Rotoplas Valuation
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Process

This valuation follows a checklist approach. I found that in my previous valuations I listed a lot of data, but in many cases did not answer the most important questions. In this valuation I try to fix that and inverse by listing the most important elements that drive my valuation and finding reasons not to invest in the company. If the company passes the checklist then I can consider making an investment.

Uses

This checklist helps to filter investment ideas and not act on excitement.

First Filter

1. Is the business within my circle of competence?
    a. What are the most important variables that drive the company's core business?
        i. Core Business: Water Storage and Conduction Products
        ii. 3 Main Variables that Drive Sales
            1. Construction Development of Residential and Commercial Real Estate
                a. What drives construction development?
                    i. Economic Growth
                    ii. Population Growth
                    iii. Housing Demand
            2. Water Scarcity
                a. What drives water scarcity?
                    i. Draughts
                        1. What drives droughts?
                            a. Global Warming
            3. Lack of water infrastructure to distribute water
                a. What drives lack of water infrastructure?
                    i. Rapid Horizontal Uribanization
                    ii. Old infrastructure that leaks water
                        1. CDMX, 34% of water is lost this way
2. Is the business selling cheaply at first sight?
    a. No
        i. P/E: 18.6
        ii. P/B: 2.15
        iii. P/S: 1
3. Initial red flags
    a. 26% of the company's revenue comes from Argentina.
        i. How do currency fluctuations and inflation affect the company?
            1. High financial costs: in 2022 was 290 million pesos
        ii. Leverage, Net Debt to total assets of 0.32

4. Green flags
    a. The business has consistently grown its revenues at a high rate
    b. Revenue and profitability improved in 2022
    c. ROIC in 2022 was 14%
    d. The company's main business: water storage products, has high margins.
    e. Most of the company's capex is in Mexico, its market with the highest operating margins
    f. Low capital intensiveness, maintenance capex of $329 in 2022, equal to 3% of revenue
    g. The company's total debt is fixed at an interest rate of 8.65%
    h. The company pays a dividend
5. Have other investors looked at the company?
    a. Analyst estimate the company to be worth around 45 pesos a share, the company currently trades at 29 pesos
    b. Nothing on value investor's club
    c. Very little coverage from analysts
6. Does reporting consistently change or is it opaque?
    a. No
7. Is it worth looking more into it?
    a. Yes
        i. Revenue is growing at a high rate
        ii. The company operates in a durable industry
        iii. Its business looks easy to understand
        iv. The company is selling at a fair price relative to book value
        v. The company has large financial losses from argentina, if it can divest this business, then its net profitability would improve a lot
        vi. Revenue growth, share repurchases, and improved profitability by eliminating Argentina's operations could significantly increase owner earnings
        vii. Customers can not name another brand of water storage products, meaning that the company's dominance is strong

Business Understanding

1. Do I understand the business?
    a. Describe what the company does in 1 paragraph.
        i. What problem does the company solve?
        ii. How does the company solve this problem?
        iii. How does the company make money?
        iv. Who is the company's customer?

Rotoplas is a Mexican company that sells water storage products. These products are used by people and businesses to store water in regions that lack proper water infrastructure or are vulnerable to water scarcity. Due to climate change, draughts have become more long lasting and frequent in vulnerable regions, increasing the water scarcity problem. Moreover, high population growth and urbanization growth have significantly increased the demand for water. Unable to meet rising demands and make the necessary investments to distribute water to its residents, these regions limit water use. As such, people feel a need to have the ability to store water for future. The company allows its customers to do this by selling them a water tank which can safely and cleanly store water. The company makes money by selling its products to authorized retail distributors who resell them.

2. Customer Profile
    a. In 2021
        i. Sales to retail distributors represented the majority sales
            1. Stores are: Ferreterías, home improvement stores, and construction homes
                a. Main customers include: Citycon, The Home Depot, Ceconsud, Tenneco, Materiales para el Desarrollo de México, El Surtidor de Observatorio, Grupo Boxito, Tuberías de Oriente, Simon Sistemas Hidráulicos, Ferretería Unión, Desarrollo Comercial Polo, Tiendas del Mejoramiento del Hogar
    b. By decision of the board, the company wants revenue from government sales to represent less tan 10% of total revenue, maintaining a focus on selling to clients in the private sector.
        i. What caused the change? Given that in 2014 around 40% of sales were to the government.
3. Do sales to the government represent more than 10% of sales?
    a. No
4. Does a single client represent more than 10% of sales?
    a. No
5. What water storage products does the company sell?
    a. Cisternas: Large water tanks that are normally buried to provide water to houses, buildings, and farms.
    b. Industrial Tanks: Large tanks that can hold water and chemicals for industrial use.

