Alpek 4Q23 Earnings Webcast Transcript

CORPORATE SPEAKERS

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Bárbara Amaya:
[Slide 2] Hi everyone, welcome to Alpek's Fourth Quarter and Full Year 2023 Earnings Webcast.

[Slide 3] I'm Bárbara Amaya, the recently appointed Investor Relations Officer. Joining us today we have Jorge Young, our CEO, and José Carlos Pons, our CFO.

[Slide 4] On today's call,

- Jorge will provide a high-level overview of full year performance and review 2023, including actions taken to position Alpek for success in the current environment.
- José Carlos will then cover quarterly and annual financial results in greater detail.
- Finally, Jorge will outline our strategic initiatives, outlook, and expectations for 2024.
- We will then open it up to questions.

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 uncertainties. 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 it is as a result of new information, future events, or otherwise. We express our financial results in U.S. dollars unless otherwise specified.

For your convenience, this Webcast is being recorded and will be available on our website. Jorge, I'll turn the call over to you.

Jorge Young:
[Slide 5] Thank you, Bárbara, and we're very glad to have you as our Investor Relations Officer. Good morning, everyone, and thank you for joining us.

As we reflect on the past year and look ahead to 2024, Alpek is focused on optimizing performance through near-term market conditions while continuing to advance our long-term strategic goals. Similar to the first three quarters of 2023, the fourth quarter remained challenging for the petrochemical industry. However, throughout the year, we took decisive actions not only to mitigate these effects, but also to strengthen and position our Company to maximize resilience across the cycle. These actions, which I will cover in more detail shortly, fall within two key categories:

- One – achieving structural cost reductions, and
- Two – strengthening our balance sheet.

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Before going into the details of these initiatives, let me walk you through our full year 2023 financial results:

- Volumes were 4.64 million tons, down 8% year-over-year, which was in line with our most recent expectations.
- Comparable EBITDA of $734 million, which is 47% below year-over-year and is due to a compression of PET, Polypropylene, and EPS reference margins.
- Operating Free cash flow was $408 million with net working capital recovery of $596 million, a year-over-year improvement of 244%, mainly from lower raw material prices and inventory management initiatives.
- CAPEX was $277 million, 38% lower than our original guidance provided at the start of 2023, as we proactively paused CAPEX-intensive projects.
- Total debt at year-end was $1.73 billion, down 7% year-over-year as we continued to prioritize reducing debt.
- During the third quarter, Alpek and its joint venture partners announced that Corpus Christi Polymers, CCP, decided to pause construction of its integrated PTA-PET plant in Corpus Christi, Texas, due to a increase in capital requirements. In the fourth quarter, Alpek recorded a non-cash impairment charge of $557 million related to this decision. Just to be clear, and independent of the accounting impairment, the project is on a pause and the site is being preserved for a potential future start. As decisions on the project are made, the owners will communicate accordingly.

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On slide 7, I would like to update you on the progress we made throughout the year to maintain our competitiveness as we navigate the complex and challenging environment.

We sharply focused on achieving structural cost reductions that not only benefit our business now but that also position us to be resilient over the long term. Over the course of 2023, we undertook actions to reduce both fixed and variable costs.

Some of these actions required difficult decisions. We focused on optimizing our footprint. We halted production at the Cooper River site and shifted all production to more competitive plants. We also shut down the filament site in Monterrey, and with this decision we are no longer in the filament business. These closures are expected to have a benefit of approximately $40 million on an annualized basis.

Additionally, we developed a plan for organizational restructuring that includes, among other actions, a headcount reduction mainly in our Polyester business to be carried over the first half of 2024.

Furthermore, this restructuring also focuses on operational efficiency through investments in integration and standardization of new systems. This will help us reduce redundancies across geographies by creating centers of excellence.

Finally, during 4Q23 we signed power supply agreements with more competitive rates for some of our facilities.

We anticipate these actions combined will generate savings of approximately $35 million.

