

### CORPORATE PARTICIPANTS

**Enrique Escalante**, Chief Executive Officer

**Luis Carlos Arias**, Chief Financial Officer

### CONFERENCE CALL PARTICIPANTS

**Mauricio Serna**, UBS

**Daniel McGoey**, Citi

**Cecilia Jimenez**, Banco Santander Mexico

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

**Adrian Huerta**, JP Morgan

**Alejandra Obregon**, Morgan Stanley

### PRESENTATION

#### Operator

Good morning and welcome to the GCC Second 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.

In the second quarter, our operating results continue the steady improvement in sales and margins that GCC has delivered since 2013.

We also took a number of strategic actions during the quarter that will help us achieve our long term goals effectively.

We completed the acquisition of the Trident cement plant in Three Forks, Montana, which adds eleven percent to our U.S. cement capacity and extends our market footprint west and north in contiguous markets. At the same time, we sold non-integrated, ready mix assets in the Oklahoma and Arkansas markets, which paid for the acquisition, with a favorable net difference to GCC. And, finally, we refinanced all our bank debt, which will save an estimated ten million dollars per year in interest expense and extended the final maturity of this debt.

Our first half operating performance and the M&A and financial transactions will help make 2018 another benchmark year in GCC's transformation.

I will discuss the main drivers of our performance in the U.S. and Mexico and quickly review the M&A transactions we completed in late June. Luis Carlos will review the financial results and the debt refinancing. I will then discuss our outlook for 2018, in light of the M&A transactions and our current perspective on the business environment.

We will then open the call to your questions.

First, GCC's performance drivers.

Our markets are continuing to develop broadly in line with our previous estimates. Second quarter sales increased seven percent and EBITDA grew nine percent, with a fifty basis point improvement in margins.

The U.S. market remains very strong, with solid demand from the Canada border to the Rio Grande, although the weather was not as favorable in the second quarter as it was in the first.

The Permian Basin oil fields in West Texas continue to be very active. Since April 2016 the rig count in the basin increased almost three hundred sixty percent, from one hundred thirty-four to four hundred seventy-four rigs. Cement demand includes both oil well cement produced in the Odessa plant and also construction cement for the fracking sand facilities that are being developed in the basin, exported from the Samalayuca plant.

In New Mexico, public sector construction was the strongest segment. In Minnesota, residential construction was the strongest. In the upper Midwest states generally, wind farm construction is continuing to be a very attractive market for GCC, although this was the region that was most affected by bad weather late in the quarter.

U.S. cement sales volumes were down two point one percent in the quarter, principally because of the weather-related delays in Iowa and the Dakotas. For the first six months, cement volumes increased six point one percent. Ready-mix volumes were up seven point two percent in the quarter, and two point five percent for the first six months.

In general, backlog in the U.S. for both cement and ready-mix continues to be very strong. We expect to make up the weather-related volume shortfalls in the second half of the year.

Cement prices were up four percent year-over-year. The market is supporting price increases in the three to five percent range, for both cement and ready mix. While demand is strong, price competition in certain markets is limiting the price increases that can be negotiated with clients. Ready mix prices rose two point five percent.

The market in Mexico has proven to be a nice surprise. We did not see a sharp slow-down prior to the elections, as some economists predicted. Demand was supported by residential projects in Chihuahua, industrial plants expansions, and very strong mining sector demand. The self-construction segment was also positive.

Cement volumes grew two point nine percent, and ready-mix volumes decreased three point three percent, mainly because of different base comparison due to big projects that we had last year. Cement prices rose nine point six percent in pesos, and ready-mix prices were up four point one percent.

Increased exports to the U.S. are increasing Mexico capacity utilization and boosting margins. The Samalayuca and Juarez plant are running at more than ninety-five percent of capacity. Around seventy percent of the production of these two plants was shipped to the U.S. in the quarter.

My second topic is the M&A transactions GCC completed. We discussed these transactions in depth in our conference call on June 26, so I will be brief.

