

### CORPORATE PARTICIPANTS

**Manuel Milan**, Chief Executive Officer

**Martha Rodriguez**, Chief Financial Officer

### CONFERENCE CALL PARTICIPANTS

**Aakash Thomber**, Goldman Sach

**Edgar Ruiz**, Scotiabank

**Eric Ollom**, CITI Group

**Franco De Nigris**, Scotiabank

**Geitan Poirier**, MFF Investment Management

**Jordi Armengol**, TRIA Capital

**Jose Cuenca**, Invex Banco

**Kyle Lottman**, Piper Jaffray

**Richard Spalton**, Moneda Asset Management

**Rodrigo Crevino**, Scotiabank

**Sean Morgan**, Fidelity

### PRESENTATION

#### Operator

Good afternoon everyone, and welcome to GCC's fourth quarter results conference call. If you need a copy of the press release issued yesterday, it is available on the company's website at [www.gcc.com](http://www.gcc.com).

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 press release regarding forward-looking statements.

I will now turn the call over to Mr. Manuel Milán, Chief Executive Officer of GCC. Please go ahead, sir.

**Manuel Milan**

Hello everyone, and thank you for joining us today at such an early hour. Martha Rodriguez, our CFO, is here with me, and several members of our finance team are also on the line. As usual, we will take a few minutes to review the key trends driving our performance in the quarter, as well as our main financial results from the period, after which we will be happy to take any questions you may have.

We are pleased to report healthy improvement in organic performance this quarter, in line with our expectations for a stronger second half. Double-digit volume growth for cement in the US, and concrete, block and aggregates in Mexico, combined with better pricing in both markets, generated solid top line growth.

There were a few extraordinary items, however, that impacted operating income and EBITDA in the quarter, as well as a tax benefit that led to a more than 300% jump in consolidated net income, all of which we will cover shortly.

First, though, let's take a look at regional performance in more detail, starting with Mexico.

Demand continued to strengthen in the quarter, extending the consecutive improvements we've been seeing over the course of the year. Public sector spending is driving this growth, most notably in the Juarez area, but the industrial and commercial segments have been picking up steam lately as well. Prices in our domestic market were up year on year, and volumes in every category but cement increased by double digits. To give you some color on this, we usually expect a brief dip in volume every three years when new municipal administrations take office, until they pass budgets and roll out their new projects. The changeover happened this past October, but unlike in previous new administrations, we didn't see an across-the-board slowdown because major ongoing projects in Juarez and Chihuahua required concrete and aggregates. As for cement, we expect normalized volumes going forward.

In the United States, while there was some variation across our regional sub-markets, we saw a clear improvement in overall demand, with cement volumes up 15% from the year ago period. Growth was driven by the private sector, although we also started to see an uptick in public sector construction, mostly highway projects. North Dakota, Colorado and New Mexico were our strongest sub-markets in the quarter, but we are servicing more projects in all our territories and see continued momentum for growth in the country.

Let me touch on our US concrete operations for a minute. As you saw, concrete volumes declined both in the quarter and year. This reflects three main factors. First, we had five months of inclement weather earlier in the year. Second, the pace of recovery was slower in some regional markets. And third, perhaps most importantly, is a shift in our strategic focus profitability rather than volume. As you may know, concrete sales generate lower EBITDA, and the competitive environment is much tougher than in cement, so we're looking for larger projects

where we have a competitive advantage, either geographically, or through special mix designs and technical service where we can bring additional value. As a result of this strategy, in the fourth quarter of 2013 we were able to win key projects that increased our sales volume by 6% from what we had forecasted for the quarter.

Before I turn the call over to Martha, it is worth highlighting the main developments of 2013 as a whole, which I would call a transitional year in terms of performance, but one that now positions us to take advantage of momentum in our markets.

From a financial perspective, the major milestone of 2013 was the refinancing of our obligations through a bond issuance and syndicated loan back in February. I would also point to the sales turnaround in the year, most notably in the second half, which points to a more solid recovery of the construction industry in our markets.