All told, the footprint, the restructuring and the improved power contracts, we expect will deliver at least $75 million in annualized basis. We estimate that more than half of these savings have already been realized, with the remaining portion scheduled to accrue by year-end. We are continuing to identify cost-saving opportunities while still investing strategically in Alpek's future and we are confident in the incremental profitability these efficiencies will provide when markets normalize.

[Slide 8]
In addition to our working capital and capex optimization initiatives, we made significant progress on strengthening our balance sheet. We successfully secured our first Sustainability-linked loan of $200 million. Through this arrangement, we efficiently refinanced our outstanding balance and extended our 2023 bond, which was due last August, to 2028, improving our average debt maturity to 5.2 years. Further, this financing aligns with and supports our ESG strategy.

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And delving into ESG, we continue to advance our goals.

- First and most importantly, we maintained our dedication to keeping our people safe and achieved a Total Recordable Incident Rate that was 27% lower than the prior year.
- It is worth highlighting that our Polypropylene business recently achieved 4 years and 5 million man-hours without recordable injuries. Moreover, 12 of our sites were injury-free during 2023.
- We also made very strong progress toward meeting our SBTi carbon emission goals, with a 27% reduction in CO_2 emissions compared to our 2019 baseline. This is partially due to carbon-free energy now supplying 27% of our electricity consumption.
- Our recycled PET production volume grew 17% year-over-year and, in the Plastics and Chemicals segments, we developed six new products made from recycled and biobased materials.
- Finally, we reinforced our commitment to gender equality by pledging to the Women's Empowerment Principles from the United Nations Global Compact and UN Women.
- I am proud that we were able to continue to make progress on our ESG, sustainability, and circularity initiatives while taking action to strengthen our business.

With that, I will turn the call over to José Carlos to cover our financial performance in more detail.

[Slide 10] Financial Results (Divider)

José Carlos Pons:
[Slide 11]
Thanks, Jorge. Good morning, everyone, and thank you for joining us. Let me provide you a deep dive into fourth quarter performance.

- Volumes for the quarter were 1.1 million tons, in line with expectations, and down 7% quarter-over-quarter. Volumes were impacted by continued influence from Asian imports, softer demand, as well as normal seasonality and scheduled maintenance in some of our production facilities.
- Reported EBITDA was $53 million and was impacted by a non-cash effect derived from re-expressing full-year Argentina results under IFRS hyperinflation accounting, which was present throughout the year, with a greater impact in December, as there was also a significant domestic currency devaluation.
- Alpek generated $167 million in Comparable EBITDA.
- In line with our standard practices, these figures consider hyperinflation and currency devaluation as extraordinary effects, given their non-cash nature. Looking ahead, we anticipate no further material impacts from hyperinflation, as we plan to transition to U.S. dollars as our functional currency in Argentina in 2024.

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I will start by discussing the results from our Polyester segment.

- Volume was 907 thousand tons, 5% lower quarter-over-quarter as we continued to see impact from Asian imports.
- Asian integrated PET reference margins increased by 5% quarter-over-quarter, averaging $285 dollars per ton, recovering slightly as raw material prices decreased. Meanwhile, Chinese integrated PET reference margins averaged $155 dollars per ton, increasing by 6% as there seems to be some temporary capacity rationing.
- In terms of feedstock dynamics, U.S. reference Paraxylene prices decreased by 16%, with the spread between North American and Asian prices becoming more favorable, decreasing by 46% to $180 dollars per ton, yet still above historical levels.
- Comparable EBITDA was $122 million, up 7% quarter-over-quarter.