   c. Tinacos: Water tanks for residential use that are installed on the roofs. They currently represent 26% of sales.
   d. Water tank to store rainwater.
6. What other products does the company sell that represent a significant percentage of sales?
   a. Water Heaters: products that heat water using electricity or natural gas, 10% of sales in 2021
   b. Hydraulic Pipes: product to transport water used in houses, buildings and industry, represented 22.5% of sales in 2021
7. Are the company's products a nice to have or need to have?
   a. The company's products are a need to have for the majority of its end customers because having access to water is critical.
8. Is there a substitute for the product or service? If it didn't exist, what would the customers need instead?
   a. Yes, other companies sell similar products at a similar price range.
9. What is the customer's life cycle? Do you touch them once every twenty years, or is it a monthly or yearly touchpoint?
   a. The company's water storage products have life guaranteed and a customer only needs to buy them once.
   b. Other water products that the company sells are also a one time purchase transaction.
10. How does the company distribute its products?
    a. The company does not own transportation vehicles. The company hires transportation companies to transport its products. The company works with these third parties to effectively deliver its products. This workflow has 2 parts:
       i. Primary distribution occurs between the company's manufacturing plants in México to the company's roto modelo Mexican and foreign plants where the final product is made. Transportation to other parts of Mexico and Guatemala is terrestrial. Transportation to Brazil, Perú, Argentina, and Ecuador is by sea.
       ii. Secondary distribution occurs between the company's roto modelo plants and final customers.
       iii. The company has this system in place to save on transportation expenses, as transporting water storage products is very expensive because of their size. With this system, the company can transport materials, and make the final product in a factory near the end customer.

Competitive Advantage

11. Does the business have a moat?
    a. What is the company's market share?
        i. The company does not disclose its market share in the water storage market in Mexico. However, an article speculates it is around 50%.
        ii. 90% market share in the 90s
        iii. 45% market share in 2007
    b. Who are the company's competitors?
        i. Water storage products: Grupo Elementia (Grupo Carso and Grupo Orbia in Mexico), Durman (Aliaxis in central america), Affinity (in Argentina), Eternit (Eternit in Perú)
        ii. Water conduction: Nacobre, Grupo Dema
        iii. Tinacos market share in 2007: Cemix-16%, 12% (Mexalit), IUSA-6%
    c. Has market share changed significantly between competitors in the last 5 years?
        i. n/a
    d. Can we identify a competitive advantage like network effects, brands, patents, regulated monopolies, high switching costs, first mover benefits, scale?
        i. Brand
            1. Rotoplas. The company's brand has consumer mindshare, according to a study done by TNS, Rotoplas is the first brand to come to mind for 75% of people looking for a water storage solution in Mexico.
            2. The company is able to price its products as high as 20% more than competitors.
            3. The company wants to be seen as the number one manufacturer of tinacos in Mexico, allowing it to be seen as more trust worthy than competitors. People who want access to clean water in their homes will not go for the cheapest option. They will buy the one they have more trust in, as its a one in a lifetime purchase. Fear is a great motivator in this case.
        ii. Distribution and Logistics
            1. 2 step logistics process that allows the company to produce its final products near its clients all over México
            2. Distributor network that sell the company's products in 14 countries
            3. 30,000 points of sale
12. How could I hurt the company if you gave me $10B?
    a. It would be hard
        i. 75% of Mexicans think of Rotoplas when they think of a tinaco
        ii. The company has an enviable distribution network
        iii. The company currently has a monopoly in water storage products in Mexico
    b. Nevertheless, an investment of that size could hurt the company, as it would have to drop its prices to compete.
13. Are there any major barriers to new entrants

    a. Brand recognition
        i. 75% think of Rotoplas when they think of tinacos. Breaking into that consumer mindshare is hard.
    b. Logistics
        i. IUSA says “we can’t go more than 400 km from the factories, as the cost is too large”
        ii. Thus, if a company wants to compete at a national level, it needs to build multiple factories all over the country

14. Is the company’s competitive advantage likely to expand in the future?
    a. Yes, the company wants to capitalize the lack of clean drinkable water in mexico through its purified water as a service business, Bebbia. This business segment is very interesting because of its unit economics. Thanks to its customer captivity, I expect the company’s subscribers to have a high LTVs. I expect high customer captivity because clean water is a necessity and the products are installed in the customer’s homes. Cancelling the subscription means that the customer needs to be at home for the technician to deinstall the product, which can be tedious and a reason to continue paying the subscription.
15. Does the company have pricing power? Can it increase its prices to meet inflation?
    a. Yes, the company has pricing power. The company is able to price its products as high as 20% more than competitors. Moreover, in 2021 the company raised prices and consumers continued buying its products.
16. What drives revenue?
    a. Fear of not having access to water at all times
        i. Droughts
        ii. Limited or no access to clean water
    b. Water demand
        i. Population growth
        ii. Construction and urbanization
17. What causes revenue to decrease?
    a. High amounts of rain cause demand for the company’s products to decrease because people feel less need to store water for future use.