From an operational perspective, we advanced our strategic objectives in several ways: first, by getting closer to our clients, literally, with the addition of mobile terminals and new points of sale, as well as more figuratively by improving our sales and service capabilities; second, by investing in our manufacturing facilities to ensure sufficient capacity and advance our environmental compliance, such as the start of construction on a new aggregates facility in Mexico and the new dust collector at the Dacotah plant; and third, by identifying and implementing productivity and efficiency measures, such as the increased use of alternative fuels and optimization of cement mixtures.

Looking ahead at 2014, we expect continued growth in the construction sector to drive up volumes of our main products in both markets in the single digit range, and prices in the US should also increase slightly year over year. As a result, consolidated sales and EBITDA are expected to strengthen in 2014, the latter by double digits.

This concludes my remarks this morning, so at this point I will turn the call over to Martha for an overview of the financials.

### **Martha Rodriguez**

Thank you Manuel, and hello everyone.

Consolidated sales in the quarter rose 10.3%, to 2.2 billion pesos, thanks to higher average volumes and prices, continuing the growth trend from the third quarter and pushing full year sales growth into the black. Gross profit margin was nearly unchanged in the year, with higher prices offsetting the increase in labor and maintenance costs.

The rise in operating expenses this quarter primarily reflects the reversal of provisions taken in the fourth quarter of last year, which made the basis of comparison tougher. These reversals were for doubtful accounts and unrealized expenses related to compensation bonuses, and totaled 56.5 million pesos. Separately, this

quarter we recorded 13 million pesos, which was a provision for potential insurance claims against medical expenses in the United States.

We have been working hard to reduce SG&A overall, and if you look at the absolute number, growth in operating expenses excluding extraordinary items in both periods would have been only 3.8%, significantly lower than the pace of top line growth. Notwithstanding, operating margin showed a 2.8 percentage point contraction in the quarter. This was also reflected in EBITDA, where the margin was 17.6% in the fourth quarter, 3.8 percentage points below last year. Separately, we recorded other expenses in the quarter of 235 million pesos, mostly related to a goodwill impairment for concrete operations in the United States.

Net financial expenses were up in the period, primarily on revised calculations of the effective rate related to interest-bearing liabilities, employee benefits and environmental remediation costs. On the income tax line, however, we saw a large reversal and actually registered a net benefit in the period. This was due to the cancellation of deferred taxes related to the fiscal reforms that were adopted in Mexico this year, and as well as the effect from the impairment loss registered in the US, and the net inflation effect that is deductible in Mexico.

As a result, consolidated net income in the quarter rose almost 320% over the fourth quarter of last year, to 124.9 million pesos.

In terms of free cash flow, there was a 13.9% increase this quarter, despite the lower EBITDA. This was the result of reduced capex allocation and lower interest expense in the period.

Lastly, regarding our financial position, the maturity profile of our debt is much healthier today than it was a year ago when all of our obligations were short term. Today, our net debt to EBITDA leverage ratio stands at 4.3 times, and we continue to maintain a strict focus on cash flows and debt reduction, which should further strengthen our balance sheet in 2014.

At this point I have concluded my remarks so we would be happy to take any questions you may have. Thank you, operator.

### **Operator**

Thank you. Ladies and gentlemen, if you have a question, please press the star, followed by the one, on your touch-tone phone. Please ensure you lift the handset if you're using a speaker phone, before pressing any keys. Once again, if you would like to ask a question, you can press star one, at this time.

Your first question will come from the line of Eric Ollom from CITI Group. Please go ahead.

### **Eric Ollom:**

Yes. Hi, good morning everybody. Congratulations on the results. Could you just, perhaps, expand a little bit on, you know, what this Mexican Energy Reform may do for your top-line? You know, whether it's 2014 or if it's more of a 2015? You know, I would think cement demand whether its infrastructure or whether its, you know, electricity, should expand? Can you just kind of tell us what your thoughts are on that? Thank you.

### **Manuel Milan:**

Thanks for the question, Eric. We're still grappling with that. We're using a couple of consultants in order to understand better the reform. We've been discussing it with them. We still don't really have a grasp of what it's going to mean. As you know, the Mexican Government has said aloud that electricity prices will be coming down, however, we don't see that happening, and if it does, it might be quite down the road.

