

C O R P O R A T E P A R T I C I P A N T S

Enrique Escalante, Chief Executive Officer

Luis Carlos Arias, Chief Financial Officer

C O N F E R E N C E C A L L P A R T I C I P A N T S

Mauricio Serna, UBS

Adrian Huerta, JP Morgan

Dan McGoey, Citigroup

P R E S E N T A T I O N

Operator

Good morning and welcome to the GCC Second Quarter 2017 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 other members of our finance team.

GCC had a solid performance in the second quarter, with double digit increases in sales, operating income, and EBITDA.

I want to highlight three key achievements:

- First, the rapid and successful integration of the Texas and New Mexico operations acquired last November.
- Second, the strong increase in EBITDA margins.

- And third, our successful bond refinancing that reduces financial expense and extends maturities significantly.

The integration of the Odessa plant and the New Mexico operations acquired last year is ahead of schedule.

In Odessa, we have been able to increase production to essentially full capacity from about 70% percent at the time of acquisition, and switch all production to higher value-added oil-well cement. Production efficiency indicators have improved. All key personnel have been retained, and our systems integration is proceeding according to plan.

The logistics integration is even more important and underscores the value of our distribution network to our business model.

As I just mentioned, we are meeting the increasing demand from drillers in the Permian Basin by dedicating all of Odessa's production to oil well cement. We received certification for the Tijeras New Mexico plant to produce Type "C" oil well cement. We are supplementing Odessa's production with construction cement from both Tijeras and Samalayuca to meet demand.

Also, we are now supplying our customers for construction cement in El Paso metropolitan area, other parts of West Texas, and Las Cruces, New Mexico that were previously served from Odessa with deliveries from Samalayuca. Mexican production is also going to New Mexico, allowing Tijeras to produce more oil well cement.

The net result is lower transportation costs, faster delivery times, higher capacity utilization, and increased profit contribution.

These logistical and operational synergies are important contributors to the 1.1 percentage point expansion in our EBITDA margins, to 27.2 percent. Our EBITDA margin in Mexico reached 39.3 percent - the highest in the last decade. And our U.S. margins reached 23.6 percent – the highest for a second quarter in 8 years.

Finally, the bond refinancing, completed on June 23rd, was an important vote of confidence by the financial markets in GCC's performance and business strategy. The new notes were 3.5 times over-subscribed.

Through this transaction, we paid our 8.125 percent senior secured notes due 2020, with the proceeds of new 5.25 percent senior notes due 2024. The new notes are not collateralized by the pledge of shares in our operating subsidiaries. This transaction reduces our interest cost by \$7.5 million dollars per year and extends our maturities by more than 4 years.

Let me now pass the call to Luis Carlos Arias, our CFO, who will review our second quarter operating performance.

Luis Carlos Arias

Thank you, Enrique. Hello to everyone on the call.

As Enrique mentioned earlier, our second quarter results are solid. The operational flexibility of our vertically-integrated business model, our distribution network, and our brand loyalty and client trust, combined with financial discipline and cost-efficient practices are paying off.

Total net sales increased 22.6 percent in the quarter, with growth coming from both the U.S. and Mexico. U.S. sales grew 28.9 percent, while Mexico sales increased 5.5 percent.

In the U.S., cement sales volumes increased 29.8 percent and prices rose 6.7 percent in dollar terms. Excluding the acquisitions, volumes grew 3.6 percent. In addition to robust oil sector demand in Texas, sales are strong for residential construction in Colorado, particularly for multi-family housing as well as a significant airport project. South Dakota, Nebraska, and New Mexico also made significant contributions to cement volume growth driven by wind farm and highway paving projects which will continue through the construction season.

U.S. ready-mix volumes rose 1.0 percent, principally because of the acquisitions and demand in the Texas market, while prices rose 0.7 percent. Excluding the acquisitions, concrete volumes decreased 13.4 percent. Looking to the second half of the year, we expect that volumes will rebound based on our backlog and the projects that are underway.

