



### CORPORATE PARTICIPANTS

**Enrique Escalante**, Chief Executive Officer

**Martha Rodriguez**, Chief Financial Officer

### CONFERENCE CALL PARTICIPANTS

**Daniel McGoey**, Citi

**Pablo Ricalde**, Bank of America Merrill Lynch

**Sylvia Bigio**, ITAU Asset Management

**Gordon Lee**, BTG

**Francisco Suarez**, Scotiabank

### PRESENTATION

#### Operator

Good morning everyone, and welcome to GCC's fourth quarter results conference call. Before we begin, I would like to remind you that this call is being recorded, and that information discussed today may include forward-looking statements regarding the Company's financial and operating performance. All projections are subject to risks and uncertainties, and actual results may differ materially. Please refer to the detailed note in the Company's press release regarding forward-looking statements.

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

#### Enrique Escalante

Good morning everyone, and a warm welcome to those of you participating for the first time. I am here with Martha Rodriguez, our CFO, and several members of our finance team. We will take a few minutes to review performance and key developments in the quarter, as well as share our outlook for 2017, and then we will open it up to any questions you may have.

To start, let me say that the fourth quarter was a very good one for GCC, capping off a strong year. Along with double-digit growth across the P&L, this past quarter we completed the acquisition of the cement, ready mix, and construction materials businesses in Texas and New Mexico. We also obtained financing for this acquisition

on favorable terms while extending the maturity profile of our debt. But before I go into the operational highlights and strategic outlook, let's have Martha quickly review the numbers.

### **Martha Rodriguez**

Thank you Enrique.

Our fourth quarter performance shows the benefit of GCC's geographic diversification, which provides exposure to the dynamics of local industries, regional economies, and even weather patterns than can impact the pace of construction. Combined with the benefits of vertical integration and disciplined financial management, our top line grew by a strong 24.8% in the quarter, and EBITDA rose at an even higher rate, increasing 29.7%.

Taking a closer look at the numbers, the rise in consolidated net sales includes about six weeks of contribution from the newly acquired operations, but the growth was primarily driven by higher cement volumes in both Mexico and the United States, higher ready mix volumes in the US, and better pricing in both markets, as well as the benefit of a stronger dollar.

The gross margin contracted 70 basis points on the back of higher fixed production costs related to the acquisition, combined with the effect of the weaker peso and higher depreciation. As for operating expenses, however, strong sales in the US provided efficiencies resulting in a 20 basis point decline as a percentage of sales, despite the impact of a stronger dollar on US expenses.

Operating income rose 11.8% in the quarter, but gross margin pressure and extraordinary expenses related to the acquisition resulted in a 1.4 percentage point contraction in the margin. On the EBITDA side, though, there was a 90 basis point expansion in the margin over Q4 of last year, to 24%.

As for free cash flow, we generated more resources than last year, on the order of 5.4%, by carefully planning and allocating capex and optimizing working capital, which more than offset higher financial expenses. In addition, we invested \$58.6 million dollars of internal funds in Q4 in what we call growth capex, including the capacity expansion at the Rapid City cement plant, as well as a portion of the purchase price for the acquisition of assets in Texas and New Mexico. Regarding the rest of the acquisition price, as you probably know we obtained a \$253.5 million unsecured loan, and at the same time refinanced about \$185 million of our syndicated bank loan, extending the average maturity profile of our debt. More recently, a portion of these obligations was

ceded by the original lender to other institutions, and even after incurring in additional debt and using cash for the acquisition, our net debt to EBITDA ratio was only 2.57 times at year end.

We remain strongly committed to de-levering, as our track record has shown, and while our targeted net leverage is closer to the 2 times range in order to allow for maximum flexibility, the current level is still low on a relative basis both historically and for the industry. Irrespective, we will continue to use the same rigorous discipline to meet our obligations, while continuing to invest in profitable growth and optimizing shareholder returns.

I will now turn it back to you, Enrique, for additional commentary on our markets.

### **Enrique Escalante**

Thanks Martha. I don't need to repeat the information on the press release, but I think it is important to highlight that construction investment remains healthy across numerous sectors, industries and geographies; our capacity utilization rates are at near record levels; pricing is better year over year; and energy, fuel and freight costs are all lower in dollar terms.

