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Carlos Peyrelongue, Bank of America Merrill Lynch

Daniel McGoey, Citi

Mauricio Serna, UBS

Adrian Huerta, JP Morgan

Nikolaj Lippmann, Morgan Stanley

Chelsea Colon, Aegon

Francisco Suarez, Scotiabank

PRESENTATION

Operator

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

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

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

Enrique Escalante

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

GCC's third quarter and nine-month results show continued success in implementing our expansion plans in an environment of steady demand growth and favorable pricing environments in both the U.S. and Mexico. Our results also demonstrate solid operational execution and the benefits of the debt refinancing that we carried out this year and last.

We generated eighty-four million dollars in EBITDA in the third quarter, which is a new quarterly record. Free Cash Flow generation reached seventy-six million dollars in the quarter.

GCC is on track to meet our full-year updated guidance for EBITDA growth of eleven to thirteen percent.

I want to highlight five significant achievements in the quarter.

1. We reactivated two cement kilns in Chihuahua to meet growing demand. All of GCC's kilns in our eight cement plants are now operating.
2. The integration of the Trident plant in Montana we acquired in June is proceeding well.
3. We completed construction of the Rapid City expansion and started the tie-in process. Once the tie-in is finished this quarter, Rapid City's installed capacity will increase to one-point-one million metric tons.
4. Net financial expense fell almost forty percent as a result of the refinancing of our bank debt and bonds in prior periods;
5. And, lastly, GCC shares were included in the IPC blue-chip index of Mexican stocks. This is one of the many positive results of our initiatives to increase the attractiveness of GCC shares as an investment.

We will comment on each of these points, and I will discuss the main drivers of our performance in the U.S. and Mexico. Luis Carlos will review the financial results.

We will then open the call to your questions.

First, GCC's performance drivers.

Our markets are continuing to develop broadly in line with the increased guidance estimate we provided last quarter. Third quarter sales increased eleven percent and EBITDA grew nine percent.

The U.S. market remains strong, with solid demand from Canada to the Rio Grande. Backlog for both cement and ready-mix continues to be at high levels. We are basically sold out for the rest of the year.

The Permian Basin oil fields in West Texas remains our most dynamic market, and the number of active drilling rigs continues to increase. The Odessa plant is supplying demand for oil well cement, and exports from the Samalayuca plant are supplying demand for grey Portland cement.

The Colorado market remains very good as a result of general economic growth, demand for housing, and state-sponsored infrastructure projects.

In the northern region, the development of poultry and pork processing plants and wind farms are the main demand drivers.

U.S. cement sales volumes grew twelve percent in the quarter, mostly because of the addition of the Trident plant in Montana. On a like-to-like basis, sales volumes increased less than one percent. This reflects weather-related delays in September and some project delays. Construction labor shortages are becoming something of a bottleneck in some markets.

For the first nine months, cement volumes increased nine percent. On a like-to-like basis, excluding Trident plant, the increase was three point seven percent, higher than the latest PCA's national forecast of three-point-two percent. Ready-mix volumes were up two percent for the quarter and the first nine months.

Cement prices for the nine months were up three percent. In September, GCC advised our customers of an eight dollars per metric ton price increase, effective April 1st, 2019. Ready-mix prices also rose three percent.

The market in Mexico continues to surprise on the upside. Most of the demand is coming from expansion of existing maquiladora facilities in Juarez and middle income housing projects in Chihuahua and Juarez. The mining sector was not as strong as previous quarters, mostly because of wet weather in the mountains, but it continues being an important source of demand.

Mexico cement volumes grew six percent, and ready-mix volumes decreased three percent. Cement prices rose ten percent in pesos, and ready-mix prices were up eight percent. We are also seeing a stronger pricing outlook in Mexico, and one of our principal competitors recently announced an eight percent price increase.

Higher exports to the U.S. continue to increase Mexico's capacity utilization and boost margins. The Samalayuca and Juarez plants are running at capacity, and around seventy percent of their production was shipped to the U.S.

