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PRESENTATION

Operator

Good morning and welcome to GCC's Third Quarter 2023 Earnings Results Conference Call. Before we begin, I would like to remind you that this call is being recorded and that all participants will be in listen-only mode. Please also note that a slide presentation accompanies today's webcast. The link is available on the company's IR website at gcc.com. At this time, I would like to turn the call over to Sahory Ogushi, Head of investor Relations. Please go ahead.

Sahory Ogushi

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

The earnings release detailing our 2023 third quarter results was released yesterday after market close and is available on the company's website. This conference call is also being broadcast live within the Investors section of company's website at gcc.com, and both the webcast replay of the call and transcript will be available on the same site approximately one hour after the end of today's call.

Before we begin, I would like to remind you that our remarks today will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements. Factors

that could cause these results to differ materially are set forth in yesterday's press release and in our quarterly report filed with the BMV. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events. With that, let me now turn the call over to Enrique.

Enrique Escalante

Thank you, Sahory, and good morning, everyone.

GCC again delivered double-digit topline growth for the third quarter of 2023, which marks our 10th consecutive quarter of double-digit growth. It's also important to note that by the quarter's end we've achieved more than US\$1 billion in accumulated sales; one quarter earlier than when we achieved this last year. This has been driven by a successful pricing strategy as well as our unwavering focus on client service and the strong client relationships which have proved to be an enduring competitive advantage for our Company.

I want to thank the entire GCC organization for your focus on our key priorities. The team continues to navigate market conditions enabling us to strengthen margins. We achieved a 38% EBITDA margin, reflecting continued traction on our measures to improve overall operational efficiency with strong execution on our cost optimization across the organization.

Let me share some highlights regarding the three pillars aligned with our 2025 vision: our people, profit and planet.

[PEOPLE]

Starting with our People pillar: our team's safety is central to our operations. I'm pleased to share that GCC was recognized as industry leader during the third quarter through both the PCA Safety Innovation Award and the 2023 Chairman's Safety Performance Award. These prestigious awards underscore our industry best practices and commitment to safety, as evidenced by the lack of reportable injuries and illnesses at our plants year to date.

While we're proud of our track record, excellence in safety requires a commitment to continued improvement and ongoing evaluation. These are core concepts of GCC's Safety Strategy Plan. As part of this program, we have trained over 450 supervisors and managers, prioritizing investments in responsible and safe operations. We also furthered our Serious Injury & Fatality Prevention System, establishing additional controls to reduce the probability of serious injury or fatality.

GCC's training and development focuses not only on safety. We continued to strengthen our workforce's technical skills through the GCC Cement Training Institute. We are currently training employees through 14 high-priority programs, and to date, we have dedicated over 7,700 hours training 350 employees. While it's still early to quantify the results, we've received strong favorable feedback from employees enrolled.

We're also investing in building our Company's next generations of leaders through a 2-year leadership program that's unique to GCC. As part of this talent development initiative, we have partnered with ICAMI, the Mexican Center for Integral Training and Management Development, to ensure a holistic approach that encompasses strategic, operative, and tactical training. This month we finished selecting candidates for the first cohort that will start the program in January 2024.

Also of note, we initiated the Great Place to Work annual survey this week, to identify potential areas for improvement with the goal of keeping a high level of retention of our talent. The programs and strategies I've described are particularly relevant in today's labor environment. While GCC benefits from a very stable workforce, with low turnover levels and without labor pressure, our proprietary programs prove to be invaluable and an important differentiator.

[PROFIT]

Turning to our profit pillar, during the quarter we launched a comprehensive maintenance program to update key components of the cement mill, preheater and kiln at our Chihuahua plant. This initiative will result in enhanced operational stability, increased efficiencies and a more robust pyro processing system, with improved mean time between failures and decreased work-stoppage that would otherwise result in time spent on maintenance and lost production.

In addition, we completed our new terminal north of Minneapolis, enabling us to strengthen GCC's position in the Minneapolis-Saint Paul area while securing an outlet for Rapid City's expanded capacity.

Fuel prices remained stable during the quarter, and we continue leveraging the flexible fuel strategy we've established over the last few years across our network to switch fuels at our operations, taking advantage of economic opportunities and the alternative fuels market. This strategy has proven to be an important driver of margin improvement, and we've therefore been delivering on the savings we had expected at the beginning of the year. Further, GCC hedges natural gas prices opportunistically on a monthly basis for the Odessa plant. A base amount of 2024's consumption has already been hedged four percent below 2023 average cost.

