

## CORPORATE PARTICIPANTS

**Ricardo Martinez**, Head of Investor Relations

**Enrique Escalante**, Chief Executive Officer

**Luis Carlos Arias**, Chief Financial Officer

## INQUIRERS

**Vanessa Quiroga**, Credit Suisse

**Eric Neguelouart**, Bank of America Merrill Lynch

**Francisco Suarez**, Scotiabank

**Froylan Mendez**, JPMorgan Chase & Co.

## PRESENTATION

### Operator

Good morning and welcome to the GCC First Quarter 2020 Earnings Call. Before we begin, I would like to remind you that this call is being recorded and all participants will be in listen-only mode. Please also note a slide presentation will accompany GCC's earnings results webcast. The link is available on the company's website at [gcc.com](http://gcc.com), within the Investor Relations section. Also note that there will be an opportunity for you to ask questions at the end of today's presentation.

At this time, I would like to turn the call over to Ricardo Martinez, Head of Investor Relations. Please go ahead.

### Ricardo Martinez

Thank you, operator. Good morning everyone and thank you for joining our earnings call. With me on today's call are Mr. Enrique Escalante, our Chief Executive Officer and Luis Carlos Arias, our Chief Financial Officer.

As a reminder before we begin, today's discussion contains forward-looking statements about the Company's future business and financial performance. These are based on management's current expectations and are subject to risks and uncertainties. You can find more information about risks, uncertainties and other factors that could affect our operating results in our most recent filings with the Mexican Stock Exchange. It is important to note that these statements include expectations and assumptions which will be shared related to the impact of the COVID-19 pandemic. As seen on slide 2, our forward-looking statement also provides information on risk factors including the effects related to COVID-19 that could affect our financial results. In particular, there is significant uncertainty about the duration and contemplated impact of the COVID-19 pandemic. This means GCC's results could change at any time and the impact of COVID-19 on the Company's business results and outlook is a best estimate based on the information available as of today's date.

Before we begin, please note that, in the interest of safety we are utilizing a more virtual approach in exercising social distancing while conducting this call. We would ask you to please bear that in mind in light of any potential technological difficulties which could occur. At this time let me now turn the call over to Enrique.

**Enrique Escalante**

Thank you, Ricardo, and good morning everyone.

To start I would like to comment on the extraordinary and continually evolving global impact of COVID-19. On behalf of everyone at GCC, I would like to first express our deepest sympathies to all of you who have been affected by the virus and thank those working to keep people safe through this crisis.

On today's call I will provide you an update on how we are navigating these unprecedented times, the initiatives we are implementing across the company to protect our team and, the measures we are taking to mitigate the impact of this global crisis on our business. I will then briefly discuss our key highlights from our performance in this quarter. Luis Carlos will follow with a discussion of GCC's results and financial position and he will then, turn the call back to me for closing remarks. We will then turn the call over to your questions.

Turning to slide 3, GCC reacted rapidly in the face of the disruption created by the COVID-19 pandemic. At the beginning of March, we formed a Task Force comprised of myself and the head of each business unit, to coordinate efforts across the organization to ensure an agile and appropriate response.

We have taken immediate measures focused on protecting our people and our business.

- 1) Starting with our first set of initiatives, the well-being of our employees and their families is of the utmost importance and we have taken specific measures to protect our team.  
Note that most of these measures were implemented prior to their becoming mandatory per government regulations. We have developed specific health and safety protocols, for each of our operations to minimize the potential spread of the virus.
- 2) We have enacted "work from home" protocols for the majority of our employees in administrative areas, ensuring no interruptions in their duties.
- 3) We are operating with skeleton crews everywhere possible, which means working with the minimum number of personnel required for each operation.
- 4) We have ensured that every employee receives their full salary and benefits. We will continue to monitor and assess market demand, economic fundamentals and government regulations to ensure we make the best decisions related to every stakeholder prioritizing health and safety, while ensuring the sustainability of our profitable business.