To meet higher demand on both sides of the border, we reactivated two idle kilns in Chihuahua, with a combined capacity of around three hundred thousand metric tons. One kiln produces Portland cement and started production in late June. This additional volume will serve the Mexican market and permit even more of the Samalayuca production to be exported.

The second kiln is going to produce oil well cement and became operational in late October. We expect to export all the additional oil well cement starting at the beginning of next year, once the cement is tested by our customers and certified.

The work to reactivate the two kilns generated extra labor and maintenance expenses in the quarter. Two other factors also affected costs. Logistics expenses rose because of the need to build inventories before the Rapid City shutdown and longer shipping distances. In addition, CFE, the Mexican state-owned power company, made some sharp increases in electricity rates.

So these three factors – reactivation expenses for the two Chihuahua kilns, increased freight, and electricity rate increases in Mexico were the main reasons that EBITDA margins decreased by 40 basis points in the third quarter.

For the nine months, EBITDA margins reached twenty-nine point three percent, which is an increase of one hundred thirty basis points year over year, and very much in line with our expectations.

Let me now turn to updates on the integration of the Trident plant and the Rapid City plant expansion.

The Trident plant in Three Forks, Montana had its first full quarter of operations as part of GCC in the third quarter. The plant is operating at near its full capacity of three hundred fifteen thousand metric tons. We installed a new burner in the kiln, which increases energy efficiency and reduces emissions, and we don't currently see the need for other significant investments in the production process.

Now that the transaction is closed, management's priority is to get to know our new customers, including those in Canada, optimize distribution logistics, and extract all possible synergies. I've personally had a number of meetings with Trident customers, and we are quite happy with the way discussions on future orders are going.

We completed construction of the Rapid City expansion in mid-September. We expect the four hundred forty thousand metric ton capacity increase to make a material contribution starting in 2019.

The additional capacity will provide some "relief" to our practically sold out cement system. In the short term, the expansion will allow us to reconfigure our logistics system and seek out new customers that as of now we could not supply.

The Rapid City expansion will also reduce the plant's variable cost of production by around two dollars per ton.

I will now turn the call over to Luis Carlos to review the quarter's financial results.

Luis Carlos Arias

Thank you, Enrique. Good morning to everyone.

Let me start by reminding you that the results of the Trident plant in Montana were consolidated effective starting July 1.

Our results also reflect the reclassification of the Oklahoma and Arkansas ready-mix assets sold in June as discontinued operations. Prior period results have been restated in accordance with IFRS-5, including sales, costs, expenses and volumes.

Third quarter sales grew eleven percent in dollars. U.S. revenue increased 12%, while Mexico revenues also increased 12% in pesos but the depreciation of the peso lowered this growth to 5% in dollars. For the first nine months, total sales increased 11%.

Higher variable costs were partially offset by a reduction in fixed charges.

As a percentage of sales, costs decreased zero-point-two percent in the third quarter and one-point-three percentage points for the nine months.

Operating expenses as a percentage of sales decreased zero-point-five percentage points in the quarter and one-point-two percentage points in the first nine months.

Consequently, the operating margin reached twenty-three point one percent in the quarter, up zero-point-seven percentage points, and twenty point eight percent in the first nine months, an improvement of 250 basis points year-over-year.

EBITDA grew nine point two percent in the third quarter and sixteen point three percent in the first nine months. The third quarter EBITDA margin was reduced by 40 basis points principally because of the three cost factors Enrique already mentioned: higher U.S. transportation costs, reactivation of two kilns in Chihuahua, and higher

electricity rates in Mexico. The nine-month EBITDA margin increased 130 basis points to twenty-nine point three percent.

Net financial expenses fell thirty-nine percent, from fifteen million US dollars million in last year's third quarter to US\$ 9 million as a result of the refinancing of all our debt.

As a result of these factors, net income from continuing operations rose 49% in Q3 and 63% for the first nine months of 2018.

Operating cash flow for the first nine months of 2018 was US\$ 106 million dollars, compared to US\$ 75 million dollars last year.