We might have some drilling in our—in the (inaudible) where we are in Mexico, but again, that'll take a couple of years before something really starts. We do, we're a supplier for—important supplier for—or let me put it the other way, we have very important customers in the oil industry, you know, like Halliburton and Baker Hughes. So, if drilling does start in our markets, we'll be happy to source some of this oil well cement that will be used. But again, we don't see much difference in the couple coming years.

**Eric Ollom:**

Okay, perfect. Thank you.

**Operator:**

Your next question comes from the line of Jose Cuenca from Banco INVEX. Please go ahead.

**Jose Cuenca:**

Thank you. Good morning. You said earlier in the call something about achieving focus in your strategy regarding profitability versus volume. I was wondering if you could provide a little bit of detail in terms of pricing? Is there a specific strategy regarding pricing? And, where or how do you expect to implement some actions that will help you increase prices in your—in both United States and Mexico?

**Manuel Milan:**

Sure, Jose, thank you. The shift we did last year was, we focused our ready-mix operation a lot into having better margins. That of course, includes both sides of the question; lowering costs as much as possible, but also focusing on prices. In the ready-mix industry, we have a lot of competition, so that was a harder selling value to our customers. We were successful in driving both prices and margins in the industry, but we did lose some market share in some of the, in some of the districts we sell concrete.

So, with the current margins; that was a strategy. With the current margins this year, what we're now going to do is now focus on recovering market share, and—but not losing the margins we already were able to develop during this past year. The good news is that we already have a healthy backlog in ready-mix that we'll see an improvement in volumes in ready-mix with those higher margins we were able to accomplish during the past year.

Just going into the same topic for other products and geographies; we are seeing a good pricing environment in cement in the US also. So, we're confident that we will have a single-digit on the middle, a little bit to the high-side of the single-digits in cement in the US. We're hoping to, in Mexico, just to be recovering inflation on other products with exception maybe of cement. The trouble with cement is that we have some growth in volume in Mexico in cement, but in public jobs that normally have lower volumes.

The reason—excuse me, lower prices and lower margins—the reason for having lower margins in this public jobs is that at some point, you compete not only with other ready-mix or cement producers, but also with other products like, in this case, asphalt. So, we have to price it accordingly. In a nutshell, we'll see a better

pricing environment and I would say in almost everything with maybe the exception of cement in Mexico or we might end up just one or two points above last year's prices.

**Jose Cuenca:**

Okay, thank you.

**Manuel Milan:**

Sure, long answer to your question.

**Jose Cuenca:**

No, that was great, thanks. Just another quick question, if I may? Do you expect a cash impact due to the fiscal reform and the changes in the consolidation regime in Mexico? I'm sorry—go ahead. Sure.

**Martha Rodriguez:**

As you know, the impact really, in our case, is a benefit. I will divide the answer into, we have a net benefit in terms of the, on the notice of several items that is offset with the elimination of the (inaudible). So, we have a negative impact of about close to \$1.3 million. In terms of the consolidation, the law already changed in 2010.

**Jose Cuenca:**

Mm hmm.

**Martha Rodriguez:**

So, right now, with all the, with all the modifications that were made to the reform, it is the same that in 2010. So, we have already in our projections, the (inaudible). And for example, in 2014, it will be around \$8 million of tax payment. So—

**Jose Cuenca:**

Sorry. You said 2013?

**Martha Rodriguez:**

Two thousand and fourteen, I'm sorry.

**Jose Cuenca:**

Okay.

**Martha Rodriguez:**

Okay.

**Jose Cuenca:**

Thanks. Thank you.

**Manuel Milan:**

The only other issue is that, and we're also dealing with is the fact that not being able to consolidate and have a fiscal consolidation of what the facts will be, and what we can do about it, that's still a work in progress.

**Jose Cuenca:**

Okay. Thank you.

**Manuel Milan:**

All right.

**Operator:**

Once again, ladies and gentlemen, if you would like to ask a question, please press the star, followed by the one. As a reminder, if you are using a speaker phone today, please lift the handset before pressing the keys.

There are no further questions at this time. Please continue.

**Enrique Escalante:**

Thank you everyone, we appreciate your time and look forward to speaking with you again soon. Please don't hesitate to contact us if you have any additional comments or questions.

**Operator:**

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