Turning to slide 4, with the main focus of ensuring business continuity and cash preservation we have taken the following measures:

- 1) As of today, all cement and ready-mix plants as well as our coal mine continue to operate without interruption. We have established contingency plans to ensure we are able to safely operate our business and ensure uninterrupted supply to our customers, supported by our robust manufacturing and distribution network, should the U.S. and Mexican borders be temporarily closed.
- 2) We have been working closely with our cement and concrete associations in both Mexico and the U.S. Their contribution was key to the inclusion of building materials and the construction industry in the U.S. essential activities categories. In Mexico the cement industry was considered essential but not the construction industry.

- 3) In terms of cash preservation, we are making significant reductions in expenses wherever possible throughout the organization. We have already identified approximately US\$ 15 million in savings, in addition, we will defer US\$ 7 million from the Cares Act. We have enacted a hiring freeze and are currently not filling vacant positions while limiting external service providers to the bare minimum. In our efforts to optimize our cost structure, we are continuously looking for efficiencies in our variable costs and distribution expenses.
- 4) In terms of maintenance, we are taking proactive steps to adjust these aligned to the current reduction in production levels.

Luis Carlos will discuss the other initiatives we have in place to enhance liquidity and strengthen our financial position shortly.

Finally, in line with our commitment to reduce CO<sub>2</sub> emissions and increase our renewable energy use, GCC signed a fifteen year fixed priced renewable energy agreement for our Rapid City cement plant, which covers roughly 50% of the electricity consumed at this operation, resulting in approximately 50,000 metric ton reduction in CO<sub>2</sub>, annually. By switching to renewable energy resources to power our business, we're able to advance our sustainability objectives while supporting the expansion of affordable renewable energy development in the regions in which we operate.

We delivered strong operational results for the first quarter of the year, posting solid top line growth and EBITDA margin expansion driven by solid demand and strong shipments while somewhat benefitting from easier comparisons. Results in the first quarter of 2019 were impacted by an extraordinarily challenging winter season in the U.S. that affected every market in which we operate in the country, as well as several one-time expenses.

Starting with the U.S. on slide 6, we delivered strong double-digit volume growth in both the cement and concrete segments. Cement volumes increased 12.5% year on year, driven by the strong performance in West Texas and solid demand from concrete producers. Concrete volumes were 21.2% higher year on year as a result of improved weather conditions in the northern markets further supported by the development of a large project in El Paso Texas.

All of our market segments in the U.S., except oil well cement, are still running at a steady pace, our backlog remains strong, we are not seeing significant cancellations thus far, and as of today, we are still above last year levels. Our facilities and distribution centers are located in areas where construction has generally been deemed essential by government authorities. We have all our plants in operation, except for Rapid City, which was shut down for inventory and maintenance, as a result of the seasonality of our business and will resume normal operations in the near term, as the two main issues previously affecting the variable costs have since been corrected.

In terms of pricing, in light of the current fluid environment, we have made the decision to postpone by 60 days the additional US\$ 8 on average per ton price increase expected to come into effect across all of our markets, excluding oil well cement.

Regarding oil well cement, with the plunge in oil prices brought on by the coronavirus pandemic, this industry is undergoing challenging times. For this reason, and in an effort to support our customers within this segment, we agreed to adjust our pricing; offering a US\$ 10 per ton price reduction starting in mid-March until the end of June. Note that at the beginning of this year we implemented a US\$ 4 price increase to many of our customers effective January. By the end of June, we will revisit our pricing strategy, as we will have more visibility on the implications of the OPEC plus agreement in this segment and the macro conditions overall.

It's important to note that oil well cement accounts for only 9% of GCC's total sales volumes.

Turning to our Mexico operations on slide 8. Sales in Mexico increased by almost 3% in the first quarter, mainly driven by continued demand from industrial warehouse construction, mining projects, middle-income housing construction in the northern cities and the reactivation of several public works projects.

