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CONFERENCE CALL PARTICIPANTS

Mauricio Serna, UBS

Daniel McGoey, Citigroup

Adrian Huerta, JP Morgan & Co.

Erwin He, TIAA-CREF Investment Management

PRESENTATION

Operator

Good morning and welcome to the GCC First Quarter 2018 Earnings Conference Call.

Before we begin, I would like to remind you that this call is being recorded, and that information discussed today may include forward-looking statements regarding the Company's financial and operating performance. All projections are subject to risks and uncertainties and actual results may differ materially. Please refer to the detailed note in the Company's earnings report regarding forward-looking statements.

At this time, I would like to turn the call over to Mr. Enrique Escalante, Chief Executive Officer. Please go ahead, sir.

Enrique Escalante

Thank you, operator, and good morning everyone. Joining me today are Luis Carlos Arias, our CFO, and Ricardo Martinez of Investor Relations.

GCC is off to an excellent start this year, with an outstanding first quarter.

I will the discuss the main drivers of our performance in the U.S. and Mexico. Luis Carlos will review the financial results. I will then review our outlook for 2018.

We will then open the call to your questions.

First, GCC's performance drivers.

Our U.S. operations are catching the tailwind from the strong market in 2017, especially the fourth quarter, and the benefit of relatively mild early winter weather in some of our markets, although that has not been the case more recently.

Activity in the Permian Basin oil fields in West Texas continues to be very strong. Since April 2016 the rig count in the basin increased almost 275%, from 134 to 501 rigs. Cement demand includes both oil well cement and also construction cement for the 15-plus fracking sand facilities that are being developed in the basin.

As many of you know, deposits of fine sand suitable for fracking are now being developed in West Texas to eliminate the high shipping costs for Wisconsin frack sand, which has been the industry standard since the development of fracking technology. These sand mining projects need construction cement that we are supplying mostly with exports from the Samalayuca plant.

In New Mexico, housing construction demand is picking up. In the upper Midwest, wind farm construction is continuing to be a very attractive market for GCC. All our other regions are also growing.

One exception to the generally mild weather were storms in the final weeks of the quarter that resulted in a near shutdown in ready-mix activity. This affected ready-mix sales for the quarter.

In general, the backlog in the U.S. for ready-mix continues to be strong, despite the first quarter decrease in ready-mix volumes.

As a result, U.S. cement sales volumes increased twenty percent in the first quarter, while ready-mix volumes were down 10%. Cement prices were up 3% year-over-year.

The Rapid City expansion is advancing rapidly, with a scheduled start of operations in the second semester. Construction was 86 percent advanced as of End-March. The exact date for starting operations depends on inventory levels when we can execute the tie-in with the existing line, which requires a shut down for several weeks. We will need to schedule the tie-in so that it doesn't affect our ability to meet customer commitments. We expect the Rapid City expansion – which represents a capacity increase of four hundred forty thousand metric tons – to make a material contribution starting in 2019.

In Mexico, sales volumes were above our expectations. Cement volumes grew two percent, and ready-mix volumes increased five percent.

The housing sector is getting stronger in Chihuahua. Mining projects in the southwestern part of the state continue to generate strong demand for cement. State government infrastructure spending rose very slightly for the first time in several years, with a few new projects. However, aside from several new maquiladora plants, the commercial and industrial sector appears to be on hold, pending the outcomes of the Mexican elections and the NAFTA negotiations.

Increased exports to the U.S. are increasing Mexico capacity utilization and boosting margins. Around 40% percent of Mexico cement production was exported to the U.S. in the quarter.

Sales of specialty cement is another strong point. GCC has formed a joint venture with Deacero named Technovia Express for providing a patented solution for rapid highway concrete repair using GCC Fraguamax cement and Deacero steel mesh. This solution makes it possible to restart traffic only 12 hours after the highway has been shut down and makes it ideal for high-traffic arterial highways. The contractor for renovating part of the Mexico City – Queretaro highway awarded Technovia the supply contract for the project in February. No one else in Mexico can provide this kind of solution, and we hope to be able to use this first project to attract new clients across the country.

Let me turn the call over the Luis Carlos to review the quarter's financial results.

Luis Carlos Arias

Thank you, Enrique. Good morning to everyone.

Our first quarter results were above expectations. Sales grew fourteen percent in dollars, with growth coming from both the U.S. and Mexico. U.S. sales grew twelve percent. Mexico sales grew eighteen percent, as a result of higher volumes, prices, and exchange effects.

Costs increased only seven percent. As a percentage of sales, costs decreased four-point-five percentage points, and operating expenses decreased one-point-six percentage points.

