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Nikolaj Lippmann, Morgan Stanley

Vanessa Quiroga, Credit Suisse

### PRESENTATION

#### Operator

Good morning and welcome to GCC's First Quarter 2023 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 accompanies today's webcast. The link is available on the company's IR website at [gcc.com](http://gcc.com).

At this time, I would like to turn the call over to Sahory Ogushi, Head of investor Relations. Please go ahead.

#### Sahory Ogushi

Good morning, everyone, and thank you for joining our call. With me today are Mr. Enrique Escalante, our Chief Executive Officer; and Maik Strecker, Chief Financial Officer.

The earnings release detailing our 2023 first quarter results was released yesterday afternoon and is available on the company's website. This conference call is also being broadcast live within the Investors section of the

company's website at [gcc.com](http://gcc.com), and the webcast replay of the call will be available at the same site approximately one hour after the end of today's call.

Before we begin, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to differ materially are set forth in yesterday's press release, and in our quarterly report filed with the BMV. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events. With that, let me now turn the call over to Enrique.

### **Enrique Escalante**

Good morning, everyone.

Thanks to the hard work of the GCC team, we delivered solid first quarter results in what remains a challenging operating environment. The team achieved outstanding service despite significant weather disruptions across the United States, which in some areas was the coldest winter since 1979 with exceptional amounts of snowfall during the quarter. Weather-related headwinds represented the single most substantial impact on GCC's results for the quarter.

However, our 2025 vision focused on three central pillars will continue to guide GCC's performance and progress in the year ahead. These pillars are GCC's People, Profit and Planet. We'll provide relevant quarterly updates on these three pillars throughout the year.

Starting with our People on slide 4, GCC has a demonstrated track record of anticipating challenges and mitigating adverse effects. Along these lines, while we're very enthusiastic about the significant non-residential construction opportunity driven by the Biden administration's Infrastructure Investment and Jobs Act, we also expect significantly higher demand and a deepening labor shortage. Entry-level laborers are in record high demand as contractors and construction employers in general try to offset shortages of more seasoned workers.

As previously announced, GCC is proactively investing in our proprietary in-house training through the GCC Cement Training Institute which ensures our well-trained labor force can deliver the operational excellence GCC's customers expect. During the first quarter, operations employees across all of our cement plants completed the required assessments and we began implementing 14 high-priority training programs for over 180 employees. We are also in the process of finalizing our 2023 annual training plans and designing plans for 2024, collaborating with plant managers specific to each plant's priorities.

GCC's investment in training and education is an important incentive for new hires and a significant competitive advantage in what we believe to be a tight hiring environment which will remain for the foreseeable future.

In the fourth quarter GCC completed the diagnostic phase of our Safety Strategy Plan focused on safety excellence. We've since identified the projects that will enable us to achieve this goal and officially began the second phase of our Safety Strategy Plan, aligned with our goal to become a World Class Safety Company through proactive identification and control of exposure to hazards. The strategy of implementation includes training and coaching for more than 400 leaders across the company also with involvement in most GCC employees' work.

Turning to our Profit pillar on slide 7, Maik's detailed discussion on the first quarter will follow. But I'd like to stress here that while GCC's volumes decreased year on year due almost exclusively to the extremely challenging weather conditions I've described, we're focused on improving margins through prudent but necessary price increases, operational excellence and with extensive intentional programs and technology throughout our organization to optimize operational productivity. Today we're running our plants at the highest possible efficiency levels relative to global industry best practices. For example, we've thoroughly reviewed our plants' production relative to optimal capacity for operation levels and set goals that often exceed rated capacity. It's also important to note that we continue to see strong volume demand, and today all GCC plants are running at full capacity to address this demand. We're also leveraging all GCC facilities to ensure we're deriving maximum benefits with an eye towards strengthening our margins and decrease volatility. We are creating a more efficient and agile network, not simply taking out cost but are simultaneously focused on running our business more efficiently, flexibly, and profitably, which will create value in the years to come.

Regarding our Planet pillar on slide 8, we completed our Rapid City facility's ramp up during the first quarter 2023 and Rapid City is now burning alternative fuels 24 hours a day and 7 days a week. The plant uses a combination of landfill waste streams and biomass from the local forestry industry. But we'll see the most meaningful increases in alternative fuel use at our Samalayuca plant. The debottlenecking project, completed last week, enables the plant to increase the co-process capacity using alternative fuels. This will eventually provide 60% of the total thermal energy required to produce clinker. The install and ramp-up period for the new equipment required to pre-process the alternative fuel materials will continue throughout 2023.