I would now like to update you on the current situation in Mexico. On the back of a very strong March and before the COVID-19 pandemic started to impact global economies, GCC was entering the second quarter on solid footing when compared to our prior year, on the back of a strong 2019.

As you may know on March 31, 2020, Mexico's Official Federal Gazete, which provides up-to-date information on reforms and modifications to laws and regulations, published a resolution regarding the extraordinary measures to address the health emergency caused by the COVID-19 virus. The Mexican government advised Mexicans to remain at home and mandated the shutdown of all non-essential businesses until April 30.

On April 7, the Government issued another decree through which the cement industry was deemed as essential business to ensure the continuity of those activities considered fundamental to the Mexican economy. However, the mining, construction and several other industries in which our customers operate have not been designated as essential, to date. Therefore, most of our customers were forced to shut down operations in compliance with the national lockdown which at the moment has been extended until mid-May and could be further extended until May 30 depending on the evolution of the pandemic within each respective county. We expect this lockdown to have a significant impact on our results in the second quarter, with limited visibility at this point.

While the most recent 2020 GDP estimates for Mexico are not optimistic and range between zero to high negative single digit, historically the Chihuahua region in which we operate has not been affected as much as other regions in the country with growth primarily driven by mining and industrial maquiladora plant and warehouse construction tied to the U.S. economy supply chain.

Further, public infrastructure, a sector that has been depressed for the past several years, is showing initial signals of acceleration. Some local governments have requested that we continue supplying our products, which are critical for public investment, including the construction of hospitals urgently needed in light of today's pandemic.

Let me now turn the call over to Luis Carlos to review the quarter's financial results and I will return for some closing comments.

### **Luis Carlos Arias**

Thank you, Enrique, and good morning to everyone. We would like to take a moment to review our recent performance because it demonstrates that we are entering this challenging environment from a position of considerable strength, from both an operating and financial perspective, and are also one of the strongest players in our industry.

This strong position is a reflection of the execution of our strategy since late 2016, which started when we acquired the Odessa plant. Our strategy included:

- De leveraging as soon as possible,
- Maintaining a healthy cash balance,
- Refinancing our bank debt and notes, extending maturities and reducing the average cost of our debt,
- Swapping nonintegrated ready-mix assets for Montana cement plant without an increase to debt,
- Successfully completing the Rapid City cement plant expansion
- Maintaining strict M&A criteria with a focus on value for purchase, at a cost within strict pre-determined parameters

Please turn to slide 10. Consolidated net sales for the first quarter increased by 11%. This was mainly driven by the increase in cement and concrete volumes in the U.S., increased concrete volumes in Mexico, and better prices in both countries.

Please turn to slide 11. Cost of sales as a percentage of revenues decreased 3.4 percentage points to 76.6% mainly reflecting favorable selling prices in both divisions, lower variable costs of production at Rapid City plant and the coal mine, with the latter also benefiting from lower variable selling expenses and higher fixed costs dilution arising from increased volumes. This was partially offset by a change in sales mix due to a lower share of higher margin contribution Mexico Sales.

Selling, general and administrative expenses as a percentage of sales decreased 120 basis points to 12% in the quarter. As a result, as we illustrate on slide 12, we ended the quarter with an EBITDA growth of 18.4% in the fourth quarter, with a 1.6 percentage point margin expansion, 25%.

Turning to slide 13, consolidated net income was US\$ 16.5 million in the first quarter of 2020 compared to almost US\$ 4 million in the prior year quarter. This increase was mainly driven by strong operating results and better financial results.

Moving to our cash generation on slide 14, free cash flow was US\$ 11.1 million in the first quarter 2020, compared to negative US\$ 22.4 million in 2019. This was mainly driven by increased EBITDA generation after operating leases, lower interest expenses, decreased working capital requirements and maintenance CapEx, and was partially offset by higher cash taxes.