The increased gross and operating margins reflect several factors: higher prices and volumes, operating leverage, and the use of alternative fuels. In addition, electricity costs decreased in Mexico, and the first quarter of 2017 included some integration expenses for the 2016 acquisitions.

As a result, EBITDA grew forty-one percent to forty-six million dollars, with a twenty-four point three percent margin, or four-hundred seventy basis points higher than the first quarter of 2017.

Our EBITDA margin in Mexico reached an all-time record high of forty-two-point-seven percent. And U.S. margins were sixteen-point-six percent, the highest for a first quarter since the 2009 financial crisis.

Net financial expenses decreased twenty-five percent, principally because of lower interest expenses from the senior secured notes refinancing last June.

As a result of these factors, consolidated net income increased more than six times to eleven million dollars. First quarter 2018 operating cash flow was a positive four million dollars, compared to a negative fifteen million dollars last year. The nineteen-million-dollar favorable swing was the result of the strong growth in EBITDA and lower financial expenses that more than offset an increase in working capital. We are focused on improving working capital, especially the balance of payables in the U.S.

GCC's leverage ratio, which is defined as Net Debt over EBITDA, decreased slightly from the December level to 1.83 times in March 2018, even with the investment outflows for the Rapid City expansion.

I will now return the call to Enrique.

Enrique Escalante

Thank you, Luis Carlos.

My final topic is GCC's outlook for 2018 …

At present, we´re keeping the outlook we provided during last quarter's conference call. There are several reasons for being somewhat conservative, despite the strong first quarter results. First and foremost, the first quarter historically represents only about 15% of annual sales, so it is hard to extrapolate to the full year. Second, it is hard to estimate how long the cement demand from the fracking sand mines in Texas will last, and several of these projects are being completed in the near future. And, finally, there is very little visibility on cement and ready-mix demand in our Mexican markets, since some investment plans are on hold pending the outcome of the trade negotiations and the Mexican elections.

GCC's outlook is for low single-digit growth in U.S. cement and ready-mix volumes, which is in line with the Portland Cement Association's forecast for our markets. We are seeing price increases of three to five percent range for both cement and ready-mix.

In Mexico, GCC's central forecast is for cement and concrete volumes to be flat, and for prices in peso terms to increase in the mid-single digit range.

On a consolidated basis, GCC expects EBITDA to increase by mid-single digits.

We are proud of our first quarter performance.

GCC is building a strong, consistent operational and financial track record. We have a solid capital structure and leverage profile. We have the operational and financial flexibility to take advantage of new market opportunities and navigate any external challenges we could face in our markets. I am confident that we are on the right path that will increase and deliver the highest value to our shareholders and other stakeholders.

This concludes our remarks.

At this time, we are ready to take your questions.

Thank you, operator.

Operator

Thank you, sir. To signal for a question on the phone, please press the star key, followed by the digit one. Please be sure that your mute function is off to allow that signal to reach our equipment. Again, star, one to signal.

We'll go first to Mauricio Serna, UBS.

Mauricio Serna:

Hi, good morning. Thanks for taking my questions and congratulations on the results, first of all. I just wanted to—maybe you could provide a little bit more detail on why you're keeping the full year guidance. I mean, just taking a look at the numbers, I do recognize that the first quarter is not as relevant as the other quarters in terms of sales and EBITDA, but still, in order for you to reach that mid-single-digit EBITDA guidance, that would imply that for the next nine months, your EBITDA would have to drop an average around 13% from my calculations. I just wanted to understand what is the major concern, because also the first quarter, you did face some tough comps in Mexico. Last year, you have 10% volumes, a positive seasonal effect, and this time around it was the reverse and still volumes grew.

Maybe just want to understand where the cautious on that. I mean, I guess—also if you could tell us a little bit more on the Texas volumes, how much—or that growth, that you are seeing, that you are keeping that caution for the rest of the year.

Maybe if you could also provide us a little bit more details on the operational efficiency, like you discussed in the margin expansion in the U.S. Just wanted to get a sense on, more specifically, what has been driving the higher U.S. margins in terms of cost control? Thank you.

Enrique Escalante:

Thank you very much, Mauricio. Yes, I may sound a little bit repetitive here in terms of the guidance and have been somewhat conservative. The reason again, Mauricio, is mainly in Mexico. Mexico definitely is a big concern, given the lack of visibility that we have.