In Mexico, cement sales volumes decreased 9.2 percent, while prices rose 16.9 percent. The volume decrease reflects primarily lower public construction spending, delays in some commercial sector projects and a reduction in construction activity in April as a result of the Easter holidays.

Mexican ready-mix volumes were down 9.9 percent, while prices rose 18.2 percent. The same factors affecting cement volumes also affected concrete.

Our performance on the cost side demonstrates our commitment to improving margins.

Costs as a percentage of sales decreased 0.4 percentage points to 72.0 percent, as higher sales prices and lower fuel and freight costs more than offset the increase in depreciation from the newly acquired operations. Excluding the new operations, costs as a percentage of sales decreased 0.7 percentage points.

Operating expenses were 9.3 percent of sales, an increase of 0.5 percentage points. The increase principally reflects integration expenses. Excluding the new operations, operating expenses were 8.8 percent of sales, unchanged year over year.

EBITDA grew 27.7 percent to Ps. 1,223 million pesos. That is a 1.1 percentage point improvement in margin. As mentioned by Enrique, at the divisional level our EBITDA generation in Mexico reached a ten year high, and the EBITDA margin in the U.S. is at the highest levels for a second quarter since the great recession.

GCC is focused not just on growing but growing smartly. We remain committed to ensuring a smooth transition of our newly acquired businesses and enabling the efficient transfer of our operating, administrative and financial know-how to obtain maximum benefits quickly. Our results show that we are succeeding.

I will now return the call to Enrique.

Enrique Escalante

Thank you, Luis Carlos.

Our performance during the second quarter and the first six months of 2017 is in line with our expectations and the full year outlook we've provided to the market.

There are some small nuances worth noting.

Mexican demand has been somewhat softer than expected, and cement volumes were down. This has been compensated by higher prices, and the net effect is in line with our expectations.

The most significant factor in Mexico has been a slowdown in public infrastructure spending in the state of Chihuahua. There are signs that this is temporary, and we expect demand to tick up in the second half of the year, with new transportation projects in both the capital city of Chihuahua and in Juárez. There is also an upturn in demand from the mining, commercial and industrial sectors. Our sales backlog for the second half of 2017 is strong. For the full year, we now expect that cement and concrete volumes in Mexico will be flat, while prices maintain their double-digit gains.

In the U.S., West Texas demand and profitability are exceeding our expectations, and we believe we are solidifying our market position. This is offsetting softness in some other U.S. markets. Spring weather delayed some project execution, and funding for the FAST highway infrastructure programs continues to be stretched

out. Here again, our order book is strong, and the outlook for the second half of 2017 is an improvement over the first half.

We are keeping our outlook for double-digit increases in cement and concrete sales volumes in the U.S. On a like-to-like basis, cement volumes for the year are expected to show a mid-single digit increase and while concrete volumes are flat.

On a consolidated basis, we expect EBITDA to grow around 20 percent, with continued margin expansion.

I also want to reinforce GCC's commitment to continue to de-lever. We expect to end the year well below our current net leverage level of 2.56 times. Management's target is to reduce our Net Debt to EBITDA ratio to 2.0 times by the end of 2018.

We believe that our strong business model, our operational and financial track record, our solid capital structure and our leverage profile, together with our highly talented employees, position us well to navigate the external challenges we could face moving forward in the markets where we operate. We remain confident that we are on the right path that will create and deliver the highest value to our shareholders and other stakeholders.

This concludes our remarks for today's call, and at this point, we are ready to take your questions.

Thank you, operator.

Operator

Thank you. If you'd like to ask a question, please signal by pressing star, one on your telephone keypad. 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'll go first to Mauricio Serna with UBS.

Mauricio Serna:

Hi, good morning, and thanks for taking my question. I guess I'm a little bit more curious about Mexico for the second half, talking about now that you've provided this guidance for the full-year volumes and you're talking about flat demand. So, looking at what we had on the first half, I guess this means that for—we should have 1% increase relatively, now in the second half. I just wanted to get an idea of whether this is right, or I mean, because before this I think you had given a guidance of a mid-single digit so just wondering if there's actually a slowdown in demand? Or, as you mentioned just like a slow—a weak second quarter overall? Also, if you can just repeat again the margins that you achieved both in Mexico and U.S. for this quarter at the EBITDA level? Thank you.