The Three Forks plant represents an investment of one hundred seven point five million dollars and generated about forty-seven million dollars in sales and ten point five million dollars in EBITDA last year. It has a capacity of three hundred fifteen thousand metric tons. It matches squarely with the Board's highest strategic priority for investment and capital allocation, which is additional cement capacity that extends our footprint and integrates into our cement distribution network.

Now that we closed the acquisition, our focus is to ensure that we realize synergies from integration of our existing distribution network with the customers for the Three Forks plant, which includes western Montana, Idaho, and Alberta, Canada.

We sold most of our Arkansas and Oklahoma ready-mix and transportation assets for one hundred eighteen point five million dollars. These were non-core assets that were not integrated with our cement production, and consequently were low margin. Divesting them in the context of the Three Forks acquisition was a good opportunity and meant that our leverage ratio did not increase from the acquisition. As a result, we continue to be ready to invest for future growth.

The Rapid City expansion is reaching completion, with a scheduled start of operations toward the second half. Construction was ninety-five percent advanced as of end-June. As we have previously said, 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. The additional capacity is also expected to produce logistics synergies and reduce variable costs by about two dollars per ton produced.

Let me turn the call over the Luis Carlos to review the quarter's financial results, the successful bank debt refinancing, and other financial achievements.

**Luis Carlos Arias**

Thank you, Enrique. Good morning to everyone.

Let me start by pointing out that our results reflect the reclassification of the Oklahoma and Arkansas ready-mix assets as discontinued operations. Prior period results have been restated, in accordance with IFRS-5, including sales, costs, expenses and volumes.

The results of the Three Forks plant in Montana will be included starting in the third quarter.

Our second quarter operating results were slightly below expectations, because of the weather factors Enrique mentioned. Taking into account the first quarter's much-better-than-expected results, however, means that for the first six months our results are above guidance.

Second quarter sales grew seven percent in dollars, with similar rates of growth in the U.S. and Mexico. For the first six months, sales increased 11%.

Costs increases were held to only 7% percent in the quarter and 8% in the first six months. As a percentage of sales, costs decreased two point zero percentage points for the six months, and operating expenses decreased one-point-eight percentage points.

Consequently, the operating margin reached 19.2% in the first six months, an improvement of 3.8 percentage points year over year.

The increased gross and operating margins reflect several factors: higher prices and volumes, operating leverage and lower electricity costs in Mexico.

As a result, EBITDA grew 8.7 percent in the second quarter and 22% in the first six months. We continue to be highly focused on increasing margins, remarking that the six-month EBITDA margin increased 250 basis points to 28.8%.

Our EBITDA margin in Mexico reached an all-time record high of 44.8%. And U.S. margins were 24.7%, again the highest for a second quarter since the 2009 financial crisis.

Net financial expenses decreased 4%. Interest expense includes fees for the refinancing of bank debt and were lower as a result of the refinancing of the bond last year.

As a result of these factors, income from continuing operations rose 2.2% in the second quarter and 82% in the first six months.

The discontinued operations line was a loss of US\$ 41 million dollars, which includes the loss on sale of the Arkansas and Oklahoma ready mix operations, plus their net after-tax result for through the date of sale. Operating cash flow for the first six months of 2018 was a positive US\$ 18 million dollars, compared to a negative US\$ 3 million dollars last year. The US\$ 21-million-dollar favorable swing was the result of the strong growth in EBITDA and lower interest expenses.

As regards the successful refinancing of bank debt, during the quarter GCC paid in full its existing bank debt and entered into a new term credit facility with a significantly lower interest rate. The new US\$ 400-million-dollar loan has a term of five years, with a variable interest rate spread of 1.25% to 2.0% over Libor, based on GCC's debt/EBITDA ratio. The initial margin will be 1.75%. In addition, the agreement includes an unsecured US\$ 50-million-dollar revolving line of credit that, as of today, has not been used.

As part of the refinancing, GCC reduced the amount of the term credit facility by a net of US\$ 33 million dollars. The level of our cash balances makes this possible without affecting our liquidity because of the US\$ 50-million-dollar line of credit and was also partially offset by the US\$ 11-million-dollar net favorable difference between the sale and purchase prices of the M&A transactions.

