chain. In our Fluor downstream business, we continue to see a negative impact on the illegal imports of refrigerant and gases into the European Union, which was fortunately offset by a sound performance in our upstream business.

When compared to the previous quarter we are still seeing some pressures associated to where we are in the cycle as well as a slowdown in the global economy, particularly in Europe and in some emerging markets where we are present. Despite some headwinds, we continue to work on improving company sales as well as our operational and financial performance. We are focusing on markets, products, services and solutions where we have higher profitability, and will continue to control costs to better manage our working capital across all our businesses and with a very disciplined capital allocation policy.

On the sustainability front, I have good news that I would like to share with you. Orbia is now a component of the Dow Jones Sustainability Index. We adopted a task force on climate-related financial disclosures, and finally, we signed the United Nations CEO Water Mandate.

Before we go into the numbers in terms of the quarter, let me share with you where we are in terms of the three key elements of our strategy to ensure strong and sustainable value creation. Looking now on slide 3, early last year we asked ourselves a very relevant question: How can we accomplish and what can we accomplish as an organization today? This company began as a very different business back in the 1950's, before many of us were even born. Through the years we have grown and acquired new companies and new technologies, we have entered new markets, we have expanded our offerings and have changed our name. Today, as a truly global company with a proud history and huge aspirations, we came to this conclusion: It is now time for us to evolve, it is time to elevate our ambitions and to transcend with a new identity that reflects our ability to be a force for the world, and we have a clear strategy to accomplish this.

The three key elements of our strategy for strong and sustainable value creation are: organizing for success, optimizing for today and cultivating for tomorrow. The first element has to do with defining our name, articulating our purpose and values, rolling out our new brand architecture, and defining our play to win strategy.

The second element, optimizing for today, means essentially running the business in a way in which we can move the needle on all metrics that can ultimately result in superior performance and greater shareholder value.

And finally, cultivating for tomorrow is about ensuring that our company's resilient and relevant 10, 20 and 50 years from now – based on our human-centered innovation efforts.

Moving to slide 4, a significant part of this elevated ambition has to do with the new identity that reflects our ability to be a force for the world. This is why today we are Orbia.

Turning to slide 5, Orb is a Latin word for circle globe and Bia is a word from Greek mythology for the personification of force. We put these two together to mean a force for the world. Whenever you name something new, the name takes on meaning with time and context. In this case, our 22,000 colleagues will give our new name its meaning to truly be a force for positive change in this world.

Moving to slide 6, today Orbia's a community of companies bound by a common purpose – to advance life around the world.

As you can see on slide 7, we used to be organized in three distinct groups, Fluor, Vinyl and Fluent.

Going on to slide 8. As Orbia, we started to think about our business units in a more deliberate and streamlined way, so we changed the structure to work more effectively. Today we are organized in five business groups: precision agriculture, building and infrastructure, data communication, polymer solutions and Fluor. In other words, we are structured in a way that is more customer focused based on the reasons our customers come to do business with us.

Turning to slide 9, moving forward, each business will be represented by a single brand. In Building and Infrastructure, Wavin will be the final customer facing brand. Data Communication will be represented by Dura-Line. Precision Agriculture will be represented by Netafim. When it comes to Polymer Solutions, we used to have different brands and now we will be reviving our strong heritage brand Vestolit. Our Fluor group also had different brand names, so we are launching a new brand altogether called Koura.

All this change is happening for a very, very important reason. This transformation is about becoming a future fit, customer-centric and purpose driven company working together to tackle some of the world's most complex challenges.

Now, on slide 10, the biggest challenges in the world show up everywhere across the globe and the solutions will only arrive through a concentrated global effort. Our new structure will help us work together giving power to our global brands and helping us engage customers all around the world as we tackle some of these global challenges facing humanity today, feeding a global and growing population; access to clean water; the future of cities; data access; health; well management; safety. And finally moving from being an extracted company and starting to make a dent into the circular economy.

These are not small problems. Every single one of us has a role to play in addressing them, and the choices we make day to day matter.

