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GISSA 2Q17 Conference Call Transcript

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Operator: Good morning everyone, and welcome to the Grupo Industrial Saltillo earnings conference call. All lines have been placed on mute to prevent any background noise. Please note that this call is being recorded. After the speaker's remarks, there will be a question and answer session, and instructions will be given at that time. For opening remarks and introductions, I would like to turn it over the Melanie Carpenter of I-Advize corporate communications. Please, go ahead.

Melanie Carpenter: Thank you. Good day everyone, and welcome to Grupo Industrial Saltillo's second quarter 2017 earnings conference call. This call is for investors and analysts only. Joining us today from GISSA are Mr. José Manuel Arana, the Chief Executive Officer, Mr. Mario Guzmán, the Chief Financial Officer, and Mr. Saul Castañeda, the Investor Relations Director. They will be presenting the company's recent transactions and performance as per the earnings release issued yesterday after the close. If you didn't receive a copy, it's available now on the website at www.gis.com.mx in the Investor Relations section, or you can please contact us in New York at 212-406-3694. Let me remind you that forward looking statements may be made during the call, and they're based on information that's current available. We ask that you please refer to the earnings release for a more detailed and full disclaimer. Also, all the figures discussed are in Mexican pesos unless otherwise noted. It is now my pleasure to turn the call over to Mr. Jose Manuel Arana, the Chief Executive officer of GISSA to begin with the main highlights and the strategic overview. José Manuel, please go ahead, sir.

José Manuel Arana: Thank you Melanie, and welcome everyone. I'm pleased to be here today with all of you on our first conference call in some time. By initiating this call and other activities, we will increase our interaction in order to be closer to our investors and financial community.

GISSA, as you know, has come a long way with globalization being a key driver in our full transformation, from a domestic commodity company to a multinational value added player. We have a strategy and a roadmap to continue growing in strategic segments, improving our return on assets driven by our current capacities. In addition, we will continue looking for selective M&A opportunities and organic growth.

We also have taken solid steps to build a company that offers competitive advantage. For the automotive construction industries, not only in Mexico, but on a global basis, through key partnerships and the acquisition of talent. At the same time, we've strengthened ourselves from the inside out with the most solid financial position in our recent history and corporate governance under the highest standards in our market.

Today, GISSA is stronger than ever. Let me begin with an overview of the company.

For starters, the group has developed a solid diversified product portfolio of brands and products along three business segments: Auto parts, Construction, and Housewares, addressing the needs of industrial clients as well as final consumers. Although, our roots date back to GISSA, headquartered in Saltillo, that started in the housewares, we are now headquartered in Mexico City with an R&D center in Spain and operations in six countries and offices in many cities, including Detroit. Our strategic focus is now on developing and strengthening our Auto parts and Construction segments with value-added, differentiated products which brings me to my second point.

Over time, we have made investments and also created JV's in the Auto parts segment that have made it possible for GISSA to grow in terms of footprint, client base, know-how, innovation, and value added products. In fact, at the beginning of this year, GISSA initiated operation of second auto parts production line and won multiple high efficiency awards at our JV in Irapuato Evercast. Other achievements include adding aluminum casting into our operations and strengthening the value chain, machining, co-designing and R&D, giving us global capabilities to develop complex projects for our clients, OEMs, or Tier ones or Tier twos.

As a matter of fact, in June GISSA was awarded, for the first time ever, the National Quality Award in the Organizational Innovation category by the Federal Government of Mexico.

To give you an example, I will mention that our most recent JV, GisEderlan, will be the first non-German site to produce brakes for a very important company in Germany.

Yet, our latest efforts to improve innovation and footprint include two important acquisitions made possible by our financial strength. The first one is ACE which completed or complimented our capabilities, and represented our first step towards globalization through operations in Spain, Poland, and Czech Republic. The second one is INFUN, which placed us on the map in Asia, via China, and Italy and reinforced our position in Spain. I will talk more about these two points later on.

As you can see, we are truly becoming a more global player, and thanks to that, there are two highly important globalization elements helping us in our performance. The number one is diversifying our revenues. Our revenue streams by adding Europe and China reduces our exposure to the NAFTA market which is 40 percent of sales now stemming from this market. The second one, it balances our currency exposure while giving us access to other capital markets.