The net interest savings from the refinancing is approximately US\$ 10 million dollars per year.

GCC's leverage ratio, which is defined as Net Debt over EBITDA, decreased slightly from the December level to 1.82 times in June 2018, and is significantly below the June 2017 level of 2.56. By any standard, our leverage and other debt ratios are well below industry averages.

S&P recognized our operating performance and sound financial management by raising our corporate credit rating to BB+, with a stable outlook. This is their second ratings upgrade in less than 12 months.

The liquidity of the stock increased from an average daily trading volume of 139 thousand shares last year to 495 thousand shares in the second quarter. In addition, the stock price has increased around 40% year to date.

As a result, last June, the stock was included for the first time in the MSCI family of stock indexes, GCC is now a component of such widely used benchmarks as the MSCI Mexico Small Cap, Emerging Markets Small Cap, Emerging Markets Latin America IMI, among others.

I will now return the call to Enrique.

### **Enrique Escalante**

Thank you, Luis Carlos.

My final topic is GCC's outlook for 2018 ...

We are revising our guidance for the full year based on the strong first half performance, somewhat better visibility on the Mexican market, and also to reflect the Three Forks cement acquisition and ready-mix asset sale.

GCC is currently expecting 2018 cement sales volumes in the U.S. to increase 9 to 11 percent compared to 2017 and ready-mix volumes to grow 1 to 3 percent. On a like-to-like basis, cement volume growth is now expected to be 2 to 4 percent, which is slightly over the PCA's forecasts for our markets.

We expect U.S. and Mexico prices to increase 3 to 5 percent year over year in local currency, for both cement and ready-mix.

The Mexican market is, as I mentioned, performing somewhat better than expected, despite the election year and trade negotiation uncertainties. We now expect sales volumes for cement to grow in the 1 to 3 percent range and for ready-mix to remain flat.

As a result of these factors, GCC now expects consolidated EBITDA to increase by 11 to 13 percent.

Our estimates for capital requirements remain unchanged. Capex will be about 120 million dollars; half is for the expansion of Rapid City plant and half for maintenance. Working capital requirements are expected to increase slightly compared to 2017.

Finally, GCC also expects that as a result of our operating performance and capital requirements, net leverage will continue to decrease. We believe we will end the year with a net debt to EBITDA ratio in the range of 1.4 to 1.6.

Our second quarter and six months demonstrate how GCC is continuing to generate value for our shareholders and other stakeholders.

We continue to increase sales, EBITDA, and EBITDA margin and return on invested capital ROIC. The new cement plant in Three Forks Montana is an important acquisition that extends our market footprint and integrates well with our existing cement network. The asset sale removes some non-core assets that were a drag on our performance. The debt refinancing significantly lowers financial costs and further strengthens our capital structure and leverage profile. We have the operational and financial flexibility to navigate any external challenges we could face in our markets. Even with the Three Forks acquisition and the soon to be completed Rapid City expansion, we are well positioned to continue to invest to continue growing in a profitable manner.

This concludes our remarks.

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

Thank you, operator.

### **Operator**

Thank you. The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by press the star key, followed by the digit one on your touchtone telephone. If you're using a speakerphone, please be sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star, one to ask a question.

We'll take our first question from Mauricio Serna with UBS.

### **Mauricio Serna:**

Hi, good morning. Congratulations for the result and thanks for taking my questions. I guess I just wanted to talk a little bit about the U.S. margins. I mean, we did see, if I made the math correctly, some pressure in the margins there. Just wanted to get a little bit more details on the cost; you did mention some side costs from the exports from Mexico to the U.S. facilities, the U.S. territories. Is that something that we should expect

throughout the rest of the year, that continued pressuring, and how much did that actually represent of the cost headwinds?

Also, if you could maybe just provide a little bit more details on what are you expecting for the second half of this year in Mexico? I know you raised your volumes guidance, but what are you thinking in terms of the different sectors for the second half of this year?

