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GIS Reports Third Quarter 2018 Results

Saltillo, Mexico, October 23, 2018 -- Grupo Industrial Saltillo, S.A.B. de C.V. (BMV: GISSA) ("GIS", or "the Company"), a global Mexican manufacturing company serving the automotive, construction and housewares industries, today announced its unaudited results for the third quarter (3Q18).

Recent Events

- GIS reaffirms its strong position in the automotive sector following the signing of the commercial agreement between U.S., Mexico and Canada (USMCA). We will evaluate possible capacity expansions to capitalize on the higher regional content that will be required by OEMs.
- Draxton created a Global Engineering, Research and Development Center based in Spain in order to accelerate the implementation of technical and operating synergies that will reduce costs and improve the Company's competitive position.
- Calorex and CINSA have very solid outlooks and profitability.

Comments from the CEO – José Manuel Arana

"After reporting numerous consecutive quarters of growth, during the third quarter of the year there was a deceleration in the automotive industry in Europe and in consumption in Mexico. During this period, we were mainly impacted by higher input and energy costs. This setting, together with the performance of Vitromex, significantly pressured our margins.

In the face of this climate, we will maintain operating discipline, continue capturing synergies and accelerate our cost reduction strategies. Our greatest challenge is the turnaround of Vitromex. We are speeding up the restructuring process, which shows progress at the operating level; however, its improvement will take time, and we expect to see this during 2019.

"GIS is a company with strong fundamentals, financial soundness, geographic diversification and committed talent. Each of us has clear and specific objectives, for which an aligned execution will allow us to once again move towards a path of growth. Despite the slowdown during the quarter, Draxton maintains revenue growth on an accumulated basis, and profitability levels above the industry average. We participate in the three major automotive markets, with platforms that allow us to face the shift towards hybrid and electric cars. There are many opportunities for continued profitable growth and we will seek to maximize the value of each and every one of the Company's units."

Consolidated Financial Highlights

in millions of pesos, unless otherwise stated

	Third Quarter			Nine Months		
	2018	2017	Change	2018	2017	Change
Revenues	4,796	4,535	6%	15,234	14,454	5%
EBIT	157	430	(64%)	983	1,429	(31%)
Margin	3%	10%		7%	10%	
EBITDA	465	657	(29%)	1,930	2,123	(9%)
Margin	10%	15%		13%	15%	
Net Income	186	153	22%	798	1,197	(33%)
Margin	4%	3%		5%	8%	
EPS (pesos)				2.05	4.33	(53%)
CAPEX	130	77	69%	506	448	13%
Net Debt				6,499	6,729	
Net Debt to EBITDA				2.5x	2.4x	

Effects on Comps

- 3Q17 EBIT includes a Ps. 58 million benefit mainly related to the capitalization of investments.
- EBIT and Net Income for 3Q18 include approximately Ps.60 million and Ps.40 million, respectively, derived from depreciation and amortization charges related to Draxton Powertrain's Purchase Price Allocation (PPA).
- Taxes in 3Q18 represented a benefit of Ps.64 million, while in 2017 it was a charge of Ps.245 million. This effect was mainly due to exchange rate fluctuations and it is reflected in the majority net income.

Financial Results

During 3Q18, in addition to the effects previously mentioned, GIS faced various challenges which impacted the Company's profitability.

- Draxton, the Company's main contributor to EBITDA, experienced three factors impacting quarterly results:

    — Increases in raw materials and energy costs.
    In Mexico, average electricity rates increased 50%. In Spain, GIS received lower benefits from electricity disruption programs, totaling approximately 200 thousand Euros. On the other hand, the Company faced price increases in scrap metal and ferroalloys in all regions. In Mexico, there are lags in the indexation that will be offset in the coming months. In China, 50% increase in scrap metal cost represented half of region´s EBITDA 3Q18 vs 3Q17 deviation, resulting from tougher environmental regulations in the country, causing the steel and foundry industry to compete for scrap metal.

— Lower sales volumes.
GIS's Joint Venture with Evercast reported higher volumes from transfers and new programs initiated with our partner ZF (TRW), which were operated by Draxton Irapuato in 2017. In Europe and Asia, the Company experienced a slowdown in the diesel vehicle market, which starting in August has been faced with changes in environmental regulations; as well as adjustments made by a U.S. auto manufacturer that announced a restructuring program in both China and Spain. The benefit was reflected in Evercast.