Looking now at slide 11, which shows our impact mark, we are all excited about delivering on our promise to advance life around the world. How are we going to hold ourselves accountable to this admittedly ambitious purpose? One ways is to bake our intentions into our brand. You may have noticed this series of imperfect circles next to our name in our new logo. This is a symbol we're calling our impact mark. This mark wasn't drawn randomly, it's actually a representation of how our business is doing against several important metrics which represent our impact in terms of profit, people and planet.

Our impact mark will be updated every year with our performance. The three loops indicate the past three years, and as we do better, these lines will progress outward. We're constantly striving trying to make a perfect circle, knowing we'll never reach perfection.

Let me now turn it over to our CFO, Edgardo Carlos, so that he can explain how we're going to deliver superior operational and financial performance, and unlock value to our shareholders. Please now move on to slide 12. Edga, the floor is yours.

Edgardo Carlos
Thank you very much, Daniel, for the introduction. Good morning. It's really a pleasure for me to be part of this amazing transformation process with a very talented group of people that are very strongly motivated to contribute to get the best of all of us.

Based on my previous experience, I'll be very much focused on a very granular approach of management control to unlock full potential of all of our existing asset base. Following Daniel's comments, we are now expanding our focus on an enhanced set of KPI's which will track our transformation journey and translate into higher value creation for all of our stakeholders.

I would like to share with you some specific examples on how we can make substantial progress to grow our financial performance. I will start with the market intelligent driven focus aiming to gain market share and expand our existing market position through five geographical expansions.

We will continue consolidating a healthy EBITDA margin by continually reducing our exposure to commodity products and expanding to higher differentiated solutions to all of our customers. Becoming best-in-class in operation and excellence is a must, and we will tackle this in several areas: safety, quality, capacity utilization, optimization of our current footprint in industrial sites, and getting economy of scale for global sourcing.

Additionally, we will be matched focus on gaining efficiency to reduce our SG&A through synergy across all businesses, expanding our Sure Service concept for supporting areas, improving logistic and freights that are a relevant component of our core structure, as well as leveraging existing global footprints to make additional inroads for other businesses. Leveraging our existing R&D capabilities, together with our enhanced view on innovation through programs funded by the corporate venture capital fund that will bring new revenue streams.

Our target on our free cash flow conversion should be reached at least 30% with a strong cash generation through effective management of our working capital. Laser focus on capital allocation spending in three critical [indiscernible]: investment to maintain the business to avoid unexpected operation in our operations; investment in growth projects with very short payback; while also funding transformation growth within our play to win initiatives for new products and services.

A very disciplined execution on these initiatives over the coming years will allow us to live our transformational growth strategy and drive significant value creation for our businesses. That will translate into higher organic topline growth while maintaining a very healthy EBITDA margin. Consequently improving our return on invested capital to reach low double-digit figures in the coming years.

Now, can we turn to slide 13. I will go very briefly on the financial performance since most of this has already been commented and presented in the press release just to allow more time for the Q&A. In spite continued headwinds affecting some of our business such as the illegal import of refrigerant and gases into the European Union, and lower prices of caustic soda, conditions that were not present last year, we went on to deliver a strong financial performance while maintaining a very healthy profitable [indiscernible].

As previously mentioned in the highlights, we achieved a third consecutive quarter of improvement in EBITDA driven by a strong performance supported by double-digit growth in Netafim and Dura-Line profitability, which partially compensated lower activities in our Wavin Europe operation as well as significant decrease in the caustic soda market effecting our Vestolit business.

Operator, can we move to slide 14, please? Our free cash flow increased by 96% to reach $151 million, reflecting a strong conversion rate of 39.5. In this context, we maintain a disciplined capital deployment reflected a contained capex investment during the period. After several quarters of investment in working capital, we reached a turning point recording an improvement of almost $50 million. This strong free cash flow will allow us to repurchase shares for a total amount of $42 million.