Finally, you mention also that there's some potential synergies with the acquisition in Montana, so I just wanted to give a little bit more detail on how much are you expecting to achieve in terms of synergies, and over what period? Thank you.

**Enrique Escalante:**

Thank you, Mauricio. As we look for the numbers specifically for your first question, let me address your second and third questions.

For the second half, in Mexico, mainly we will continue to see growth in the mining sector. It's been very strong and we have several new projects where we're shipping and anticipating a thousand tons for a couple of projects in the second half. That's going to continue very strong.

Having said that, we are seeing some other commercial projects come to life with the construction of several high-rise apartment towers, and some large development (inaudible) Chihuahua and (inaudible) like (inaudible).

Synergies, in regards to Montana, that's something that we are currently addressing. We don't have a specific number yet and we're working on that. I'll remind you that we just—we were able to see recently their list of customers and we're working on that to see how we can improve our logistics, especially coming from the Rapid City expansion.

**Luis Carlos Arias:**

On the first question, actually it was more of a business mix during the first quarter of the year, the ready-mix operation in the U.S. was a larger part of the mix than in the previous year. As you know, the ready-mix operation has a lower margin, so that's the main explanation.

**Mauricio Serna:**

Okay. As you mentioned something about the Rapid City as it comes into line, we might have some pressure also in the second half of the year because of—we'll have to shut down for some time? Should we expect maybe some margin pressures in the second half of the year when you initially start operating the Rapid City expansion?

**Enrique Escalante:**

No, not really. I mean, we have all the inventory already in-hand or in the production schedule, so we can satisfy all customer needs at basically the same margins that we are talking today. There is not going to be an impact, short-term, in margins because of the start-up of the plant in the following weeks.

**Mauricio Serna:**

Got it. Thank you very much, and congratulations on the results.

**Enrique Escalante:**

Thank you, Mauricio.

**Luis Carlos Arias:**

Thanks, Mauricio.

**Operator:**

Next we'll go to Dan McGoey with Citi.

**Daniel McGoey:**

Thanks, good morning, and congratulations on the results. Enrique, you mentioned in your remarks some of the price competition in the U.S. limited increases. I wondered if you can expand on which markets in particular?

Then also, looking towards future investments, as you mentioned, Three Forks was largely financed with divestitures so the leverage is quite low. Can you give an update on your priority list for additional future investments after that?

**Enrique Escalante:**

Okay. Thank you for the question, Dan. Let me address first, the price competition that we're seeing, basically we've seen some pushback with very—I mean, specific customers in Colorado, and also in the (inaudible) market, so more than anything, those two, and in larger metro areas. I can say that...

**Daniel McGoey:**

(Cross-talking) specifically in the... Sorry, that was specifically in the concrete division, I think you were referring to as well, right, or is that cement too?

**Enrique Escalante:**

No, that was cement, Dan.

**Daniel McGoey:**

Okay.

**Enrique Escalante:**

In concrete, we were strengthened and some also very hard—I mean, less competition precisely on the area for the asset that we sold. That should (inaudible) going forward.

In terms of investments, after the Montana acquisition, we continued to be very focused on our strategy that we have communicated, which is to continue growing in cement in the U.S., preferably in contiguous areas where we can realize synergies to our network.

As you know then, there are not too many plants around the area, but we continuously talk to those plant owners, try to develop an opportunity. In addition to that, ultimately we're also following any potential opportunities outside of the area. That's a priority.



**Daniel McGoey:**

Sure, Enrique. Aside from acquisitions, I know in the past you've talked about potential expansion, either at Permian or Samalayuca which is now fully utilized, and then also at Juarez. Does the integration of Three Forks make you less inclined to proceed with any of those, or are those on your radar screen short-term?

