CORPORATE PARTICIPANTS

Enrique Escalante, Chief Executive Officer

Luis Carlos Arias, Chief Financial Officer

Ricardo Martinez, Head of Investor Relations

PRESENTATION

Operator

Good morning and welcome to GCC's 2020 Third Quarter 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 note that a slide deck will accompany GCC's earnings results webcast. The link is available on the company's website at gcc.com, within the Investor Relations section. There will be an opportunity for you to ask questions at the end of today's presentation. At this time, I would like to turn the call over to Ricardo Martinez, Head of Investor Relations. Please go ahead, Ricardo.

Ricardo Martinez

As a reminder before we begin, today's discussion contains forward-looking statements about the Company's future business and financial performance. These are based on management's current expectations and are subject to risks and uncertainties. You can find more information about risks, uncertainties, and other factors that could affect our operating results in our most recent filings with the Mexican Stock Exchange. As seen on slide 2, our forward-looking statements provide information on risk factors including the effects related to COVID-19 that could affect our financial results. There is significant uncertainty about the duration and anticipated effects of the pandemic. GCC's outlook could change. The effects on the Company's business and its results are a best estimate based on the information available today.

Before we begin, please note that, in the interest of safety, each of us is working remotely. We would ask you to please bear that in mind in light of any technological difficulties which may occur.

Let me now turn the call over to Enrique.

Enrique Escalante

Thank you, Ricardo, and good morning everyone. I would like to take this opportunity to say that, none of our outstanding results would be possible without the enthusiasm and dedication that every employee puts in daily. Everyone at GCC is working under tremendous pressure, with fewer resources, rigorous safety protocols and are still finding new ways to deliver results. On behalf of GCC, thank you very much, your efforts have not gone unnoticed.

I am proud to be part of this amazing organization and of how we are weathering the storm. My team and I, and the Board, fully recognize these achievements belong entirely to our employees no matter if they are working from home or continuing to work each day on the front lines

On today's call I will discuss GCC's Q3 results and the drivers of our performance this past quarter. Luis Carlos, our CFO, will review GCC's financial results and will then turn the call back to me for closing remarks. After that, we will take your questions.

Turning to slide 3, we delivered strong operational results for Q3 2020. GCC had a steady bottom-line growth, showing once again, the continued and successful execution of a cost and expense reduction plan throughout GCC. Even though our sales decreased by 7% for the quarter and were basically unchanged year-to-date, EBITDA and margins had a solid increase, despite the well-known economic challenges.

All across our markets, we experienced mixed demand for our products, with segments doing better and others not so much. As we reported in our quarterly results yesterday, our Q3 2020 results in the U.S. were mainly impacted by:

- a tough comparison against an all-time-high third quarter, and
- a global drop in oil well cement volumes

As a reminder, the construction industry and our business were severely hit with snow and floodings during the first half of 2019, but the second half recovered with strong volumes in most of our U.S markets. Consequently, we are having challenging comparables for the second half of 2020 following easier comparables from the first half of the year.

In Mexico, third quarter results showed a V-shaped recovery from the negative impact of the national lockdown as most of our customers remained closed.

Let me now provide a more detailed review of our business' main drivers starting in the U.S. I will then, review GCC´s Mexico operations.

On slide 4, cement volumes declined 14%, and ready-mix volumes were unchanged year on year while prices increased 2.7% and 3.6% percent, respectively.

In El Paso, Texas, along with Las Cruces, New Mexico, infrastructure and paving projects continue to grow. We have a robust backlog in this area, primarily coming from the restart of the Biggs Airforce base project as well as soil stabilization projects, and logistic warehouses like the construction of a new Amazon distribution center.

Regarding the Permian Basin market in West Texas, oil well cement volumes have declined around forty percent, year to date. On the positive side, as of October first, we eliminated the temporary price reduction given in Q2 and Q3.

Some large customers have commented they believe the market has bottomed out, but the recovery will be very slow. Therefore, in the short term, we do not expect to fully recover the nine percent of GCC's total cement volumes that oil well cement accounted for last year. This market will definitely diminish in relevance this year.

In response to the market decline, one of the two kilns in our Odessa, Texas, cement plant remains idle, and we stopped sending supplementary shipments of oil well cement from the plants in Chihuahua, Mexico, and Tijeras, New Mexico. Fortunately, some additional commercial projects in the Albuquerque area will keep our two kilns at Tijeras running full for the rest of the year.