Business Durability

18. Do I understand the durability of the business?

a. Is the industry growing rapidly?
    i. Demand for water is increasing but the industry is overlooked
b. Will the business change in the next 5 years?
    i. No, demand for water will remain. Water scarcity and lack of proper infrastructure to distribute water to residents will continue to exist. As such, people will continue to want the company's products to store water.
c. Will the company's product change in the next 5-10 years?
    i. No, there is a low chance that technology will change how water is stored and distributed.
d. Am I confident that the business will be here in 10 years?
    i. Yes, the problem of water scarcity, infrastructure to distribute it, and access to clean water will very likely still be around.
    ii. Climate change will continue to drive draughts in the US and Mexico
    iii. In Mexico, the availability of water is decreasing per capital. Currently yearly water per capita is 4,573 m^3 and it is expected to reach 3,703 m^3 in 2030.
    iv. Over 50% of people in Mexico face water scarcity.
    v. 1 in 5 people in Mexico do not have access to clean water.
    vi. According to the world bank, in Latam, 150 million people or about a quarter of Latin America and the Caribbean´s population live in water-scarce areas and more than 400 million lack safe sanitation.
    vii. Infrastructure problems: Around 35% of water is lost through poor distribution

19. Does the company have a durable competitive advantage? Why haven't competitors been unable to take a greater percentage of market share from the company?
    a. The company does have a durable competitive advantage, but I cannot quantify how much a company would have to invest to replicate and hurt the company's business. What I know is that a company would not hurt the company's business at low scale with low investments, as consumers current want and only know of Rotoplas Tinacos. Moreover, shipping and distribution only works at significant scale.
    b. Brand recognition
        i. 75% think of rotoplas when they think of tinacos. Breaking into that consumer mindshare is hard.
    c. Logistics
        i. IUSA says "we can't go more than 400 km from the factories, as the cost is too large"
        ii. Thus, if a company wants to compete at a national level, it needs to build multiple factories all over the country
20. What would cause the company's competitive advantage to decrease?
    a. Entrants of a large competitor willing to make significant investments would drive prices down, causing the company to drive down prices as well and lower its margins.

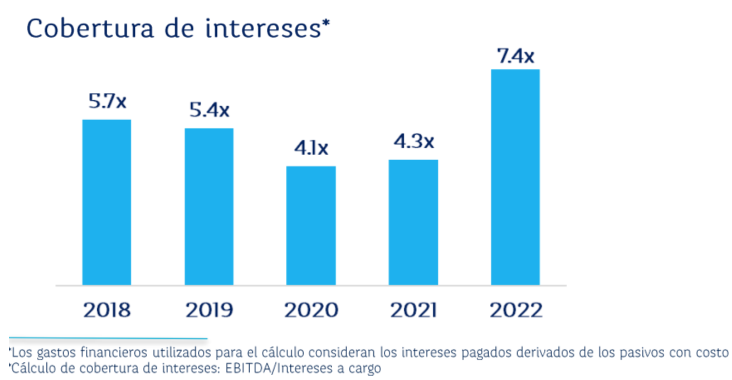
Management

21. Is management competent?
    a. Yes, CEO Carlos Riojas A.
        i. Industrial engineer from Tec
        ii. MBA from Babson
        iii. Has been the company CEO since 2018
        iv. Has worked at the company for more than 17 years
22. Does management have a competitive advantage in Mexico?
    a. Carlos Rojas Mota Velasco, ex CEO and one the main shareholders is cousin of Germán Larrea, a Mexican Billionaire and owner of Grupo México
23. Are management's incentives aligned with shareholders?
    a. Yes, the business is family owned. Directly and through a trust, the family owns 51.6% of the company.
    b. Other directors own around 4% of the company in total
24. Is management someone I can trust?
    a. Yes, a person who knows the CEO says he has a sterling reputation
25. Is it run by able and honest managers?
    a. Yes
26. Does the company lend money to management?
    a. Yes, the company has lent a total of 153 million pesos to management. This money needs to be paid back to the company in June 2024.
27. Has the company been involved in corruption scandals?
    a. No
    b. But, the process in which government contracts have been won by the company has been questioned to be fully meritocratic.
28. Is the company currently involved in lawsuits that could adversely affect its operations?
    a. No
29. Has management been involved in fraud?
    a. No

Credit Risk

30. Does the business have more cash than total debt?
    a. No, the company has a net debt of $3,100

31. Has leverage increased in recent years?
    a. Yes, the company sold bonds totalling $4,000 million pesos in 2019
    b. How do their debt metrics compare to their peer group and history?
        i. Total Debt to Total Assets:
            1. 2014: 0.14
            2. 2015: 0.15
            3. 2016: 0.12
            4. 2017: 0.18
            5. 2018: 0.24
            6. 2019: 0.25
            7. 2020: 0.32
            8. 2021: 0.32
            9. 2022: 0.32
32. Is the company's debt fixed rate?
    a. The company's debt has a fixed annual interest rate of 8.65% with an expiration in 2027 and the company has to pay interest every 182 days.
33. Can the company pay down its outstanding debt before its expiration date?
    a. Yes, the company's debt is amortizable
34. Are there financial covenants the business must maintain?
    a. No
35. Are there any off balance sheet liabilities?
    a. No
36. Is there a dual class share structure?
    a. No
37. Can the company pay its interest obligations?
    a. Yes, with an EBITDA to Interest Payments of 7.4x, the company currently generates enough cash to pay the interest on its debt.