**Enrique Escalante:**

No, we're not slowing down that process. On the contrary, we're trying to accelerate as much as we can, the analyses and integration of the three possible plant expansions that we see for the near-term. We're comparing our models to see which one will develop higher returns for the Company, in addition to the best strategic market protection. By the end of this year, we plan to be very close to deciding which is going to be our next expansion. We continue to see a strong market in the U.S. for the following years. We're reaching capacity pretty soon and we are preparing to be ready for the next expansion.

**Daniel McGoey:**

Great, thank you.

**Operator:**

Next we'll go to Cecilia Jimenez with Santander.

**Cecilia Jimenez:**

Hi, good morning, thanks for taking my questions and congrats on the results. I have actually a follow-up question on the synergies related to Montana. It's basically, what's the timeframe you're expecting to actually materialize those synergies? That would be my first question.

The second one has to be related to Mexico operations. What's the utilization rate you are expected to end off the year in Mexico, and particularly in Chihuahua plant, which I believe is the one running at the lowest utilization rate? (Inaudible). Thanks.

**Enrique Escalante:**

Thank you, Cecilia. I'll try to address the questions in the order you presented them. Synergies in Montana—we are, as I said, analyzing now customer by customer and meeting—especially the customers in Canada that are not as close to us, and (inaudible). The plant fortunately, as you know, sold out. Making changes in the distribution network is going to take some time to decide, how to optimize customer by customer and what movement we have to make in the network.

That's a probably longer answer to your question, but I believe that we're not going to be able to really materialize anything earlier than 2019 because the rest of this year is precisely combined with the commitment that the plant already had with the customers. It sold out and the Rapid City expansion is not ready yet; that's going to happen early next year.

In terms of the Mexico operations, I can tell you that the second half of the year, all the plants in GCC Mexico are going to be running full capacity. We started up Kiln #3 in June to precisely complement shipments up north, and we are planning to start the only other kiln that is a small kiln that is idling in Chihuahua; it's Kiln

#2, and that's going to be ready during the fourth quarter of the year. All kilns are going to be running full speed ahead.

**Cecilia Jimenez:**

That's great, thank you. Maybe if I make a last question regarding also Mexico operations, I believe there has been some expansion in margins related to lower cost. Could you tell us, or could you share with us how sustainable that is in the medium-term, or where can you see particularly energy costs and electricity costs in Mexico stabilizing? Thanks.

**Enrique Escalante:**

Good question, Cecilia. It's going to be a challenge to maintain having the margin exactly where it is today, precisely because electricity is going up. We just received a notification of a 10% rate increase on electricity, and we don't know what to expect yet for the rest of the months of the year. Even though the level, it's low compared to historical standards, it's going to up at different parts of the year so it's going to apply pressure on the margin.

**Cecilia Jimenez:**

Perfect. Great for you. Thanks, Enrique.

**Enrique Escalante:**

Thank you.

**Cecilia Jimenez:**

Next we'll go to Eric Neguelouait with Merrill Lynch.

**Eric Neguelouait:**

Hi, congrats on the results again. My question is, now that you're getting focused on increasing exposure to the U.S. and this being the first quarter with the CRH acquisition, about a 2% drop in volumes, can you please dissect further where you see growth in volumes in the U.S. for the second half of the year and probably for 2019?

**Enrique Escalante:**

Yes. Basically the second half, Eric—and first, thanks for the question. Basically, the second half, we have enough backlog to carry us through the year in the U.S. That means there is basically no change in the segment composition for the rest of the year.

For 2019, we expect basically all segments also to perform well. Perhaps, we're going to see a little bit of an increase derived from infrastructure work on the highway pavement as a result of the new highway deal that the (inaudible) was approved a couple years ago and it's now going to start really resulting in projects. That's probably a slight change going forward. We don't any very significant segment that is going to grow faster than others compared to this year.

**Eric Neguelouait:**

The oil cement segment would continue to grow steadily, or would you see that decreasing going forward?

**Enrique Escalante:**

Eric, no, oil well cement, we continue to believe it's going to be maintaining its current levels. Actually, that's one of the reasons why we're firing up Kiln #2 here in Chihuahua at the end of the year, because we see an opportunity to ship more oil well cement to the Permian Basin.