On slide 5, in Colorado, we continue to see a robust performance with bold levels of activity from public infrastructure projects. Additionally, we are enthusiastic about the residential segment. The latest public information shows that housing permits have increased 8% year to date in Colorado.

Turning to our Midwest operations, the wind farm construction sector was again a strong driver for demand this quarter. We are confident this segment will gain more relevance for the foreseeable future, well into 2021, boosted by an increasing demand for renewable energy and to use the tax incentives.

We have many ongoing projects in most of our main markets:

- The Infrastructure segment, which represents around 50% of our U.S. cement volumes, remains strong. In Q2, projects accelerated as lockdowns significantly reduced traffic. In Q3, projects ran at a normal pace backed by D.O.T. funding through the end of the year.

  In this regard, we welcome the fact that the Democrats and the White House agreed on a deal for a continuing resolution to keep federal funding for surface transportation in 2021, not letting it expire.

- We remain cautiously optimistic on further economic stimuli from the government, including a sizable infrastructure bill that would compensate for the states' budget projected shortfall.

  In the residential segment, low interest rates and healthy supply & demand dynamics along with tight inventory levels have supported the housing market.

  The single-family segment has been supported by families looking for more space and moving out of cities into the suburbs, and in many cases second homes in the Colorado mountains. Furthermore, with record-low mortgage rates, millennials are becoming first time homebuyers.

- As expected, non-residential and agricultural segments have been under pressure, due to the severe impact of COVID -19 in the travel, hospitality and food processing industries. So far this year we have not seen any relevant work cancellations, but certainly slower demand in the agricultural products areas we serve.

In terms of pricing for 2021, we have announced, an additional US$8 price increase per short ton in construction cement, and a 5% to 7% increase in oil well cement. Both increases go into effect on January 1st. Looking ahead, given the tight supply and demand dynamics, the high utilization levels in the cement industry and the need for infrastructure in the U.S., we see a price environment that continues to strengthen.

To sum things up, our U.S. businesses results, with the exception of the oil and gas fields market, are exceeding the expectations we had at the beginning of the COVID -19 pandemic. Excluding the shortfall felt from the oil well market, as of September, in the U.S, our construction cement volumes are up 4% against last year's levels.
A distinctive feature of our U.S. markets is that we get neither the big highs nor the big lows. Thus, our backlog is strong with several projects in the pipeline. We expect this robust performance to continue in the fourth quarter as long as the weather holds, and we don't have an unexpected lockdown given the pandemic recent increase.

On another positive note, I want to inform you of a strategic realignment of the U.S. ready-mix business. We have reached agreement with Lyman-Richey Corporation on a transaction and plan to close in the coming weeks. GCC will acquire five ready mix plants in the upper Midwest, which will be integrated into our cement supply from our newly expanded Rapid City cement plant. Lyman-Ritchey Corp will acquire our last four remaining non-integrated ready-mix plants in the Fort Smith, Arkansas, area.

Both transactions are completely aligned into our growth strategy, and accretive to GCC. Once the deal closes it will create additional synergies given that all of our ready-mix assets will be integrated into our cement distribution network.

Turning to our Mexico operations on slide 7. During the course of June, our primary customers, like the mining industry, industrial warehouse construction and housing, restarted operations after more than two months of the national lockdown.

Needless to say, we are pleased with the V-shaped recovery seen during this quarter in Mexico because of a strong and stable return in cement volumes across our markets. We began Q3 with considerable uncertainty related to COVID -19 paired with an increasingly competitive industry environment.

Cement rose 8% whereas ready-mix volumes declined by 4%. At the same time, the depreciation of the Mexican peso against the U.S. dollar reduced Mexico's sales by around US$8 million. That led to a 3% decrease in sales in Mexico in the third quarter. Without considering the FX effect, Mexico's sales would have increased 9%.

The self-construction segment continues to be very resilient. On-going quarantines and work from home triggered construction projects which increased our sales of bagged cement. We were able to capture this pent-up demand leveraging our +60 Construred retail stores network, strategically located all across the state.

We are encouraged by the expected positive effect in our Mexico operations with the conclusion of the USMCA negotiations. The state of Chihuahua, our sole Mexican market, is one of the privileged geographies that is likely to benefit from both the U.S.-China trade and tech wars, as well as the re-shoring of manufacturing processes from Asia. GCC is in an excellent position to take advantage of the upcoming growth in demand that these situations might generate in the mid-term. We have recently seen an increase in demand from industrial warehouse construction - several sizable projects are being bid or have already been announced.