Let me now share some highlights related to quarterly performance in our markets. As I noted, extreme weather resulted in a late start to our season, particularly in the Northern US. But I'll reiterate that volume demand remains strong, and while GCC's volumes for the first quarter were behind what we normally see, we are not seeing any cancellations and continue to have a substantial backlog that we're focused on moving.

Construction spending in the U.S. again fell in February, weighed by a decreased spending on residential projects in a subdued housing market. However, non-residential construction continues to strengthen. You'll recall that GCC anticipated this trend, and we turned our focus to non-residential work, including continued construction work on a runway in the Denver International Airport, and a multi-lane widening project on I-10 at El Paso, Texas during the first quarter. And we still see strong demand in South Dakota, with an air force base, a large dairy farm project and two significant paving projects. During the quarter we began seeing signs of the significant uptick we anticipated in windfarm projects driving ready-mix demand as well as ethanol projects supported by Inflation Reduction Act funding.

The IRA also combines a wide array of clean energy tax incentives into a single bill, with an estimated US\$369 billion directed towards energy security and climate change over the next 10 years. The Biden administration recently commented that it is directing US\$6 billion in funding to speed decarbonization projects in industries including steel, aluminum and cement.

Please turn to slide 11.

During the first quarter we again achieved pricing growth across product lines in an effort to offset rising expenses. OPEC announced in April that it would cut oil production by more than 1.6 million barrels a day starting in May through the end of the year. The news sent both Brent crude futures and WTI up about 6% in trading. It's also important to note that today's inflation levels remain well above the 2.1% average during the three years before the pandemic and the Fed's 2% target. In light of today's enduring reality, on April 3 we advised our customers on a second price increase of US\$7 on construction cement and US\$15 dollars on oil well cement which takes effect July 1.

As I noted earlier, we saw record snowfall in our markets, in South Dakota for example, which brought railcar transport to a standstill. We don't expect snowmelt flooding or river flooding at our terminals and we will continue to monitor spring rainfalls that could worsen the current situation. However, GCC has again anticipated potential impacts. We monitor weather daily and plan in advance to stage product to those terminals potentially impacted by rail flooding, ensuring we have alternate rail and truck routes to mitigate supply disruptions by staging product on the receiving side of possible threats. Our terminal network is also configured with back up from a plant or another terminal to supply our customers. And, among other pre-emptive measures already in place, GCC ensures alternate plans in the event of rail disruptions at GCC terminals or throughout the railroad network which could impact product delivery.

Turning to our Mexico operations, we continue to significantly benefit from nearshoring's favorable impact on the construction and cement industries, particularly in northern Mexico, with an ever-increasing number of global companies relocating production closer to North American buyers following supply chain snarls during the pandemic. Most agree that this trend is still in very early stages of its potential. We're seeing cement demand not only for industrial manufacturing facility construction and related infrastructure but also the hotels and apartments required to support the massive inflow of labor to the northern Mexico Juarez and Chihuahua markets.

Finally, turning to slide 14, GCC's Samalayuca debottlenecking and expansion project has concluded. I'm pleased to let you know that this week we fired up the kiln and begin production. During the quarter the Samalayuca debottlenecking project's tie-in process and related plant shutdown required GCC to support our Southern network through shipments from our Tijeras and Pueblo facilities. This required 9 additional unit trains to transport product, the majority during the first quarter. So while we take considerable pride in our ability to keep the system running to ensure seamless customer supply, this came at a US\$3 million one-time impact on our US costs and, as a result, our margins, with the majority of the effect already absorbed in the quarter. As I've previously stressed, margin recovery is an important priority for our team.

In closing, we're focused on three key strategic pillars which underpin GCC's 2025 vision: our People, Profit and Planet. And as always, we're planning for the dynamic operating environment to continue with confidence that we have the strategy in place to successfully navigate our path forward as we remain focused on operational excellence. With that let me now turn the call over GCC's CFO Maik Strecker to discuss our financials in more detail. Maik?

**Maik Strecker**

Thank you, Enrique, and good morning to everyone.