Having a presence in several countries also means dealing with different environments, challenges, and culture. Just to give you some insights in our markets, let me describe the auto parts NAFTA segment, where car sales in the U.S. reached peak in 2016 and have slowed down ever since, despite dealers benefits and subsidies. However, we have a solid long-term auto parts order book. Auto parts in Europe, we see that the car demand grew at a slower pace during this month due to fewer base of sales. Nevertheless, Europe auto sales continues with a positive trend. In the case of Asia, in the auto parts segment also, continued growing. This makes the market very attractive with many opportunities in a very competitive market environment. In the Construction area, we see remodeling and commercial segment continue with a very good growth trend. In Housewares, despite the low market growth, we are carving opportunities primarily through innovation.

If we move now to our operating results, GISSA posted growth in a second quarter as a result of INFUN integration, consolidated revenue growth of 40 percent, showing improvement in all three segments. Consolidated EBITDA also reported double digit growth of 14 (18) percent.

Going further in depth, in each segment performance and main highlights for the quarter, Mario Guzmán, our CFO will describe them in just a minute. Before I turn the call to Mario, let me highlight that during the second quarter, GISSA has signed an agreement with Rheem Manufacturing Company, regarding the sale of its water heater business unit which is still subject to approval by COFECE.

As you know, 2017 comes with challenges, but at GISSA, we are already taking actions to face them head on. Some of our most important initiatives include our efforts to help see Cifunsa to be awarded a contract to produce GM's V8 crankshafts, used in SUV's and pickups. General Motor's trust in our team will result in higher volumes beginning already in Q4 of 2017. In GisEderlan, we are launching high-tech brake products for a German company. Before the end of the year, we will start with that activity for the launch. As solid Auto parts order book gives us the confidence to have a stronger and longer horizon volume to supply in the long term. Feramo's, our Czech Republic Auto parts facility, started operations of a new foundry line which will give us additional volume. Another important step in strengthening its position in the Mexican market is that Vitromex signed an exclusive agreement with Grupo Imola and a licensing agreement to utilize LaFaenza brand in Mexico to position ourselves in the high end market. Moreover, with the launching of new distribution centers in Vitromex, and also Arko, we will also help our domestic position. We're also implementing efficiency improvements, synergy programs in the Auto parts segment, and making automation investments in Housewares to improve efficiencies. We allocated CAPEX to increase Vitromex's installed capacity, moving forward to produce glazed porcelain premium formats. Regarding Vitromex USA, we see significant opportunities to improve our product mix with higher margin, higher value-added products in our moves in this direction for the past year have been very well-received by our key customers. We see specific opportunities with porcelain products and with large format tiles. Finally, we will continue to benefit from the synergies obtained from the integration of ACE and INFUN, including centralization of engineering and R&D capabilities.

We've become a more productive and dynamic, flexible organization with the skills and, capabilities required to successfully face the challenges that the global markets present. We are committed to make things happen, develop and grow as indicated in our mission statement. I'm confident that GISSA has now a very strong position and will capitalize on opportunities to further consolidate its operations and above all continue its positive growth trajectory.

I will now turn this call over to Mario, our CFO, for a discussion of our financial performance. Please Mario, go ahead.

Mario Guzmán: Thank you, Jose Manuel. I will now go over the main financial highlights for the quarter.

We hope today's call give you a clearer vision of GIS current situation and our expectations for the future. As Jose Manuel mentioned, this call intends to bring us closer to our shareholders and analysts, but it is just one part of our larger action plan to boost the company's stock performance.

Let me begin by highlighting that the stocks trading volume has been increasing in both value and number of transaction sin the recent past. Now, GIS is ranked in the medium trading category, listed as number 85 in the trading index as of June 2017. This represents an improvement of eight positions in one year. As of the end of June, our stock has posted a 37 percent annual yield. This is excluding dividend yield. The key drivers to this positive stock behavior, obviously the performance of the company and the market maker and the stock repurchase program that we put in place.

Before we move on to the financial results for the quarter, I want to take a moment to talk about one of the benefits of globalization for GIS. GIS is currently operating in three continents, seven countries, after the acquisition of INFUN. Cash generation shows the following currency breakdown. Before the INFUN acquisition, 44 percent of our operating cash flow was originated in Mexico, 44 percent Mexican pesos, 39 percent U.S. dollars, and 17 percent Euros. Now, after the INFUN acquisition, we have a balance mix, 34 percent Mexican pesos, 32 percent U.S. dollars, 30 percent Euros, and 4 percent Renminbi which is the Chinese currency.

