## CORPORATE PARTICIPANTS

**Enrique Escalante,** Chief Executive Officer

**Luis Carlos Arias,** Chief Financial Officer

## CONFERENCE CALL PARTICIPANTS

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

**Daniel McGoey,** Citigroup

**Mauricio Serna,** UBS Casa de Bolsa SA de CV

**Froylan Mendez,** JP Morgan & Co.

**Jose Salce,** Arzentia

**Gordon Lee,** BTG Pactual

## PRESENTATION

**Operator**

Good morning and welcome to the GCC Fourth Quarter 2017 Earnings 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 earnings report regarding forward-looking statements.

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

**Enrique Escalante**

Thank you, operator, and good morning everyone. Joining me today are Luis Carlos Arias, our CFO, and other members of our finance team.

We have a lot to talk about this morning.

GCC had an outstanding fourth quarter and strong full year results. At the beginning of 2017, we said we expected to improve our EBITDA margin by at least one hundred fifty basis points. Our actual full year result was an increase of one hundred eighty basis points. We also reached our two-times EBITDA leverage objective a year early. The leverage ratio fell to 1.86 times at the end of 2017.

We begin 2018 with a promising business outlook, particularly in the U.S., where we foresee solid increases in demand and cement prices.

I will start by discussing the main drivers of our performance in the U.S. and Mexico. Luis Carlos will review the financial results. I will then discuss our outlook for 2018.

We will then open the call to your questions.

First, GCC's performance drivers.

Our U.S. operations benefitted from robust demand in most of our markets.

We are seeing the greatest demand growth in the Permian Basin oil fields in West Texas and New Mexico, construction in Minnesota and the Minneapolis St. Paul metro area, continued strength in Colorado -- particularly in Denver and the Front Range -- across all customer segments. We also see some signs of recovery in North Dakota's Bakken oil region as a result of the upturn in oil prices.

This underlying demand growth was boosted by good weather well into December. Rainy summer weather created some construction delays in July and August. We saw a complete reversal in the fourth quarter. This enabled our clients to get back on schedule and, in some cases, do more work than planned.

U.S. cement sales volumes increased thirty percent in the fourth quarter and twenty-nine percent in the full year.

Let me add that the Rapid City expansion is on budget and on schedule. Construction was seventy-five percent done at year-end and will be completed in the first half of 2018. We expect to start operations at the beginning of the third quarter.

During the fourth quarter, we also secured the modification to our Federal coal leases for the Colorado mine, adding another seven years of reserves, and GCC acquired nineteen years of additional limestone reserves for the South Dakota plant.

In Mexico, we saw several large commercial projects generating demand. This includes a new Heineken brewery, a glass bottling plant, and a Mead Johnson factory. These projects boosted volumes and also improved the overall mix of products sold. And in southwest Chihuahua, a variety of mining projects continue to feed demand. These made up for relatively soft performance earlier in the year and the continued lack of public sector projects.

Mexico cement volumes grew six percent, and ready-mix volumes increased fifteen percent in the quarter.

We also improved our operational performance, especially with transportation and fuel expenses.

As we've said previously, earlier in 2017 we decided to dedicate one hundred percent of the production of the Odessa, Texas plant and a portion of the Tijeras, New Mexico production to oil well cement. This meant reworking our transportation and distribution network to meet demand for construction cement in the West Texas market with additional shipments from Samalayuca and Pueblo, Colorado. As a result, the utilization rates at these two plants reached 90% and 87%, respectively.

We succeeded in rebalancing our transportation mix between rail and truck and optimized our logistics and scheduling in a way that reduced total transfer freight costs per ton by about seventeen percent in 2017.

GCC also continues to increase the use of alternative fuels in the Pueblo plant. We use shredded tires for part of Pueblo's thermal energy needs, with the near-term goal of reaching a twenty percent substitution rate. As of December, Juarez reached an alternative fuel substitution rate of 48%, Samalayuca 36%, and Chihuahua 14%. We are in the process to obtain permits to use alternative fuels in the Rapid City and Tijeras plants.