The US\$ 31-million-dollar increase was principally the result of the strong growth in EBITDA, reduced working capital needs, and lower financial expenses. The EBITDA to operating cash flow conversion rate was 53% for the nine months.

The Net Debt to EBITDA leverage ratio decreased to 1.61 in September 2018, much lower than industry average levels.

In addition to our financial results, I am proud to say that we continue to make GCC a more attractive stock for investors. Trading liquidity has increased by a factor of around 7 times since the re-IPO. We are now in both the Mexican Stock Exchange's IPC index, effective September, and the MSCI indexes, effective last June.

We have been very focused in increasing the number of investors who know our story. We now have 11 sell side analysts covering our stock, compared to 4 at the start of 2018. Several more are expected to initiate coverage in the coming months.

I will now return the call to Enrique.

Enrique Escalante

Thank you, Luis Carlos.

Before we open the call to your questions, I would like to note the passing of Federico Terrazas Torres, who was GCC's Chairman of the Board for 22 years until 2013, and who continued as a board member, last month at age 86.

It was under his leadership that GCC began its international expansion. And he firmly instilled the belief that dedication and persistence were a good formula for achieving success, both in business and in life.

We are proud to carry on his legacy.

Let me close by reaffirming that our results are in line with the updated guidance we provided last quarter. The markets are evolving as we expected, with volume growth in both the U.S. and Mexico, and good pricing environments on both sides of the border.

While we are not yet providing guidance for 2019, further volume and price increases appear well supported by the business and economic environments in our markets.

With our low leverage and strong cash flow generation, GCC is well positioned to continue investing in profitable growth. We are in the final stages of evaluating the options for expanding cement capacity at our existing plants.

This concludes our remarks.

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

Thank you, operator.

Operator

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad.

We'll take our first question from Carlos Peyrelongue with Bank of America Merrill Lynch.

Carlos Peyrelongue:

Thank you, Enrique and Luis Carlos, for the call. My question is related to U.S. cement volumes. On a like-to-like basis, I believe volumes on the third quarter were flat, and during the second quarter they were slightly down. You mentioned that demand remains strong, but we're not seeing that in the numbers yet. Can you explain why that is, and should we expect volumes to start growing or is there a capacity limitation that you see that will not allow you to grow volumes until it becomes effective, the new capacity that you expanded in Rapid City?

Enrique Escalante:

Carlos, thank you for your questions. On a like-to-like basis and the third quarter, we said it grew only around 1%, it's basically weather-related, as I explained, weather in different regions of the country, mostly in all of them at different points in time during the quarter. This is the main factor that delayed any shipment that we have in the backlog. We don't see it as a demand problem. There were certainly a couple of projects that delayed also in starting up, but the demand is—we see it as a solid demand.

In terms of supply, we are ready to approve field orders and all the demand that we have, in the books for the last quarter of the year. We don't have—our supply capacity at the moment, and the Rapid City plant is going to be ready, online for the increased demand of next year.

Carlos Peyrelongue:

That means that the weather holds fourth quarter, we should start seeing volume growth again and there will be enough capacity, both for the fourth quarter to be filled and also next year? For volume increase...

Enrique Escalante:

(Inaudible). Yes.

Carlos Peyrelongue:

Sorry.

Enrique Escalante:

The only concern and possible limitation for the fourth quarter that we have is weather. We need—I mean, the next eight, nine weeks, we need the sun shining out there. If that happens, and we have had good winters like last year, we will be able, easily, to fulfill expectations on what we have given guidance. For next year too, we expect the Rapid City plant to face that, to be ready, and with the additional capacity that we turn on from the Chihuahua kilns, the system is ready to take on additional growth in 2019.

Carlos Peyrelongue:

Two thousand nineteen, okay. Last—just to follow-up on this, the tie-in that you did on the Rapid City plant, did that affect either positively or negatively, volumes? I believe it didn't, but I just wanted to confirm that there was no impact on volumes related to the temporary shutdown that you did.