There are some specifics from the quarter that I can share with you. In the United States for example, and more specifically in Texas where we have just expanded our footprint, there has been a remarkable rise in weekly oil rig counts. In fact, the US total just broke through the 600 count for the first time since 2015 and shows no sign of slowing down. Another clear indication of renewed interest in the oil & gas sector is M&A activity, which has recently spiked, so we believe there will be additional investment in the coming quarters and years, which GCC is well-positioned to capture a share of, given the location of our plants and terminals, and the agility and flexibility of our logistics network.

We have seen some softening in the US residential sector, but given that non-residential and public infrastructure comprise almost 80% of our sales the impact is not substantial. If anything, the variety of projects we are working on is indicative of a broad-based recovery, and the rise in cement and ready-mix prices and volumes is indicative of that.

As Martha mentioned, we consolidated about six weeks of results from our new assets in Texas and New Mexico. Aside from the top line contribution, there are some specific synergies I can already highlight, for

example, supplying the El Paso market with cement from the Samalayuca plant in Chihuahua, for a savings of about \$40 dollars per ton sold in that market. In fact, as the Texas market recovers and we maximize capacity locally, we will have the option of sourcing cement from several plants across our regional network. For the time being however, our focus is on integrating systems and delivering a seamless experience to customers.

In Mexico, despite the conclusion of two large public infrastructure projects that we supplied in the year ago period, sales were higher in 4Q. The Chihuahua economy is quite dynamic right now, and there is the added benefit of private sector investment in construction in terms of the product/price mix, which is much more favorable. At the same time, the weaker peso also benefits our export sales, so we can see the Mexican operation did well this quarter.

I do not want to give the impression that we are minimizing some of the challenges ahead. Indeed, economic development in Chihuahua may slow down if the levels of foreign direct investment change. However, I believe our forecasts are realistic, taking into account consistent demand in the Do-It-Yourself segment, for example.

In the United States, our forecasts consider the Portland Cement Association's guidance of compounded average growth of around 4% from 2016-2020. Keep in mind that for the public sector, that growth rate reflects only the currently approved highway and infrastructure spending bills, so if the new administration directs more funding that way, and apparently we will have more details tonight with the US President remarks to Congress, there will be fairly substantial upside potential.

We have a positive outlook for 2017, and I'd like to provide you with some color on our expectations for the year.

- In the United States, we expect volumes of cement and concrete to rise by double digits.
- In Mexico, we expect a mid-single digit increase in cement and concrete volumes.
- We expect prices in the US and in Mexico to increase by a mid-single digit
- As a result, we foresee a double-digit rise in consolidated EBITDA
- In terms of capex, we have budgeted \$50 million for maintenance capex and \$53 million for the expansion of the South Dakota plant, plus customary carryover from year to year.
- Regarding working capital, we would only have a slight increase due to the recent acquisition and the expected increase in sales.

Our strategic focus is on disciplined, profitable and sustainable growth that leverages our business model and core capabilities: leadership in markets with attractive fundamentals, vertical integration, nimble and robust logistics systems, financial discipline, and a fundamental commitment to customers in terms of product innovation, value-added service, and reliability.

In closing, we are confident in the current and long-term potential of the markets where we participate, and our ability to optimize shareholder returns with the unique opportunities ahead of us.

That concludes our remarks for this morning, so we would be happy to take any questions you may have.

Thank you, operator.

### **Operator**

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll take our first question from Dan McGoey with Citigroup.

### **Daniel McGoey:**

Good morning, gentlemen and Martha, and thanks for the conference call. A quick question, if I may, on the refinancing; if you can you detail some of the cost of that financing, and how much it may have reduced the previous cost? Then, secondly, on the Texas market, if you can just give an update of what utilization your Odessa plant is running, and where you see that potentially by the utilization rate by the end of this year.

I think you mentioned that you're starting—you were supplying some of the El Paso market from the Samalayuca plant. So, I guess a question is, will the Odessa continue to produce oil as well as cement and then you could supply some of the Texas market from—with cement from Samalayuca? Thanks.