During the quarter, our total financial debt remained practically unchanged at $3.6 billion while our cash and cash equivalent were $593 million, resulting in a net financial debt of $3 billion. We will continue focusing on using our free cash flow to reduce our debt to maintain our investment grade rating. As shown in these slides, we continue with a very sound balance sheet and a healthy financial structure of our debt. We keep our weighted average cost of debt below 5% with an average maturity life close to 14 years.

Now, I will turn back to Daniel for closing remarks and open up for Q&A.

Daniel Martinez-Valle
Thank you, Edgardo. Please move on to slide 15.

I want to conclude by emphasizing that we have what it takes to deliver on our promise to advance life around the world. We remain focused on our commitment to increase customer centricity, to maintaining strict cost management that will support topline growth and margin expansion, and a very disciplined capital allocation that will continuously deliver high return on invested capital and strong cash generation.

I want to thank you all for being on the call today. Ben, we can open for questions.

QUESTIONS AND ANSWERS

Operator
We will now take your questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. We will pause momentarily to assemble our roster.

Our first question comes from Luis Carvallo with UBS. Please go ahead.

Luiz Carvalho
Hey, Daniel, Edgardo, Gerardo. Thanks for the presentation and making everything available to us. It's really important to understand the changes you have been promoting; however, I'd like you to try to help me to translate the more qualitative data and just some contributive figures. So, I think that Edgardo mentioned some of the targets in terms of free cash flow and ROIC, so if you can give us a bit more color on when you expect actually reaching these targets and how sustainable they are in terms of at least [indiscernible], a year, two years? I mean, regarding all the changes that you're promoting and the company probably have a little extra in the costs that are included or impacted by this transaction.

Second question, if you can provide a bit more details in the Fluor business, [indiscernible] the illegal imports that you're facing, what is the outlook that you have for the business looking forward? Thank you very much.

Edgardo Carlos
Coming back to your first question, as I say, we are targeting to increase our joint invested capital and our free cash flow as I would say the pillars of our profitability and turnaround of the result of the company. We are flying today close to 8.4 on an annual basis, return on investment capital and we are really aiming to improve this for next year, probably trying to reach close to 10, and then going forward.

And this it will be dependent how fast we can move to the restructuring of some of the operations in terms of reducing costs, probably consolidated some of the facilities that we are operating today, and at the same time working very extensively in reducing our working capital. Just to give you some flavor, even though in our cash flow we presented only $48 million reduction in working capital, the true reduction was close to $87 million because in the middle we were selling part of the trade financing. So, it was starting with a very good improvement in working capital, we were expecting an additional improvement in working capital in the fourth quarter and these significant actions to be launched next year to be able to maintain this kind of contained working capital or efficiency based on the last 12 months.

Luiz Carvalho
If I can follow up on this question, how do you think in terms of capital allocation and mention of all potential investments, maintenance investments and also growth investments, but you're talking, you mentioned this quarter close to 40% free cash flow, so how should we think about the company looking

forward in terms of acquisitions, dividend payments and high returns, so how should we look forward in this sense?

Edgardo Carlos
Sure. We are running different scenarios and that will depend very much also the Orbia dynamics of the economy and the microeconomic scenario for next year. We are not going to be committing a significant amount of capex and we're going to be doing those in a stage, quarter by quarter, but a rough number we are estimating to be in the range of $350 million. I would say that half of this will be devoted to the maintenance to keep the lights on and keep the operation in good shape, and the other 50% is going to be a very significant process of prioritization in terms of the high return – and as I said in my prepared remarks – we're going to be splitting those that have significant short payback so we can get some impact on EBITDA very close, and the ones also that are going to be included in the play to win.

As we commented in the past, we are not in this stage looking for significant M&A. Our focus is on organic growth. We consider that we have already a very good and unique set of assets that we need to make sure that we get the most of them, and for them we're going to be increasing the return on investment capital.

Daniel Martinez-Valle
In terms of the illegal imports of refrigerant and gases into Europe, let me say that the situation is quite complex. The EU authorities are trying to deal with this issue. It was unexpected for them and it appears that this is not a situation that will be fixed overnight. We are working very actively with the industry consortium and with our peers, and we're working hand-in-hand with the EU authorities.