— Launch of new products.
The San Luis Potosi facility incurred higher variable costs related to the launch of approximately 20 new products. We will see these benefits reflected in 2019.

- Vitromex experienced a 50% volume decline in the U.S. due to the portfolio renewal process. We continue to make progress in recovering key domestic accounts in the U.S. that will allow us to significantly increase volume levels beginning in the second quarter of 2019. The level of service in the U.S. has improved by over 96%. So far this year, the domestic market has contracted by approximately 4%. In order to reach reasonable market share levels, and turn over inventory, we have had to be highly competitive with regards to prices. The business restructuring program included reorganizing of sales teams in the U.S. and Mexico, strengthening technical areas, streamlining the product portfolio and strengthening revenue management and supply chain areas. Furthermore, during 3Q18 we accelerated maintenance plans and had to operate with 20% of the kilns shut down. This impacted the absorption of fixed expenses. In 3Q18, the business incurred nearly Ps. 5 million in severance payments. We continue investing CAPEX in technology upgrades that will reflect lower costs in the near future.

- Calorex reported outstanding results, doubling its EBITDA as it continues to improve its already positive trend. We experienced a positive shift in dynamic related to the unit's service, product quality, disciplined commercial execution and brand recognition.

- Cinsa faced higher material costs, currency fluctuations and fixed expenses due to severance payments. However, its extraordinary performance up until June allowed it to maintain double-digit growth for the accumulated period.

As of September 30, 2018, cost-bearing liabilities (58% USD, 19% EUR and 23% MXP) reached US$ 405 million, broken down as follows:

Currency	**In millions of USD**	**Concept**
USD	$235	Syndicated Loan
EUR	$50	Syndicated Loan Europe and other Draxton B debt
EUR	$26	Draxton Powertrain Bank Debt
MXP	$94	Local Notes (*Certificados Bursátiles*)

Note: Euro/Dollar exchange rate: 1.1737

Maturity Profile (millions of USD)

2018	2019	2020	2021	Forward
$7	$9	$31	$100	$258
2%	2%	7%	25%	64%

CAPEX per Business Unit (in millions of MXP)

	Draxton Mexico	Draxton Europe and Asia	Construction	Housewares	Consolidated
Third Quarter	Ps. 20	Ps. 50	Ps. 57	Ps. 3	Ps. 130
Accumulated	Ps. 68	Ps. 224	Ps. 195	Ps. 16	Ps. 506

Pro Forma Consolidated Financial Highlights including JVs

in millions of pesos, unless otherwise stated

	Third Quarter			Nine Months		
	2018	2017	Change	2018	2017	Change
Revenues	5,137	4,347	18%	16,244	13,816	18%
EBIT	205	495	(59%)	1,145	1,603	(29%)
Margin	4%	11%		7%	12%	
EBITDA	563	751	(25%)	2,236	2,389	(6%)
Margin	11%	17%		14%	17%	
Net Debt				7,362	7,632	
Net Debt to EBITDA				2.5x	2.4x	

For comparative purposes only, please find pro forma results that include GIS combined with its JVs at 100% ownership. Consolidated pro forma results include the following JVs:

- Evercast (JV with ZF - GIS has a 70% stake, Irapuato, Mexico)
- GISEderlan (JV with Fagor Ederlan - 50% stake for each, SLP, Mexico)
- InfunEderlan (JV with Fagor Ederlan - 50% stake for each partner, Wuhu, China)