[PLANET]

As a brief update on prioritizing our planet: GCC remains on schedule to achieve our year end CO2 reduction commitments. Our flexible fuel strategy is again playing an important role here: switching to natural gas further enables us to deliver on our planned emissions reduction.

We're committed to alternative fuel use, with the Pueblo plant already burning almost 23% alternative fuel; representing the most significant steady increase of our plants to date resulting from an improvement in fuel quality and our investment in the alternative fuel injection system of the plant. We are also working on sourcing for Rapid City and the team has been assessing various technologies to increase alternative fuel substitution at this plant.

[US]

Turning next to an update on our markets, our US third quarter results benefited from July price increases, which will continue to favorably impact our revenue for the remainder of the year. Moreover, this month we have advised customers of an US\$8 per short ton price increase for construction cement effective January 1, 2024, and potentially another mid-year increase based on cost inputs and inflation.

US cement demand declined during the third quarter, particularly in the residential segment. According to the latest report from the U.S. Census Bureau, building permits and starts for residential construction in September were down 7% compared to September 2022. The metropolitan areas where GCC participates, such as Colorado and Salt Lake City, were the most impacted by the softer market. However, oil and gas-driven cement demand remained strong in the Permian Basin, and we continued work on the Denver International Airport expansion and the I-10 project in El Paso. In response to changing market conditions, we've shifted our approach in the infrastructure segment, and we are pursuing a broader range of projects to capitalize on larger volume opportunities. The agriculture and renewable energy-driven demand positively contributed to our Iowa and South Dakota operations. I'm pleased to report that our operations are running smoothly with no plant or rail disruption during the quarter.

As I had previously noted, GCC's reputation for outstanding customer service and strong customer relationships is an important differentiator in our industry. We take a proactive approach in collaborating closely with our customers to help them with better solutions for their construction projects. To further enhance their knowledge, our technical teams are delivering seminars that show the benefits and advantages of our products. Importantly, our customers have voiced their appreciation for our proactive response to their needs. Our ongoing commitment to work alongside them and delivering effective solutions continues to strengthen their trust and loyalty, aligned with our strong reputation in the industry.

Touching upon our Odessa plant expansion, we remain on schedule. All contracts relevant to our critical path have been signed, equipment deliveries to the plant have commenced and construction is underway as planned. Our teams have been diligently working on the civil and construction aspects of the project, making substantial progress in terms of site and utility preparation, as well as foundation construction.

In parallel, we are negotiating the remaining pending contracts. Disclosing an estimated CAPEX at this time would compromise negotiations, since we're actively working to optimize this investment.

The Odessa plant expansion project represents significant value with anticipated benefits of synergies and logistics optimization across our Samalayuca, Pueblo, and Tijeras plants, as well as the substantial increase in our annual cement production capacity by more than 1 million metric tons. Further, our strategic positioning in a dynamic market, coupled with the flexibility of the Odessa plant to produce construction cement when needed, enhances our resilience should we experience future market fluctuations. We'll continue to provide updates on our progress as appropriate.

[MX]

Turning to our Mexico operations, third quarter results again reflect GCC's ability to capitalize on the nearshoring trend. Cement volumes increased 3%, while concrete volumes increased 6%. This growth in concrete demand was driven by a 17% year-over-year increase in the industrial segment. The surge of demand for our products during the quarter was mainly driven by 25 industrial projects under construction in Juarez and 11 in Chihuahua. This heightened demand has also begun to positively impact the residential segment with 5 multi-family projects under construction in Juarez.

During the third quarter GCC took delivery of 11 more trucks to meet this incremental demand. This was in addition to the 44 new ready-mix trucks we received over the last two years. We expect to receive another 5 trucks in the fourth quarter and 32 in 2024.

Mining continued to contract after 10 years of sustained growth. And while two of GCC's mining customers are reaching the end of their mine life cycle, with depleting reserves, we have partially offset this volume decrease with the volumes required by two other mining clients that are increasing their production. Price increases are also mitigating volume decreases. While we have visibility on new projects for the years ahead, we foresee the segment recovering by 2026.

As we shift our attention to the situation at the US-Mexico border, it's important to highlight that GCC's strategic network has been instrumental in addressing the logistical challenges arising from the immigration surge. Delays at border crossings have impacted the ability to transport products across the border. Nevertheless, our distribution network has the flexibility to ship product from alternative plants, allowing us to maintain uninterrupted customer supply. GCC's unique market presence positions us well to continue delivering a high level of service, even in the face of these logistical challenges.