38. Is the business capital intensive? How do they plan to fund incremental capital expenditures?
    a. No, maintenance capex represents around 3% of revenue
39. Does the company have access to credit lines?
    a. Yes
40. Is the company likely to be able to pay its debt?

    a. Yes, it is very likely that the company to be able to pay its debt in time thanks to its free cash flow generation which currently amounts to 700 million pesos, the certainty of those cash flows, and the expected to grow as the business expands, low capital needs, and a flexible policy of distributions to shareholders. Worst case, I estimate that the company will need to refinance its debt and possibly issue new debt to be able to make the payment.
41. Is the company aware that it needs to limit investments for future growth and pay down its debt?
    a. The company has a target of having its net debt to ebitda ratio below 2x.
42. What do credit rating agencies say?
    a. Fitch ratings qualifies the company as AA(mex) due to the company's leadership in the market it operates. Fitch expects that the company will not need to raise outside capital to fund its capital expenditures and working capital. In the case it needs to, the company can stop distributing capital to shareholders to strengthen its position.
    b. Standards and Poor mxAA-. Considers the company's financial position to be exceptional given that it does not have significant short term obligations and its access to credit lines.
43. What do other analysts say?
    a. At Miranda partners, the analysts say that they expect the company's financial position to remain healthy, thanks to the company's low capital requirements and its expected free cash flow thanks to future growth.

Law Suits

44. Is the company involved in a lawsuit that could significantly affect its operations and well being?
    a. No
45. Is the company vulnerable to important lawsuits?
    a. No

Industry

46. What is the total addressable market value in which the company operates
    a. $50 billion growing at an annual rate of 3.0%
    b. In total, the company's TAM is still much bigger than its actual operations
        i. Yes, the company's TAM is around $50 billion USD, current revenue represents 1% of the total addressable market.

Tamaño y dinámica de mercado

Mercado de
$ USD 780
mil millones
Creciendo
3.3% TACC

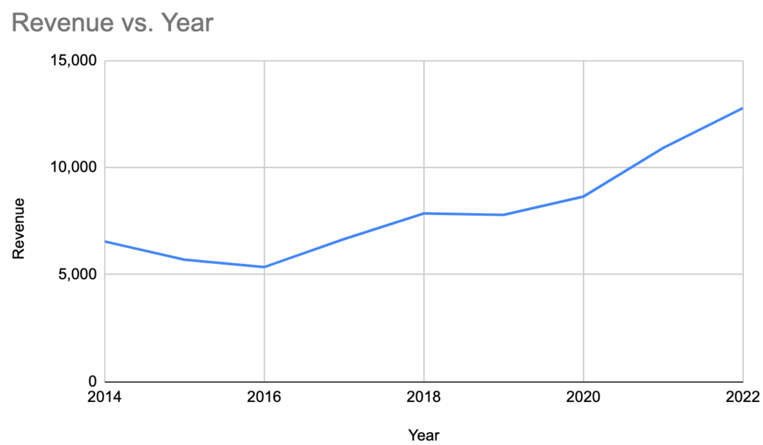
Mercado en Latam
y Norte América de
$ USD 225
mil millones

24%
Alcance de mercado
para
Rotoplas
Horizontal a todos los
sectores

47. What are the key drivers of the industry in which the company operates?
    a. Water demand
        i. Population Growth
        ii. Urbanization and Construction of Houses and Commercial Real Estate
    b. Fear of not having access to water at all times
        i. Draughts
        ii. Water scarcity
48. What does the competitive landscape look like?
    a. What is the company's marketshare?
        i. Above 50% in water storage products in Mexico
        ii. Leader in the markets in which it operates in Mexico and Argentina
    b. Is there extreme fragmentation or concentration?
        i. In Mexico, the water storage industry is heavily concentrated. Customers say that the only 'tinaco' brand they know of is rotoplas. Searching for water tanks in home depot only gives 3 brands: acquaplas, rotoplas, iusa.
    c. Is the same number of businesses competing in the space today as there was 5 and 10 years ago?
        i. Yes, both rotoplas and acquaplas started in the early 90s and iusa started around 2005
49. Has there been a flood of new capital into the space?
    a. No