Turning to our balance sheet, we ended the first quarter 2020 with US\$ 339 million in cash and equivalents our highest first quarter cash amount in the last fifteen years. Our net debt to EBITDA ratio stood at 1.1 times, well below industry levels and we have no significant debt maturities in 2020 nor in 2021. A strong balance sheet is most valued during these times and this was the result of our focus on our strategy of maintaining an efficient and prudent capital structure, leaving GCC in a very solid position to face this crisis and also take advantage of possible future opportunities.

Further, given the uncertainty of the current business environment, we are taking additional precautionary measures to preserve our cash and enhance our liquidity position. In addition to the company-wide cost and expense reduction initiatives we have mentioned, we have reduced our 2020 capex to US\$ 45 from US\$ 70 million and have deferred all non-essential projects. Importantly, we have drawn down US\$ 50 million of our revolving credit lines in April, and still have approximately US\$ 25 million available in revolving credit lines. Also, in April we made the decision to suspend our share buyback program to ensure we preserve our strong cash position. Finally, we currently plan to continue dividend distributions. However, in light of the uncertainty of current circumstances and to further enhance our liquidity position we will defer the payment date.

With that, I will now return the call over to Enrique to discuss the outlook for the year ahead and share his closing remarks.

### **Enrique Escalante**

Turning to slide 16. While we cannot predict the severity and the length of this pandemic, nor the toll this disruption will ultimately take on the overall macro environment, we have built a strong and resilient business over many years, and are confident that we will successfully navigate today's challenges as we have in the past.

Unlike many other industries, GCC has not been forced to shut-down any portion of its operations to date, with benefit of the fact that our cement industry has been deemed essential by both countries in which we have presence. However, today's circumstances are indeed unprecedented, and there is considerable uncertainty

about the sustainability of demand in the longer term and of the direction of the future operating environment. We therefore would expect an impact on our results in the quarters ahead due to the current downturn, the magnitude of which to depend on the path to recovery and the shape of the curve. For this reason, we have decided to temporarily suspend our full year guidance until we have the benefit of improved visibility on the duration and impact of this pandemic. We have always taken our transparency and communication with the financial community very seriously. In the interim, we remain committed to keeping you informed and to provide you with updates as they become available.

Finally, I would like to thank all our employees for their dedication and reiterate GCC's commitment to support our people, customers and communities in this unprecedented situation.

With that, this concludes our prepared remarks. Let's now turn to your questions. Operator, please go ahead.

### **Operator**

Thank you. If you'd like to ask a question, please signal by pressing star, one on your telephone keypad, and if you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star, one to ask a question.

We will go to our first question from Vanessa Quiroga of Credit Suisse.

### **Vanessa Quiroga**

Thank you for the call, and congrats on the results.

My question is regarding volumes in the U.S. Would you be able to provide more or less how volumes performed in each month of the first quarter? Did you see a big change in March, and if you can provide any color of what you are seeing in terms of volumes in April? Thank you.

### **Enrique Escalante**

Yes, let me ask Ricardo and Luis Carlos to see if they have more detail on this on a month to month basis, but I can tell you that basically in the U.S., the only segment in which we saw some volume decline in the second part of March was oil well cement. The rest of the segments have kept going with no particular change during the month of March.

Actually, I can extend this comment to tell you that we have only seen one project to be postponed in the U.S. so far; it's a parking structure at the Denver airport that was postponed. But in the meantime, we have been seeing more projects on the wind farm construction coming online also, and more bidding on those types of projects.

In Mexico, the only thing that we started to see in March was the deceleration of the mining industry, but when we were authorized to continue running, we immediately continued shipping to that segment also in preparation for a potential shutdown.

### **Luis Carlos Arias**

Just to add, Enrique, as you were saying, we saw very similar increases during each of the months of the quarter, Vanessa, so there was no—as Enrique was saying, there was no effect or reduction during the latter part of the quarter. The months' performance were very similar.

**Vanessa Quiroga**

Thank you. And in April, was there a big change compared to March, for example?