[Slide 13]

Turning to our Plastics and Chemicals segment:

- Volume was 193 thousand tons, down 13% sequentially as the Polypropylene segment saw slightly lower demand levels amid seasonality and high supply in North America. EPS demand continues to be impacted by a downturn in the construction industry and as our Polyester segment, sustained imports.
- Polypropylene margins remained flat from a continuation of market conditions in North America. They remained at 17 cents per pound, as expected. And for EPS, North American reference margins improved at year end, returning to historical levels at an average of 27 cents per pound, 45% higher quarter-over-quarter.
- In terms of feedstock dynamics, average reference Propylene prices increased to 46 cents per pound, up 28% quarter-over-quarter. Meanwhile, average reference prices for Styrene declined to 47 cents per pound, a 12% decrease compared to the third quarter, with only a slight disconnection to Asian reference prices.

- Comparable EBITDA was $43 million, up 3% quarter-over-quarter as higher reference margins for EPS offset seasonality.

[Slide 14]
Turning to Free Cash Flow, which had an extraordinary result in 2023:

- CAPEX for the fourth quarter totaled $112 million comprising scheduled maintenance, a payment for costs already incurred from the CCP construction, and a $28 million earn-out payment from the Octal acquisition.
- Net Working Capital improved by $163 million in the fourth quarter, totaling $596 million for the year, resulting in operating Free Cash Flow for the year of $408 million, a year-over-year improvement of more than 250%.

[Slide 15]
As Jorge mentioned earlier, one of our ongoing priorities is strengthening our balance sheet and we made significant progress in 2023:

- We reduced our Net Debt to $1.7 billion equivalent to 7% year-over-year as our efforts to improve Working Capital and optimize our CAPEX yielded results.
- Last-twelve-months reported EBITDA was $514 million, resulting in a Net Debt to EBITDA ratio of 3.4 times.
- If we exclude the effect of the Argentinian devaluation and the extraordinary costs from the two plant closures, we performed in 2023, the proforma leverage would have been 2.9 times.
- I want to reaffirm that Alpek is completely committed to reducing leverage, we will continue to execute the necessary measures to achieve our target of 2.5 times or below. We expect to return to a leverage close to that level by year-end.
- We will continue to improve our free cash flow, through working capital optimizations and CAPEX rationalization.
- Additionally, we will not be issuing a dividend payment this year to prioritize our cash flow and achieve a prudent level of leverage.
- Furthermore, as Jorge mentioned, we took actions to refinance our debt, facilitated by securing our first sustainability-linked loan. This extended our debt maturity to 5.2 years.
- Finally, I'd like to highlight that our liquidity remains strong at over $1 billion, comprising $457 million in cash on hand and $584 million in our committed credit facilities.

With that, I'll turn the call back to Jorge.

Jorge Young:
[Slide 16]
Thank you, José Carlos.
As 2024 gets underway, we will continue focused on improving our overall competitive position throughout our portfolio and take optimal advantage of opportunities as market conditions improve.

Most importantly, we will continue to diligently work toward achieving structural cost reductions that will benefit our business over both the near- and long-term. Our goal is to not simply adjust to the current market environment, but to emerge as a more efficient and streamlined business.

Additionally, we will continue to capitalize our position as a domestic supplier by reliably delivering a broad offering of high-quality, value-added products, recycled content, and outstanding service.

Finally, we will continue to maximize cash flow and further strengthen our balance sheet. Through prudent and disciplined capital allocation and also looking for alternatives for non-core assets. As an example, we are currently evaluating alternatives to realize the value from the former filament site that was shut down in 2023. This site has a very attractive location in Monterrey, Mexico, and the zone where it's located has recently gained government approvals for its development in a very attractive real estate market.

As we navigate a challenging environment, we continue to prioritize key investments. We will maintain our focus to strategically invest in innovation, operational improvements, and advancing sustainability solutions for our customers to further differentiate Alpek brand and to position us for future growth with discipline.

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To summarize our outlook for 2024, we expect the petrochemical industry to continue to experience headwinds in the near term similar to what we saw in 2023, with gradual improvement over the course of the year.