This illegal trade is now estimated to be over 25% of the European market. And in addition to the illegal [indiscernible] customs, so the 28 member states, we're seeing an increase in smuggling through non-EU borders through countries like Turkey, Ukraine and Russia. We're concentrated on several efforts in terms of investigation, law enforcement; we're pressure EU and non-EU members; we're working on the PR front; we're working on developing technology solutions that can help us move the needle in terms of this problem; and we're obviously exploring possible trade leverage with the EU and China.

At this point in time we cannot mention any specifics in terms [indiscernible] of when we can expect this transit change. Most of the imports that are coming into Europe are coming from China, both through EU borders and non-EU borders. And in this context 2020 from a situation associated to the illegal imports will be hard to predict.

The good news is that we have been implementing value versus volume strategy on our Fluor business that is proving to be the right strategy. As you saw in the highlights, as you saw in the numbers, our upstream business has almost fully offset the negative impact of these illegal imports. We're working very heavily with the Koura team who have a sound and successful 2020 moving forward.

Luiz Carvalho
Okay. Thank you very much.

Daniel Martinez-Valle
Thank you for the questions, Luis.

Operator
Our next question comes from Christian Land with Scotcha Bank.

Christian Landi
Good morning, Daniel, Edgardo and Gerardo. Thank you for the call. I have a couple of questions if I may. The first is that your press release you mentioned better performance at Netafim in the quarter. I was wondering if you could expand a little bit on that, give a few details.

The second question is on the vinyl segment, well the Polymer Solution segment now, it seems that the ethylene or the ethane prices has receded a little bit, but I was wondering what your views there for the coming quarters, do you expect the volatility between ethylene and ethane to disappear and if that's the case, could we expect EBITDA margins for the Polymer Solutions segment above 20% as we had this quarter? Thank you.

Daniel Martinez-Valle
Netafim business has performed very well, even better than expected in terms of both topline growth and EBITDA growth. We are very happy and we're very pleased with the progress of the Netafim acquisition, not only in terms of its contribution and in terms of topline growth and our profitability, but also in terms of the synergies.

In terms of the vinyl part of the question, we see the spread in the ethylene and ethane space behaving in a very similar way, slightly better in the fourth quarter as compared to last year. Remember, we had a couple of one-off's associated to force majeure in the fourth quarter. So comparing the same period versus 2018, we do expect some improvement, but we're seeing the vinyl's market behaving in a very similar way in Q4 versus the last quarter of this year.

Christian Landi
Okay, thank you for that.

Operator
Our next question comes from Hal [indiscernible] Lorenzi from Bank of America. Please go ahead.

Daniel Martinez-Valle
We cannot hear you.

Operator
Hello, your line is open. I think we should go on to the next questioner. The next question comes from Pedro Maderos of Citigroup. Please go ahead.

Pedro Medeiros
Good morning, Daniel, Edgardo. Thank you so much for the presentation.

I have a couple more strategic questions following up the discussion on the presentation and the timing for revisiting the strategy, the name. So as part of the transformation process, can you comment on capital allocation around all of the company's business segments and how you're thinking about this? There was an emerging debate about potentially revisiting this strategy and your asset base and Polymer Solutions, so any extra color you can give on the strategy behind how you're allocating capital there?

And second question, which is kind of linked to the first question, if you could give extra color on your organic growth capex? Where are you allocating more capital to grow capacity and where do you see some capacity tightness or opportunity to grow capacity across all of your business lines?

My last question is, Daniel, when you joined the company, you elaborated a strategy to reposition

Orbia's sales force around all of their business segments to become more product-centric and also considered adding services across the product offering. So, would you mind commenting on how the journey has been so far? If I recall right, at the beginning you were looking at it as a three year journey to complete that repositioning, so where do you see the company in terms of stage of completing your original target and vision?