I can tell you that the results for the first quarter are based mainly on projects that we knew of since last year and that were, many of them, going on already. Those have developed very well, but we don't see really many projects in the pipeline so far. We hear—there are some (inaudible) on call, but still—I mean, our backlog, it's dry now for the second part of the year, and I don't think that we're going to learn really how the second semester is going to develop until we are past the election; so yes, we're being cautious because the indicator of backlog that we have is telling us that we should be on the very conservative side in Mexico.

In the U.S., two main reasons again to be somewhat conservative. Again, first, what we saw with construction cement exported from Samalayuca to the Permian Basin was a record for the Company. It's what we consider a bubble because of the construction of this fracking sand plant. We hear there are around 15 plants under construction, some people talk even above 20, but we also heard from customers that that's going to end between—certainly in the second quarter. That's the demand that we believe it's going to be obviously just a very specific incremental demand for the first, and part of the second quarter.

Last but not least, of course that both of our price increases in the U.S. takes place starting in April. Of course, there are some competitive actions in several markets. We are still cautiously optimistic that the price will take, as we have announced it in the market but we're also conservative in that there may be some markets where we are experiencing some stiffer competition. Those are the main reasons why we are conservative in the forecast.

Your second question, in terms of the efficiencies, in the U.S., let me give (audio interference).

Although as you know, we're making a strong effort in terms of alternative fuels, we have not reached—I mean, yes, in the U.S., the target that we are hoping for, so their main reason why the margins have been increasing so much is basically leverage. We have a strong, very strong control of fixed expenses and in light of the additional volume that we are pushing in those markets, and especially West Texas as I mentioned, that's obviously decreasing our fixed cost as a percentage of sales.

Mauricio Serna:

Okay, thank you very much. If you could just remind us very quickly, the level of pricing that you are implementing for both U.S. and Mexico operations for this year?

Enrique Escalante:

Yes. In the U.S., although we had mid-single-digits, more specifically, we are increasing around $6, $7 price per ton, depending on the market. Some of them are—I mean, so far, the price has been accepted with little resistance, like the northern markets like Colorado for example. Texas, for example, and New Mexico, the price increase is effective now April 1. As you know, in West Texas, we have more competition given the new capacity that we saw coming online last year there. We're hoping, I mean, the competitors will also do their job in terms of prices, but obviously we have to be very careful here as last year, in that specific area, the competitors coming were very competitive.

In Mexico, we mentioned also mid-single-digits. I can tell you that in the first quarter, the price is much higher than that compared to the first quarter of last year. We're talking high single-digits, but that's also the result of a mix of products, not only the direct—I mean, per-ton price increase that we implemented in the market.

Mauricio Serna:

Okay. But you maintain the mid-single-digit price increases in Mexico.

Enrique Escalante:

Yes, sir.

Mauricio Serna:

Okay. Thank you very much, and again congratulations on the results.

Enrique Escalante:

Thank you, Mauricio.

Operator:

We'll go next to Dan McGoey with Citigroup.

Daniel McGoey:

Thanks for the call, guys, and congratulations on the results. A quick question on West Texas, on the fracking sand plant that you mentioned, can you put a specific volume number on that; how much of the volume you expect directed towards that in the first and second quarter, that I think you're calling somewhat extraordinary? Then just overall, how much tonnage is being exported from Samalayuca to Texas these days, and what capacity utilization Samalayuca is running at? Thanks.

Enrique Escalante:

Thank you, Dan. I don't have it here exactly, I mean, the number of tons have been allocated to the fracking sand plant projects, but I can tell you that Samalayuca has exported in the first quarter a record volume of cement in the history of the plant, mainly going to the Permian Basin. I can tell you that February, for example, was close to 80,000 tons, going from Samalayuca. That also covers of course the traditional markets of El Paso in southern New Mexico, but the main increase is coming from the Permian Basin.

Samalayuca is today running at full capacity. Actually, we have plans to start some other old kilns just to be prepared in case the demand continues to be as strong as we have experienced in the first quarter. But just a Plan B to make sure that the system in GCC is ready to react. We always pride ourselves on our logistics network and how we can precisely take advantage of additional demand through starting up additional kilns for moving cement throughout our network of terminals.

We're preparing to do that just in case. I mean, we made (phon) our forecast, and we're being a little bit more conservative than we should.

Daniel McGoey:

Got it, thank you.

Enrique Escalante:

Thank you, Dan.

Operator:

Again, to signal for a question, please press star, one on your telephone keypad.

We'll go to Adrian Huerta with JP Morgan.

Adrian Huerta:

Thank you. Hi, Luis Carlos and Enrique, and congratulations on the results as well. Just going back, that you were saying that you were preparing to start a new kiln in Samalayuca. How much would your capacity increase in Samalayuca with that new kiln, and also, what is the current utilization rate at the Odessa plant?