**Enrique Escalante**

Well, so far the only—so far, what I've told you in the U.S., so major changes except that again a slowdown little by little in the oil industry, and in Mexico of course, just the slowdown as a result of the shutdown, where we cannot ship (inaudible) for example the mines that were completely shut down, so the second part of April, we were not able to ship any product there.

**Vanessa Quiroga**

Okay, great. Thank you. Regarding energy costs, can you tell us how energy costs were per ton during the quarter compared to last year?

**Luis Carlos Arias**

We didn't see any major changes. I will ask Ricardo to follow up with you if you need more detail. Well actually, just one clarification. In the first part of last year, we saw increased power costs in Mexico, so this year the costs were (inaudible) in that part of the business.

**Enrique Escalante**

And of course our fuel costs has remained constant because it's mainly our own coal for use at our mine in Colorado, so except for a slight increase in freight, there has been no change in the cost of fuel.

**Vanessa Quiroga**

Thank you.

**Operator**

We will go to our next question, and this one comes from Eric Neguelouart with Bank of America.

**Eric Neguelouart**

Thanks, good morning. Thank you for the call. I have a couple of questions.

The first one is regarding oil well cement. In the U.S., we've seen the oil rig count drop to almost half during April. Are you seeing the same in terms of demand, or is there a lag in terms of timing and we should see this spread out throughout the following months?

The second question is regarding your EBITDA in Mexico. We saw a 500 BPs decline year-over-year. Can you walk us through the reasons why there was this drop in the quarter? Thank you.

**Enrique Escalante**

Yes, I'm going to take the first question on oil well demand. We have not seen a significant decrease in demand yet, but we are seeing obviously the number of rigs in the area decreasing and rapidly, so we expect that we are going to see that corresponding reduction in demand in the months ahead of us. We are being told from our customers in the Permian Basin that probably we are going to expect around a 40% reduction in volumes.

**Luis Carlos Arias**

In terms of the... Can you repeat the second question, please Eric?



**Eric Neguelouart**

Yes, sure. EBITDA margins, 1Q '20 was around 27% and 1Q '19 was around 32%. Is there a reason behind the drop in margins in Mexico, or is there something, an accounting difference there, or...? I just want to know the reason.

**Luis Carlos Arias**

The exchange rate has a big effect on our Mexican operations, and since we account for the exports to third parties in the Mexican operations, there should be an effect (inaudible), but we will follow up with you for a more clear explanation.

**Eric Neguelouart**

Okay, thank you.

**Operator**

We'll go to our next question from Francisco Suarez of Scotiabank.

**Francisco Suarez**

Good morning. Thank you for the call. Hope you and your loved ones are doing relatively well.

The question I have is, is it fair to assume that we will see a deterioration of the sales mix this year, because I am assuming that you will start (inaudible) in Mexico oil wells as well as potentially for mining operations, so any color on that?

The second question is how did you see an overall differences regionally? Perhaps it is fair to assume that these drops in business activity should be harder in those places where population density is higher compared to those that are not. Thank you.

**Enrique Escalante**

Francisco, thank you for your question. I'm going to try to answer the second question first and then ask you to repeat the first question, because I could barely hear it.

On your second question, yes, definitely what we expect is to see a larger demand drop in the high density populated areas. Fortunately for us, in many of the markets where we participate, especially in the U.S., this is not the case for us, so except for cities like Denver and Minneapolis-St. Paul, and then you go down from there to less populated areas, and a lot of rural areas where we are working and a lot of projects, like the examples I mentioned on wind farms. So that's going to benefit us in comparison to other players in the industry that are more focused on highly populated areas.

We don't have a number to say what's the difference, but definitely we're seeing that in the expectation of demand for the rest of the year in these areas compared to other areas, like the Coast in the U.S.

Can you please repeat to us your first one?

**Francisco Suarez**

Yes, of course. Sorry for that. The question that I have is the sales mix. Probably this year, you will be selling less cement or high specialty cement like cement for oil wells or perhaps less cement for mining operations perhaps, so I think that is fair to assume that the sales mix is not going to improve this year and that could actually take some pressures on your overall reporting prices going forward.