Starting with our financial results on slide 17, consolidated net sales for the first quarter increased by 18%. This was mainly driven by increases in concrete volumes in Mexico and the U.S, higher cement volumes in Mexico, coupled with strengthened prices in both markets. This was partially offset by lower cement volumes in the U.S. due to adverse weather conditions experienced in the quarter.

Please turn to slide 18.

Cost of sales as a percentage of revenues decreased 190 basis points in the first quarter to 72.2%, mainly reflecting favorable cement prices in both divisions and higher fixed cost dilution. These were partially offset by higher costs of production as well as higher freight and maintenance costs. As Enrique noted, due to the temporary shutdown of the Samalayuca plant, we incurred in additional freights costs of approximately US\$3 million to ensure uninterrupted customer supply. It's important to comment that GCC's natural gas hedge has enabled stability and predictability to our cost structure, with an average fixed price for 2023 that's 18% below that of 2022.

SG&A expenses as a percentage of sales increased 60 basis points in the quarter to 11.4%.

Please turn to slide 19. As a result, first quarter EBITDA increased by 16% to US\$63 million while the EBITDA margin contracted 50 basis points to 25.8%.

As Enrique commented, we remain committed to improving our EBITDA margins supported by our operational excellence and a pricing strategy that enables us to offset the impact of inflation on our cost structure.

Moving down the P&L on slide 20, net financial income totaled US\$3.7 million in the first quarter of 2023 compared to net financial expenses of US\$14.2 million in the prior year quarter. This was mainly due to a higher cash balance and increased interest rates on our treasury investments, as well as lower cost of debt, the absence of costs related to the prepayment of the notes due 2024 and a decrease in the effective interest rate.

In turn, consolidated net income increased by US\$19 million in the first quarter to US\$32 million and earnings per share increased 149% year on year. Please note that during the quarter we repurchased a net amount of 700,000 shares equivalent to US\$6.3 million under our current share buyback program.

Moving to our cash generation on slide 21, due to the expected seasonality of our business, free cash flow was negative US\$17 million in the first quarter 2023, compared to negative US\$1 million in the prior year quarter. This was mainly driven by lower accruals, working capital requirements, maintenance CapEx and cash taxes, partially offset by increased EBITDA generation and higher financial income.

Turning to our balance sheet, we ended the quarter with US\$808 million in cash and equivalents and US\$500 million in total debt. Our net debt to EBITDA ratio stood at -0.86 times, which is well below the industry's average.

Now, I would like to share an update on our Sustainability-Linked Bond. In February we were pleased to announce that the Science-Based Target initiative affirmed GCC's 2030 greenhouse gas emissions reduction target, which is the sustainability performance target of our bond. Importantly, this target will be annually verified by an independent reviewer and results will be available on our Company's website.

Finally, as part of our ongoing commitment to provide shareholders with multiple sources of return, GCC's Board of Directors has recommended to declare and pay an annual dividend of \$1.3364 Mexican pesos per share in May. This represents a 15% increase against last year's dividend. Moreover, the Board recommended to increase the size of the current buyback program to US\$75 million. These recommendations will be submitted to vote on during our Annual Shareholders' Meeting to be held tomorrow.

In terms of future growth, in addition to our previously announced expansion plans, we are also actively pursuing opportunities to create value through acquisitions of cement assets located in the U.S. that could be plugged into our network and are aligned with our long-term strategic vision.

With that, I will now turn the call over to your questions. Operator, please begin with the first question.

## **Q&A**

### **Operator**

Thank you. First question comes from Adrian Huerta with JP Morgan. Please go ahead.

### **Adrian Huerta**

Hi. Thank you. Hi, Enrique and Maik. My question has to do if margins in the quarter were as you guys were expecting, and given that you were not including second price increase in your guidance, are margins basically again behaving as expected or this second price increase should allow or will make your current guidance look conservative at the moment?

### **Maik Strecker**

Hi, Adrian. This is Maik. Thank you for your question. Our margins developed as expected in the first quarter. As we had mentioned, we had this one-time impact, the US\$3 million to supply our southern network. That

cost us. That cost us a little bit on, of course, the cost side and the margin side. Without that, we were pretty much in line what we expected to start the year in the first quarter from a margin perspective.

Regarding the second price increase, again, the second price increase is driven by—we still see some inflationary pressures, and we want to be prudent and proactive managing that aspect, because as we stated, besides managing the business, the margin recovery is a key element for us. That's why we're proactive in that second price increase.