Enrique Escalante:

Hi Mauricio. This is Enrique and I will answer the first part of the question related to the demand in Mexico and then I will turn it to Luis Carlos for him to answer the EBITDA margin. The Mexican market definitely has topped (inaudible) here in Chihuahua more than what we expected last year; however, we're seeing some good signs of recovery for the second quarter. That's why we continue to say that we're going to have a flat year in volume.

We have now underway several new infrastructure projects in Chihuahua like some concrete paving projects that just started, also a couple of bridges and overpasses that are also under construction now. In Juarez, we're going to see the Metro (inaudible) come online, also a project that is starting in the second half of the year. So, these projects are somehow compensating some of the slowdown that we saw in infrastructures in the first quarter.

As I mentioned also, the commercial sector is still going well. The (inaudible) are doing also well with full employment in the state, and I heard, I mean last week I met with our largest home builder, a customer in Mexico and they told me they are also—I mean, starting on a new development to catch up with what they did not put out during the first part of the year. Frankly, they don't have enough inventory and as well as many of the home builders in the state. So, those are good signs that we're going to recover part of the volume that we lost during the first part of the year.

I will pass it now to Luis Carlos to answer you on the margins.

Luis Carlos Arias:

Hi Mauricio. In Mexico, we have the highest EBITDA margin in the last decade, it was 79.3%, and in the U.S. we have the highest for second quarter in 10 years, it was 23.6%.

Mauricio Serna:

Great and also just very quick follow-up; if you can maybe talk a little bit about—I'm curious about the performance in Texas, how volumes performed so far given we're seeing a rebound in oil demand. So, just wondering if—I mean, if this has fast-tracked with what you expected and what are you looking at for the second half of the year in Texas?

Enrique Escalante:

Yes. Fortunately, what we have been seeing in West Texas and especially in the Permian Basin is well- ahead of our expectations, I mean much better. We are running now the Odessa plant at full capacity, as I mentioned before, and we're having to supplement those markets with oilwell from the Tijeras plant that we just started in June. Shipping greater amounts of construction cement and (inaudible) so the West Texas market is really a nice surprise for us, and that of course has contributed to our good performance in the quarter and we expect that to continue definitely, throughout the second half of the year.

Mauricio Serna:

Okay, great. Thanks a lot and congratulations on the results.

Enrique Escalante:

Thank you.

Luis Carlos Arias:

Thank you, Mauricio.

Operator:

Once again, it is star, one if you wish to ask a question. We'll go now to Adrian Huerta with JP Morgan.

Adrian Huerta:

Hi, thank you, and good morning, Luis Carlos and Enrique. I have two questions; one, in the U.S., you mentioned that you expected acceleration in the second half. So can we see greater volumes than the 34% on a consolidated basis growth on cement volumes than we saw in the first half? Obviously, this is as you mentioned is basically on the stronger demand that you have seen in West Texas and that is well above your original expectations. So, we can continue seeing that 34% or even stronger than that, or if you're talking about absolute volumes in the second half being higher than the absolute volumes in the first half? That's my first question.

The second one is, if you see other opportunities for further liability management and do you see room to reduce the cost of debt that you have on your bank debt? Thanks.

Enrique Escalante:

Thank you, Adrian. Again, I'll answer the first part of the question, then I'll turn it to Luis Carlos so he answers on the liability management. On the U.S. sales, I mean, definitely we're going to have a very strong second half, I mean stronger than the first half. I'm not sure I can give you the number, if it's going to be in a percentage basis the growth above 34% or not, we'll have to crunch the numbers because of the high percentage increase that we had and resulting from all this in the first half.