Turning to our financial performance, first the figures we have reported comply with the directives of IFRS, and its continued operations and assets available for sale, so we are now reporting the Calorex results in a single line after we signed the sale and purchase agreement for the divestiture of the business back on May 26th. I will also mention some instances to compliment to report the financials with a mention to proforma figures that will add the performance of the JV's that we are currently not consolidating. This is important, because some of the volume produced by our JV's has been transferred from Cifunsa. Putting together both figures will provide better visibility of the compete business footprint. You can find this proforma on Page 3 of the quarterly report.

Revenues increased 40 percent in the second quarter of 2017 and 48 percent in the first half of 2017, versus the previous year. This improvement is mainly attributable to the addition of INFUN into GIS. Auto parts, NAFTA grew 14 percent, resulting from price increases and a better product mix. Vitromex rose 3 percent due to growth in the domestic market; while Cinsa ,which is our housewares business, increased 4 percent, mainly from price increases. Including the JV's, the consolidated revenues have risen by 41 percent on the quarter versus quarter and 49 percent semester versus semester.

Despite the challenges presented in the quarter such as the exchange rate, volatility, increases in commodity prices, including electrical energy and natural gas, GIS continues its EBITDA double-digit growth, reporting an increase of 18 percent or 94 million pesos in the second quarter. That figure including our JV's, would be 22 percent of all last year and 134 million pesos.

EBITDA contribution is broken down as follows. 84 percent coming from the Auto parts business, 14 percent from Construction, and 3 percent from Housewares. Going further in detail on the performance of each segment.

First, for the auto parts segment, GIS NAFTA reported an increase of 141 million pesos or 14 percent, derived from volume increases, a favorable impact of price and product mix; while on the other hand, including now the acquisition of INFUN, Europe and Asia posted a strong growth of 143 million pesos or 156 percent versus previous year.

In terms of EBITDA and EBITDA margin, NAFTA reported a decline of 23 percent and 8 percentage points, respectively; while Europe and Asia posted growth of 180 percent and 2 percentage points, respectively. NAFTA's EBITDA declined mainly due to a 40 percent increase in energy costs, high raw

materials as well as higher technical assistance, maintenance, and labor costs. In Europe and Mexico, raw materials prices have increased with different impact on the businesses, since the price lag is different for each region.

Moving now to construction, let me reiterate that the results exclude Calorex in accordance with the water heater sales agreement, and as explained before, Calorex is not show in the balance sheet also under the caption "discontinued operations." In second quarter 2017, Vitromex revenues rose 29 million pesos or 3 percent, resulting from a 5.2 percent growth in the domestic market. Both EBITDA and EBITDA margin were able to generate a slight growth of 9 percent in pesos and 1 percentage point in margin, despite an incremental cost of 25 million pesos. This cost resulted from an increase of 35 percent in natural gas cost, closing 13 pesos cost by the exchange rate in the raw materials. Moreover, EBITDA margin was impacted by a 48.5 percent increase in electricity cost per kilowatt hour, and an additional 9 percent in freight costs.

Moving now to housewares, this segment reported an increase of revenues of 14 million pesos in the second quarter of 2017. This represents an increase of 4 percent year over year, while increases for the first half of the year is 52 million pesos or 8 percent. This segments' growth is explained by an additional 35 million sold in the ceramic and aluminum category and 21 million pesos in the aluminum steel pressure cookers category. EBIT and EBITDA margins for second quarter 2017 posted 19 million pesos and 5 percent, respectively. It was negatively impacted by lower sales volume, higher natural costs (specifically, the raw materials and the metal), as well higher labor costs, as well as energy, indirect and marketing costs.

Finally, I would like to mention that we have gone through these acquisitions very recently. This quarter includes the charge for several advisors and consultants fees. The total amount charged to the P&L this quarter was 39 million pesos. That's a one-off and ones that we concluded costs of integration and final legal expenses that will be removed from our P&L going forward.

