Alpek 4Q21 Earnings Webcast Transcript

CORPORATE SPEAKERS

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[TRANSCRIPT BASED ON CLOSED CAPTIONING / PLEASE REFER TO AUDIO FOR OFFICIAL RECORD]

Alejandro Elizondo:
[Slide 2] Hello and welcome to Alpek's Fourth Quarter 2021 Earnings Webcast.

[Slide 3] I am Alejandro Elizondo, Alpek's IRO, and today I have the pleasure of being joined by our CEO, Pepe Valdez, and our CFO, José Carlos Pons.

This presentation is divided into two parts. First, Mr. Valdez and Mr. Pons will comment on Alpek's fourth quarter and full-year performance, Guidance figures for 2022, as well as relevant events including our recent agreement to acquire OCTAL. Afterwards, we will move on to Q&A.

Please note that the information discussed today may include forward-looking statements regarding the Company's future financial performance and prospects, which are subject to certain risks and uncertainty. Actual results may differ materially, and the Company cautions the market not to rely unduly on these forward-looking statements. Alpek undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.
I'd like to remind everyone that today's Webcast is being recorded and will be available on our website, at alpek.com. I will now turn the call over to Mr. Pepe Valdez.

José de Jesús Valdez:
Thank you, Alejandro. Good morning everyone and thank you for joining us today. I hope you are all doing well.

This morning I am very pleased to inform you that Alpek has completed 2021 on a very high note. A strengthening in global reference margins for our products helped the Company achieve historical levels in terms of quarterly Comparable and Reported EBITDA. On an annualized basis, Alpek matched or exceeded company records for Revenues, Volume, Reported and Comparable EBITDA, as well as Leverage.

Let's start by reviewing the main topics we will cover in today's webcast:

- First, Alpek significantly surpassed financial performance expectations for the fourth quarter and 2021 overall; José Carlos will review these in greater detail later in this presentation.
- Second, we recently signed an agreement to acquire OCTAL, a major PET sheet producer. We will discuss the transaction overall and how it aligns with our long-term growth and ESG strategies.
- And third, we will provide insight into 2022 Guidance figures and assumptions, which we released earlier today.

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Providing some context for our latest results during the fourth quarter, increased demand for petrochemical products was combined with a tighter global supply, specifically from China, which resulted in sharp increases to reference margins for key products in our portfolio.

During November, China implemented energy rationing measures at coal-based power sites in an effort to improve air quality in the region prior to the 2022 Winter Olympics, as well as to meet their CO2 emissions reduction goals. As a result, output for both PET and EPS producers in the region was adversely affected, increasing Asian integrated Polyester reference margins to an average of $431 dollars per ton for the quarter and $359 dollars per ton for the full year. Both figures were far higher than Alpek's revised Guidance figure of $315 dollars per ton, which was based on the supply/demand balance expectations at the end of the previous quarter.

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North American Polypropylene reference margins also remained at near-record levels, averaging 47 cents per pound, a 9% decrease quarter-on-quarter as Propylene prices came down to match the cost of Asian import alternatives.

At this point, I would like to turn the call over to José Carlos, who will go into more detail regarding the effect of these changes on our financial results.

José Carlos Pons:

Thanks Pepe, and thank you all for being here with us today.

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I would first like to highlight some of Alpek's main achievements during the fourth quarter and for the year overall:

- Alpek matched 2020's record annual volume of 4.8 million tons by setting a record high for its Plastics & Chemicals segment
- Achieved record quarterly Comparable EBITDA of $300 million dollars, with both the Polyester and Plastics & Chemicals segments posting their highest figures ever for any fourth quarter
- Highest-ever Annual Comparable EBITDA of $962 million dollars
- Recovered $8 million dollars in guaranteed debt from M&G Mexico during the quarter
- Further reduced Leverage to 1.1 times
- And regained our Investment Grade level rating with S&P

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If we take a deeper look at Volume, Alpek reached 1.17 million tons this period, a small reduction of 2% quarter-on-quarter as demand for all our products remained strong.

In the polyester segment, volume was 1% higher quarter-on-quarter, largely due to:

- A lessened effect from extraordinary weather events, such as the drought in Altamira during the third quarter, but
- Planned maintenance at some of our production sites

In Plastics and Chemicals, volume was 11% lower quarter-on quarter, mainly due to a scheduled turnaround maintenance at our recently acquired EPS facility in Pennsylvania as well as normal fourth quarter seasonality effects.
On a full year basis, Alpek matched the record 4.8 million tons set in 2020, as the Plastics & Chemicals segment set a new annual record of one million tons thanks to the successful operation of its EPS facilities in the United States, offsetting the aforementioned effects related to extraordinary weather in the Polyester segment.