Daniel Martinez-Valle
Thank you, Pedro. So regarding our strategy, as you know, we embarked on this journey which was marked by defining what we call our play to win strategy. We have identified every single investment that we have to do in our five business groups for the next three to five years, and obviously we'll be prioritizing them with surgical precision based on the incremental EBITDA that will be generated by each one of them, the incremental return on invested capital, the payback and the IRR. There's a lot of opportunities for all our businesses.

I would say that the competition across the different sectors is quite intense in terms of the degree of returns that we see all across them. There's difference in terms of the capital that will need to be deployed in terms of regions, in terms of geographies, and in terms of the different businesses. As part of our play to win, we have identified significant opportunities in countries and in markets where today we don't have a presence for some of our businesses. And just to give you a couple of examples, today building an infrastructure business is not operating in countries and markets like the US and India and Indonesia. That's a significant market expansion opportunity that will drive not only higher topline growth, but higher profitability given the nature of these markets.

The same things happens with our Data Comms business, which is today Dura-Line. There are significant opportunities in the Middle East, Asia and even LatAm that we are not capturing, have not been capturing in the past that will create significant opportunities for margin expansion and topline growth. So that's a significant part of our play to win strategy. We're actively sort of working, as Edgardo was saying, on our organic growth. We don't sort of see major acquisitions moving forward. We see a lot of opportunities in terms of operational excellence and really moving the needle based on being more efficient in SG&A and being more efficient and really capturing synergies across the different spaces such as global sourcing.

Regarding the organic part of the question, we're seeing, again, a combination of increasing capacity in certain countries, entering in new markets, and really sort of leveraging the global footprint that we have across 110 countries from a sales perspective, more than 40 countries from a manufacturing perspective, and really leveraging the fact that we operate 5 different business groups across all these geographies.

Related to the repositioning and moving from being a manufacturing company, moving from products to solutions and eventually into services, we are moving in the right direction. As we've said in previous occasions, our different businesses are working not only in terms of their R&D efforts, but also in terms of our human-centered efforts based on our innovation, lab and collaboration with IDO and San Francisco to leverage new capabilities to develop new business models. We have now several pilots of our irrigation as a service business model being rolled out. We have been rolling out different products that have a significant digital component both in our building and infrastructure business as well as in our [indiscernible] solution and the irrigation business.

We will be sharing with you as we move along in the transformation journey more details around how this transition from being a product manufacturer to a solution provider and eventually having a bigger dent in terms of a service-based business model, we will share with you the details as we move along in the transformation journey, but we're very happy with the progress so far.

Pedro Medeiros
Fair enough. Thank you so much. Congratulations on the results so far.

Daniel Martinez-Valle
Thank you.

Operator
Our next question comes from Vanessa Kiroga with Credit Suisse. Please go ahead.

Vanessa Quiroga
Thank you. Good morning. My first question is regarding your outlook for the different key parts of the Vestolit segment, your medium-term outlook for PVC global capacity mainly and what are your expectations for caustic soda prices as well?

And a second question would be what explained reduction in Dura-Line performance? I think you mentioned that you are eliminating or reducing the sales of selected products that are not very profitable, but we cannot really see the effects that that has on the EBITDA and EBITDA margins. So if you could provide more color on the process at Dura-Line and what's the percentage of sales that you expect to reduce over time? Thank you.

Daniel Martinez-Valle
Thank you, Vanessa. Thank you for your questions.

So regarding the outlook for Vinyl's, as you know, the industry is expected in general a 2020 that will be relatively similar to 2019. In our case in particular, we see our Vestolit business moving forward, which again is our Polymer Solutions business group. We could expect the same kind of margins moving forward, a slight improvement based on the one-offs that we don't expect to see in the rest of 2019 and obviously in 2020. So I think that [indiscernible] will increase as we move along in the next several months, but for now both the industry and us believe that we should expect – in our case a slight improvement and for the industry in general, 2020 very similar to what we saw in 2019.