**Adrian Huerta**

Understood, and just one follow-up and a quick question. Are you also looking at potential investments on aggregates? Is there a pipeline that you have, and can we expect some investments, even if small, on aggregates during this year?

**Maik Strecker**

Adrian, as we stated in the last call, cement assets is the first priority; to find those assets to plug in. We believe we can make the biggest difference there, and we're very, very active on that end. We also stated that within our footprint, in our network, we're more actively looking for aggregate opportunities. As we said, we have a smaller size aggregate business today, so we have some good experience there. To build on that we believe is another opportunity to grow the Company. In short, yes, we're actively looking at aggregate opportunities within our footprint.

**Adrian Huerta**

Very clear, Maik. Thank you.

**Operator**

Next question comes from Nik Lippmann with Morgan Stanley. Please go ahead.

**Nikolaj Lippmann**

Thank you very much. Good morning. Thanks for the call and for taking my questions, and congratulations on these really good results in such a difficult and cold environment. Just two questions for me if I may. Can you talk about—can you do a guesstimate, perhaps, of where volumes would have been under sort of similar weather to 2022? How big was the negative impact from the colder and wetter weather in your region in the first quarter '23. That's question number one. Question number two is related. Do you have any sort of changes to the timing or the cost of the Odessa expansion? Are we still looking at roughly the same timeline, roughly the same cost, and when do you think that we will start seeing that in terms of the cash position, the actual deployment of cash? Thank you very much.

**Enrique Escalante**

Hi, Nikolaj. This is Enrique. Thank you for both of your questions. Let me start with the second one first on Odessa. We're expecting to move forward with the project in the next months. We're in final discussions with OEMs and contractors. We have good expectations that we can start mobilizing in the next three or four months into the site, and with an estimated timeline today of around 30 months of construction for the plant. That will put us more or less at the end of 2025. We have been successful so far in reducing our total investment there. I'm not at liberty of saying the number at this moment, because we're still in final negotiations with some of the related parties for the project. We're very close to have a final number, and I can say that the project's going to cost us less than what we originally anticipated, especially in light of the fact, as Maik commented, that inflation continues to press us hard on several fronts. We're pleased with the progress we're making in that regard.

Now, in terms of the numbers for the quarter, I will let Maik answer that question for you.

**Maik Strecker**

Hi, Nik. Yes, on the volume side, again, it was mainly focused on the northern network in the U.S., and we saw that roughly 10% delta compared to the first quarter of last year. In tonnage terms for us, we believe we can catch it up. It's somewhere between 20,000 and 30,000 tons that we believe we can catch up. If we hadn't had that weather, that would have been the positive volume impact for that quarter.

**Nikolaj Lippmann**

Got it. Very clear. Thank you.

**Operator**

Next question comes from Carlos Peyrelongue with Bank of America. Please go ahead.

**Carlos Peyrelongue**

Thank you. Thank you, Enrique and Maik, and congratulations on the strong results. Two questions. On the second price increases that you are now seeing, is that for all your regions, both countries? If you could clarify that. The second, with regards to costs, you mentioned that there's still some inflation pressures there. If you could elaborate a bit further, and what should we expect to be the benefit of using your coal plants and when is that going to start showing in the results? Thank you.

**Enrique Escalante**

The first question, yes, it's what Maik alluded to, it's basically the U.S. Mexico has been performing very well in volumes both in cement and concrete in the first quarter. All the volume that Maik talked about, it's for the U.S. market. Price has been also a great story so far, with Mexico announcing and implementing a strong price increment. As Maik also mentioned, the U.S., we've already announced our second price increase for the year. The information that I have is that it's going pretty well so far with customers. I think they understand that we're



having to look for ways to improve our margin that we lost last year. They are, mostly of the understanding that we're just trying to recover costs here.

**Maik Strecker**

Yes, Carlos. Good morning, and just to build on that, yes, at the moment, that second price is focused on the U.S., if that was your final question there. Regarding the cost, and specifically the fuel costs, yes, we are back on our own coal, which you should see throughout the year as a positive impact. In addition, we also were able to hedge the gas, specifically for Odessa, better than last year, as I mentioned, on average, below last year about 18%, so that, again, should help us from the fuel perspective. Now, we're still seeing some pressures more on electricity, and we see that across the network. Electricity has some inflation pressures, we're monitoring that very careful and trying to be more efficient how we use it, and that's a specific program. I think Enrique mentioned our operational excellence will address that, but we still see some cost pressures, specifically from the electricity side.