[Slide 9]
Moving on to raw material price dynamics:

- The global economy has continued to show its strength, despite the resurgence of the Omicron variant
- Average spot Brent Crude Oil price increased to $79 dollars per barrel, 9% higher than the same figure in the third quarter
- However, U.S. reference paraxylene prices only increased by 1% versus last quarter, as margins for this product tightened globally
- In Plastics and Chemicals, Propylene prices averaged 66 cents per pound, a 20% decrease when compared to the previous quarter, to match the cost of import alternatives from Asia

[Slide 10]
Switching over to the EBITDA breakdown for the fourth quarter, we can see that Comparable EBITDA was $300 million dollars, 28% higher quarter-on-quarter. This was primarily due to higher-than-expected reference margins for our main products, as well as solid volumes across both segments.

Reported EBITDA was $269 million dollars, 4% lower, quarter-on-quarter, as this result also included:

- A non-cash inventory loss of $11 million dollars
- A positive carry-forward effect of $6 million dollars
- And a one-time $25 million dollar loss related to footprint optimization, as our Caprolactam site in Mexico and Staple Fibers facility in Cooper River were shut down after years of low industry margins and profitability

If we turn our attention to results by key segment, we can see that Polyester Comparable EBITDA was $160 million dollars, 49% higher quarter-on-quarter and marking the highest fourth quarter ever for the segment.

- Results largely benefited from strong Asian Polyester reference margins, which averaged $431 dollars per ton, after reaching peaks above $500 dollars per ton at one point during the quarter

In Plastics & Chemicals, Comparable EBITDA also reached a new quarterly record of $138 million dollars, an increase of 11% quarter-on-quarter and 109% year-on-year. This was mainly due to:

- Higher EPS margins, stemming from strong demand coupled with lower supply coming from Asia
- And polypropylene margins which remained higher-than-expected through the end of the year

[Slide 11]
Moving on to annualized results, 2021 Comparable EBITDA was a record-breaking $962 million dollars, 60% higher year-on-year, and vastly exceeding our revised Guidance figure of $850 million dollars as strong volume and margins for our core products combined throughout the year.

[Slide 12]
With regards to Free Cash Flow generation in the quarter:

- Net Working Capital investment decreased by $51 million dollars, largely due to the declining price of Propylene during the quarter
- CAPEX totaled $32 million dollars and was mainly used for maintenance and minor asset replacements
- Positive Free Cash Flow totaled $226 million dollars as strong EBITDA and a decrease in Net Working Capital more than offset other expenses
- And, Alpek paid a $56 million dollar shareholder dividend based on its strong results in 2021

[Slide 13]
Finally, regarding our financial position during the fourth quarter:

- Alpek's Net Debt decreased to $1.23 billion dollars
- Last-twelve-months EBITDA increased sharply, resulting in an improved Leverage ratio of 1.1 times Net Debt to EBITDA
- If considering Net Debt to Comparable EBITDA, we also see that Alpek further improved this ratio to 1.3 times

[Slide 14]
As a result of Alpek's improved financial position, but more importantly after a thorough review of the Company's Business Risk profile, in December, S&P reverted Alpek's credit rating to BBB- on a standalone basis, equivalent to investment grade.

As such, the Company now holds stable investment grade ratings across all three major rating agencies.

Thank you everyone, I will now turn the call back to Pepe.

José de Jesús Valdez:

Thank you, José Carlos.

[Slide 15]
Turning our attention to recent events, as José Carlos mentioned, Alpek concluded 2021 with its lowest net leverage in 8 years a strong financial position that allowed the Company to consider additional growth opportunities.

Two weeks ago, we announced that Alpek has taken an important step forward in its long-term growth strategy, after reaching an agreement to acquire OCTAL, a major PET sheet producer.

The transaction is an ideal fit for Alpek for several reasons:

- One. It incorporates PET sheet into our portfolio, a new high-value product. PET sheet is an easily moldable product used in diverse food and beverage applications, that currently represents 13% of global PET demand, and is expected to grow at a strong 6.4% per year.
- Two. The addition of DPET proprietary technology, a PET sheet production process that eliminates several energy-intensive conversion steps, resulting in the lowest cost production method for this product.
- Three. PET sheet is 100% recyclable, and OCTAL's production process generates a product that has a 25% smaller carbon footprint than the rest of the industry. The addition of this product into our company accelerates Alpek's portfolio's evolution towards even more sustainable products.
- Four. The transaction expands our geographic footprint, allowing Alpek to reach customers more easily on a global basis.
- Finally, the deal was attractive from a financial point of view, which we'll discuss in more detail on the next slide.