Our 2024 guidance is based on the following key market and business assumptions:

- Asian Integrated PET Reference Margin of $270 dollars per ton
- PET China margin of $170 dollars per ton as China remains impacted by continued overcapacity
- A slight decline in North American Polypropylene reference margins at 16 cents per pound, as the supply in the region has stabilized
- Slightly higher volume versus 2023 as demand is expected to recover gradually
- Average container ocean freight costs to remain at normal levels
- Slightly lower Paraxylene Price spread between North American and Asian prices versus 2023, yet still quite elevated versus historical levels and this is perhaps one of our most important opportunities going forward

Based on these assumptions, overall Comparable EBITDA for 2024 is expected to be at $600 million.

Annual CAPEX is expected to be $200 million, in line with our standard figures, allocated mainly to maintenance and strategic investments.

And finally, Free Cash Flow generation remains a high priority in the year.

With that and before we move to the Q&A session, I want to take a moment to thank our close to 6,000 team members around the world for their hard work, dedication, and commitment; to our customers, for their loyalty and partnership; to our suppliers for their service and support and also I would like to thank our shareholders and analysts for your continued interest in Alpek.

I'll turn the call back to Bárbara.

Q&A

Bárbara Amaya:
[Slide 18]
Thanks, Jorge. At this time, we'll be receiving your questions.

To ask your question live, please raise your hand. We will call on the participants in the order they appear.

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 Andrés Cardona from Citi. Andrés, please proceed with your question.

Andrés Cardona, Citi:
Thank you, Bárbara. Good morning, Jorge, José Carlos. I have 2 questions.

The first one is about the mid-cycle EBITDA that we should think about for Alpek. In the past, you mentioned it was $1 billion dollars, and I was wondering if it has changed? And if it changed, what are the key assumptions that are moving for that revision?

And the second one is, is there any particular concern from the credit agencies in the current context for a potential downgrade in credit ratings?

Thank you.

Jorge Young:
Yes Andrés, let me take a shot at your questions. I'll do the first one, maybe José Carlos can get to the second one.

Yes, compared to that figure of $1 billion dollars, I would say the 2 key variables that we think right now are on an extreme point on the low side that are impacting our businesses, and relative to that midpoint, are Asian margins, and also the relative cost of Paraxylene in this region, again to what we call normal times, and those 2 probably account for close to halfway, or maybe more than halfway, between our current estimate and that level.

And I think the balance would be somewhat higher volumes in general that would be a way to close that gap, perhaps we would see more in the range of eight to nine hundred, but those would be the two key variables that are creating a gap relative to our normalized long-term expectation. Again, reference margins remain at levels we had not seen before, especially in Polyester, especially in EPS.

And, secondly, the relative cost of paraxylene. Paraxylene has an alternative value that is higher in this region, but also and most recently the shipping cost of liquids has remained elevated, which is one of our tools to keep this key raw material competitive and right now they remain temporarily elevated and, in our guidance, we are not factoring yet relief in paraxylene shipping costs.

I hope that answer.

Andrés Cardona, Citi:
Yes, so just to clarify, the mid-cycle normalized EBITDA remains at 1 billion dollars, and you very clearly detail the difference with the guidance, but long-term mid-cycle remains at 1 billion dollars?

Jorge Young:
You know, we probably would say eight to nine hundred. I mean these businesses are volatile in margins, and you have seen historical results, and that level, the 1-billion-dollar level, can be surpassed as some conditions align, but I would say more in the eight to nine hundred at this time.

Andrés Cardona, Citi:
Thank you, Jorge.

José Carlos Pons:
Okay, let me try to answer the second question related to credit agencies. I'll say, Andres first, we're totally committed to reaching our 2.5 net debt to EBITDA target, which is a higher part of our range. We're expecting to be very close to that of at year end. So, we don't see that this will be this high leverage, which is reasonable leverage still, but the higher leverage to our target, let's say, it's only a temporary effect and therefore we don't see that Alpek would remain at that level for long term.