I cannot say the same for construction cement in the area, given that the construction of the 20+ fracking sand plants during this year, that's an event that is not going, obviously, to begin next year, so there will be some demand decrease from those projects in the Permian Basin. But again, I mean, the cement for oil well drilling is going to continue to increase for us, given there is ancillary supply demand in the area.

**Eric Neguelouait:**

Understood, thanks.

**Operator:**

As a reminder, it's star, one if you have a question. Next, we'll go to Adrian Huerta with JP Morgan.

**Adrian Huerta:**

Hi, thank you, Enrique and Luis Carlos, for taking my call. Two quick questions. One is, if you can just tell us where you did the price increases in the U.S. during the quarter and the plan that you have for other increases in the year.

The second question is, with your new guidance for volume growth in the U.S., what level of utilization are you assuming for the new cement plant that you acquired? Thanks.

**Enrique Escalante:**

Adrian, thank you for the questions. Price increases in the U.S. took effect mostly in April 1. It was an announcement between \$6 and \$8 depending on specific markets. Again, I mean, there have been some talks where we're... Some pushback from one competitor, but overall, I think it's going well and we should end up very close to the guidance that we just gave you.

In terms of a second increase for the U.S., we don't see—possible in the next months, except for perhaps on some of the oil well cement that we are shipping to the Permian Basin, given the strong demand for the product.

In terms of the level of utilization of the Montana plant, we'll continue to be in complete control, so it's totally a sold-out plant. Basically, I (inaudible) all the plants in Mexico are going to be run at full capacity in the second half. The same is true for all the U.S. plants, all our kilns in the second half will be completely at full capacity.

In summary, during the second half of the year, all kilns in the Company will be running, except of course for the Rapid City (inaudible).

**Adrian Huerta:**

Understood. Thank you, Enrique.

**Enrique Escalante:**

Sure, Adrian.

**Operator:**

Next we'll go to Alejandra Obregon from Morgan Stanley. Please go ahead.

**Alejandra Obregon:**

Hi, good morning, congratulations on the numbers and thank you for taking my question. I just wanted to follow-up on Mexico. You were saying that growth comes from the mining sector and commercial projects, but I was wondering if you could give us some color on infrastructure. I know you mentioned that this could be some of the drivers for 2019, but I was wondering if you could tell us if you have seen some particular trends changing on the permitting side, perhaps, in 2018, and aside from these projects that you're mentioning, do you expect some different trends in infrastructure going forward? Thank you.

**Enrique Escalante:**

Thanks, Alejandra. Unfortunately, Alejandra, we're not too bullish on infrastructure in Mexico. The state government is running a big deficit, as you all know, and that doesn't seem to be changing anytime soon. Besides with the results of the election, we don't know what to expect in terms of support from the government to the state, so we'll have to see as news develops in the next coming months.

I'm not sure I got your question in terms of permitting. Can you repeat, please?

**Alejandra Obregon:**

Yes, actually, you just answered; I was kind of wondering if the new Administration has changed anything in terms of concessions and permitting, but you actually just answered.

But maybe a follow-up in Mexico as well, in terms of pricing, have you seen any different trends or dynamics for competition in the region? That would be very helpful.

**Enrique Escalante:**

Similarly to some of our marketing in the U.S., we have made some adjustments to make competitors pricing—more aggressive pricing in the space. We were losing a little bit of market share so we put a stop to that and make some adjustments with specific customers. We don't see that as a trend or anything that could evolve into a negative pricing for the rest of the year; we think that's already been assimilated in the market.

**Alejandra Obregon:**

Got it. Thank you very much.

**Enrique Escalante:**

Thank you, Alejandra.

**Operator:**



We have no further questions. I'd like to turn the call back over to our speakers for any additional comments or closing remarks.

**Enrique Escalante**

Thank you for participating on today's call. We look forward to seeing many of you in the coming months. Please do not hesitate to contact us should you have any questions that we did not address today.

**Operator**

That does conclude today's conference. We thank you for your participation. You may now disconnect.