**Enrique Escalante**

Adding to what Maik just mentioned, Carlos, on the efforts we're doing to recover margin. I think there are also some—besides those pressures he mentioned, some good stories that we're taking advantage of, like the gas price in Mexico, which has really decreased compared to last year. We have been taking advantage of the hedging position we have with our coal mine and the gas prices on the spot market and have been using more gas in the Mexican prices this quarter to offset some of the cost increases that Maik mentioned in some of the other plants. That puts us also in the—or give us the opportunity to sell on the spot market also some of the coal that we're producing at a very good margin. We're trying to use this arbitrage, I mean, opportunities to continue lowering our cost and improving our margin here.

**Carlos Peyrelongue**

Understood. A follow-up on prices, if I may. In the case of Mexico, volumes are strong. You're operating at full capacity. Should we expect then at some point in the second half of the year to also see further price increases in Mexico? Is there any reason to hold on further price increases in Mexico to try to recover the margins lost last year?

**Enrique Escalante**

I think that the price increases are very robust so far, as I said. I think we reported increases around 11%, year-over-year from Mexico, between 11% and 12%, and there were robust price increases announced at the beginning of this year. We're going to be prudent here, Carlos, and we're going to just continue monitoring where the inflation is and what are the expectations. Based on that, we can determine if we continue with an effort to increase prices, or depending where inflation goes, we don't. Stay tuned, but we'll be monitoring this very closely, every week here.

**Carlos Peyrelongue**

Thank you, Enrique. Understood. Thanks, Maik.

**Operator**

Next question comes from Vanessa Quiroga with Credit Suisse. Please go ahead.

**Vanessa Quiroga**

Hi. Thank you. I apologize if you already commented on this. I was only able to connect later to the call. Can you give us an update on the plant expansion, what is the status, and on the volume side in the U.S., if you are seeing better sales pace in the second quarter already? Thank you.

**Enrique Escalante**

Hi, Vanessa. It's Enrique. We were having a little bit of problems to hear you here. Can you repeat the question? You're talking about the expansion?

**Vanessa Quiroga**

Yes. Yes, if you can provide an update on the expansion.

**Enrique Escalante**

Okay, yes. Vanessa, I was explaining to Nikolaj that we're moving forward as planned with the project, and we expect to probably mobilizing contractors to start in about four months from now or less. We're still in final negotiations with several contractors. We basically finish our contracts with equipment suppliers, and everything is looking very nice. Actually, we have increased a little bit the scope with better equipment in two main areas in the clinker cooler area and in the cement mill, so we have larger, more robust, and more efficient equipment, and it's coming at a lower cost than what we initially announced. Everything is looking good and we expect to be in production basically by the end of 2025.

**Vanessa Quiroga**

Okay. Thank you, and the second question that I had was about U.S. volumes. There was the weather impact, so I am just wondering if at this point, you're already seeing a normal volume?

**Enrique Escalante**

As everybody knows, Vanessa, we've had an extreme weather in some of our markets including, as we speak, we're still having some unusually wet cold and wet weather. We're still—our teams think that we're still in time to complete shipping everything that would have been backlogged for the rest of the year. It's going to be a little bit more challenging. We expect also not to have disruptions from flooding or anything related to that,

and if that happens, and the rest of the year we have more kind of normal weather, we're still on pace. We'll still be on pace to recover that volume that Maik mentioned. We're behind, and so the market looks very bright, again, very robust. It's just a matter of a little bit having more base available to ship out the product. I'll tell you that I'm feeling still very optimistic that this is going to be a good year for GCC and that we're going to deliver results according to the guidance that we gave at the beginning of the year.

**Vanessa Quiroga**

Excellent. Thank you.

**Operator**

Next question comes from Laisha Zaack with GBM. Please go ahead.

**Laisha Zaack**

Hi, Enrique. Thanks for taking my question. I have a couple. The first one would be regarding CapEx. Could you give us some color on why is the number for the first quarter so low compared to the guidance that you gave for the full year. Also, there were some accounts, including some other accounts in your free cash flows, that was abnormally high. Could you give us some color on why is that?