Turning now to our balance sheet, first, cash and cash equivalents reached 1.67 billion pesos. That's a decrease of 1.58 billion pesos compared to year-end 2016. The main reasons for this reduction are a) our cash position is largely composed of U.S. dollars and Euros, the devaluation of the Mexican pesos from 20.64 pesos at the end of 2016 versus 18.02 pesos at the end of June, represents an exchange rate related impact of around 400 million pesos. That's a nominal reduction because of the movement of the exchange rate. Second, we have a onetime normalization of working capital at INFUN. We acquired the company back in December, and starting in January, we started to normalize some caption for the working capital and that normalization represented 450 million pesos. That's again, a one-off. In the third place, we had an outlay of 235 million pesos related to the deferred tax payment from the change in the consolidation regime of 2014. As you remember, the consolidation regime was changed back in 2014. There was an amount to be paid as a deferred tax for the companies in Mexico, and that (indiscernible 00:23:03) years, we are making a yearly payment regarding that liability or that determination. We have made two big payments during 2016, 2017, and we have one big payment ahead in 2018, and after that, there are minor amounts to be paid all the way to 2023. The fourth important amount that is not recorded but was updated in this period was a dividend payment of 225 million pesos. Finally, we have an additional CAPEX related to the growth of the Vitromex business for 235 million pesos. These are captions which are not necessarily normal and are associated with exchange rate effects or with acquisition of the company back in December, explain the difference in the cash balance at the end of the year versus the end of June.

Our debt position totaled 8.3 billion pesos, is comprised of 50 percent dollars and 50 percent euro mix. It includes a syndicated loan contracted for the acquisition of INFUN back in December. It also includes some debt owed to the INFUN seller as part of the acquisition financing. Finally, the other component is the local debt at our subsidiaries in Europe.

In line with the company's strategic of keeping a solid and flexible balance sheet, net debt to EBITDA ratio is at 2.5x times and interest coverage at 7.9 times, both in line with the governance set in our loan contract. We expect this ratio to go down further once the divestment of Calorex is concluded, and those resources will apply to paying down debt.

On this front, debt, ACE, one of our European subsidiaries, just signed a long-term syndicated financial agreement in Spain for 45 million euros. The net debt to consolidated did not increase since the resources were applied to prepay the corresponding amount on the syndicated loan, but this step is consistent with our role of better matching obligations with generation of funds and lowering the cost of debt.

In terms of CAPEX for the six month period of 2017, we have invested USD$15 million in Vitromex for the porcelain tiles, producing large format customized products, in line with market trends. This increases the economics of the offering for the value chain and will help to reposition our business both in the U.S. and in Mexico.

Finally, in keeping with the company's recent practice, as I mentioned, a dividend of 1.05 peso per share was approved in the shareholders meeting on April 25th of which 60 cents were already paid on May 4th; and the remaining 45 cents will be paid in November.

Going forward, our priorities for the second half of the year will be the continuation of the integration process of our two recent acquisitions in Europe, the start of the new capacity in porcelain tiles in Vitromex, and execution of our cost reduction plans.

With that, I conclude my remarks for today. I will now ask the operator to open the floor for the Q & A session. Thank you.

Operator: At this time, we will open the floor for questions. If you would like to ask a question, please press the star key, followed by the one key on your touchtone phone now. Questions will be taken in the order in which they are received. If at any time, you would like to remove yourself from the questioning queue, press star, two. Again, to ask a question, please press star, one. Our first question comes from Sergio Garnica with Active Consulting Solutions.

Sergio Garnica: Good morning, everyone. Thanks for the information. Everything was very useful. Just a question on the balance regarding the amount that is reflected on assets which came for the sale in the amount of 743 million in differed taxes also for the sale. What is that supposed to mean? It means that this is a tax fee that will be addressed for the new company, and you will take out of the balance sheet, or is it something that you have to be repay, or is it kind of a resale? We just want to understand what about these two numbers?

Mario Guzmán: Yes, Sergio, thank you. Yes, that amount is corresponding liabilities, greater suppliers, and other right side balance sheet of the business that we are divesting. Once the transaction is concluded, those liabilities will be gone from our balance sheet.

Sergio Garnica: Okay, so it means that this 743 million that are as taxes will be removed, and it's no longer under your balance sheet, and you are no longer taking care of that mount, right?

Mario Guzmán: Yes, that's correct.

Sergio Garnica: Okay, that's all from our end. Thank you very much.

Mario Guzmán: Thank you.

Operator: Again, to ask a question, please press the star key, followed by the one key on your touchtone phone. Our next question comes from Alejandro Azar.