Enrique Escalante:

No, there was no impact. There was some impact in freight costs because of moving cement for that area during that shutdown.

Carlos Peyrelongue:

But not in volumes.

Enrique Escalante:

Yes, not in volumes.

Carlos Peyrelongue:

Excellent. Thank you so much.

Enrique Escalante:

You're welcome.

Operator:

We'll take our next question from Dan McGoey with Citi.

Daniel McGoey:

Good morning, gentlemen, congratulations on the results. Enrique, I wanted to go back to—I think you made a comment, Rapid City expansion you expect to reduce costs by about \$2 per ton. Is that specifically on just the production at that plant, or is that on a consolidated basis and whether or not it considers some of the cost synergies from sending cement shorter distances? If you can just maybe elaborate a little bit on the overall expected cost savings as that comes on stream?

Then, if you can also touch on, I think you mentioned \$9 price increases for April, whether or not you'll implement that in all markets simultaneously and why not starting earlier in the year, perhaps in the first quarter? Thanks.

Enrique Escalante:

Thank you, Dan. On the first question, the Rapid City cost reduction of \$2 per ton, it's exclusively for the Rapid City plant. This is just because of higher efficiencies that we're going to have with the new capacity.

On your second question, the \$9 price increase was announced for April. Unfortunately, some other competitors announced also—I mean, quasi-simultaneous price increases for April, which limited our ability to increase the demand for some customers in some regions during the first quarter. It is across the board; we announced that it be in every region where we are.

Daniel McGoey:

Thanks. Just a follow-up on the first question, if we think more sort of comprehensively about the impact on Rapid City with the savings on freight and distribution, can you, I guess, pinpoint a little bit more what type of margin benefit you'll expect for 2019 as that comes on stream?

Enrique Escalante:

Its impact was more specifically on numbers, Dan, but definitely—I mean, there will be savings in freight costs because we're going to pull back a lot of the cement that the Pueblo plant is shipping up north towards Colorado and surrounding markets. We'll get back to you with specific freight savings for the first and second quarter of the year.

Luis Carlos Arias:

Of course when we talk about the guidance next year for 2019, we will of course, in that guidance, include the effects of those savings.

Daniel McGoey:

Understood, thank you.

Operator:

We'll take our next question from Serna with UBS.

Mauricio Serna:

Hi, good morning. Congratulations on the results and thanks for taking my questions. First, I would like to ask about the cost headwinds that you faced this quarter. Some of them seem to be non-recurring, specifically the one related to the reactivation of the kilns and the (inaudible) shutdown on Rapid City. I just want to ask if you could quantify that, just to see how much that could affect in the next quarter, or even upcoming quarters. Should it be something that we continue seeing, or is it just a one-time thing?

Maybe if you could also talk about some type of synergies, the amount of synergies that you have identified from the Trident plant, some headline figures or target that you're thinking.

Also, very lastly on the South Dakota plant, now that also we've seen a big increase in oil prices, could that also trigger for you guys to start producing oil well cement in that region? Thank you.

Luis Carlos Arias:

Thanks. In regards to your first question, the only type of cost that we see that we're going to have in the following months and quarters is, of course, the PCP (phon) rates in Mexico. As you'll know, those have increased quite significantly in our case. Power rates have increased due to a—more than 60%. That's the only type of cost that we'll have to manage through the next months and quarters.

In regards to the other ones, as Enrique was explaining, once we have the kilns (inaudible) cement, we're going to have lower freight because of the cement that we're shipping up north. All the maintenance and labor expenses that we have to incur for the dual starting up of the kilns in Chihuahua, that's already done. Then, only power rates are the costs that we'll have to manage in the future.

Enrique Escalante:

Mauricio, turning to your second question on synergies at the Trident plant, as we mentioned in the previous call, most of the synergies that we expect are on the logistics, sales and distribution system. So far, we have identified around \$3 million of incremental EBITDA that we can realize from the sales in Canada. That's the plan so far, and as I mentioned during the conference, we have been meeting with them and mostly all of the customers in Canada, which before we didn't know who they were, if you remember, because of anti-trust concern during the acquisition process. Now that we own the plant, we have been meeting with all these customers, and based on their expected future demand and the distribution cost that we are expecting, around \$3 million is more or less what we have identified.