### **Enrique Escalante:**

Sure. Dan, thank you for the questions. I will answer first the Texas market question, and then pass it on to Martha, so she can comment on the cost of financing. The Texas plant in Odessa today, it's operating around 73% of its capacity and we expect that by year-end of this year we are going to be currently around 80%. So, we're, I mean, obviously expecting a strong increase in end market there, as we said, derived from a stronger oil well and cement sales.

### **Martha Rodriguez:**

Okay, then in terms of refinancing, the most important thing that we did was to increase our maturity profile and getting more average life on the refinancing, according with the new financing. We have reduced about 200 basis points that represents more or less \$2 million per year.

**Daniel McGoey:**

Sorry, is that 200 basis point?

**Martha Rodriguez:**

Yes.

**Daniel McGoey:**

Okay, and what is the average cost of the new—I guess it's a syndicated loan now, what is the average cost?

**Martha Rodriguez:**

The average cost that we gave including the high yield bond is 6.55, including the high yield bonds.

**Daniel McGoey:**

Got it.

**Martha Rodriguez:**

That the coupon is 8.18 and the average cost of the—of the bank loan is the—I mean....

**Daniel McGoey:**

I'm sorry, the average cost of the bank loan is—what is it structured? It's a LIBOR plus spread?

**Enrique Escalante:**

We will give you the number in a second, Dan.

**Daniel McGoey:**

Okay. Enrique, if I may, just one follow-up while you check that, one follow-up on the Texas market. I guess my—the point of my question is it sounded like you're increasing the amount of supply to the El Paso market from Samalayuca plant in Mexico. I'm wondering whether that's just a function of demand or it's because the Odessa plant has sort of amplified your distribution activities throughout the Texas Market?

**Enrique Escalante:**

It's actually both, Dan. The El Paso increase for this year is a result of organic growth there, and also switching volume at the Odessa plant was shipping to El Paso last year. So, it's a combination of both.

**Daniel McGoey:**

Okay.

**Enrique Escalante:**

I would like to say that the majority of it is coming from the synergies created with the Odessa plant.

**Daniel McGoey:**

Okay, got it.

**Martha Rodriguez:**

In the last—in the bank loan, the average that we pay is just LIBOR plus 325, but herein we differentiate for (inaudible), plus difference of five-year.

**Daniel McGoey:**

Great. Thank you very much.

**Enrique Escalante:**

You're welcome.

**Operator:**

The next question is from Pablo Ricalde with Merrill Lynch.

**Pablo Ricalde:**

Hi, good morning. Thanks for the call. I have three questions, and sorry for this. The first one is regarding your pricing strategy in Mexico. I don't know if you can share if you have done any price hikes in 2017. My second one, it's regarding your volume guidance for the US. Can you provide a breakdown on how much are you expecting the infrastructure sector to grow, or which sector do you expect to be the main driver of organic growth?

The third question would be in terms of working capital. I see—I saw that despite the acquisition of CEMEX assets, your days of inventories did not increase year-over-year. So, I don't know if you can help me understand this, because if I'm not mistaken the CEMEX transaction included \$11 million in claimed inventories.

**Enrique Escalante:**

Yes, thank you very much for the questions. Yes, so let me address first the question in Mexico, the price guidance which is mid-single digit price increase. We will stick to that. For the second question on volume guidance in the US, as we mentioned the PCA is forecasting for the states where GCC does business, around 4% growth in the next five years. So, our organic growth is in line with that. But we are going to be growing at a double-digit pace once we include the acquisition numbers on top of that organic growth.

**Pablo Ricalde:**

Sorry, I want to understand if the main driver will be the housing sector for example, or the infrastructure sector or the industrial and commercial sector, like which sector do you expect to post like the highest activity in 2017?

**Enrique Escalante:**

Infrastructure sector, it's of course one that—it's one of the main that will drive the increased demand. As I mentioned, with the FAST Act, we have been receiving from contractors, paving contractors about—or asking us if we're ready and what's our ability to supply them because they are bidding, they were bidding last year a lot of projects for the end of this year and early 2018. So, a lot of the growth is going to come from infrastructure projects.