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With a purchase price of $620 million dollars, and last-twelve-months EBITDA of $135 million dollars, the deal has an implicit multiple of 4.6 times. Moreover, the transaction is expected to close by the second half of the year, at which point the assets would become immediately EBITDA-accretive to Alpek.

Furthermore, given Alpek's strong performance to date, as well as the addition of OCTAL's EBITDA, Alpek expects to remain at low Leverage levels even after the acquisition is concluded, reaffirming its commitment to financial stability.

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Finally, regarding Guidance for 2022, and as announced in this morning's Press Release, Alpek's outlook remains positive. We expect the strong economy and positive changes to consumer behavior to continue supporting demand. As such, the Company expects a continuation of strong financial performance across its core product portfolio throughout the next year.

Our Guidance figures are based on the following key market and business assumptions:

- Average Brent crude oil reference price of $81 dollars per barrel
- Asian Integrated PET Reference Margin of $315 dollars per ton, based on demand and high freight costs combined with a normalization in the Asia versus North America PET spread, which was low in 2021
- A total volume increase of 4%, largely from the Polyester segment as we do not expect a repeat in the adverse weather events of 2021 and only slightly offset by a reduction in the Plastics & Chemicals segment, as our ongoing EPS maintenance concludes during the first quarter
- As well as a gradual decline in North American Polypropylene margins, which remained high in 2021 and are still expected to remain well above historical levels

Based on these assumptions, overall Comparable EBITDA for 2022 is expected at $1,031 million dollars. It is important to note, that this figure does not yet include the EBITDA contribution from the OCTAL acquisition.

Annual CAPEX for the year is expected to be $830 million dollars, which includes $620 million dollars associated to OCTAL, as well as $125 million dollars for strategic projects, and $85 million dollars in maintenance CAPEX.

In terms of dividends, Alpek is proposing $173 million dollars for shareholder approval, in line with the amount it has proposed in previous years. The possibility for an additional dividend will be assessed later in the year, depending on the Company's results.

Finally, from a financial standpoint, Alpek has kicked off 2022 with an extremely solid position of 1.1 times Net Debt to EBITDA. We expect leverage to remain in line with our requirements as an investment grade company, and well below our target of no more than 2.5 times.

As always, I would like to thank our team, customers, and suppliers for helping Alpek reach new heights. I am confident that the records we broke in 2021, can be surpassed again this year.

I would also like to thank you for your attention today.

I'll now turn the call back to Alejandro to open the Webcast for Q&A.

[Slide 18]

Alejandro Elizondo:

Thank you, Pepe. At this time, we will now take your questions. To ask your question live, we ask that you raise your hand virtually through Zoom. We will call on participants in the order that hands are raised. Alternatively, you may also type your question through the Q&A function. We will attempt to cover as many questions as time allows.

Our first question comes from Leonardo Marcondes from Itau, Leonardo your audio has been enabled, please unmute yourself and proceed with your question.

Leonardo Marcondes, Itau:
Hi guys, can you hear me?

Alejandro Elizondo:
We got you, Leo.

Leonardo Marcondes, Itau:
Okay perfect, so thank you for picking my questions. I have actually two questions about the guidance: my first is, could you provide a bit more color on the supply and demand dynamics for polyester that

explain actually polyester margins for what you guys expect for 2022? I mean I believe that almost all the petrochemical spreads will normalize this year right, but could you provide more color on what do you expect in terms of capacity addition or closing globally speaking, how demand should behave for PET this year?
My second question is on the risks of the guidance, with the guidance provided, Alpek will post another record annual EBITDA right, so I would like to know from you guys what are the biggest risks you guys see for 2022 besides lower spreads, is there something else that could impact the company's expectations this year? Thank you.

José de Jesús Valdez:
Leonardo thank you for your question. In terms of the supply demand yeah, I have to say that certainly increased in both demand and supply and let's say, supply demand or the operations rate globally perhaps are going to be similar to last year. However, we do believe that there are some other factors that are playing a very important role this this year but let me start by saying in the guidance, you probably noticed that we are assuming a margin in Asia of 315 dollars per ton and if you compare that to 431 in fourth quarter that means we are assuming a very rapid normalization of margins in Asia.

However, you have to take into consideration that in Asia and China in particular, prices of energy have been much higher than normal, prices of natural gas at some point in time around up to 30 dollars per million BTU and and of course that impacts the power cost as well in a significant way. So that is part I think of the explanation of why the margins in Asia remain at a higher level today than in the past, so keep that in mind so again 315 dollars per ton Asia I would say, normally in a normal situation, we would be forecasting let's say, perhaps 270 or in that range but of this increase from 270 to 315 there is a considerable impact of the energy, so that's why we are keeping the margins higher than than the normal year.