In terms of the South Dakota plant and oil well cement increases for the Bakken Basin, we're ready. The Rapid City plant has been traditionally, for years, shipping oil well cement to the Bakken, and as the demand increases, we'll continue increasing also our shipments of oil well cement to the Bakken. That's a bright spot. We don't expect yet—I mean, obviously the level of demand that we have experienced in the Permian Basin, but for sure, on an incremental basis, the Bakken can be a bright spot for 2019.

Mauricio Serna:

Got it. Just to be clear, right now, this is not happening yet? You're still not doing oil well cement yet from Rapid City?

Just if I may come back to the first question, just if you could quantify the extraordinary expenses from the kiln reactivation, I guess that's done, and also from the shutdown, just to get a sense of how much of the expenses that affected the margins this quarter are non-recurring?

Enrique Escalante:

Yes. On the Rapid City, oil well cement—let me be clear. We are, and have been for many years, producing oil well cement in that plant for the Bakken. The demand decreased sharply in the last couple of years, as you know. We're still shipping some oil well cement to the area, but the potential of significant increases is out there. We're ready to take on that potential market increase.

In terms of the non-recurring expenses, basically the kilns in Chihuahua took a couple of million dollars in cap ex, that is obviously not going to be recurring. But also, as Luis Carlos mentioned, some maintenance and additional labor expenses that are above now \$1.4 million in the year. The only thing that is going to be obviously recurring in the picture, along with the new production, is just the labor required to operate those kilns.

Mauricio Serna:

Okay, thanks. Thanks, and congratulations on the results.

Luis Carlos Arias:

Thank you, Mauricio.

Operator:

We'll take our next question from Adrian Huerta with JP Morgan.

Adrian Huerta:

Thank you. Hi, Luis Carlos and Enrique, thank you for the call and congrats on the results. Two questions. One is on the electricity cost in Mexico, if you are basically thoroughly linked to the CFE price increases, or if you have any strategy to try to fix the prices in Mexico?

Then the second question is, if you can just comment on the change on energy cost per ton in the U.S. on a quarter-over-quarter basis. Thanks.

Enrique Escalante:

Adrian, thanks for the questions. On the first one on electricity cost in Mexico, we have been working the full year, mostly the second part on our future strategy for power in Mexico. We're on the basic rate today with the CFE, but we're very close to have our conclusions at the end of this quarter in terms of what's going to be our strategy to get in the market. We expect to find some short-term contracts that will give us an advantage while we define our long term strategy, but definitely, it's in the works and we expect that, again, (inaudible) ready at the end of this year. We're working with some very sophisticated consultants in Mexico to help us to find where those short-term potential contracts are that we're going to tap on.

Number two, the energy cost increasing in the U.S. and Luis Carlos (inaudible) looking at the information here, but in terms of energy cost, Adrian, just remember that we have our own coal mine where we supply most of the plant, up north, we have in Dakota. We have a very good source of (inaudible) coal that comes from a third party. In the Odessa plant, we use the natural gas which abundant there. Basically, we didn't have any issues in terms of increased energy cost. We are not exposed to (inaudible) competitors are, so we didn't have any issues there.

In terms of power, it's been very stable this year in most of the regions where we are.

Adrian Huerta:

Excellent, very clear. Thank you, Enrique.

Enrique Escalante:

Thank you, Adrian.

Operator:

Again, that is star, one to ask a question.

We'll take our next question from Nikolaj Lippmann with Morgan Stanley.

Nikolaj Lippmann:

Hi, thank you for the call and for taking my question. Just a very quick question here on the competitive outlook for the U.S., and it's encouraging to hear about the \$9, but can you expand a bit on how you're seeing the situation with Ash Grove post the—or around the change with CRH, and in particular around the Denver, Colorado area, what you have seen vaguely and what makes you confident about the \$9? Thank you very much.