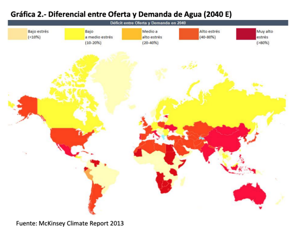
Earnings Growth

50. Has revenue grown steadily
    a. Yes, revenue has grown since the company's operations began



51. What is the company's product penetration ("tinacos") in the markets it operates in?
    a. 16%
52. Do key indicators regarding the most important variables suggest that earnings will grow (Mexico)?
    a. Urbanization and Construction
        i. Housing deficit: 7 million home deficit
        ii. Population that will acquire a home in the next years: 50% of Mexicans are younger than 30 years old, with around 16% of Mexicans between 20 and 30 years old. The number of people that will want to buy a home will continue to grow in the future.
    b. Water Scarcity
        i. Number of homes without access to water: 50 million people have very low or limited access to water
        ii. Untapped market: Only 16% of homes in Mexico have a water storage product
    c. Lack of access to clean water
        i. Number of people without access to clean water: 12-15 million
        ii. Mexico is the number one consumer of bottled water with 98% of households buying bottled water and most of the volume from "garrafones".
53. Do tailwinds exist that will drive demand / industry growth?
    a. Climate change
        i. Draughts will occur more often and will be worse
        ii. It is expected that in 2040, 5 billion people will not have limited access to water at least once a month.
    b. Nearshoring in Mexico

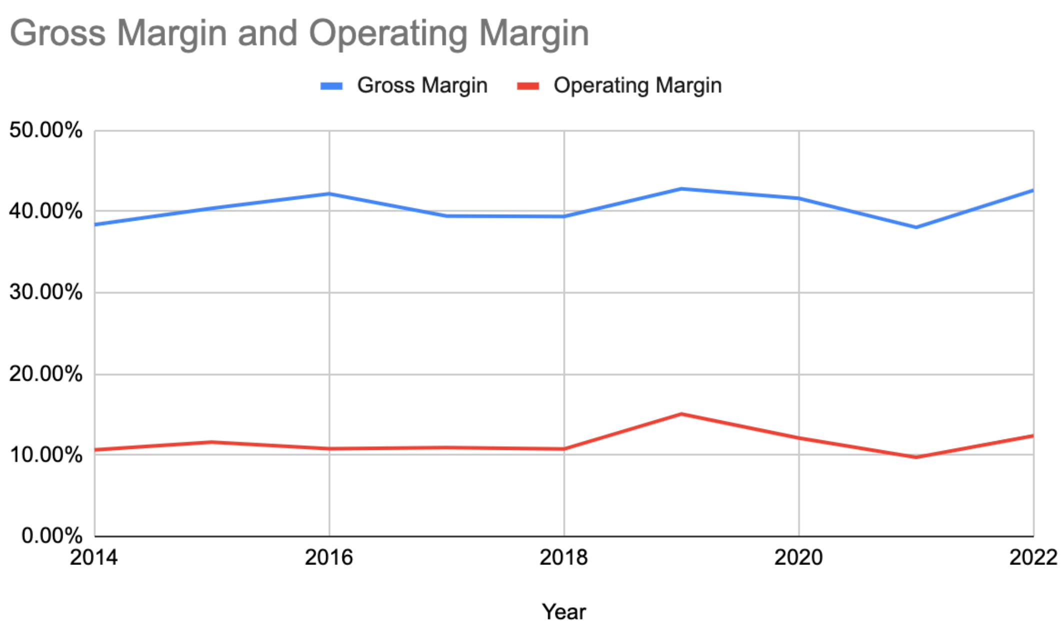
        i. A lot of new facilities will be built that require water solutions. The infrastructure that Mexico has is not prepared to this kind of growth. As a result, the company expects that the company's products will be needed.
    c. Urbanization
        i. A high percentage of people in Mexico are young and will buy a home in the future, requiring the company's products
        ii. In 2020, 3 billion people still lived in rural areas
        iii. In 2020, 66% of people lived in places that lacked access to water at all times
        iv. Population is expected to reach 2050 and the majority will come from urban zones
        v. The countries in which the company operates have a water deficit



54. Am I 90% confident that owner earnings will grow in the next 5 years?
    a. Yes, I am confident that owner earnings will grow in the next 5 years because
        i. Urbanization and new construction of homes and commercial real estate will demand the company's products
        ii. Water scarcity from more frequent and long lasting draughts will increase the penetration of the company's products in households
        iii. The company will capitalize the demand thanks to its market leadership
        iv. Future possible growth
            1. The company's expansion into the USA where water scarcity is present will increase demand for the company's products
            2. The company's new service, Bebbia, will tap into the bottled water market and give a solution to the millions of mexicans that need to buy "garrafones" to have drinkable water at home
55. What is the company's strategy to drive future owner earnings growth?
    a. US Market: E-commerce marketplace to sell water tanks and the company's septic business called Acuantia
    b. Capitalize the lack of access to clean water in Mexico through Bebbia, which offers purified water as a service through a monthly subscription model.
    c. Continue to sell its water storage and conduction products in its mature markets: Mexico and Argentina