Okay now, the other aspect has to do with of course the ocean freight rates particularly for containers, we have seen that I think most of you are familiar with this issue, traditionally container cost from Asia to let’s say North America, which is our main market at the end West, would be around 2,000 dollars per container and to the East Coast perhaps closer to 3,000 okay so that's the normal range for freight rates.

Today in our budget, in our guidance, and we didn't mention this so this is an important clarification or addition, we are assuming a container an average container cost from Asia to North America and South America again which are our main markets of around 6,500 dollars per ton. As we speak, these freight rates are more in the 9,000-10,000 dollar range, okay so that that again is a very important assumption.

So I think this would probably give you some a little bit more let's say, a little help in, you know, in making your own predictions, I mean, basically what we're saying is guidance in margins of PTA 315 right now margins are closer to 400 dollars than 315 and freight of again 6,500 per container we're now closer to 9,000 - 10,000. So at least from those two important assumptions, we are relatively conservative in our guidance and of course we're assuming freight rates will come down as the year goes by, we believe that probably we should start to see that second half this year also I tell you a lot of people, experts in the industry believe that the normalization of freight rates will start more into next year but we are assuming it starts earlier and that's why we're using this number of 6,500. And again this freight rates are important not only for polyester but also for EPS for both products this is an important premise or assumption because in both cases our prices in some cases are based on margins outside, or margins in Asia plus freight.

So that's one point and then you ask about the risk of our guidance, look in the other important assumption in the guidance is that we are reducing our Polypropylene margin so that we end the year let's say, at a normal margin, an average margin and that reduction so far, let me put it this way, so far the margin reduction is not going down as rapidly as we have assumed in the budget, but perhaps I mean it's only two months, so it's too early to say how this is going to end but I just want to convey the fact that I believe we try to be conservative in our key assumptions for the guidance, if you ask me today, I see a higher probability of upside than downside to our guidance.

Alejandro Elizondo:
Thank you very much, Leo.

Leonardo Marcondes, Itau:
That's very clear, thank you guys.

Alejandro Elizondo:
Our next question comes from Tasso Vasconcellos from UBS. Tasso, your line has been unmuted, please go ahead and ask your question.

Tasso Vasconcellos, UBS:
Hi everyone! Thanks for taking my questions and congrats on the results. My questions are regarding OCTAL acquisition and M&As, other than the expansion in terms of portfolio with the acquisition of OCTAL, there is obviously a strategic geographic positioning, could you expect additional movements in the region with Alpek seeking to strengthen its competitiveness in either Europe or maybe Asia and, as you mentioned leverage is still below 1.6 times, relatively comfortable, so is there additional M&As on the pipeline in the short term?
And my second question is regarding what are the risks you're seeing with the OCTAL acquisition, most of the M&As face some challenge not in terms of expanding its portfolio per se but maybe integrating operations, different kind of cultures or even relationship with clients, Alpek has a solid track record with M&As, so maybe could you comment on challenges you faced with other acquisitions and what are the biggest risks and challenges you have mapped after the closing of OCTAL? Those are my two questions, thank you.

José de Jesús Valdez:
Tasso, well first of course the OCTAL acquisition is very well aligned as I mentioned with our strategic pillars. First of all, we do believe this strengthens our existing business overall, just I mean if our capacity of PET today is close to 3 million tons, this would have almost a million ton additional PET and again it provides a lot of synergies in procurement of raw materials and and some other important aspects.

So OCTAL complies with the first leg of a pillar of our strategy which is strengthening business, number two which is sustainability and circularity in that I already explained that's also very clear, I think this technology is certainly up to, at least from what we know today, the most or the lowest carbon footprint to produce PET and believe it or not, there are not so many, not so much capacity with this technology globally, so that is another important aspect that we consider in making this decision. And in terms of the other pillar, is we prefer to grow in products or businesses that have some sort of adjacency to what we do, to diminish risk and to capture synergies and again this project of OCTAL also complies with that. OCTAL you can see in a way as a geographical diversification for our products, but also as an integration I mean the sheet it comes from PET so it helps us integrate also our existing product line so again it's a very special situation with OCTAL.

Now, when you ask me about new M&A I would say, well we will consider, we will continue to look at new M&A particularly in companies or sectors that comply with all these requirements and in some cases or in many cases, we do have a relatively, you know, important presence in the regions where we are so I would say you have to expect some of these M&A could be in product lines that we already are in, in other geographical areas, that would be one possibility. And of course let me emphasize the other very important priority for us is to continue to invest and to grow in circularity, in recycled products and also not only circularity but also in sustainability, products that help improve our carbon footprint.