**Enrique Escalante**

Well, although that would seem like a logical consequence, I'm not too sure of that, and let me say why we don't expect a big change in product mix. Obviously, we will have the impact of the oil well cement in future. As we said, we have about 9% of our total volume in that market, so from there you go, that the first quarter was very good, then you're left with three quarters of the year left, and of that we say we have 9% of our total business will equate to around 4% probably of our total volume for the rest of the year of oil well cement, which yes, it commands a premium price but the volume will be limited to probably that 3% to 4% impact on that product in terms of our product mix.

Now for the mines. The mines, yes, they shut down during April and perhaps half of May; but then we hear from them, they are coming back hard at work, I mean at full capacity. Actually, some mines have been already ordering cement from us in preparation for their ramp-up in May, so they are going to try to catch up and we don't expect to see much of a decrease in terms of the specialty cement in that market.

As for the export market, which is another big component of our rapid set cement that goes to California and to a lot of the Home Depots, to all of the Home Depots in (inaudible), we're not expecting there either a slowdown because Caltrans in California has a very big budget this year, and actually we're planning to have a larger sales of that rapid set cement this year compared to last year, and that's including as an essential industry and California is going fast on that highway repair work.

So having said all this, yes, probably will have some impact on oil well cement, but the rest of the segments did well in terms of specialty cement.

**Francisco Suarez**

This is very good to know. Thank you for this information. Take care.

**Enrique Escalante**

Thank you.

**Operator**

As a reminder, you may press star, one on your telephone keypad if you do have a question at this time. That is star, one for questions. We'll pause a moment. Again, that is star, one for questions.

We will go to a question from Froylan Mendez from JP Morgan.

**Froylan Mendez**

Hello guys, thank you very much for taking my questions.

I would love to hear your thoughts on what you think could happen to (inaudible) cement given this situation. Would you expect, if for example in Texas we see a large decline, the 40% reduction that you said on oil wells, that that demand will be maybe replaced for construction cement and maybe take some share from the imported volumes that are coming into the Texas market, for example?

Secondly on prices, I know that you are delaying most of the hikes for this year, but do you see any risk of seeing lower cement prices from any of the players in your territories? Thank you.

**Enrique Escalante**

Thank you, Froylan.

On your first question... Let me address first your second question on pricing. Definitely we have not heard from customers anything different than just, I mean, the delay of 60 days that was announced by several players in the industry, so at this moment we are expecting that we can continue moving forward with that price increase announced for April, now in June. That's all the information I have at the moment, and unfortunately it's (inaudible) so far. Of course, the situation is very fluid, but that's what we're expecting today.

On your first question, yes, with the decrease of oil well demand at our Odessa plant, we have already been preparing to switch part of the production of that plant to construction cement if necessary, and of course this will be depending on demand because before that, we are probably going to stop production of oil well cement in the Chihuahua plant, which is today complementing the Permian Basin, so that will be our first step because that's part of the (inaudible) the least profitable in the oil well family of products because of distance and freight, so we will cut that first. But if we need to cut on Odessa, we're already preparing to produce construction cement, which is easy to do and has of course been done in the past, and that volume will replace tons that are going today to that area from Samalayuca, and so yes, we will have obviously the effect of less volume, but we will be, I think, doing well in terms of the profitability of the cement that we sell there, because we are going to save on the freight that it takes today to go from Mexico to that part of West Texas.

**Froylan Mendez**

Thank you.

**Operator**

With no other questions in the queue, I'd now like to turn the call back to Ricardo Martinez for any additional or closing remarks.

**Ricardo Martinez**

Once again thank you to everyone for your interest in GCC and for joining us today, we appreciate your questions this morning and look forward to talking with you again in the months ahead. This concludes our conference call but our team is of course available for any follow up questions you may have. Goodbye and stay safe.

**Operator**

Again, that does conclude this call. We'd like to thank everyone for your participation. You may now disconnect.