Draxton® Segment
in millions of USD

	Third Quarter			Nine Months		
	2018	2017	Change	2018	2017	Change
Volume (tons)[1]	*90,931*	*91,948*	(1%)	*296,675*	*295,827*	*0%*
North America	*45,021*	*43,657*	*3%*	*139,252*	*138,506*	*1%*
Europe / Asia	*45,910*	*48,291*	*(2%)*	*157,423*	*157,321*	*0%*
JVs[2]	*10,712*	*8,923*	*20%*	*31,239*	*22,656*	*38%*
Machined Volume[3]	*561*	*566*	*(1%)*	*1,950*	*1,974*	*(1%)*
Europe / Asia	*561*	*566*	*(1%)*	*1,950*	*1,974*	*(1%)*
JVs2	*1,411*	*1,397*	*1%*	*4,491*	*4,357*	*3%*
Revenues	151	149	1%	500	458	9%
North America	*68*	*62*	*9%*	*202*	*188*	*7%*
Europe / Asia	*84*	*90*	*(7%)*	*298*	*270*	*10%*
JVs[2]	*25*	*22*	*12%*	75	56	34%
EBIT	12	19	(36%)	60	65	(7%)
Margin	8%	13%		12%	14%	
North America	*6*	*8*	*(24%)*	*28*	*28*	*1%*
Margin	*9%*	*13%*		*14%*	*15%*	
Europe / Asia	*6*	*12*	*(49%)*	*33*	*40*	*(18%)*
Margin	*7%*	*14%*		*11%*	*15%*	
JVs[2]	*3*	*3*	*(19%)*	8	8	4%
Margin JVs	*10%*	*14%*		11%	14%	
EBITDA	22	29	(24%)	89	92	(2%)
Margin	14%	19%		18%	20%	
North America	*10*	*12*	(16%)	39	39	1%
Margin	*15%*	*20%*		*20%*	*21%*	
Europe / Asia	*12*	*17*	*(32%)*	50	52	(5%)
Margin	*14%*	*19%*		*17%*	*19%*	
JVs[2]	*5*	*5*	*1%*	16	14	11%
Margin JVs	*21%*	*23%*		21%	26%	

1. *Volume for iron foundry, excluding JVs. (In tons)*
2. *Not included in Draxton, therefore it is not added.*
3. *Iron machining, without aluminum, excluding JVs. (In thousands of Pieces)*

Revenues in Draxton Mexico rose by 9% compared to the same period last year, mainly due to pass-through of surcharges in scrap metals and ferroalloys to sales prices. Additionally, sales volume during the quarter increased due to the early start of the program of one of the main clients of the Irapuato plant. Energy costs increased by 50%; this cost is covered by 20% through surcharges included in our contracts. We are working to pass along these costs in the future.

Revenues in Europe/Asia declined by 7% due to lower sales volume related to the temporary slowdown in the diesel vehicle market caused by the new environmental regulations in Europe pertaining to this category that went into effect in August. Existing inventory and the new regulations temporarily misalign our sales.

In contrast to Mexico, in Asia we were not able to pass through surcharges in scrap metals and ferroalloy prices to three existing key clients, a term that had been negotiated prior to having this unit be part of GIS. The significant increase in inputs impacted profitability. We are working to reflect these input cost increases in the future.

EBITDA during the quarter fell by US$ 7 million, or 24%, compared to 3Q17. The main factors impacting performance in this quarter's income were (in millions of USD):

- US$ 2.5 due to higher costs in scrap metals in all regions, with a higher impact coming from Chinese market.
- US$ 1.9 from higher energy costs, mainly in Mexico.
- US$ 0.8 from increases in production costs at the San Luis Potosi plant, related to the launching of approximately 20 new auto parts.

In September, the Draxton Powertrain and Chassis plant in Teruel, Spain, installed a Disa automatic ingot casting system. The installation of this new equipment will result in savings in operations, improved quality, performance and productivity.

During the quarter, the Company initiated new machining projects at two Draxton facilities. The projects complement our processes with customers we already serve and will represent more than 500,000 machined parts per year, equivalent to approximately 20% of current annual volume. Product availability will begin at the end of 2019. This progress will help us boost revenues and absorb fixed costs at the plants, thus raising profitability.

Joint Ventures:

In 3Q18, JVs increased revenues by 12% compared to the same period last year. This was mainly due to a significant volume increase at Evercast. We moved forward with the initiation of a second line at Evercast to achieve our expansion plan. EBITDA for the quarter from these facilities remained stable versus 2017 with 1% growth y-o-y in 3Q18, and 11% growth for 9M18. In Evercast, EBITDA is stabilized by price normalization.

The GISEderlan JV facility located in San Luis Potosi, Mexico, has successfully passed the Line Capacity Assessment conducted by our client, BMW, thus starting production of Bimetal Discs as planned; we expect the ramp up for the first quarter of 2019.