Profitability

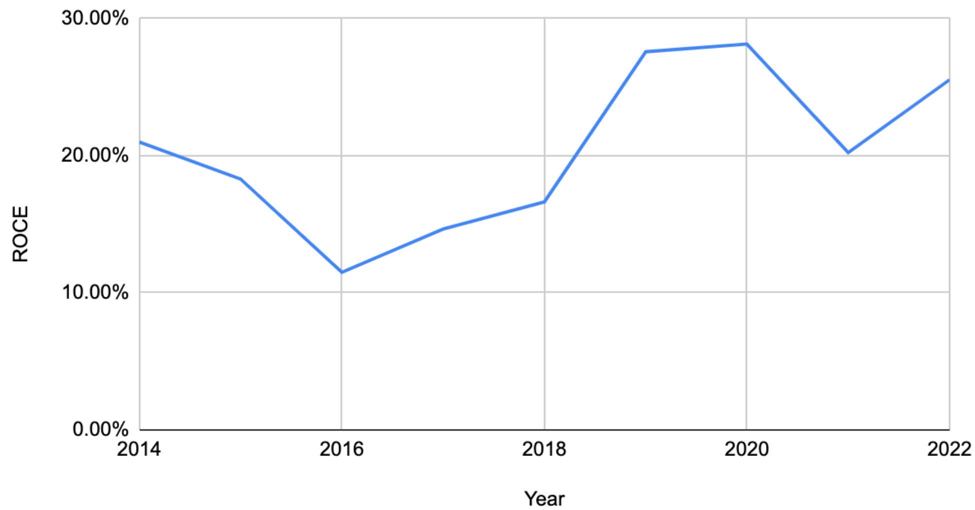
56. What is the company's gross margin?
    a. From 2014 to 2022 gross margin averaged 40.5%
57. What factors affect gross margins?
    a. Changes in oil prices affect the costs of raw materials, polietileno and polipropileno
58. Have gross margins increased over time?
    a. No, gross margins have remained relatively stable
59. Has the company experienced setbacks that have caused profitability to decrease significantly?
    a. The pandemic decreased operating margin and opex increased
60. What is the company's operating margin?
    a. From 2014 to 2022 operating margin averaged 11.6%
61. Operating margin and gross margin over time



62. What is the company's return on net tangible assets?
    a. In 2022 the company's return on net tangible assets was 55% as a result of higher operating income and its use of leverage
63. What is the company's return on capital employed?
    a. Taking leverage into account and only the necessary capital employed in the business, we get a more accurate measure of portability at 25.5%
    b. I decided to use ROCE instead of ROE because the company has a lot of intangible assets that include goodwill from past acquisitions.
    c. The business has been able to increase its return on capital employed because it has grown without requiring much additional capital. Its book value in 2014 was

around the same amount as it is today and operating income has increased 114%.

ROCE vs. Year



64. Does the business earn a greater return than its cost of capital?
    a. Yes
65. How does the company's profitability compare to competitors?
    a. n/a
66. Has the company been able to increase its prices to meet inflation?
    a. Yes, in 2021 the company raised its prices.
67. Does the company have untapped earnings power?
    a. No, management says that it is comfortable with its current prices and its margins.
68. What is the company's cost structure?
    a. Most costs and expenses come from the raw materials used to make the company's products and compensation to employees.
69. Is there a history of asset impairment/write downs?
    a. No

Efficiency

70. What is the company's inventory turnover?
    a. 2019: 66
    b. 2020: 65
    c. 2021: 79
    d. 2022: 86
    e. Average inventory / cost of goods sold
71. Has inventory turn over increased significantly over the past 3 years?
    a. Yes, due primarily to covid the company increased its inventory
72. How many days does it take to earn money from accounts receivables?
    a. 2019: 60
    b. 2020: 37
    c. 2021: 68
    d. 2022: 65
    e. Average accounts receivable / Sales
73. Has days payable increased significantly over the past 3 years?
    a. No
74. How does efficiency compare to competitors?
    a. n/a
75. Has the company significantly increased its inventory recently? Are finished products piling up?
    a. Inventory increased 89% in 2021 due to the pandemic, as the company protected itself from potential supply chain disruptions. Apart from that, the company's inventory levels have remained stable.