Alejandro Azar: Hi everyone. Congratulations on the results, and thank you for taking my questions. I have a lot of questions, so I'm sorry. The first one is related to if you could share with us the dynamics on the market, especially in NAFTA. You mentioned that volumes are increasing. I believe that, if you take into account the JV's, the growth should be above the industry levels. The other one is related to Europe. How are you seeing the market dynamics? Also, within the Auto parts business, if you could mention the fundamentals behind the higher energy cost in Mexico and Europe, and why is it that you are not transferring them to your clients? Should we see the pressures in profitability by the end of the year? I don't know if you guys are expecting higher costs increasing during the second part of the year. Those questions will be for now.

José Manuel Arana: This is José Arana. The U.S. Auto market, as you can see, from 2008 and 2009 decline, which was one of the lowest numbers in the life cycle, the car industry has been growing at a very steady pace, and now, NAFTA is at the peak or the biggest volume ever. We don't see further growth. I think that the growth is going to slow down or may decline slightly. We are positioned both with Cifunsa, GisEderlan, and Evercast, in three different strategies. One is providing tier one and two's, and the other is providing directly OEM's through either machining or machine products with value added, or directly to OEM's casting products. We see that our ability in our capacity in Mexico is ready to continue growing. In the case of Europe, we see a different dynamic. The decline back in 2008 and 2009 was similar to NAFTA. Europe is still recovering from that growth, and the market will continue to grow at a slower pace than the U.S. was growing.

You asked also about energy. Energy cost is different in Europe and different in NAFTA, particularly in Mexico, where we have a double impact in our currency, and also, to price increases. The markets and the customer relationships are different in Europe, and also in Mexico or NAFTA; where in Mexico we do not transfer energy cost in the formulas to customers. In Europe, we do transfer those on a yearly basis, so we will in the next cycle reflect those costs to customers. We've got to work around either improving our efficiencies, and also, proposing to include energy cost in contracts which I see that complex, because of the history, and because of the competitive landscape. Raw materials are in Mexico in NAFTA in the formulas to transfer the cost, so we have to focus on becoming a much better user of energy per metric ton produced. I don't know if we answered your questions.

Alejandro Azar: That's wonderful, José Manuel. I would want to ask for Mario if he can comment on the one-off's, mainly on the operating side. I don't know if I got them right. It's for the operating side, it's just 39 million pesos for consultant fees, right, or there's another one?

Mario Guzmán: Yes, you had the right figure for the quarter. We continue either paying or making a provision for 39 million pesos. These are related to expenses associated with the acquisition. Either fees for legal advisors, success fees, and also, we are using third parties to help us with the integration process. It's not only related with the INFUN acquisition. There is also an important amount of that related to the Calorex divestiture. We had to prepare. Obviously, you know the preparation of a process, advisors, etcetera, so each year, the whole year, also the first quarter, so an impact on our P & L for those, so once we continue with this process of integration, and we finalized the Calorex divestiture. Those will be gone. They have an important impact on our P & L for this year, so that will be the part, the impacting. You don't see those figures in the business. Those are the corporate level, but when you put together the business results and the corporate companies, that goes into the consolidated EBITDA.

Alejandro Azar: Perfect. I don't know guys if you could share with us a guidance for 2017; EBITDA numbers, maybe CAPEX, or a breakdown of your CAPEX. You mentioned strong investments in Vitromex. What do you think about investments for the Auto parts? I don't know if you could share with us.

Mario Guzmán: Yes. Let me before address one point you raised in your previous question. It's energy costs. Mainly, electricity, which is the main source of energy we use in our foundry business, Auto parts. It is related to increasing the natural gas prices. As you know, that's part of the formula that the CFE and independent suppliers use in the determination of our price. It is coming back in the previous four or five years. Natural gas prices were very low. They are coming back, but we expect that this will tend to normalize. In any case, our contract with our clients assumes that that will be passed through to them. At least, in Europe. That's a part of the electricity, and natural gas which is directly important to the Vitromex business, what I just mentioned, the commodities coming up. That's an important component that explains our results. We are not able to translate that into market prices simultaneously. So, it would take some time to catch up with that increase.

Going to the second part of the year, we do not provide a specific number guidance, but we can give some ideas of how we see the rest of the year. We are expecting first, as José Manuel was mentioning, that we are able to do some catch up on the current lag between the electricity prices and the selling price that we have. That will help to close the gap that we saw in the second quarter. That's number one. Secondly, we have solved some service issues that we had in the Vitromex business during this quarter, so we will be fully up and running with all our capacity for the second half of the year. We will be able to start up a new porcelain tile facility, that will be available, and selling commercial product by August. That will have an important impact on the volume that will be available for the market in the Vitromex business. Obviously, as I mentioned, we expect the current rate of fees and expenses related to the acquisitions and to the divestiture to just start to go down, and eventually, disappear by the fourth quarter.