As Edgardo mentioned, we are working very diligently on improving everything that is under our control – SG&A, global sourcing, really focusing on the right customers, really focusing on the right products and solutions. We do have a very diversified sort of polymers solutions business in terms of both geographies and businesses. We have a very interesting exposure to the specialty resins business, which as you know have higher margins. Our compounding business is very interesting, both in terms of customer centricity as well as margin expansion moving forward so that gives us a buffer in terms of the commodity exposure versus the non-commodity exposure.

Again, in terms of Orbia in general, I think it's important to remind everyone that our exposure to the commodity part of the business associated to the vinyl's component is less than 20% of the total. We are a diversified company not only in terms of Orbia in general, but more specifically in terms of our Vinyl's business division. We have exposure to the America's part of the business, we have exposure to Europe thanks to our Vestolit asset, but we actually sort of operate on a global basis selling in relevant regions such as China, India, obviously LatAm, US and Europe. So we feel confident that based on our operational excellence measures that we are undertaking with our business group president and with Edgardo and the rest of the team, we can see improvement vis-à-vis what we saw in the past in an industry where we cannot expect at this point in time a significant improvement versus 2019.

Edgardo Carlos
In terms of the second question for Dura-Line performance, it's true, I mean, the sales have been coming down, but it's very much related to the reduction of the sales of the natural gas pipeline that we are basically sourcing in the US. But if you see the profitability, and clearly it's not the core business for us, and the profitability quarter versus quarter sequentially and also for the last year increased more than 17% EBITDA ratio.

In reality this business has massive growth potential for a very simple reason. Half of the globe population is not connected yet and we know for a fact that at least 50 billion devices will come on line in the next couple of years. This is the main underlining force driving demand for our products, so our products are the cornerstone of the physical build-up of any next generation network and fiber connectivity. So we are really very excited about this business and clearly we are concentrated in the mix of product that has a higher return and, as Daniel was mentioning, our next step is to expand this globally.

Vanessa Quiroga
Excellent. Thank you. Maybe just a last question. Can you provide more or less the EBITDA of Netafim if basically the Netafim EBITDA increased year-over-year? Thanks.

Edgardo Carlos
Yes, EBITDA year-over-year increased as has been done in probably last three quarters, but we try not to disclose the exact figures, but increased over the last year.

Vanessa Quiroga
Okay, thank you, both Daniel and Edgardo.

Daniel Martinez-Valle
Thank you, Vanessa.

Operator
Our next question comes from Joao Lorenzi of Bank of America. Please go ahead, sir.

Joao Lorenzi
Thank you very much for the questions. So the first one is about Netafim, it's a little bit of a follow up from Vanessa's question. Until when can we expect to see sequential improvement in the business in your view? When you acquired the business, there was comments that you could increase margins sequentially speaking, and that's what it has been doing, but until when can we see this?

The second question is on ethylene in the US. Do you have any expectations in terms of ethylene prices going forward? We have been seeing ethylene prices improving which can improve the results from your JEV?

And the third question is just a very quick one. On SG&A improvement, what can you expect to see in the following quarters? Do you expect some improvement in [indiscernible] numbers in the follow month? Thank you very much.

Daniel Martinez-Valle
Regarding the Netafim question, as you stated, we have seen continuous improvement in the margins. We're well in track in terms of the outlook that we shared with all of you the moment we closed this acquisition in terms of what we expect to see in 2020 and what we've seen quarter-over-quarter since we acquired this company in February of last year. So we're very optimistic in terms of how we see this

company moving forward.

In terms of how longer can we expect to see this margin expansion? I think there's a lot of opportunities moving forward in terms of moving into adjacent sort of business models such as irrigation as a service. Again, our digital sort of platform which is called Mepi [ph] is proving to be the right digital strategy for Netafim moving forward. So we're constantly working with Len and the rest of the team in Netafim to explore opportunities for margin expansion. We feel that we're at the right level today based on the traditional drip irrigation sort of business model, but we are seeing significant opportunities for margin expansion, albeit it sort of incrementally moving forward in terms of the irrigation as a service business model and how digital can transform our businesses moving forward in the precise agri space.