With that, let me now turn the call over to Maik for some further financial highlights of the quarter and our latest outlook.

Maik Strecker

Thank you, Enrique, and good morning to everyone.

Starting with our financial results on slide 19, consolidated net sales for the third quarter increased 18% on a year-over-year basis to US\$416 million. This was mainly driven by successful pricing in both markets and a 3.5% year on year increase in concrete volumes, mainly driven by high demand in Mexico. Third quarter 2023 cement volumes were softer compared to the same quarter last year due to a 4% decrease at our US operations which was partially offset by a 3% increase from our Mexico operations.

Please turn to slide 20.

Cost of sales as a percentage of revenues decreased 700 basis points in the third quarter, to 60%; the lowest level in 20 years. This was due to our successful pricing strategy, increasing operating leverage and lower fuel prices and production costs.

Please turn to slide 21.

SG&A expenses as a percentage of sales increased 80 basis points in the quarter, to 7.5%.

Our focus on prudent price increases and intentional operational initiatives has improved margins across the organization. Third quarter EBITDA increased by 35% to US\$159 million, with 480 basis point EBITDA margin expansion, to 38.1%. 79% of third quarter EBITDA was generated by the Company's US operations and 21% percent by its Mexico operations.

Moving down the Income Statement on slide 22, net financial income totaled US\$9.6 million in the third quarter of 2023, compared to net financial expenses of US\$0.1 million in the prior year quarter, as we continue to benefit from a higher cash balance and higher levels of interest rates both in the US and Mexico.

Consolidated net income increased 52% to US\$106 million in the third quarter and earnings per share increased 53% percent year on year. Please note that during the quarter we repurchased a net amount of 73,000 shares equivalent to US\$0.6 million under our current share buyback program.

Turning to our cash generation on slide 24, free cash flow increased 17% to US\$124 million dollars in the third quarter 2023, reflecting higher levels of EBITDA generation and interest income. These were partially offset by increased cash taxes and working capital requirements.

With respect to our balance sheet, we ended the quarter with US\$857 million in cash and equivalents and US\$500 million in total debt from our Sustainability Linked Bond, unchanged when compared to the prior year third quarter. Our net debt to EBITDA ratio stood at -0.82 times.

To provide granularity on GCC's capital allocation:

- Over the last 12 months, we have invested US\$149 million in maintenance and growth capital, including US\$54 million for the Odessa expansion project and US\$30 million for the Samalayuca debottlenecking project which we completed during the first half of 2023.
- We've returned US\$45 million to shareholders via a combination of US\$25 million in dividends and US\$20 million in share repurchases.

A relevant update regarding GCC's mandate related to our Mergers and Acquisitions activities is that our Board has authorized a broadened M&A scope. Moving forward, we will continue to actively pursue value creating initiatives through acquisitions of cement assets in the US that can be plugged into our network and are aligned with our long-term strategic vision, however, we will also proactively explore aggregate businesses opportunities within the US.

With that, I will now hand the call to Enrique to share his closing remarks.

Enrique Escalante

Thank you Maik.

We're not revising our full year guidance. Although there are some variations in cement volumes in the US, we don't think these will materially change the overall expected results for the year.

We remain steadfast in our pursuit of our strategic objectives. The dedication and hard work of our teams have been instrumental to our success, and together we will continue to innovate and adapt, driving the business forward.

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

Q&A

Operator

Our first question is from Pablo Ricalde with Santander Mexico. Please proceed.

Pablo Ricalde

Hi, thanks. Good morning, Maik, Enrique, Sahory. Thanks for taking my questions.

I have two questions. The first one is regarding the aggregates M&A. I don't know if you can provide more details from that.

Enrique Escalante

Thank you, Pablo.

Yes, so in aggregates we are widening our scope of potential strategic investments in the U.S. market, and since we have always been focused on our core business and cement plants that can be plugged into our network, we are now opening up the scope to also look for potential aggregates, mainly in the same area at the beginning of this strategy that can be integrated with some of our operations, again as a first step. We start developing an aggregate business in the U.S. It doesn't mean that with time, we will not look at other aggregate opportunities, country wide.

Pablo Ricalde

Okay, perfect. My second question is regarding U.S. profitability. How should we see profitability in the U.S. going forward? Or how sustainable is this EBITDA margin about 40%?