**Maik Strecker**

Hi, Laisha. Good morning. This is Maik. Let me start with the CapEx question. What we see our CapEx flow for the first quarter might have some small delays. Again, executing specifically some of the growth projects, we anticipate it to have a little more going in that first quarter. Reminder, growth projects for us is not only the Samalayuca debottlenecking, Odessa plant, but we're also working on some logistics opportunities with terminals, some energy-related projects, and so on. I think that's just timing from that aspect. Our regular maintenance CapEx was developed and executed pretty much as planned, so we're still targeting to further invest and reinvest in the network and in the business from a CapEx perspective.

**Laisha Zaack**

Thank you very much.

**Maik Strecker**

Your second question, can you repeat the second question? We didn't catch that. What was the context?

**Laisha Zaack**

Yes, sure. In your free cash flow statement, you have an abnormally high amount of accruals in other accounts. It's around \$54 million. Can you give us some color on why is this number that high, and what can we expect this number to be as we go on?

**Enrique Escalante**

Yes. That account, it's comprised of several sub accounts related to taxes, and another one that is included there, it's the settlement effect of our agreement with SOBOCE, with CIMSA on the SOBOCE Bolivian issue. That's also been absorbed already in the first quarter of the year.

**Laisha Zaack**

Okay, and we are not going to see that number again, right? It was just like a one-time effect.

**Enrique Escalante**

Exactly.

**Laisha Zaack**

Okay. If I may, thank you for answering my questions, can you give us some color on how is residential looking so far? I know that you gave already some during your first remarks, but can you give us a little bit more color on what is happening with residential?

**Enrique Escalante**

I'll give you my perspective first, and then I will ask Maik to give you some specific numbers. In my opinion, and I was commenting with our team in the U.S. last week, I think that we're seeing an effect that is not as concerning as it was for us six months ago. Obviously, we're seeing a decrease in residential, cement for residential segment, but still I think that talking to our sales guys, and then, in turn, to our customers, they are seeing a minor effect compared to what they expected before. That's good news, and that's the only segment that was a little bit more in question for us. Everything else is full steam ahead in every other segment.

**Maik Strecker**

Yes, and Laisha, to add on what Enrique said, the spring forecast from the PCA states that the residential segment's going to be down this year roughly 16%. For our footprint, for our business, we expect a bit less than that, because our exposure is less compared to the country's average. As we stated, we see very strong momentum in those other segments; oil and gas specifically, the non-residential side, the projects that Enrique mentioned. We still believe we will be able to compensate any slowdown in the residential segment and follow our guidance on that volume.

**Laisha Zaack**

Okay. That was very clear. Thank you so much.

**Operator**

Next question, Alberto Valerio with UBS. Please go ahead.

**Alberto Valerio**

Thank you for taking my question, Maik and Enrique. Just two quick follow-ups. The first one, I would like to know if the Odessa plant CapEx is still in the budget, so we should see some cost that we saw in the past year, we might have some readjustment. My second one, also quick one, about the infrastructure plan of the U.S. I know that it was mentioned in the initial remarks, but I would like to know if we can expect something to come the second half of the year or maybe be delayed for 2024? Thank you.

**Maik Strecker**

Good morning, Alberto. This is Maik. To start with the Odessa question on the CapEx, yes, we have planned Odessa to be executed or starting to execute this year with a substantial number regarding CapEx, and we're not moving away from that. As Enrique mentioned, we're very close to signing all the needed contracts and continuing the construction of the project, so that's staying on target.

**Enrique Escalante**

With respect to the Infrastructure Act projects, we haven't seen anything yet, Alberto, and we don't expect to see or hear of any specific information perhaps until close to the end of the year. We're not seeing any of that potential demand in our forecast for this year.

**Alberto Valerio**

Fantastic. Thank you, Enrique and Maik. Just to make sure, the CapEx expect from Odessa, it's \$750 million, right?

**Maik Strecker**

Say that again. I'm sorry, the last time, I didn't hear.

**Alberto Valerio**

The total CapEx for Odessa expansion would be \$750 million, is that correct?

**Maik Strecker**

That's still a number that we're optimizing. The team that really is negotiating that has progressed on that. We expect that number to be lower. Again, there's a few more open items to confirm, but if you remember, that was a high watermark during a very high inflationary environment, lots of logistics challenges we had to build. We expect that number to come in lower, and as soon as we have the contracts confirmed and we're having more clarity how to move this forward, I think we're going to discuss in more detail.