Edgardo Carlos
In terms of ethylene value for the price, you mentioned there has been a very significant increase in [indiscernible]. We've seen some downward trend in the last couple of weeks. We are, based on the publications and what we see is that we are going to be returning, the ethylene prices are going to be going back to the upside position, so the gap or the margin is going to be widening compared to what it is today in to the first and second quarter of next year.

What was the third question?

Joao Lorenzi
The third question is about the SG&A improvement. What can you see the following month? Do you think this is going to be something that should be felt in the numbers in the following quarters?

Edgardo Carlos
You were referring to what? Sorry?

Joao Lorenzi
SG&A improvement. Sorry.

Edgardo Carlos
We're launching all over the places a significant improvement of this. We will see probably some limited improvement in the fourth quarter, but we're going to be starting with the full deployment of this massive program in the first quarter of next year.

Joao Lorenzi
Okay, thank you very much.

Daniel Martinez-Valle
Thank you.

Operator
Our next question comes from Jose Ramirez with MUFG. Please go ahead. Your line is open. It seems that we don't have Jose. Our next question comes from Alejandra Ilbigran of Morgan Stanley. Please go ahead.

Alejandra Obregon
Good morning, everyone. Thank you for taking my question. I have two, if I may.

The first one is on your minority interest, I was wondering if you could help us to reconcile it and perhaps guide us on what's the contribution from Netafim in a ball park way and what's the contribution from the Oxy [ph] JV? It seems like from where the spreads are today, it kind of looks high, so we're trying to understand that prospective.

Then the second question would be with regards to the Vinyl's. So last quarter and during the conference call you were mentioning that all the alternatives were on the table for this division, so I was just trying to understand if there has been some update here, if you've moved forward with any of these alternatives and what's the timing for this? If there's any update here, that would be helpful. Thank you.

Edgardo Carlos
In terms of the minority interest, our performance in the quarter, as we mentioned, has been positively affected by the margin expansion in ethylene chain. So that contributed to better results in the performance of our cracker [indiscernible], and therefore this is partly reflected in the minority interest.

Part of the minority interest is also comprising the dividend from Netafim. Again, as commented in previous calls, we reflect in our financials the contracted condition of our agreement with Oxy that cannot fully be disclosed for competitive reasons.

Daniel Martinez-Valle
Regarding the strategic alternatives, we actually continue to explore every possibility from a strategic perspective for our vinyl's business, and at this point in time we have not made any decisions yet, but will keep you updating on this topic.

Alejandra Obregon
Thank you. That was very helpful.

Daniel Martinez-Valle
Thank you.

Operator
Once again, if you want to enter the question queue, you can press star then one on your handset. We will wait for any further questions.

CONCLUSION

Daniel Martinez-Valle
If there are no further questions, let me just finish by restating what we see moving forward. We see significant opportunities to improve our financial and operational performance based on what Edgardo was saying. We have opportunities in all our businesses, specifically in our [indiscernible] businesses to gain market share and to expand our market positions. We were talking about Netafim, I think Netafim is an excellent example in which today again 70% of the world's water is used in agriculture and only 7% is used with precise irrigation methodologies like drip irrigation. We have a significant opportunity not only to expand our margins, but more importantly to gain market share and to really sort of move the needle in terms of what precise irrigation is in terms of water consumption and managing food security moving forward.

The rest of our downstream businesses have significant opportunities in terms of gaining market share. Building & Infrastructure is not the exception and Data Comm's Dura-Line is not the exception either. We see our EBITDA margins at healthy levels and will continue to manage our company to see this 20% EBITDA margins moving forward.

We are poised to reach best-in-class operational excellent based on safety, quality, capacity utilization, etc. We have opportunities in terms of gaining efficiencies to reduce SG&A moving forward based on synergies and based on operational excellence. We will be leveraging not only our R&D capabilities, but our new innovation capabilities based on design human-centered innovation based on our innovation lab in San Francisco and our corporate venture capital fund. And again, we will have surgical, laser-focused precision on capital allocation moving forward to drive return on invested capital for our shareholders.

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