We have focused on having a strong free cash flow. You saw the rationalization we did on Capex; we did on working capital, we've also worked on cost reductions, we, as Jorge already indicated, there are more opportunities to reducing costs. We have a strong liquidity of close to 1 billion dollars available to us and those are elements that I'm sure our credit agencies will review. We're planning to meet with them in the next weeks and go through our short-term and long-term perspectives and in addition, as already indicated, we will not be paying a dividend in 2024, which also improves our free cash flow for the year.

And finally, I would say, they reviewed our ratings in the last part of 2023 so, they are familiar with our performance, and hopefully with a stronger performance in 2024, they'll be supportive of our ratings.

Andrés Cardona, Citi:
Thank you, Jorge, Jose Carlos.

José Carlos Pons:
Our pleasure.

Bárbara Amaya:
Our next question comes from Pablo Ricalde from Santander. Pablo, please proceed with your question.

Pablo Ricalde, Santander:
Hi, Jorge, José Carlos! Thanks for taking my questions. I have a question on the Polyester chain, especially on the volume side. I know there was a seasonality effect, but volumes reported were the lowest since 2019, and they include Octal. So, what's going on there? It's a matter of the market it's getting smaller or market losses against the Asian imports? So just trying to understand what's going on the volume side.

Jorge Young:
Yeah Pablo, that's a very good question. Fourth quarter was particularly soft in demand. Fortunately we're seeing some of that effect being reverted in the first quarter, but it was particularly soft. We also had maintenance in some of our facilities and if you were going to look at the spreads, especially Chinese spreads month to month, the last part of the third quarter, and the very early days of the fourth quarter was the low point, and at that moment we withdrew our volume from certain markets that we are now recovering, but it was a combination of low margins and particularly soft fourth quarter of 2023.

Pablo Ricalde, Santander:
Okay, and another question now on the dividend side, you're not paying a dividend, but you want to approve a buyback program. I don't know if you can talk a little bit on the buyback program.

José Carlos Pons:
Pablo. Thank you. How are you? Yes, we have decided not to, or Alfa and main shareholders will propose not paying a dividend in this in assembly in the next days. The reason is to protect our cash flow and our balance, and in the end net debt to EBITDA. We will still have open buyback program, and depending on our liquidity depending on the performance of the company, we will access that program. But in the end I'll indicate to you that the priority it's reaching 2.5 times by the end of the year.

Pablo Ricalde, Santander:
Okay, perfect. Thanks.

Bárbara Amaya:
Next question comes from Federico Galassi from Rohatyn Group. Federico, please proceed with your question.

Federico Galassi, Rohatyn Group:
Hello, guys. Thank you for taking my question, 2 questions. The first one is related with CAPEX, the 200

million dollar you announce in the guidance is more related with maintenance CAPEX, or do you have something of the strategic CAPEX?

Jorge Young:
Yes, Federico, the 200-million-dollar guidance for 2024. It includes maintenance Capex, I mean that's our priority that our facilities have outstanding up time, but we are conducting all the normal and expected maintenance Capex. That probably is about half, or maybe even north of half for guidance figure. The balance includes items like continuation of projects in the recycling of PET, the recycling of expandable polystyrene, an improvement and modernization of systems. We still have some spill over, I would call them expenditures or CAPEX, in relation to preserving the Corpus Christi facility that are going to be in the early part of 2024 and some other efficiency projects in our system, and that's mainly the guidance. So, it's maintenance just more than half and the balance this list of areas that I just mentioned.

Federico Galassi, Rohatyn Group:
Perfect, great! And the second question, you have now one year of the entire operation of Octal. Can you give us a guidance of some rough number of how was the EBITDA of Octal this year? Just to try to understand how the volatility of this business is.

Jorge Young:
Yes, look, we don't disclose the very specific performance. So, beyond what we do in our polyester and plastics and chemical division. However, I can tell you that the Octal acquisition has been meeting and initially exceeding. And today's still meeting and slightly exceeding, or for objectives for the project acquisition and the operation is performing very well.