Operator: Thank you. At this time, we do not have any further questions. Please press star, one if you would like to ask a question on your touchtone phone now. We have a question from José Vásquez from GBM.

José Vásquez: Hi. Good morning Jose Manuel and Mario. I have a couple of questions. The first one is related to Cifunsa. Checking the numbers. We see that the margins in Cifunsa are contracting a lot. We started to figure out if this were related to the FX coming back to lower levels, or the impact is only from increases in energy costs and raw materials as you previously mentioned. I would like to know the magnitude of FX, or the impact of FX on energy costs and of raw materials. The second one is also, seeing the numbers we see a small deceleration in sales at Infun. We would like to know if you are expecting this to continue throughout the remainder of the year or the trend to the reverse and start seeing growth in Europe and China? As you previously mentioned, they are markets that are growing at a faster pace than the U.S. Thank you.

José Manuel Arana: I'll address the first one on Cifunsa. Cifunsa, we have four drivers that are driving the performance. The first one you touched on which is forex or exchange rate, definitely, has an impact in the overall business. But primarily, two, that are energy costs and raw materials which raw materials will recover next quarter. The formula will pass on a great deal of that cost. Energy is something that we will absorb. There's a volume; as you know, Evercast is growing, and it's making a very good performance. We transferred part of the volume from Cifunsa that is going to Evercast. We do not consolidate the Evercast results, but you can see in the proforma that we are having a contribution in growth. That was a very strategic move for us to expand, knowing that we could lose some volume in 2017. It's conscious. It was strategic, and now, our team is focused on recovering the volume in primarily Irapuato plant in Cinfusa and getting back to the at least the volume that we were currently having.

José Vásquez: Sorry, right now the transfer is already over?

José Manuel Arana: No, not in full, but over for 2017.

José Vásquez: Okay.

José Manuel Arana: We also generate as we transfer volume from Irapuato. We generate two different margins, basically, in Evercast. One comes from foundry in the casting, and the other one comes from machinery, from machining the components of the margin in Evercast per ton of Cifunsa is greater in Evercast, so that's part of what you see. The second question about INFUN, INFUN will continue the pace. That's part of Q2, and volume was something expected on the ins and outs that happening a yearly basis, based on products that end and products that begin. There are a number of products that will be coming into production that will close the gap, and we expect to end the year with very good results at INFUN.

Mario Guzmán: Let me add to that Jose Manuel, also just to compliment the picture in Europe. It's important to mention another thing that has been going on, on ACE. We have a facility in the Czech Republic, and we just started a second molding line. That has two sides to it. The first one is that we are going through the stage of starting up the facility, so that has some inefficiencies, some additional costs, etcetera. So, that will be removed once the facility is up and running on the normal standards, but that will have also a contribution to the second part of the year. We will not only remove the cost associated with the startup, but we will also increase the volume available for sale. That's also part of the explanation of what's going on Europe, another additional value that will be present in the second half of the year.

José Manuel Arana: Let me add one more point. If we compare Q2 of 2016 and Q2 of 2017, in Mexico, particularly, (it) affected Cifunsa, because we had the lowest raw material cost ever in Q2; and now, we're comparing both energy and raw materials with a very high cost on Q2. So, we had the benefit of great margins that over time, we also passed the benefit in Q3 to the customer. Now, we're paying on Q2, and we're recovering Q3. It's the opposite of what happened in 2016. Just to illustrate the dynamics of the market.

José Vásquez: Okay, and just a quick follow up. You mentioned in the part on Vitromex that you have an extraordinary income of around 13.8 million from land that you sold. Why did you put it there, or is it included in the 84 million you registered at the EBITDA level?

Mario Guzmán: We put that just for disclosure purposes. Actually, this is a one-off operation. That's an asset that will recover from a defaulting customer. That's not a recurring operation, but in the spirit of full disclosure, we want to mention that.

José Vásquez: Okay.

Saúl Castañeda: Hi everyone. This is Saúl. Hi, José.

José Vásquez: Hello.