Capital Intensiveness

76. Is the business capital intensive?
    a. No, maintenance capex currently represents around 3% of revenue
    b. The business expects to invest around 5% of revenue to drive its operations in USA and Bebbia
77. What have been the company's principal investments in the last years?
    a. From 2011 to 2014, the company spent $282 million in Brazil and $405 million pesos in Mexico. The company opened 9 factories in Brazil to meet demand for its products from the government.
    b. In 2011 the company acquired Argentinian company Conmix
78. Does R&D represent a significant expense for the company?
    a. No

Acquisitions and Divestitures

79. Has the company acquired businesses in recent years?
    a. 2011: Conmix Argentina
    b. 2016: Talsar Argentina, a company that makes water heater products fro $642 million pesos
    c. 2016: Systesa
    d. 2018: IPS Argentina, a company that specializes in water conduction for $1,050 million pesos, financed with the company's own money.
    e. 2019: AIC Chile
    f. 2021: Minority stake in Bryan Water, a company in the US that uses data analytics to save water
80. Has the company sold businesses in recent years
    a. Yes, in 2020 the company decided to stop selling its water storage products in Brazil and focus on its water treatment service through its brand Acuantia.
    b. In 2019 with the goal of focusing on its e-commerce operations in the US, the company sold its manufacturing plants in California for $40 million USD.
81. Has the company allocated capital effectively?
    a. Although Argentina's operations produce a positive operating income, the financial cost from these operations is significant.
    b. On the other hand, most of the company's growth has been generated organically and the company has returned capital to shareholders consistently.

Country Risk

82. In what countries does the company operate?
    a. Mexico: 52%
    b. Argentina: 24%
    c. USA: 12%
    d. South America: 12%
83. Does inflation present a risk to the company?
    a. I do not know, the company has been able to increase its prices in Argentina but financial costs from currency fluctuations represent a large cost.
    b. Yes, financial costs from Argentina's operations in 2022 represented a significant sum
84. Does current legislation present a risk to the company?
    a. No, countries are pro industry as it improves the quality of life of people because it gives them access to clean water
85. Why has the company invested in Argentina? Given its inflationary environment?
    a. Listen to Q4 2016, 2018, 2019
86. Has the company increased its investments in Argentina since the new CEO took place?
87. Has the company sold businesses in Argentina?
88. Is the business likely to leave Argentina going forward?

Labor

89. How many employees does the company have?
    a. 3,380 employees: 2,249 in México, 743 in Argentina, the rest in other countries.
90. Has the company significantly increased its work force recently?
91. What percentage of the company's work force is unionized?
    a. Most employees are unionized
92. If the company was liquidated, will its work force be a problem for shareholders?

Other Investors

93. Do super investors own shares in the company?
    a. No

Shareholders

94. Is the company family owned?
    a. Yes
95. What percentage of the company's shares are floated?
96. Does the company consistently pay out dividends?
    a. 2014: $275
    b. 2015: $0
    c. 2016: $0
    d. 2017: $146 million pesos
    e. 2018: $174 million pesos
    f. 2019: $173 million pesos
    g. 2021: $206 million pesos
97. Is the company willing to return cash to shareholders if they can't find a better way to deploy it?
    a. Does the company repurchase its stock? Is it opportunistic or mechanical?
    b. Net Share repurchases
        i. 2015: $172
        ii. 2016: $50
        iii. 2017: $159
        iv. 2018: $199
        v. 2019: $7
        vi. 2020: $616
        vii. 2021: $302
        viii. 2022: $302
98. Shares outstanding over time
    a. 2015: 483.6 million
    b. 2016: 483.6 million
    c. 2017: 473.6 million
    d. 2018: 468.6 million

e. 2019: 467.2 million
f. 2020: 444.618 million
g. 2021: 458.9 million
h. 2022: 486.2 million

99. Additionally, in 2021 the company returned 1 stock for every 15 stocks to shareholders representing a total amount of 766 million pesos. To make this payment, the company reduced its shareholder's equity and used stock held in its repurchase stock fund.

Downside

100. What constitutes the book value of the business?
    a. Main Assets:
        i. $673 million pesos in cash
        ii. $1,889 million in accounts receivable
        iii. $1,524 million in inventory
        iv. $3,272 million in property, plant, and equipment
    b. Liabilities
        i. Total Liabilities of 6,101 million pesos
    c. Net Tangible Assets of $1,257 million + Intangible assets that include brands, patents, and technology
101. Has the company granted its main assets as collateral?
    a. No
102. Does the current price give you asset protection?
    a. No, the company is selling at a market cap of $13 billion and I only have $1,250 million in net tangible assets that can be liquidated.
103. Is the risk of permanent loss minimal?
    a. Yes
104. What is the worst case scenario?
    a. Profitability and growth decreases and the company is unable to pay its outstanding debt that expires in 2027. This scenario is highly unlikely but everything can happen, capitalism is brutal.