However, the commercial sector is still strong in a lot of our markets. As I mentioned also, oil and well increases, oil demand, it's increasing as rig counts continue to grow. So, we're very diversified and I would not say that it's only one sector. To name in this case, infrastructure, but a combination of many of the sectors. Housing is not going to be probably the driver this coming year.

**Pablo Ricalde:**

Okay.

**Enrique Escalante:**

In terms of working capital, I guess as we mentioned we acquired the assets including around \$11 million of working capital. So, the increase that we have this year is basically for the net effect of our receivables created in this acquisition, mainly those suppliers that were not—of course that were not purchased from CEMEX. Besides that, a net increase from those acquisitions, we have a—there was a normal increase that is coming from the growth in sales as we expect, I mean, for the whole company. I can say that we are not planning any increase in our turnover in terms of our inventories or receivable.

**Pablo Ricalde:**

Okay, thanks so much.

**Operator:**

The next question is from Sylvia Bigio with ITAWU Asset Management.

**Sylvia Bigio:**

Yes, hi. Thank you for letting me ask the questions. I have a couple. Could you give us color on taxes for the next years and could you remind us of the size of your tax loss carry forwards? That's actually question number one.

**Martha Rodriguez:**

In terms of taxes, the minimum tax rate that we have here in the US is 16%, one-six, and in Mexico we are not paying taxes. We had some losses for the US carry forward that we can offset for US between the seven and 10 years, and for Mexico, 10 years.

**Sylvia Bigio:**

That's great. Thank you. My second question is, have you announced any price increases in the US for this year?

**Enrique Escalante:**

I am sorry, you were cutting up a little bit, can you repeat the question?

**Sylvia Bigio:**

Yes, sorry. Did you announce already price increases in the US?

**Enrique Escalante:**



Yes. Yes, we did and price increases vary according to market. So, we have different numbers for the different markets where we are in. The price has been announced since last year and they are—we're not experiencing really any significant push back. So, we believe that our price increase are going to be in line with around 7% this year.

**Sylvia Bigio:**

Can you give us color on the different regions if possible?

**Enrique Escalante:**

Yes, so Colorado, it's one of the strongest markets where our price increase is more robust. We have some areas in the South Dakota, Iowa markets that are—our price increase there are a little bit less because of meeting some competition there, but overall, again, as I mentioned, it's around 7%.

**Sylvia Bigio:**

Thank you very much.

**Operator:**

As a reminder, it's star, one to ask a question today. The next question is from Gordon Lee with BTG.

**Gordon Lee:**

Hi, good morning. Thank you very much for the call. Two questions, one is—both are in terms of infrastructure, actually. The first question is, considering the potential for the infrastructure plan to be put in to effect at some point over the next 18 to 24 months, how would you describe the supply dynamics in your key markets in US, how tight are those markets heading into what potentially could be a boost in demand? The second question, related to infrastructure, it looks like under the new administration, some of the pipeline projects that ran through your regions might be back on the table, and I was wondering how relevant is that from a cement standpoint? Thank you.

**Enrique Escalante:**

On the first question, we don't—in terms of infrastructure, I am not sure you are asking for the plans of the new President Trump administration. If that's the case, we have been consulting a lot with PCA and have been hearing from them different scenarios. Let's say one of the most probable scenarios is that infrastructure plant could be around \$500 billion, about \$100 million per year, that's the scenario that we think is, as I mentioned, most likely.

There is always a lag in between the plan being approved and the projects starting, in our experience about three years, that we experienced with the FAST Act that I was mentioning before. So, I think your targets will really come in at the end of 2018, 2019. However, if you put that on top of the growth that I mentioned, about 4% in the states that we are, we're going to be facing very tight market conditions which of course we think is going to favor price increases well beyond mid-single digits that we're forecasting today.

In terms of the new addition coming from the pipeline construction, it is of course important but not a very concrete-intensive project in our region.

**Gordon Lee:**

That's great, thank you very much.

**Operator:**

The next question is from Francisco Suarez with Scotiabank.