Construction Segment

in millions of pesos

	Third Quarter			Nine Months		
	2018	2017	Change	2018	2017	Change
Revenues	**1,497**	**1,507**	**(1%)**	**4,423**	**4,624**	**(4%)**
Ceramic Tiles	*870*	*920*	*(5%)*	*2,630*	*2,925*	*(10%)*
Water Heaters	*627*	*587*	*7%*	*1,793*	*1,699*	*6%*
EBIT	**(70)**	**60**	**N/A**	**(138)**	**197**	**N/A**
Margin	**(5%)**	**4%**		**(3%)**	**4%**	
Ceramic Tiles	(118)	42	N/A	(245)	130	N/A
Margin	*(14%)*	*5%*		*(9%)*	*4%*	
Water Heaters	*48*	*18*	*163%*	*107*	*67*	*60%*
Margin	*8%*	*3%*		*6%*	*4%*	
EBITDA	**(2)**	**109**	**N/A**	**59**	**342**	**(72%)**
Margin	**(0%)**	**7%**		**1%**	**7%**	
Ceramic Tiles	(60)	82	N/A	(78)	249	N/A
Margin	(7%)	9%		(3%)	9%	
Water Heaters	57	27	113%	136	93	47%
Margin	9%	5%		8%	5%	

In 3Q18, Vitromex's revenues decreased by 5%. This result was mainly due to a 50% decrease in volumes in the U.S. derived from the lower portfolio renewals resulting in lost clients. This effect was partially offset by a 5% increase in domestic volume, resulting in a higher market share within Mexico.

The operating decrease during the quarter is mainly broken down as follows (in margin percentage points):

- Lower average price – (5%)
- Volume & mix effect – (6%)
- Deleveraging and comparability effect – (5%)

The initiatives implemented to achieve the business's turnaround have resulted in gradual improvements, particularly in the overall efficiency of equipment, gaining new customers in the U.S., reduction of inventory and process control. The business upturn will be seen at 3 levels: operating, commercial and economical. We are launching the new product series and significantly improving service levels. The first two levels show a gradual progress, however, we do not expect a reversal until the second quarter of 2019 when we should see a change in the economic trend.

The Water Heaters business reported outstanding results, doubling its EBITDA during the quarter versus the previous year, as well as incremental volume in the construction channel, which demonstrates the market's preference for high quality products and brand reliability.

Housewares Segment

in millions of pesos

	Third Quarter			Nine Months		
	2018	2017	Change	2018	2017	Change
Revenues	385	325	18%	1,155	1,049	10%
EBIT	(3)	6	N/A	39	26	49%
Margin	(1%)	2%		3%	3%	
EBITDA	8	16	(54%)	71	58	22%
Margin	2%	5%		6%	6%	

In 3Q18, Cinsa reported an 18% revenue increase, although comparability was affected as 2017 results excluded the food processing product line. On a pro-forma basis, Cinsa 3Q18 revenues grew by 12%.

The Light Pewter, Ceramic and Aluminum categories also reported positive performances.

In terms of EBITDA, the main changes were due to:

- Ps. 14 million in increases in cost inputs: sheets, enamel, packaging, aluminum etc.
- Ps. 7 million from FX effects
- A Ps. 5 million negative impact on sold product mix

These effects were partially offset by higher prices and certain efficiencies implemented in plants.

In terms of EBITDA, excluding FX effects, this line items would have reported similar results to the previous year.

Analyst Coverage

Given that GIS has securities listed under Section I, 4.002.00 of the Mexican Stock Exchange Regulations (stocks, and most recently, local notes "*certificados bursátiles*") and given the importance of maintaining an active participation in the securities market, in compliance with item 4.033.10 of the aforementioned Regulations, the financial institutions that provide Analyst Coverage of GIS are:

Institution	Analyst
GBM	Lilian Ochoa Guerra
Actinver	Alejandro Chavelas Manzo
Signum Research	Armando Rodríguez Díaz
Interacciones	Montserrat Araujo Nagore

Reporting Basis

All figures are expressed in Mexican pesos ($) unless otherwise noted.

In order to better evaluate the results by segment and to avoid distortions in comparability, the Company uses a specific methodology based on the services that it actually provides and the collection for usage rights of the brand to the business units, to apply a specific percentage to the distribution of corporate services to each segment for its standardization.

Notes to the Financial Statements

We recommend reviewing the notes to the financial statements that are part of the quarterly report presented to the Mexican Stock Exchange.