Maik Strecker

Hi, Pablo, good morning, this is Maik. Thanks for the question.

We feel pretty positive about the profitability in the U.S. specifically and to make this a sustainable journey. Again, we still see good momentum on the pricing front. We're very proactive on that and we work with customers. As Enrique mentioned, it's not only about the price, but also the services that we provide, the products, the work with the customers. Therefore, we see pricing will continue to be a strong momentum.

Then, as I mentioned, we have some very specific operational initiatives, really to optimize how we run the business and the plants. That's supported by, we see some stable input costs, fuel costs. All of that, we're working hard to, again, continue to build on the profitability and make that really sustainable for the Company.

Pablo Ricalde

Perfect, thanks. Again, congrats.

Operator

Our next question is from Alejandra Obregón with Morgan Stanley. Please proceed.

Alejandra Obregón

Hi, good morning, GCC Team. Thank you for taking my question and congratulations on the numbers.

I have two questions. The first one is on capacity; if you can elaborate a little bit, as you put the backlog and your inventories together, if you can help us have a sense of where you see utilization landing towards the end of 2023 perhaps and the beginning of 2024 in your different sub-markets. Where do you see that going?

Then the second question is, let's say on this other category in Mexico, the wallboard, the blocks. This had a very solid performance during the quarter. If you can elaborate a little bit on what's driving that outperformance that would be very helpful. Thank you very much.

Enrique Escalante

Thank you, Alejandra. This is Enrique.

In terms of capacity, we've seen a little bit of a slowdown this year because of what we commented on the residential market mainly. On average, we're running at around 80% of capacity these days. We expect that to come back up a little bit more next year, based on our plants and the introduction of our new terminals that are coming out. Obviously, making the opportunity for customers to reach out further, in terms of their cement shipments.

Our target will be to raise that capacity to 83%, 84% next year. Of course, that's also predicated on what we expect from the infrastructure on the build projects that should start hitting next year. That will also help increase our utilization of capacity. Of course, that's the main reason why we're expanding Odessa with Kiln 3 because we see, going forward that we'll stay at a very high utilization level.

In Mexico, as you mentioned, well, I guess with the nearshoring effect, that has had a very direct impact on commercial construction, but a very robust, also, indirect impact in the rest of the economy which drives a lot of housing growth and some other commercial, retail level projects in the cities. It's helping a lot in terms of block, aggregate, precast, you name it. All segments, except for the mining that we comment, that's a very different segment. Our team benefited from the nearshoring effect, and we expect that trend to continue.

Alejandra Obregón

Excellent, that was very clear.

Enrique Escalante

Thank you, Alejandra.

Operator

Our next question is from Rafael Simonetti with UBS. Please proceed.

Rafael Simonetti

Hello Enrique, Maik and Sahory. Good morning. Congrats on the results.

My question is regarding the Odessa plant expansion. You've stated that US\$54 million in Capex was used in the last 12 months. If you could comment more about the Capex pipeline, and also about the total cost of the expansion and if any material changes happened to it. Thanks.

Enrique Escalante

Good morning, Rafael. Thanks for the question.

Yes, as we communicated, we have kicked off the construction in Odessa, and that's progressing very nicely over the last couple of months. Now that we have all the key contracts in place, we expect that that will accelerate, and we will see a lot of activities going into 2024.

From an overall Capex flow, 2024, 2025 will be the main years, the heavy years, where we will spend most of the Capex. Again, that's the natural flow of that project. Then, regarding the overall number or the overall cost, as we said, we're still negotiating some of the elements. Giving a new number, we're not ready for that; what we communicated in the past, that was really the high-water mark. If you remember, that was during a time when inflation was really strong, when supply chain challenges and we had to get these quotes in and work through our budget.

Really, the goal is to optimize that, as we've said. We're very positive that that will happen over the coming couple of months, and three years to get this project completed.

Rafael Simonetti

Great. Thanks.

Operator

Our next question is from Yassine Touahri with On Field Investment Research. Please proceed.

Yassine Touahri

Yes. Could you give us a little bit of color on the pricing developments throughout the year? I think that there was a second price increase which was announced in the U.S. over the summer. Has it been successfully implemented? Are prices higher in the second quarter?

Then, a second question. Have you already sent a price increase letter for 2024? If so, what is the order of magnitude in the U.S.?