The key product from Octal is PET Sheet rolls and we have been able to confirm with the market that those provide quality and consistency advantage. We can also say that we have achieved very good synergies from the acquisition and especially market synergies in finding better raw material sources for Octal is very strong procuring raw materials and we benefit from that in the rest of the system. So all in all, we're very happy with that project.

Federico Galassi, Rohatyn Group:
Okay, great. Thank you so much again.

Bárbara Amaya:
Our next question comes from Regina Carillo from GBM. Regina, please proceed with your question.

Regina Carrillo, GBM:
Hi, good morning. Thanks for taking my question.

I would like to ask about the CCP impairment charge. Can you give us more color on what's behind this impairment? And we see that it represents almost all of the investment you had made on the project. So, if anything color on that would be great.

Jorge Young:
Yes, Regina, I would say we just wanted to be very conservative with our balance sheet and have that accrual and that impairment done. I think we discussed that very carefully among ourselves with our auditors and that will not tell us about what's going to happen with the project. The project, again, is being prepared for a potential future restart. But I think at the end of the day we just wanted to be conservative in our balance sheet.

José Carlos Pons:
Regina, just maybe a comment, this is basically 100% of the investment that we had on our balance sheet and as Jorge indicated was just to be prudent. In the end this might come in value as we decide the future of Corpus Christi. But this we thought would represent the most conservative approach towards our balance sheet.

Regina Carrillo, GBM:
Perfect. Thank you. And if I may ask a follow or related question with Corpus. Is a cost increase the only reason behind the halt of this project, or do you think it might be related to the timing at where the market is right now?

Jorge Young:
It was mostly a budget issue.

Regina Carrillo, GBM:
Perfect, thanks.

Bárbara Amaya:
We have a question through the Q&A function. Could you provide more color on the impairment size nature to reach the reported EBITDA for 2023?

José Carlos Pons:
Just to clarify it, this impairment did not go through our EBITDA. It went below EBITDA, and it's a non-cash impairment. Hopefully that answers, if not, please then let us know.

Jorge Young:
I would add also to that question that in our reported EBITDA we have two impairments that had an effect in our reported EBITDA due to the shutdown of the Cooper River and the Monterrey filament plants.

Bárbara Amaya:
We have another question from Tasso from UBS. Tasso, please proceed with your question.

Tasso Vasconcellos, UBS:
Hi everyone, hi Jorge, hi José Carlos! Maybe just a follow up question here on dividends and capital allocation. I know that you guys already said that you would not pay this year aiming to reduce the leverage level and focus would be on buybacks and so on. But I was just wondering, if by any chance the

scenario during the year improves on end, maybe in an unexpected way, and you guys are able to reduce the leverage, or have a greater visibility that the leverage will be reduced by year-end, could dividends be re-evaluated during the year, or only by early 2025? Thank you.

Jorge Young:
I mean the decisions can be re-evaluated at any time. Right? The dividend decision is reviewed with the board of directors of the company. Again, if the condition would change significantly, yes, these decisions can be reviewed, but I like to be clear that right now, our priority is to bring our leverage back to the target level of not exceeding 2.5 times.

Tasso Vasconcellos, UBS:
Alright. That's clear. Thank you.

Jorge Young:
You're welcome.

Bárbara Amaya:
We have another question from the Q&A function. Could you explain further the decrease expected in PP and PET margins versus current levels? And how are you seeing EPS margins moving in 2024?

Jorge Young:
Yes, I think when you see the guidance table, you see reductions in PET Asia, PET China, and Polypropylene on a year over year basis. In the case of PET both Asia and China, there is actually a 2023 story of 2 halves. The first half of 2023, both reference margins on PET China and Asia were much higher than those in the second half. So that is why, on average, year over year you see that decline. When we discuss about some mild recovery, its mostly from the current levels, which the current levels have already improved from the low points in 2023.

Bárbara Amaya:
We have another question from Alejandro Azar, from GBM. Alejandro, please proceed with your question.