Disclaimer

This release may contain certain statements and forward looking information about Grupo Industrial Saltillo S.A.B. de C.V. and its subsidiaries (collectively, the "Company"), which are subject to risks and uncertainties that may cause the results of the Company to differ materially from the current management´s expectations. These risks and uncertainties include, without limitation: the successful development of new products and their commercialization, demand and acceptance of the Company´s products, products and prices of the competitors, economic conditions in the markets and geographic regions of the Company´s products, as well as foreign currency fluctuations, among others.

Annex - Statement of Comprehensive Income

in millions of pesos

Grupo Industrial Saltillo, S.A.B. de C.V.
Consolidated Information

	THIRD QUARTER			NINE MONTHS		
	2018	2017	% Change	2018	2017	% Change
Revenue	**4,796**	**4,535**	**6%**	**15,234**	**14,454**	**5%**
Auto parts	2,870	2,658	8%	9,539	8,664	10%
Construction	1,497	1,507	(1%)	4,423	4,624	(4%)
Housewares	385	325	18%	1,155	1,049	10%
Cost of Sales	3,876	3,383	15%	11,919	10,668	12%
General Expenses	760	718	6%	2,325	2,351	(1%)
Other Expenses (Income), Net	4	5	(11%)	8	6	24%
EBIT	157	430	**(64%)**	983	1,429	**(31%)**
Auto parts	236	346	(32%)	1,148	1,228	(6%)
Construction	(70)	60	N/A	(138)	197	N/A
Housewares	(3)	6	N/A	39	26	49%
EBITDA	465	657	**(29%)**	1,930	2,123	**(9%)**
Auto parts	412	509	(19%)	1,701	1,728	(2%)
Construction	(2)	109	N/A	59	342	(83%)
Housewares	8	16	(54%)	71	58	22%
CFR	(64)	245		(59)	(100)	
Income Tax	80	55	47%	365	451	(19%)
Consolidated Profit	140	131	**7%**	677	1,077	**(37%)**
Profit from non-controlling interest	46	22		121	120	
Profit from controlling interest	186	153	**22%**	798	1,197	**(33%)**

Annex - Balance Sheet
in millions of pesos

Grupo Industrial Saltillo, S.A.B. de C.V.
Consolidated Information

	Sep-18	Dec-17
ASSETS		
Current Assets		
Cash and cash equivalents	1,158	1,775
Accounts receivable	3,866	4,373
Inventories	3,023	2,888
Assets classified as held for sale	33	213
Property, plant & equipment, net	**8,789**	**9,200**
Investments in associates and JVs	**1,106**	**1,064**
Goodwill	4,014	4,035
Other assets	3,117	3,129
TOTAL ASSETS	**25,106**	**26,677**
LIABILITIES		
Current Liabilities		
Current liabilities at cost	277	2,985
Trade payables	2,917	3,016
Other current liabilities	1,696	1,787
Non-current Liabilities		
Non-current liabilities at cost	7,160	5,656
Deferred taxes	260	578
Other non-current liabilities	684	409
TOTAL LIABILITIES	**12,993**	**14,431**
TOTAL SHAREHOLDERS EQUITY	**12,113**	**12,246**
TOTAL LIABILITIES AND EQUITY	**25,106**	**26,677**

The recorded change in Goodwill from foreign subsidiaries is attributed to the volatility of the peso versus the Euro.

Outlook

	Short Term	Mid-Long Term
Draxton + JVs	• Pressured volumes in Europe • Higher raw material and energy costs, seeking pass through charges • Accelerate efficiency and synergies	• USMC attractiveness • New smelting programs: 34,500 tons/year and machining: 500k pieces/year • Order Book drives increase in smelting and machining capacity
Vitromex	• Restructuring of operations • Gradual operating improvement • Gradual recovery of key client in the U.S. • US new tariffs to China imports increase from 10% to 25%	• Profitability recovery • Growth in the U.S. • Price stability in Mx • Improved management of input volatility (FX)
Calorex	• Positive trend of product displacement • Favorable momentum due to seasonality • Product launching	• Higher market share in the U.S. • Improved management of input volatility (FX)
Cinsa	• Stable sales volumes • Profitable growth • Improvements in production costs	• Opportunity for margin expansion • Higher market share in the U.S. • Improved management of input volatility (FX)

- **Estimated CAPEX for 2018 excluding JVs, approximately Ps. 800 million**