But definitely, I mean we have a very strong backlog. We're basically, I mean we just reviewed—I mean a couple of weeks ago our expectations for the second half of the year and our sales team definitely confirmed that—basically, we have sold out, at capacity for the second half of the year. To be very honest with you, I mean, the year is getting shorter, of course, and so it will depend a little bit on what the type of weather that we experience during the first half especially we do have an early winter, or a delayed winter. But we—the books are solid and complete the year according to the original expectations.

Luis Carlos?

Luis Carlos Arias:

Yes. Hi Adrian. On the liability management question, actually we're constantly looking for opportunities to continue reducing the cost of capital. As of now, I mean at this time we don't have anything to announce to the market, but once we have something to tell you about, of course we're going to announce it.

Adrian Huerta:

Thank you so much (inaudible).

Operator:

Once again, it is star, one to ask a question. We'll go next to Dan McGoey with Citigroup.

Dan McGoey:

Good morning, gentlemen. Thanks for the call. If I repeat a question, I joined a bit late, but could you talk a little bit about the success and the regional price increases that you've had and whether you're considering a second round price increase in any of the markets? Then, secondly if I can ask, just a little bit in terms of the margins in the U.S. With the price increases that were achieved, there was some margin expansion, but whether or not it was inhibited by either higher fuel or distribution costs? Thanks.

Enrique Escalante:

Hi John, this is Enrique.

Dan McGoey:

Hi Enrique.

Enrique Escalante:

In terms of price increases for the second half, we can continue to expect having additional price increases in different markets. Not all of the markets have taken the full price increase that we estimated at the beginning of the year. There are some soft pockets like, for example, the Twin Cities market it's slow in terms of taking price increases compared to what we expected at the beginning of the year. Some other markets are doing better; Colorado is doing very well, New Mexico, (inaudible). Even El Paso market, I mean, it's potentially taking a second price increase during the year, and so it's a mixed effect of course and going area-by-area. But, we're fully confident that we're going to completely reach our expectations of mid-single price increases during the year.

In terms of oilwell demand, the news are also good because we did not consider in our original forecast the price for oilwell demand but given the demand in the Permian Basin, we have already announced and it has been taken a price increase starting in September. So, things are looking, again, inline with what we predicted for Odessa (inaudible).

Luis Carlos Arias:

On your question about the margins in U.S.; yes, (inaudible) margins some mix of the price increase, but also lower fuel and freight expenses in that market.

Dan McGoey:

Sorry. So, that's primarily increased freight expenses; Luis Carlos, is that it?

Luis Carlos Arias:

No, no; lower freight expenses.

Dan McGoey:

Lower freight expenses help the margin expansion, okay. How about in terms of energy costs, cost of production; can you remind us your fuel mix in the U.S. and what you're seeing on energy costs per ton?

Enrique Escalante:

Sure. We're doing very good, Dan, because as you may remember we are basically burning coal from our own mine, so that has a very constant cost for the cement plant. We managed to all the time have that internal hedge. We will convert to gas prices, and for the time being, we have decided to continue burning coal in all the plants. That's our lowest cost fuel in the system, very stable.

Aside from that for—I would not aside from that, but on top of that, we have been increasing—using (inaudible) in Pueblo, as the year goes by, so that continues to reduce our coal consumption in that plant. So fuel is very stable; (inaudible) I mean very stable, actually power comes with alternative (inaudible) plant this year, so very stable both fuel and power in all the operations.

Dan McGoey:

Great, thank you.

Operator:

It appears there are no further questions at this time. Mr. Escalante, I'd like to turn the conference back to you for any additional or closing remarks.

Enrique Escalante:

Thank you, Operator. Thank you everybody for your participation on today's call. We're looking forward to speaking with you at the next quarter, but as you know, please do not hesitate to contact us if you have any questions in the meantime. Thank you, everyone. Bye now.

Operator:

This concludes today's call. Thank you for your participation. You may now disconnect.

Enrique Escalante:

Thank you for participating on today's call, and we look forward to speaking with you next quarter. Please do not hesitate to contact us should you have any questions.

Operator:



Thank you. This concludes today's call. Thank you for your participation. You may now disconnect.