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CORPORATE PARTICIPANTS

Bruno Ignacio *SMI Group - CFO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the SMI Group 2020 Third Quarters Earnings Conference Call. At this time, all participant lines are in a listen-only mode. (Operator Instructions). Please be advised that today's conference is being recorded. (Operator Instructions).

I would now like to hand the conference over to your speaker today Bruno Ignacio, CFO. Thank you. Please go ahead, sir.

Bruno Ignacio - *SMI Group - CFO*

Thank you. Welcome, everyone, to SMI's quarterly conference call this afternoon. Thank you for your interest in today's call. Once again, we are very [glad] to present to you SMI's results for this third quarter. We will discuss about our financial results and how we managed to overcome the crisis. Obviously we can proceed then to the Q&A session.

Okay. Without further ado, please move to slide number five. Here you can see how SMI continued to operate non-stop since the beginning of COVID-19, and our business model continued to show a strong resilience to face this crisis. Our (inaudible) and the strong recovery of demand here on the third quarter led to secure our margins while still accomplishing our net leverage reduction targets.

Let's begin with our volume sold. The total [container] volume decreased 18.9% in third quarter compared to 2019. This was caused by the weak consumer demand given the COVID-19 crisis. But this [fall] was partially [offset] by the full-year effects of new [model ability house] operations that began on the second half of 2019, and also new projects that have started in the first quarter of 2020.

In a year to date basis, total container volume decreased in 13.9 percentage compared to 2019 due to the strong performance in the first quarter of this year before the coronavirus pandemic effect.

Moving into the financial highlights as for the adjusted EBITDA, in the third quarter of 2020, consolidated adjusted EBITDA reached $51.2 million, very, very close to 2019 figures, decreasing only 2.7% compared to the third quarter of 2019.

Considering our transitory impacting our volume sold in the second quarter, we deployed a comprehensive plan to mitigate this contraction with two main drivers. A well-built and perfectly implemented savings program that led to us reducing almost 25% all of our fixed costs and [SG&A], and a regional (inaudible) savings program that initiated in 2019, with an initial focus on two key variable costs, transportation and packaging.

In the year to date 2020, adjusted EBITDA decreased only 6% compared to 2019. Also during the coronavirus pandemic effect and partially offset by the strong operating results in the first quarter of 2020 where we had a double digit growth compared to 2019.

Also year to date EBITDA margin reached 18.5%, aligned with historical figures and performing as well or even above [our peers]. Now, let's continue with the slide number six.

As you can see the volumes in the third quarter, we have been able to sell 2.3 billion units in containers and 0.5 billion units in closures. If we compare with 2019, our container volume decreased by 0.5 billion units, which represented a reduction of 18.9%. As we mentioned before, this was caused by a weak consumer environment due to COVID-19.

We partially offset this effect by first growing [performs] (inaudible) [CSB, isotonic] and edible oil with our current [and contracted] customer base, and two, rolling in bottles with the full-year effect of [new] (inaudible) house operations in Central America and Colombia, as well as new projects in the (inaudible) industry. Despite a higher impact here in the second quarter due to massive lockdowns throughout the region, third quarter [showed a] rapid recovery due to less restrictions, especially in mobilization and the economy (inaudible) around the region.

In terms of volume by country, in the last chart you would notice that our mix of sales slightly changed, which is aligned with our diversification strategy, [including] new projects with our current customer base in Colombia, Ecuador, and Central America.

As of today, volume breakdown by country is as follows. Peru represents 37%; Central America, 32%; the Andean region, 29%; and other countries only 2%. Now, please let's move to slide number seven.

Here we can see our EBITDA that reached $64.2 million year-to-date. This was impacted by the well-known exogenous factors, but due to our well-executed contingency plan, we only had a decrease of 6.3% compared to 2019. The [main negative effects] were obviously the first one, the container volume sold, a decrease by 40% in a year-to-date basis driven by the negative impacts of COVID-19 and the anticipated ramp-up process of our thermoforming business unit.

These effects were partially offset by two main drivers. As mentioned before, we had our successful savings program that was executed perfectly during the second and the third quarter, both in [COGS] and [SG&A] expenses. These initiatives were focused mainly on our strict control in maintenance and non-essential supplies, (inaudible) a business [expenses, always new, was reduced] to a minimum.

The [third-party] services, such as fees for legal and financial services or fees in IT, in CI services, renting or other consultant services also were reduced. Personnel training or expenses related to workshops reduced to a minimum for [upcoming] months and the optimization of the commercial distribution team while maintaining our business scale to support the upcoming recovery of our volume sold.

Additionally, we were [capturing] savings from programs that initiated in 2019, such as transportation. The routes were optimized from main facilities to our main clients, and reduced the fees throughout the region. And also, we had our engineering and [packing costs] were reduced by this [practice].

Both are only in the first stage of our regional procurement savings [plans] that started in 2019. Despite the obvious [exogenous status], we continued to perform above [our] (inaudible) in terms of EBITDA margins if we are comparing [against] soft tiered [global] players. This obviously reflects our strong business funnel and sustained operational discipline across all of our operations. Please continue to slide number eight.