Enrique Escalante

Hi, Yassine, good morning. This is Enrique. Basically, what we did is obviously announce what we mentioned the US\$8 price increase per short ton of cement across all markets in the U.S. for construction cement. There have been a lot of questions about our second price increase for the year. I've received a lot of comments and questions asking me, and I think that we want to be prudent here and just stay very close to our customer base and to what the market behavior is next year.

Based on that, we will decide if a second price increase during the summer, it's something that we will go forward or not. This is, of course, going to be based in customer feedback and how the economy's doing and what inflation is doing. As we all know, inflation now, it's been referred as, continues to be sticky. We're concerned with that, of course, and we're vigilant. Depending on that, we'll decide to do a second price increase, or not. That's the plan so far.

Yassine Touahri

But last summer, there was no second price increase? Last summer, in July, August 2023, did you have a second price increase?

Enrique Escalante

Yes. This year, I think we informed, before too, we had a second price increase in July of US\$7 per short ton, for construction cement. I mentioned that we didn't increase it in a capital power markets, just because of local economic conditions. But it mainly went well across the rest of the markets, and that's for construction cement.

In oil-well cement, price increase was US\$15 in July 1 also, and that was obviously well received by the industry, wherever we ship oil-well cement.

Yassine Touahri

For next year, as you announced, have you already sent a letter for an increase of, let's say US\$10, US\$15 or is it too early for January or pre-next year?

Enrique Escalante

Yes, the US\$8 per ton that I mentioned, it's only construction cement. We have not decided at this moment what's going to be our oil-well cement price increase. That's something that's also under analysis at the moment.

Yassine Touahri

The US\$8 is for January 2024? Or is it for April?

Enrique Escalante

Yes, sir, January 1 across all markets for construction cement, correct.

Yassine Touahri

Just to sum up, the US\$7 that you put for construction cement at July, should we assume that half of it was successful, that overall, you were about to increase prices by US\$3 in July, for the group as a whole?

Enrique Escalante

I think that half, it's a very safe assumption. At least.

Yassine Touahri

That's very clear. Thank you so much, and again, congratulations on the very strong results.

Enrique Escalante

Thank you.

Operator

Our next question is from Daniel Rojas with Bank of America. Please proceed.

Daniel Rojas

Hi, good morning, gentlemen. Thank you for taking my call.

Most of my pressing questions have been asked. Maybe just following up, going forward, we've seen a lot of good follow-throughs for concrete. Where do you think Q4, the rest of the year, in terms of increasing price sequentially, and what should we expect for next year? Thank you.

Enrique Escalante

We are, in concrete, doing pretty well in price increases this year, as we showed. We're still analyzing what's going to be the exact announcement; that's more market by market, in our case. We have different segments that we go through; for example, the wind farm projects command a different price and price increases because they're moving from areas to areas. Now, we're doing projects in Texas, for example, compared to South Dakota. We have not disclosed what the price increase for concrete is yet, so we'll keep you posted on that.

Daniel Rojas

But is it safe to assume that, given the high demand for infrastructure projects in the Southern part of the U.S., that these follow throughs should be very strong, or strong?

Enrique Escalante

It is very safe to assume that, and specifically to our markets. As I mentioned, the agricultural market is doing well, in Iowa and South Dakota and the wind power generation, it's also doing well. We're following several projects now, moving from those areas to Texas, for example. That's doing pretty well in terms of concrete. As I said, we expect some infrastructure work coming online next year that would definitely support a higher concrete price.

Daniel Rojas

Okay. Thank you.

Operator

Matheus, are you with us?

Matheus Tostes

I am. Thank you so much. Yes, sorry. Thank you for taking my question. Congrats on the results.

I just wanted to hear some of your thoughts on the transaction between Summit and Argos, maybe what markets that could mean increased competition, and also whether you are looking to approach any player with a similar proposition or maybe have been approached by a similar proposition? Just wanted to hear your ideas on that, thank you.

Enrique Escalante

Hi Matheus. Good morning. No comments from our side in terms of the Summit, Argos announcement, I think the only thing I can say there is we're in certainly different markets than Argos, so no direct impact for our business. In terms of M&A, the strategy continues to be, as we've said, priority around our network, and then we continue working hard with potential prospects in that area. As I said, also in the past, we're opening up the scope now to starting another system in other parts of the U.S. if the opportunity arises. But there is nothing specific that I can talk to you about at this moment.

Male Speaker

Perfect, yes, thank you.

Operator

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

Sahory Ogushi

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

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.

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