Regarding GCC's commitment to our sustainability strategy on slide 9, in September of this year the Portland Cement Association recognized GCC's Odessa Plant for outstanding environmental efforts that go above and beyond what is required. We completed the installation of a system for NOx emission reduction and developed a unique programming approach, resulting in a more stable emission control.

Finally, as an active member of the Global Cement and Concrete Association (GCCA) and as part of our commitment to drive down our CO2 footprint, we have come together with the global industry to state a collective ambition for a carbon neutral concrete by 2050 in order to meet the global climate challenge. You can watch the GCCA Climate Ambition Statement by several CEO's of the global industry, including myself on Youtube.

GCCA members are working in partnership with a range of stakeholders such as, policymakers, governments, investors, researchers and end users to set an achievable roadmap that meets global expectations and drives the appropriate response in taking climate action. This 2050 roadmap, which will be published with a detailed implementation plan by the end of 2021, will set a long-term vision for the industry and our value chain partners. The latter is a clear engagement of our foremost commitment of implementing global best practices related to sustainability throughout the organization while further strengthening the Company's long-term profitability, and totally aligned with our new GCC 2025 vision, which will be released in the coming months.

Thank you for your attention. I will now turn the call over to Luis Carlos to review the quarter's financial results.

Luis Carlos Arias

Thank you, Enrique, and good morning everyone. Turning to slide 7, economic cycles and market conditions are unpredictable variables which are out of our control. But what we can control, and most importantly, we are accountable for, are the decisions we make in order to keep creating value for all of our stakeholders. We cannot deny that some of the decisions taken during these uncertain times have been challenging, though they have strengthened GCC even more. GCC continues to be financially strong, thanks to the decisive efforts of all of our teammates. Whether working from home or on the front lines, they remain focused on our basic core activities - selling, producing, distributing and collecting payments for our products and innovative solutions.

Our unquestionable success in the execution of our plan to reduce costs and expenses shows our adaptability and what GCC can do. From the US$20 million in annual savings announced in April, we have already achieved around US$19 million. We are confident we will reach our savings target and may even exceed it.

We expect to permanently maintain 50% of this year's savings, having found a sweet spot between short- and long-term profitability without compromising any of our operations, employees' safety or taking unnecessary risks.

Without the extraordinary efforts made by the front line, GCC would not be able to generate these positive financial results. We honor our front line's hard work during these last months; that is why we compensated them with a one-time recognition bonus.

Please turn to slide 12. For the third quarter, consolidated net sales decreased by 7%. We saw an increase in cement volumes in Mexico which were somewhat offset by U.S. cement and Mexico's ready-mix volumes. Additionally, the Mexican peso depreciated against the U.S dollar reducing Mexico's sales by around US$8 million. Excluding the FX effect, consolidated net sales would have decreased by only 4%.

On slide 13, cost of sales as a percentage of revenues decreased 3 percentage points to 66% mainly reflecting favorable variable cost and production expenses, better cement and ready-mix prices in both countries, lower freight costs due to lower cement shipments to the Permian region, as well as, the absence of 2019 one-time expenses associated with increased cement freight due to weather challenges and purchased cement and coal.

Selling, general and administrative expenses as a percentage of sales decreased 0.5 percentage points to 7% in the quarter, mainly due the execution of the cost and expense reduction initiative, and the depreciation of the Mexican peso relative to the U.S. dollar.

As a result, as we illustrate on slide 14, EBITDA increased 4% in the quarter, with a 360 basis point margin expansion, climbing to 35.5% at the end of the quarter, and 32.2% percent EBITDA margin for the nine months of the year, while EBITDA rose 10% for the same period.

Our EBITDA margin multi-annual objective remains in place, to recover the 34% percent generated prior to the financial crisis. GCC's results show that we are on the right path. The EBITDA margin has increased 14 percentage points in the last six years, having one of the highest margins in the industry.

Turning to slide 15, net financial expenses fell 9% in the quarter due to a decrease in financial expenses resulting from lower interest rates on the variable portion of GCC´s debt, which were partially offset by a higher debt balance resulting from drawing on one of our revolving credit lines. Income tax decreased US$3 million year on year. As a result of these factors, and with benefit of strong operating and financial results, earnings per share and consolidated net income increased 8% to US$53 million in this quarter and 31% to US$102 million year to date.

Moving to our cash generation on slide 16, free cash flow was US$104 million in the third quarter 2020, compared to $91 million in 2019. This was mainly driven by increased EBITDA generation after operating leases, lower interest expenses, and cash taxes, decreased maintenance CapEx, and a much lower increase in working capital.