Alejandro Azar, GBM:
Hi, Jorge, José Carlos, Good morning. My question is on your comment on monetization of assets. I don't know if you've commented about another one, apart from the filament plan that's land or real estate, but if you could comment on different monetization strategies and also thinking as if I am Alfa, are the proceeds from those monetization's going to be distributed to your shareholders or the priority would be to reduce debt at Alpek? Thank you.

Jorge Young:
Yes, thanks for the question. Look, that's a process that is constant for us. We're looking into the timing of those monetization's. It will depend on this strategy we defined for, I think, the main one is the real

estate asset I mentioned, you know we normally look at the core portfolio, but those are the main ones from the assets that we did shut down.

There is real estate and some things to rescue. The most relevant one is the site that is in the city of Monterrey and that one we're just beginning the process. We could have a decision to do a short term, pursue the monetization in the short term, or we might to stay longer, and realize more value.

So, once we have those definitions we'll share. We just wanted to make the point not necessarily because there is a short-term cash flow opportunity, but just to make you all aware that those are relevant things that we also look and constantly assess. Hope that answers the question, Alejandro.

Alejandro Azar, GBM:
Yes, Jorge. If you were to monetize an asset regardless. What are the priorities on the cash flow uses? Is that reduce debt at Alpek or distribute a part as dividends to your shareholders, including Alfa?

Jorge Young:
No, any specific cash flow from one of those decisions to monetize an asset will improve the general situation of Alpek, and then Alpek will look into how to deal with cash distributions or allocation, separately and independently of any specific, I mean, we would not tie a decision on any specific project, at this time. So, it will go to the general coffers of the company, let's say.

José Carlos Pons:
I will just reinforce or target it 2.5 times, and we are looking at this monetizations as a way of reaching that goal as soon as possible.

Alejandro Azar, GBM:
Thank you.

Bárbara Amaya:
We have a question through the Q&A function from Alejandra Andrade from JP Morgan.

Hi, when looking to reduce net leverage, would you look to reduce the debt balance with cash generation, or simply reach that target by keeping more cash?

José Carlos Pons:
Thank you, Alejandra, for the question.

Well, as you saw in 2023, we used some of our cash to pay down debt. We reduced more than 100 million dollars in the total balance of debt. We have decided to maintain a portion of bank debt in our profile so that debt is prepayable. So, if we have a good 2024, and cash generation comes, we might evaluate the possibility of reducing debt using that cash for that purpose.

So yes, I think we will do the 2 things. Trying to improve our EBITDA, so that the leverage reduces by that sense. But in the end, also use any cash surplus to pay down debt, and that's the reason that we have this profile of debt. I hope that answered the question.

Bárbara Amaya:
We have another question through our Q&A function. What are the biggest opportunities for Alpek in 2024?

Jorge Young:
I think in that regard, we are focusing in our cost reduction, and I think we can deliver that in schedule. I think we have in our system the ability to respond to improvements in demand and a significant focus on other cost reduction opportunities and should certain market conditions materialize that allow us to improve our margins that we are not factoring in the guidance, we will definitely pursue those.

One more item, as an opportunity, I would say is, we also look into areas where there can be unfair trade practices in the markets that we serve. And last month, the government of Mexico initiated an investigation of anti-dumping practices of PET resin from China into Mexico. So, the industry applauds that process, I mean it is just beginning, and the outcome is still unknown, but that will be an example of an area opportunity in our system.

Bárbara Amaya:
Thank you. That was our last question in the queue.

I would like to remind you that you can find a video recording of this webcast as well as a transcript at our website, feel free to contact us for any additional information.

Now, I would like to turn over the call to Jorge for final remarks.

Jorge Young:
Thank you, Bárbara, and thank you everybody for joining us today. I want to reiterate our focus on ensuring Alpek is well-positioned today to navigate the current challenging macro and to capture opportunities in the future when demand improves. We are harnessing the progress made in 2023 and executing with purpose and a sense of urgency to continue to achieve structural cost reductions, strengthen our balance sheet and improve our global competitiveness. And thank you all for your participation today.