In terms of recycled products, well of course you know what we have done in Polyester, we acquired last year what we consider to be one of the best plants for mechanical recycling in the U.S., it's very close in our opinion to a state-of-the-art facility, and also we understand and accept that mechanical recycling has to continue to evolve to improve cost, the scale and quality, there is no question that this plant provides a lot of opportunities and that's part of the reason why we invested in that. We will continue to look for opportunities in M&A in mechanical recycling as well as in chemical recycling, although in chemical recycling more than M&A is look for new technologies, alliances, new projects, because chemical recycling is a little bit, is not, let me put it this way, as advanced as what you will see in mechanical recycling, mechanical recycling we think it's a mature technology still has to improve but it's closer.

In terms of chemical recycling, I think we we're at the beginning of what's gonna happen in chemical recycling and then you know chemical recycling just, also to make sure we understand each other, there are several different processes for chemical recycling: one which is the perhaps the most advanced today is what is called methanolysis, where you use, well when you input, let's say use PET into the plant and you get back MEG or glycol and you get back DMT. There's a couple of projects that Eastman is now proceeding with and one in Europe and one in the U.S. and I think this is, you know, a significant improvement and these plants do have a scale that is required, but again let us not forget that chemical recycling also needs feedstock, also needs the bottles and again on the one hand it’s to have good technology, to convert bottles into PET or in this case PET precursors and on the other hand there are other technologies that perhaps, would make a little bit more sense to us because in our plants mostly we don't consume PET as much.

And the other technology that is called glycolysis which converts PET into the polyester monomer, normally you know called BHET, so that is again a feedstock that we could use in our existing PET plants to produce recycled PET, so that technology in particular would be also of great interest to us and we are, you know, talking to different technology suppliers, to different companies that are working in this area to to see how we can advance, we can accelerate all of these processes.

And last, there's another process, well, there are two more processes in chemical recycling I think that the other one would be what is called hydrolysis but that is technically a more complicated process. In that case you go back from PET, I mean place or whatever, you go back to PTA and glycol, again it has some significantly more challenges from a technological point of view. And last the other technology that is important is pyrolysis, but we're looking at that technology more than for polyester for other plastics. That technology, that's not a new technology as opposed to all these depolymerizations that I was talking about, the pyrolysis is a technology that has been known for many years, but that is I think very important, particularly for recycling of other plastics mainly I would say polyolefins because that again converts those plastics into feedstock for crackers, so that's another possibility but again, we look at that more from the Polypropylene perspective than from the from the polyester perspective but that's also an important technology that we're working with.

Alejandro Elizondo:
Thank you, Tasso. Our next question comes from the line of Vicente Falanga from Bradesco. Vicente your line has been unmuted, please go ahead and ask your question.

Vicente Falanga, Bradesco:
Thank you everybody, I had two questions: with the OCTAL acquisition, Alpek like you mentioned takes some steps towards the more value-added side of the chain, which could reflect unless a result volatility in the future and therefore possibly a more premium valuation for the company, could this be a motivator when analyzing future M&A and could we expect the company to become more and more forward integrated?
And then, my second question, this time last year the Northern hemisphere had a big polar freeze which impacted the supply logistics of petrochemicals, we have had a few storms I think in the U.S., do you think that these were in the same magnitude or strong enough to potentially impact prices? Thank you very much.

José de Jesús Valdez:
Okay, you were talking about the sheet business and asking whether there's more opportunities to forward integrate, I would say in this sense OCTAL was a unique opportunity for us because we do not have a lot of customers that are producing this product today and again they have a very differentiated technology, so that's what made this decision attractive to us. In most of our other, you know, opportunities PET markets or even Polypropylene or EPS, we have consciously made the decision not to integrate forward because it would result in competing with our customers in many cases. And again in many cases as well, these businesses are of a different nature, they're not so much chemical business, they are different business types and when it's not necessarily that our competence would be so important. So I don't see as a rule the fact that we would be looking at other integration.

What we're looking at is trying to add more differentiated products and such an example you have, we are investing in our Polypropylene facility in having copolymer capacity, we are investing in EPS in the

ARCEL product as you well know, which is also a differentiated product, we are increasing our capacity, planning to increase our capacity there. We have just recently developed biodegradable EPS, we've tested this commercially and again as I mentioned before we are right now relatively tight in terms of EPS capacity for a short period of time, so once we, because we are making some improvements to our plant, the plants were basically required but once those improvements are finished, we will be able to also start to produce the biodegradable EPS in a more normal fashion.