**Alberto Valerio**

Fantastic. Maik and Enrique, thanks once more.

**Enrique Escalante**

Thank you, Alberto.

**Operator**

Your next question comes from Lucila Gomez with Compass Group. Please go ahead.

**Lucila Gomez**

Hi. Good morning. Thank you for taking my questions. (Audio interference) In the case of Mexico's volume and how well they performed during this quarter, are you maybe seeing a similar trend for the rest of the year at these high volumes?

**Enrique Escalante**

Hi, Lucila. This is Enrique. Thank you for the question. Yes, Mexico, it's looking very robust in all segments, especially the commercial segment. As we have discussed related to nearshoring, but also the effect of that into the housing market in both Juárez, especially Juárez, but also in Chihuahua. The other segments are also going strong. Bagged cement is improving over last year, and mining's stabilized and it's also with a little bit of a better forecast for this year. We're growing all positive from the low point of last year for every segment. We're feeling very optimistic about the Mexico market for us.

**Lucila Gomez**

Got it. Thank you.

**Operator**

Next question, Daniel Rojas with Bank of America. Please go ahead.

**Daniel Rojas**

Good morning, gentlemen. I'm sorry for taking you back to the Odessa question. I was wondering is there protracted negotiations with the OEMs; might be also due to the fact that you might be trying to include carbon capture technology, and by that, I mean you could be able to take advantage of the tax credits that are considered within the IRA bill. Is it the case, could we also start to consider that this might be a cash flow positive in years to come, maybe beyond 2025?

**Enrique Escalante**

Hi, Daniel. It's Enrique. The Odessa project, to date, does not have a carbon capture piece in it. We're still, obviously, companywide trying to understand what the right technology that is developing for each one of the plants that we have. Specifically for Odessa, we think there are great opportunities for us there, because we're very close to an area that consumes CO2 for oil production. There are a lot of advantages for that plant to be a leader in a capturing project and then put that CO2 for a good use there. In that regard, what I can tell you is that we're being very proactive and have submitted a concept paper to the Department of Energy, along with some other partners and associates, to try to build a pilot plant at the Odessa facility and to start researching those technologies.

Out of respect to our potential partners and associates here, I'm not going to mention them at this moment, but we think that we can be eligible for those grants. We already submitted that concept paper and in the following weeks we're going to know if we go to the next stage, to the next step with the DOE approval of that or not. So far, so good, and looking very enthusiastically about developing those pilot plant opportunities.

**Daniel Rojas**

Okay. Thank you, and my second question is regarding oil well cement. I think in the last question, you were talking about demand increasing over 30%, if I'm right. Could you give us an update on how demand is shaping up in the first quarter and how you're seeing it moving in the next following quarters?

**Maik Strecker**

Yes, we still see very strong demand on the oil well cement. Our guidance from the January call still remains. We have all kilns that can produce oil well cement pretty much fully utilized to serve in that demand, so no changes. As Enrique mentioned, with some of the geopolitical decisions, we're cutting some production globally. We see that as a positive trend year for the U.S., and as we had mentioned, the markets where we operate are very low-cost oil-producing markets. The demand for that product is high, and therefore, the demand for our cement products are very high, so same guidance.

**Daniel Rojas**

Okay, and my last question, if I may, are you seeing any hesitation from mining clients in Mexico given the mining law initiative that's moving around Congress. Have you been seeing any potential impacts or have you studied any potential impacts that that law might have?

**Enrique Escalante**

Daniel, no, it's probably too soon, too early. As you know, this law, it's still in discussion at the Senate. Actually, I got news this morning that there is a lot of going back and forth in discussion about the terms it would—this law is being proposed. Probably too soon to tell. We expect it to be better than what of course was originally designed. We're remaining here cautiously optimistic and just very attentive to see how things develop at the Senate.

**Daniel Rojas**

Okay, fair enough. Thank you for taking the questions.

**Operator**

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Ogushi.

**Sahory Ogushi**

Thank you, everyone. We appreciate everyone taking the time today to join us, and for your interest in GCC. We look forward to speaking with all of you soon.

**Operator**

You may disconnect your lines at this time. Thank you for your participation and enjoy the rest of your day.

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