Saúl Castañeda: Hi. Just adding this accounting, it's just how the IFRS asks us to account this income, so it's also like I said, according to the accounting procedures, it's well registered.

José Vásquez: Okay, thank you very much.

Operator: Thank you. Our next question comes from Sergio Garnica from Active Consulting Solutions.

Sergio Garnica: Hi guys. This is me again. Thank you very much for sharing the results. I just want to congratulate. It seems like the company is doing so well. Just a quick question regarding, again, the segment of Calorex; because for us it seems to me a bit small in terms of focusing in the Auto parts and Construction, while taking out a business that is probably not related. Just a couple of questions regarding that. One, do you have any cost related to Calorex, in June, on the P&L that is still reflected on either cost of sales or for operations cost? The other one on the *Bolsa Mexicana de Valores* reflected an amount of almost 4 billion pesos, the price of selling of the company. Is that amount already fixed? That's the real price? It's already negotiated?

Mario Guzmán: Yes, Sergio, on your first question, the results that belong to the business, as a standalone, the answer is no. We don't have a cost that is actually included in the EBITDA that we are reporting. The only thing that is affecting that EBITDA are the fees and expenses that GIS, as an entity, is going through just to finalize the transaction. The business as a standalone unit is not reflected in the EBITDA we are reporting now.

Yes, going to your second question, the amount you just mentioned is the actual agreement that the parties have arrived to, and it is reflected in the contract that we signed back in May. That's the total enterprise value.

Sergio Garnica: Okay, well, thank you very much guys. It has been very useful information and congratulations again.

Mario Guzmán: Our pleasure, Sergio. Thanks.

Sergio Garnica: Thanks.

Operator: Thank you. Our next question comes from Andres Olea from GBM.

Andres Olea: Hello. Thank you for answering the question. I wanted to know if you could give us more detail about the utilization rates in GisEderlan and INFUNEderlan? What do you expect with the ramp-up in these JVs? What's the timeframe to look at the utilization and the capacity?

José Manuel Arana: I'll start with GisEderlan. GisEderlan is an operation in San Luis Potosí next to Cifunsa which provides the casting for machining in GisEderlan. We initiated operations already, beginning this year, with several customers. Machining is very modular, so you start with X number of parts, but our projected capacity for GisEderlan is around 2 million pieces to be machined. We are utilizing all of the equipment that is installed, and we will install machines as we get the programs. It is very different to foundry, where you have to install the capacit and run with overcapacity for a big period of time. That's one of the benefits of machining. On the INFUN, INFUN is running at 80 percent capacities in most of the plants. That's the way that it's been running for the past years. We're making small adjustments and improvements where we can get more volume through throughput and improvements from the synergies, but that's how we will operate in these businesses.

Andres Olea: Great. Thank you.

Operator: Thank you. Our next question comes from Alejandro Azar from GBM.

Alejandro Azar: Hi again. A quick follow up on the divestment of the water heater division. If you could give us your expectation, when do you think you could close the deal? What do you believe? Have you talked to the COFECE? What are you guys expecting?

Mario Guzmán: Thank you, Alejandro. Right now, we are in that process. We have provided our documentation to the COFECE, and we are following up on some requests for additional information that they have asked us. At this point in time, we could not give you clarity or visibility on when that process will be concluded. It will be obviously for us, the sooner the better, because we can finalize the transaction, because that's essentially, the only condition precedent to the conclusion of the deal. But again, we need to comply with the request and heed the authority with information requests, and just wait for us to go. We were thinking to give you some color that the process will be concluded by the end of the third quarter. That would prove to be speculation on our side at this point, but that will be expected, according to previous operations. We really don't know. We need to respect the times of the authority at this point.

Alejandro Azar: Perfect. Thank you, Mario, and thank you José Manuel and Saúl.

José Manuel Arana: Thank you, Alejandro.

Mario Guzmán: You are welcome, Alejandro.

Operator: At this time, I am showing no further questions. Would you like to conclude with remarks?

José Manuel Arana: Thank you very much, Operator. Thank you everyone for the participation in the call and showing your interest. We are very committed to continuing this dialogue. Going forward, we would like to provide you with more information, visibility, interaction with the company. Please don't hesitate to reach out to Saúl and his team, should you have any more questions. I wish you a great day, and thanks again for participating.

Operator: Thank you, ladies and gentlemen. That concludes today's teleconference. You may now disconnect.

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