In light of this, I would like to point out the improvement made in controlling payables, receivables and inventories. Based on the last twelve months of sales, we reduced days in net working capital from 75 to 62, a total reduction of 13 days.

Turning to our balance sheet, we ended the third quarter of 2020 with US$511 million in cash and equivalents, including US$50 million withdrawn from our revolving credit lines in April.

Please note that as of September 2020, our net debt to EBITDA ratio dropped to 0.6x, supporting our balance sheet as one of the strongest and healthiest in our industry. Thus, we are facing these challenging times in a very solid financial position.

During our Annual General Shareholder meeting in April, an annual dividend payment of 0.94 Mexican pesos per share was declared, which would be distributed in two equal payments. The first payment was made on August 7th. Yesterday, the Board of Directors approved paying the remainder on January 11, 2021.
For the second year in a row, the dividend payment increased by 15%, and we expect to continue increasing annual dividend payments at a historical rate, depending on the annual cash flow evolution.

I am happy to share with you one positive outcome of several initiatives to make GCC's stock more attractive for investors and to increase its liquidity. GCC's stock has been included in the S&P/BMV IPC index, which covers the Mexican equities market and seeks to measure the performance of the largest and most liquid stocks listed on the Mexican Stock Exchange.

Finally, the Coronavirus crisis will end eventually, in the interim, we will continue keeping liquidity as one of our top priorities. Our first concern is to build a strong and resilient organization in order to be prepared for any upcoming recovery curve, weather if it develops as a U or W shaped, or thinking positively - an early development of a medical breakthrough to combat the virus.

With that, I will now give the call back to Enrique for his closing remarks.

Enrique Escalante

Thank you, Luis Carlos. Since March, our personal lives and business have changed in ways no one could have imagined back in January. Not even the most accurate budget could have forecasted this change.

We have done everything to deliver positive results and continue building investors' confidence by meeting our commitments. We quickly adapted our operations and processes to this new reality. Our goal is to maintain our financial strength, keep people safe and employed, and to continue to serve GCC's life blood - our invaluable customers.

As we are headed to the last quarter of this year and the beginning of winter, we face two main uncertainties: first, how the coronavirus will adapt with more people forced to stay indoors coupled with the start of the flu season. Second, if we will have an extended or short construction season. These two questions could change our expected results, either- positively or negatively and our full year results range is wider than usual. With only one quarter ahead, and short-term uncertainty prevailing, full year guidance remains suspended.

Economic data shows mixed signs, and while we are significantly behind pre-pandemic levels in most of the leading indicators, the upside always seems to take care of itself. Neither of us are medical experts, nor do we have any unique economic or weather forecasting abilities. With that being said, we speak with many informed people, pay attention to all of the relevant information, and are constantly forming and re-forming our own estimates based on the available data and our own common sense and experience. In any of the Portland Cement Association (PCA) forecast scenarios, either the U, the W or the vaccine scenario, PCA expects a decline in cement consumption for 2020 in a range of -1.3% and -1.8%.

Our backlog remains encouraging and GCC performed quite well year to date, generating a sharp EBITDA increase along with significant free cash flow generation. With our focus, always on long term value creation, we will continue operating in the short term with the same rigorous approach applied during the pandemic in order to continue delivering strong results.

We delivered better than expected results, but we are not completely satisfied yet. We will continue looking intensely at efficiencies, costs and expenses; always focusing on liquidity but first and foremost on our people's health as a top priority.

To our investors, we encourage you to take market volatility and uncertainty with confidence in GCC, maintaining and sharing our long-term perspective with us.

Now, before opening the call for questions, I would like to briefly comment about the resolution recently issued by the U.S. Court of Appeals for the Tenth Circuit in Colorado regarding the Damages award related to our past investments in Bolivia, since we are bound by a confidentiality duty we cannot comment further at this time.

However, despite some confusing and outdated news that circulated in the press recently, we inform you that we continue to contest that resolution, as the resolution does not recognize the previous determinations of the Bolivian courts that considers the Liability Award null and in favor of GCC. Furthermore, because it overlooks the fact that there are ongoing damage award annulment proceedings in Bolivia.

We are preparing a petition for certiorari or a petition for review to the U.S. Court of Appeals resolution in the Supreme Court of the United States and we will be sure to provide relevant updates as soon as they are available.

Finally, once again, I would like to express my most sincere appreciation and respect to our teammates. Thank you all for adapting to these unprecedented times, finding new ways to work safely and collaboratively. I would also like to thank our Board and shareholders for their trust and investment they have placed in us.

Ricardo Martinez

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