Another very important product that we are going to start investing in and I didn't mention before we also have developed together with another company a technology to chemically recycle EPS and PS back into starting monomer. We have already tested this at the pilot level and the results are very promising, we are now considering to, you know, to build a commercial plant of a relatively small size so that we can test the technology and be ready to move ahead but that's also an important opportunity for us to grow in the future. And again, you know, the challenge with this polymer recycling or mechanical recycling anyway, is the challenge or the limitation for us to continue to grow there is the availability of used bottles or of used plastics. That is the key limitation that we are facing. If we had enough feedstock we would be growing much more aggressively, but it's extremely important that we can develop more sources of feedstock and honestly, we are also spending a lot of resources – time, to make sure that collection of our products can be increased. We are working actively I would say in the Recycling Partnership which is an organization in the U.S. that is precisely trying to find ways to to increase the collection of our products in its final stage, so that's another area again where we're trying to continue to invest.

So as you can see it's a lot of opportunities but not only in our existing product line but in areas related to that, recycling, circular economy eventually also of course, we're also working with some people in potential opportunities for bioproducts not only biodegradable but also bioproducts meaning that the raw materials come from bio raw materials. This case is not an issue of circularity, it’s more an issue of improving carbon footprint.

So again as part of our, let's say, opportunities going forward recycling, improving collection one way or another, biodegradable products and also biomass products, all of these we are very much emphasizing. We also have some biofertilizers and biopesticides that we are very advanced in terms of the development of the product and that's a very interesting possibility, we have a very unique product there and this product will be used for organic to produce or required to produce organic products and we don't see anything like that in the market today. We're just waiting, the product has been fully developed, we are waiting for the approval of COFEPRIS, which is, you know, regulatory here in Mexico and unfortunately has taken a lot of time, this government agency has been very busy with all of the COVID situations and we have not yet gotten the approval, but again I probably asked too much, I mean, I probably answered too many things, but I want you to have an idea of all the things that we are looking at for the future.

Vicente Falanga, Bradesco:
That’s very clear.

José de Jesús Valdez:
Let me just make a comment because and again when we look at these products we're not dreaming with a multiple of 14 or 15 times EBITDA, we are doing this because we feel it's the right thing to do, if we happen to get those multiples, well that's going to be an added bonus, that's going to be great, but again this is something that we are doing and we don't require those types of multiples to move ahead with these opportunities.

Vicente Falanga, Bradesco:
That's very clear, you have a lot on your plate.

José de Jesús Valdez:
Okay, now you asked a question about the the Polar Vortex, look this situation we lived last year was a one, I mean, was really a black swan. I think, you know, last two weeks ago, we were again, the market was again going crazy because they were expecting a similar situation which did not materialize. I think, you know, we are all learning how to avoid these problems and I'm sure there will be, you know, external factors that would impact our production and everything, but hopefully, I mean, they will not be the same hopefully we're learning from what happened and trying to reduce possibilities of these things happening again and let me just give you an example, as you know because not only the Polar Vortex for us the biggest impact last year in terms of our production was the the drought in Altamira. And again that was a combination of lack of maintenance from some of the facilities in that area, in the lagoon, you know, that is there which are being addressed, what happened was the level of water in the lagoon was so low that the water from the ocean started to leak into the lagoon and made the quality of that water very difficult to use. So what's now happened first thing was done is all of those leaks have been fixed so hopefully, if we have a low level of water at least the ocean, the salt water will not come into the lagoon, number one. And number two we also, on our side we have also invested now in some water treatment technologies that would significantly reduce our consumption of water and improve the quality, so again another opportunity to get the reliability in our plants and also to help our sustainability efforts reducing water consumption.

Vicente Falanga, Bradesco:
That is great, all very welcome, thank you Pepe.

Alejandro Elizondo:
Thank you, Vicente.

José de Jesús Valdez:
You're welcome, Vicente.

Alejandro Elizondo:
Our next question comes from the line of Jean Bruny from BBVA. Jean you've been unmuted please go ahead and ask your question.

Jean Bruny, BBVA:
Hi there, thank you very much for taking my questions, just have a couple actually. The first one, I don't think I get that if you mentioned it already, but what is the impact of OCTAL to the EBITDA guidance you have for this year, assuming for the second half, I believe, so if you can give us gross numbers for the contribution of that new business to your EBITDA guidance.

The second one is probably more on the dynamic of the markets I think we're I believe we're seeing some scarcity of the product in some regions, in the U.S it appears that it gets difficult to get access so if you see a change of attitude of your customers maybe they are committed to more volumes, more long-term volumes in pricing as well.