**Francisco Suarez:**

Hi, thank you. Good morning, and thanks for the call. Can you remind us, your energy exposure, I mean how much you are exposed on a cash cost or a term basis from petrol, coal and natural gas and if you can link that answer to your overall expectations of higher prices; in other words, if that is going to offset the potential increases that we see in energy prices?

**Enrique Escalante:**

Thank you, Francisco. Actually, in GCC we are very optimistic about our fuel cost, because of—as you may know, GCC is the only cement producer in the US that owns a coal mine and that coal mine is a natural hedge, an internal hedge for us in terms of prices for other fuels, like petrol and natural gas. We are seeing a trend of natural gas going up and of course we take advantage of the coal mine. Last year we switched our—when gas prices were at the bottom, we switched our plant in Mexico to burn natural gas. As soon as the gas prices went up again, we went back to coal and this is an ability that only we have in the industry.

So, our exposure is very low because of course we will continue burning coal as the other fuels start to increase for the rest of the industry.

**Francisco Suarez:**

Thank you, that's great; and lastly, a follow-up to Gordon's question on how stretched the market has become and the upside with some prices. Can you elaborate a bit on your potential expansion plans, anything that you may do in terms of debottlenecking more installed capacity?

**Enrique Escalante:**

Sure, we currently have around a million tons of capacity, available capacity for the market growth in the US and that's in different plants across our system, but given the ability that we have to ladder up on the shipment to all our distribution systems, that million tons is available. That million tons is obviously considering the Samalayuca plant and the plant in Mexico as well as Pueblo and the little bit, as I mentioned, of this.

In addition to that, we'll have 440,000 tons coming online about a year from now from the Rapid City expansion. So, we feel pretty good about short term ability, I mean, to put more cement in the market. If we bank on those factors, especially with the administration, the new administration, plants and infrastructure, we will be able to deal in a very fast pace, a new line in the Samalayuca plant and a new line in the Odessa plant. Both projects have been restructured in the past, engineering is basically completed and permitting well underway, so that's our backup plan. As I mentioned, if demand grows too fast, we could add this capacity in the, let's say, timeframe between now and the end of 2019.

**Francisco Suarez:**

Great, thank you so much. Congrats on the results.

**Enrique Escalante:**

Bye-bye.

**Operator:**

Once again it's star, one to ask a question today. We have a question from Francisco Chavez with BVVA.

**Francisco Chavez:**

Yes, thanks for the call. My question is regarding the EBITDA margin. In 2016, we saw a significant increase. What can we expect on the additional improvements in EBITDA margin? Thank you.

**Enrique Escalante:**

Thank you, Francisco. Yes, we have seen a very robust recovery for EBITDA margins and we have a strong plan to continue increasing that EBITDA margin by 150 to 200 basis points per year over the next four years. That recovery will come from four main factors. Number one, and more importantly, price, and we have been talking about the price increases and how the market is very prone to that.

Number two, is going to continue—we are going to continue having a logistics optimization or cost— great cost reductions due to our network and with the expansion of the Rapid City plan, we're going to bring back to Pueblo, a lot of the cement that is being shipped to far away markets. So, that's a very direct impact in cost reduction, that's the factor number two.

Number three, we are increasing the utilization of alternative fuels with the Juarez and Samalayuca plant running around 40% and Pueblo running around 12% last year, and going up to 20% this year. However, we have a plan to continue increasing that—the utilization of those alternative fuels in all of the US plants. So, that is factoring our margin recovery. Last but not least, of course, is operational leverage. As we continue to increase volumes over the same fixed cost base, of course our margin is going to benefit from that, too.

**Francisco Chavez:**

Great, and also regarding operating leverage and specifically in the US, can you give us an idea of—as of fourth quarter of last year, which was the operating leverage in the US? Thank you.

**Enrique Escalante:**

We'll have to look for that specific number, Francisco, and give it back to you.

**Francisco Chavez:**

Great, thanks so much.

**Enrique Escalante:**

Thank you for the question.

**Operator:**

With no questions in the queue, I'll return the call back to Mr. Escalante for any additional remarks.



**Enrique Escalante:**

Thank you for your time today, and please don't hesitate to contact us if you have any additional questions.

**Operator:**

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