Enrique Escalante:

Sorry, Adrian, probably I was not too clear. No, I was not referring about starting a new kiln in Samalayuca; I was trying to say we're starting some old kilns that we have in Chihuahua in this case.

Adrian Huerta:

Okay.

Enrique Escalante:

That's around… We could think about shipping an additional 200,000 tons from the Chihuahua plant into West Texas if needed with this old kiln.

Odessa is running at full capacity. It's running very tight, and that's why we're also starting this kiln in Chihuahua, to supplement, if necessary, the production of oil well cement from one of the old kilns that we have in Chihuahua.

Adrian Huerta:

Okay, and what would be needed in order for you to make a decision to do the expansion, either at Samalayuca or Odessa, and how soon could that be (inaudible)?

Enrique Escalante:

We have a very in-depth analysis now, including technology companies like FLS (phon) and the others in the industry doing this assessment to understand what's expected the investment that it will take either to expand Samalayuca or Chihuahua, or Odessa. The three kilns are, as we speak, in competition amongst each other, the three projects. By the second part of the year, we believe we're going to be ready with a decision that will tell us what's the next kiln. If demand continues to be as we expect, we may take this up to the Board for approval in the second part of the year so we're ready to start construction sometime during 2019.

Adrian Huerta:

Would you say—Enrique, just final question, there'll be a minimum of 500,000 tons of additional capacity, somewhere between 500,000 to 1 million, or less than that?

Enrique Escalante:

You're totally right. It will be a minimum of between 400,000 and 500,000, if we do something similar to what we're doing today in Rapid City, up to a million through an additional kiln in Samalayuca.

Adrian Huerta:

Excellent. Thank you, and congrats again.

Enrique Escalante:

Thanks Adrian.

Operator:

We'll take our next question from Erwin He with TIAA-CREF.

Erwin He:

Hi guys, thanks for taking my questions. I'm just curious about, for 2018, your free cash flow outlook? I mean, you are ramping up cap ex a little bit, and it seems like you may have burned a little cash from working capital the first quarter. Would you expect—do you guys think you'll end up lower net debt?

My second question is, do you think you—outside of those potential funding needs on the operational side, do you have any intention of maybe coming back to the bond market for—you guys have quite a bit of bank debt in the intermediate 2020 to 2022 timeframe, so do you think you'll recap the notes, or how do you think about that?

Enrique Escalante:

Thank you for the questions, Erwin. Let me address for the cap ex question and working capital, and then I will pass it on to Luis Carlos, so he can give you more detail on that, and also on the debt side.

On cap ex, as you know, we put up about $120 million of cap ex in the budget for this year. We are on track with that number; the majority of it goes to the (inaudible) expansion in Rapid City, about $58 million. We continue with the plan in that regard.

In terms of working capital, yes, we are investing this first quarter and part of the second quarter in working capital. Even just the nature of our seasonality in the northern markets, we need to of course build up inventories for the heavy construction season during the summer and fall in the U.S.

Aside from that, in this specific year, we're building additional (inaudible) and cement inventory for the tie-in of the Rapid City plant that is going to be down several weeks during the summer. That's the reason why you see the increases in working capital.

I will now turn it to Luis Carlos to talk to you about the debt side.

Luis Carlos Arias:

Yes, hi, Erwin. Just to complement on Enrique's response to cash flow, during the first quarter, we generated operating cash flow of $4 million against a negative $15 million last year, and even with the Rapid City expansion. But yes, as Enrique was explaining, there's a lot of seasonality in these first parts of the year, so we're very optimistic about the cash flow generation for this year.

In terms of the debt and rate, we financially—yes, we were actually looking at it. We're almost ready to make the decision, but we're not planning to open the bond to do another issuance. We're comfortable with the mix that we have between value debt and bond debt, so no, we're not planning to issue more bonds.

Erwin He:

The idea is maybe to roll over, refinance the bank debt and the bank market (phon).

Luis Carlos Arias:

Yes, that's correct.

Erwin He:

Okay, thank you.

Operator:

With no additional questions, I'd like to turn the call back to Mr. Escalante for closing comments. **Enrique Escalante**

Thank you. Thank you, Operator, and thank you everyone for participating in today's call. Of course, as always, we look forward to seeing many of you in the coming months.

Please do not hesitate to contact us if you have any further questions, as you know, Luis Carlos, Ricardo and I are here to answer every question that you have. Thanks again to everyone for their participation.

Operator

Thank you again. That does conclude our call.