And the question is also for recycling, we see in some parts of the world like in Europe the recycled PET trading at a premium to virgin, we think this as well in the U.S. we've seen a lot of customers that are committed to include some recycling pay to the product if they can get access are they ready to pay more for the recycled product, you mentioned the difficulty to get access to the raw material as well. So and you mentioned in the past that maybe we can have a new formula to calculate the price of recycled products, if you can just mention it broadly and if within the recycling product we can see different prices for a mechanical, for pyrolysis, or monomer recycling as well. Thank you very much.

José de Jesús Valdez:
Okay, with regards to your first question, in terms of OCTAL EBITDA we believe that perhaps second half of the year from OCTAL I would say estimated to be around 80 million dollars and that's the number we have in mind and is not included in our Guidance.

Jean Bruny, BBVA:
Ok.

José de Jesús Valdez:
And number two, again you're coming back to the circularity issues, recycled, what I just mentioned to you the unavailability, the scarcity of recycled bottles or bales as we call them, has given the price of the bales themselves higher than the price of the virgin products. So just to give you an example, here in Mexico the bottles you wanna buy a bottle bale of PET I'm talking now, you will have to pay 1,100 dollars for the bale itself out of which you're going to have a yield, I don't know perhaps 65-70% so once you yield the bale it will give you a price of 1,500 only for the raw material, and then on top of that you have to add the conversion cost to convert those bottles into rPET into pellet or into flake, whatever route you go. And then that's the reason why our pricing and again this price of bales is very volatile, it changes a lot, up and down depending on different situations, but that's why our pricing policy for rPET is absolutely based on a cost pass-through so we have a cost of bales and then we add the conversion cost to that and that's the way we sell the product, it has nothing to do with the price of the virgin product, completely independent. And the good news is that the customers, our customers, brand owners they agree on that, they accepted that and and they believe it's a fair way to go and that's the only way we can continue to invest in that business. So I think a solution has been found for that and again this is for

mechanical recycling, chemical recycling, whatever. That's the new, let's say, formula or pricing formula that is being used by most of the industry today.

Jean Bruny, BBVA:
Perfect very clear and just maybe a last one on Corpus Christi, if you can give us an update on the timing you're thinking for the project?

José de Jesús Valdez:
Yeah, Corpus Christi is progressing, we have done, we have advanced on the, let's say, cost estimate to finalize the plan and we still have some work to do there, but I would say that I would expect that by April this year we should be able to, we should be ready to make the final decision to go ahead.

Jean Bruny, BBVA:
Okay, very clear thank you very much Pepe, bye.

José de Jesús Valdez:
You're welcome, Jean.

Alejandro Elizondo:
Thank you, Jean. We're going to get our next question now from Andrés Cardona from Citi, Andrés your line has been unmuted, please go ahead and ask your question.

Andrés Cardona, Citi:
Yeah, thanks Alejandro, good morning Pepe, José Carlos. Maybe following up with the question, the previous question about Corpus Christi just to clarify it, so the CAPEX guidance doesn't have any budget for Corpus Christi?

And then the question that I have been like preparing is over the last 18 to 24 months we have seen or at least in my view, several structural positive impacts for your business with the demand growing very fast, so my question is about what are the structural impacts you see for the business and in particular I care about if you think the industry is developing enough capacity to keep serving the market in particular in the Americas because it seems we are seeing a kind of a reliability premium which seems to be or at least to me, to be a pricing signal to develop more capacity and the second is still associated to the changes that we have seen in the industry over the last couple of years, if your long-term view about the integrated PET margins have changed along this period of time and if so, how it has changed? Thanks again and congratulations for the results.

José de Jesús Valdez:
Okay, well your first question I get is whether the investment or CAPEX for CCP are included, we are including, some amount of CAPEX in there and again if the decision is made end of April beginning of May then of course, you know, first months is going to be getting the site ready and everything so we're not expecting a lot of CAPEX this year, the biggest CAPEX will be '23 and '24 but we are including a certain amount of CAPEX for CCP, you know, in our CAPEX budget.

Okay, in terms of capacity in America in PET, well, I think you are right demand has grown faster than we anticipated so that's why, certainly, that's a plus for Corpus Christi going ahead, having said that, you know, we also see that rPET is going to continue to increase so that should also help, you know, fulfill the demand and in a way also our OCTAL acquisition would also allow us to import or bring more PET into the U.S.

And changing PET margins, that question Andrés, if I knew the answer, look, there are some reasons why you would consider that they have to improve going forward the margins for PET in Asia, I mean one of those some people say that margins are going to go back but perhaps not going to go back all the way, they want to remain at least for a while a little bit higher than what they were before the pandemic so that's one reason why even if the margins in Asia remain the same then still the margins overall could improve in the Americas, that's one possibility.