Valuation and Upside

105. What is the company's narrative?
    a. Revenue Growth
        i. The company will use its leadership position and brand to capitalize future demand for water storage products. I expect demand to continue as urbanization and home construction increases, draughts worsen due to climate change, and the company expands to the USA and introduces its Bebbia purification service.
    b. Operating Margin
        i. I expect the company to maintain its operating margins thanks to its leading brand and consumer mindshare.
    c. Capital Expenditures
        i. From 2023 to 2027 I expect capex as a % of revenue to be 5% as the company continues to invest in Bebbia and its expansion in the USA
        ii. After year 5, I expect the company to bring back capex as a % of revenue to 3%
    d. Tax
        i. Current tax rate of 30%
    e. Discount Rate
        i. Current opportunity cost of 11%
    f. Durability
        i. I do not expect the company's products to change in the next 5 to 10 years, as the way to store water is not very vulnerable to technological innovations.
        ii. In the next 5 years, I expect the company to maintain its leadership position, as currently 75% of Mexicans recall the company's brand when they think of water tanks. Creating a distribution system that equals the company and a brand powerful enough to hurt the company will be hard.
106. What is the company's current EPV?
    a. Sustainable Revenue: 12,774
    b. Sustainable Operating Margin: 11.5%
    c. Pre-tax: $1,469 million
    d. After tax: $1,028 million
    e. Reinvestment Needs: $380 million
    f. Earnings power: $648 million
    g. EPV: $5,890 million
107. What is the company's intrinsic value through a DCF valuation method using conservative growth estimates?
    a. The company's intrinsic value is around $5,500 million pesos

Base Case								
Assumptions								
	2023	2024	2025	2026	2027	After year 5		Link to Story
Revenue	$14,051.40	$15,456.54	$17,002.19	$18,702.41	$20,572.65	2%		The company will use its leadership position and brand to capitalize future demand for water storage and conduction products. I expect demand to continue as urbanization and home construction increases, draughts worsen due to climate change, and the company expands to the USA and introduces its Bebbia purification service.
Operating Margin	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%		I expect the company to maintain its operating margins thanks to its leading brand and consumer mindshare. Average operating margin from 2014 to 2022.
Tax Rate	30%	30%	30%	30%	30%	30%		Current corporate tax rate in mexico
Net Reinvestment Rate in long term assets	702.57	772.83	850.11	935.12	1,028.63	629.52		From 2023 to 2027 I expect capex as a % of revenue to be 5% as the company continues to invest in Bebbia and its expansion in the USA After year 5, I expect the company to bring back capex as a % of revenue to 3%
Reinvestment in Short Lived Assets	0	0	0	0	0	0		Insignificant, does not really matter.
Cost of Capital	1.11	1.23	1.37	1.52	1.69	1.69		

The Cashflows							
	Revenues	Operating Margi	EBIT	EBIT(1-t)	Necessary Reinvestments in long lived assets	Change in Non-Cash Working Capital	FCFF
1	$14,051.40	11.5%	$1,615.91	$1,131.14	702.57	$0.00	$428.57
2	$15,456.54	11.5%	$1,777.50	$1,244.25	772.83	$0.00	$471.42
3	$17,002.19	11.5%	$1,955.25	$1,368.68	850.11	$0.00	$518.57
4	$18,702.41	11.5%	$2,150.78	$1,505.54	935.12	$0.00	$570.42
5	$20,572.65	11.5%	$2,365.86	$1,656.10	1,028.63	$0.00	$627.47
Terminal Year	$20,984.11	11.5%	$2,413.17	$1,689.22	629.52	$0.00	$1,059.70

The Value	
Terminal Value	$11,774.42
PV(Terminal Valu	$6,987.54
PV(Cashflow ove	$1,896.01
Enterprise Value	$8,883.56
Debt & Minority I	$4,000
Cash & Cash Eq	$670
Value of Equity	$5,553.56
Number of Share	486
Value per Share	$11.43
Current Value pe	29
Margin of Safety	n/a

108. Is the business priced at a large discount to its intrinsic value today and in two to three years? Over 50 percent?
    a. No, the company is not selling at a significant discount
109. If growth does not materialize will I loose money?
    a. Probably, because the company's earnings power at the current valuation is half what the market cap is.
110. Describe why it makes sense to invest in the company in 1 paragraph. This should include the intrinsic value of the company and the reason it is worth that.
    a. At the current price it does not make sense to invest in the company

Questions for Management

1. ¿Qué ha limitado a nuevos competidores entrar al negocio de almacenamiento de agua?
2. ¿Qué es lo más difícil para un competidor de competir contra ustedes?
3. ¿Qué porcentaje del mercado de productos de almacenamiento de agua tienen en México?
4. ¿Cuál es el volumen de ventas de su plataforma de e-commerce en Estados Unidos? ¿Cual es su modelo de negocio?
5. ¿Por qué consideran buena estrategia operar en Argentina?
6. ¿Por qué decidieron en Estados Unidos seguir una estrategia de hacer un marketplace digital para vender productos de almacenamiento de agua para terceros envés de vender sus propios productos de almacenamiento como en México?