Here you can see CAPEX, as of September of 2020, CAPEX reached [$60.1 million], mostly related to maintenance which only [we re-prioritized] the critical ones, carryovers from 2019 and a specific CAPEX to satisfy new contracted [volume that was] initiated in the first quarter of 2020 before the pandemic.

Year to date CAPEX reflects a significant reduction by 45% compared to the same period in 2019. This aligns [with] our aggressive cash generation program and our non-stop deleverage process. The CAPEX deployed during the last years was mainly focused on growing on our geographical footprint, along with [the position] of long-term [contracts] with blue-chip regional clients.

[Many of the] engagements were focused on properties from buildings. Now our investments are focused on specific high return CAPEX, mainly equipment which is considerably lower than historical figures. We are [harvesting] the expansion strategy with our significant reduction in CAPEX compared to previous years.

It is important to mention our backlog of projects for this year is focused only on high return selected opportunities prioritizing productivity and cost reduction. Now please move to slide number nine where we can see cash flow.

As of September 2020, we had an impressive operating cash flow generation of almost $76 million as a result of several initiatives. In terms of taxes, we managed to recover tax [credits] generated in previous years for about $3 million. Regarding working capital initiative, in the second half of 2019, as you well remember, we started on an [aggressive program] to extend our payable dates with our main suppliers, accounting for almost 80% of our costs. This resulted in our initial cash generation in the first half of 2020 of around $30 million.

Also [as we] anticipated, the natural impacts in working capital needs were mainly explained by, first, the collections were [negatively] affected in terms of volume due to a reduction in general consumption. And second, working capital needs for the new contracted volumes in our thermoforming business [unit that is] growing very fast.

In terms of investment, it has been deployed [$60.1 million] in CAPEX, mainly critical [maintenances], carryover specific CAPEX to satisfy new contracted projects that we gained in the first quarter. As mentioned, before we managed to keep our consistent trend to limit CAPEX to the minimum. Guidance for this year is mainly related to maintenance and [selective] productivity and cost reduction projects.

Finally, the financial cash flows were mainly related to bond coupons that we pay semi-annually. Both payments are already made in [this year]. The interest of all [our outstanding obligations] and the amortization of first-contingency debt that we incurred during the first half of the year with COVID, and second, additional $37 million that showed the strong fundamentals of our business despite one of the worst crises in history. This excellent cash position is a result of several initiatives [we already] mentioned in order to keep liquidity at optimal level despite the crisis.

Now, let's move to slide number 10. You can see debt and leverage. As you can see in the graph, our trend continues to be aligned with our deleveraging process. Although we witnessed one of the most severe crises the world has ever seen in the last century, our fundamentals were put to the test and we've managed to continue deleveraging the company. We reduced our net debt ratio from 4.2 in December 2019 to 4.1 in June, and as of the of the third quarter of 2020, net debt ratio further reduces to four times. We are now much closer to our internal target of being below four and we are foreseeing for this year almost reaching 3.8.

Finally, in terms of debt maturity, we don't have any material amortization for this year. Related to short-term debt, which is revolving debt since the beginning of the pandemic, we managed to renew without any problem and [that allows] us more than $80 million and have sufficient credit lines if needed in the future. We are prepared if the future did [have another] COVID pandemic, SMI is well prepared in terms of debt and cash position.

Now, let's move to slide number 11. Going forward, SMI will continue the well-defined strategy [delivered] by four main levers. The first one, organic growth, we still expect growing alongside our clients, SMI is believing that [traffic, political scale in growth] markets that we expect additional positive growth [leading to further] penetration of [PVC bottles].

Second, cross-selling, we continue to look for opportunities across all of our geographies with our returning customer base to complete our portfolio. Third, our timeline, although this year many employees were suspended, we are seeing new activity remaining in new guidelines for 2021. And we are seeing this not only with our current customer base but also with new contracted clients.

Finally, we are increasing thermoforming business units [that are] currently in Peru and Ecuador and we have more opportunities of growth since we are consolidating our businesses in [CPG] and [hardware], our industrial customers. Additionally, the pandemic has taught us that there is always room for improvement. SMI is focusing specifically on efficiency programs.

The first stage started in 2019 and was focused on variable costs. The second stage can be done with our COVID-19 savings programs, are related to manufacturing efficiency projects where we expect to capture savings in energy, labor costs, and production waste. As for working capital initiatives, we are currently issuing [purchase] orders with 270 days without any problem. This extension or additional extension and we mentioned in 2019 of our payroll dates already [we have] a significant amount of cash and we expect an additional effect for our coming months.

All these initiatives [reflect] our focus and [maximize] the leverage program in which our net debt ratio below 3.9 for 2020. We are extremely confident of reaching this ambitious target given the circumstances.

That will be all. Thank you very much for your attention and please let me know if you have any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Please stand by while we compile the Q&A roster.

(Operator Instructions). At this time I am showing no questions.

I would like to turn the call back over to Bruno Ignacio for closing remarks.

Bruno Ignacio - *SMI Group - CFO*

Thank you, [Lizzie]. Well, thank you very much for your attention. I hope you are safe, your family, friends, and have a merry Christmas for this year. Thank you very much.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for participating. You may now disconnect.