The other aspect I think, I mean we are in our internal assumptions, we are assuming that the margins in Asia are going to remain the same and we are assuming that the freight rate is going to remain the same, but I see your point, there is a possibility that they could move a little bit higher and on the Asian side, the China's idea, of course the energy issue that I mentioned before is likely. I think China has been depending a lot on their coal for energy to supply power, so as we move forward and they are cleaning, they are reducing their emissions. Perhaps, they have to convert some of those plants, power plants that use coal to other feedstock, natural gas or whatever, so again I think, that might have an impact on the margins, some increase in margins going forward, but again our assumptions in our plans is that they will continue on a similar level, I think that forces us more to continue to improve our cost and our operation efficiency.

Alejandro Elizondo:
Thanks Andrés. Our next question comes from Vanessa Quiroga from Credit Suisse, Vanessa your line has been unmuted, please go ahead and ask your question.

Vanessa Quiroga, Credit Suisse:
Yes hi, hi Pepe, hi José Carlos. I entered a bit late on the call but I understand that you are representing the premium that you are getting for PET in Americas or North America as a normalization of prices versus Asia but I want to understand that better because what year you are taking as the target then for normalization? Thanks.

José de Jesús Valdez:
The margins that we are using I think I mentioned this before, for margins in Asia long term are going to be 270 dollars in Asia, and in the guidance that I just mentioned we are using for this year, for 2022, we are using 315. So we are assuming that this year 2022 is going to be slightly higher than the equilibrium margin in the future due to again some of these energy issues that I was just mentioning that have created, an increased margin. And also we are assuming that this year, perhaps we're going to start, at least the first quarter, we are assuming that the margins will be higher, again all of these energy prices are going to remain high at least until the first quarter and then perhaps, they will start to normalize but that's why we're using 315 this year versus the 270, you know, normal figure, let's say starting 2023 onwards.

Alejandro Elizondo:
Thank you Vanessa.

Vanessa Quiroga, Credit Suisse:
That's great, thank you, yes, thanks.

José de Jesús Valdez:
Thank you.

Alejandro Elizondo:
Thanks Vanessa. That concludes our questions to be submitted orally. We have a few questions via text, we'll get to maybe one or a couple because we're running out of time.

The first one, some of them have already been answered, so Liliana de León asked about OCTAL figures for EBITDA in guidance, as Pepe already answered that's around 80 million dollars if the transaction concludes in the second half.

Lucila Gómez and Federico Galassi both asked about where Asian margins are currently at and in January and February to get a better understanding of how fast the normalization is happening, Pepe already answered that they are currently around 300 to 310 dollars per ton.

José de Jesús Valdez:
No, that would be China, not Asia.

Alejandro Elizondo:
I'm sorry, yes.

José de Jesús Valdez:
They would be 400.

José Carlos Pons:
They're in the order of 400.

Alejandro Elizondo:
Thank you for the correction, 400 to 410 dollars per ton. And we have a question from Andrés Antonio who asks if greenhouse gas emission reductions are expected to be positively perceived by investors Pepe?

José de Jesús Valdez:
Well, that's a very good question, a very important question, I think you're all familiar with our ESG press release and we committed ourselves to reduce our greenhouse, well, our CO_2 emissions, I think 27.5% for 2030 from '19 to 2030, according to the guidance of the United Nations and the Paris Accord and all of that and I'm glad to tell you that we believe this year 2022 we're gonna get close to 20% reduction already so by the end of '22 I think we're going to be 20% lower than '19 so we still have another 7.5%

or let's say, 10% to go but we are very advanced in meeting this emission reduction. And we do have of course plans to get to the 30% and basically I think the biggest improvements in technology which will reduce energy intensity in our products and also some switching to renewable power that we can do from now to 2030 and then on top of yeah, I would say those are the two major opportunities.

Beyond 2030 I do believe that at that point in time this bioproduct opportunity would help us to continue to reduce and we do have more opportunities to change to renewables after 2030 because we have a contract with clean energy, but still not renewable that goes all the way to 2031 I think, so we do still have some opportunities to continue to reduce our emissions after that and we're working as we speak in opportunities carbon capture, green hydrogen, we're looking at all of those technologies which today you know, they are not mature enough and they might even be expensive but we're looking at those opportunities and hopefully, those will materialize in after 2030 to allow us to go to the neutral or to the zero carbon emissions in 2050. So we see opportunities to continue making progress.

Alejandro Elizondo:
Thank you Pepe. That was the last question we have time for today, rest assured we will follow up via email if we did not get to your question on this call.

As always, I'd like to remind you that you can find both a video recording of today's webcast, as well as a transcript, on our website at alpek.com. Thank you all for participating in Alpek's Webcast.

Have a great day!