Enrique Escalante:

Thank you, Nikolaj. We don't see any—today, any pushback on the price increase. We think it's going to be a solid increase in most of the markets where we are, nor do we expect any different reaction from Ash Grove now that it belongs to CRH. On the other hand, I think that even, obviously, the style that we have seen in other segments like ready-mix and asphalt from CRH, we think it's a company that looks at the market in a very stable way and that usually supports prices with the market. We don't believe there's going to be any radical changes there in the traditional (inaudible) strategy.

In Denver, we continue to see an economy that continues to grow; they're very stable, and we expect the demand also to continue to be basically at the levels that we have today. As you have been recently in Denver, I mean, people joke a little bit about the C-word, where do they see the next spring up in terms of construction? It's been very dynamic and we don't see, in the short-term, a sharp decline there.

Nikolaj Lippmann:

Thank you very much.

Operator:

We'll take our next question from Chelsea Colon with Aegon.

Chelsea Colon:

Hi, and thank you for the call, I just have a couple of questions. Can you explain why, on a U.S. like-to-like basis, the price increase was 3.5% year-over-year but it was only 1.7% on a reported, consolidated basis with the acquisition?

Then secondly, can you comment further on your potential future expansion plans?

Enrique Escalante:

Thanks for the questions, Chelsea. With your question on prices, yes, on a like-to-like basis, we're around 3.5%. I mean, we expected to be around between 4% and 5%, and as we explained in previous calls, we had some—in some areas, some pushback from some competitors which have eased over the last second half of the year. But if you remember, we had to adjust prices down to fit competitiveness in some areas, including in the Permian Basin with the recently increased capacity of a competitor plant in the area. Not only that, but also in other markets where we had specific customers where we needed to make sure we remained competitive. That's the reason why we are at the 3.5%.

In terms of the 1.7%, there's a mix effect here. Obviously with the addition of the Montana plant, we have a lower price in terms of the Canadian market, and so that's part of the explanation there why we're at 1.7%.

I'm sorry, the second question. On the expansion plans, we've also commented that we are in the final stages of analyzing which plant we are going to expand next. We're very close to make that decision. In the case of the Chihuahua plant for example, we're looking in more detail at another offer from another equipment technology supplier because we're looking at an option of, instead of just expanding the plant in a project like Rapid City, even to go to additional new line. That's why it has taken us a little bit more time to understand what's the best option for GCC, but we're very close. Early next year we should be very close to make a decision.

Chelsea Colon:

Okay, thank you.

Operator:

Again, that is star, one to ask a question.

We'll take our next question from Francisco Suarez with Scotiabank.

Francisco Suarez:

Hi, thank you, good morning, thanks for the call and congrats on the results, gents. The question relates with potential shipments of cement used for oil wells. If I'm correct, you actually do that in West Texas but you are not doing that in New Mexico. Is there any chance to actually send more shipments for oil wells, and if that is actually the case, from which facility you might be able to do that? In other words, what kilns might be ready to do that, to increase your direct exposure to oil well cement? Thank you.

Enrique Escalante:

Thank you, Francisco, and a good question. We always refer to the Permian Basin and to West Texas and perhaps wrongly, and we should have been more clear before because the Permian Basin also includes the eastern part of New Mexico where we are also shipping oil well cement, both from the Odessa plant and now from the (inaudible) New Mexico plant.

Francisco Suarez:

Got it.

Enrique Escalante:

For New Mexico, those are covering everything that we refer to in terms of oil well cement. In terms of more shipments, as we explained, the kiln in Chihuahua is going to be, the Kiln #2, dedicated completely to ship cement to that area, both New Mexico and West Texas.

Francisco Suarez:

Got it. Thank you so much, congrats again.

Enrique Escalante:

Thank you, Francisco.

Operator:

There are no further questions at this time. Mr. Enrique Escalante, I'd like to turn the conference back to you for any additional 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.