The better mix of transportation and reduced fuel costs from using alternative fuels were among the factors that helped expand EBITDA margins.

Let me turn the call over the Luis Carlos to review the specific financial results.

**Luis Carlos Arias**

Thank you, Enrique. Good morning to everyone.

As Enrique noted, our fourth quarter results were well above expectations. Consolidated net sales increased twenty-eight percent in the quarter, with growth coming from both the U.S. and Mexico.

In the U.S., strong backlog and good weather meant that U.S. volumes surged. Cement sales volumes increased thirty percent; excluding the acquisitions, volumes were up five percent. Average dollar prices rose six percent. U.S. ready-mix volumes rose ten percent, principally because of the 2016 acquisitions and demand in the Texas market, while prices were up two percent year-over-year. Excluding the acquisitions, concrete volumes decreased one-point-five percent, because of slowdowns in some other regions.

In Mexico, fourth quarter cement sales volumes increased six percent, while prices rose eleven percent. Ready-mix volumes rose fifteen percent, and prices increased seven percent. As Enrique noted, the increases were driven by demand from the self-construction, mining and commercial segments. There continues to be a near complete absence of public works projects.

As a percentage of sales, consolidated costs decreased four-point-one percentage points, and operating expenses decreased two-point-three percentage points.

As Enrique mentioned, these cost and expense reductions relative to sales enabled the EBITDA margin to expand by five hundred seventy basis points.

The margin expansion reflects different factors: higher prices and volumes, increased operating leverage, improved operations including substitution of alternative fuels, and stabilization of freight costs.

EBITDA grew fifty-eight percent to seventy-one million dollars, with a twenty-nine-point-nine percent margin. Our EBITDA margin in Mexico reached thirty-seven-point-six percent. And our U.S. margins reached twenty-seven-point-four percent, a new high since the 2008 crisis.

For the full year 2017, EBITDA grew thirty-two-point-three percent and reached two hundred fifty million dollars, and the EBITDA margin expanded one hundred eighty basis points over 2016 levels and reached twenty-seven percent.

Fourth quarter 2017 free cash flow reached sixty-five million dollars, an increase of twenty-four percent over the prior year period.

For the full year, free cash flow grew to one hundred twelve million dollars, or four percent above 2016. This increase was the result of the strong growth in EBITDA that more than offset increased interest expense from the financing of the Texas and New Mexico acquisitions and a higher level of maintenance capex, also mostly the result of the acquisitions.

GCC's leverage ratio, which is defined as Net Debt over EBITDA, decreased from two-point-fifty-seven at the end of 2016 to one-point-eighty-six times in December 2017.

I will now return the call to Enrique.

**Enrique Escalante**

Thank you, Luis Carlos,

My final topic is GCC's outlook for 2018 …

We expect to build on our successful 2017 performance in the current year. Customer demand appears likely to remain solid in most of our U.S. markets. The Portland Cement Association forecasts for 2018 imply an average expected volume growth of about 2% in our markets. This is mostly driven by demand in the oil well, residential, and commercial construction segments.

We should see some FAST Act-related projects taking shape towards the end of the year. GCC is also currently bidding on supplying several wind power projects and soil stabilization projects. We remain cautiously optimistic of additional demand resulting from the recently announced infrastructure plan.

Based on the PCA forecast, GCC's outlook is for low single-digit growth in U.S. cement and ready-mix volumes.

The balance of supply and demand in the U.S. is also favorable, so we expect another year of price increases, in the three to five percent range for both cement and ready-mix.

The outlook is more uncertain in Mexico, because of factors we are all familiar with. The impacts of the national elections in July 2018 and the ongoing NAFTA trade negotiations are hard to predict. Nonetheless, our current view is cautiously optimistic. The private sector in the export-oriented economy that dominates Chihuahua has shown its resilience in adapting to the new environment over the last fifteen months. Rising commodity prices boost the mining sector. And since there has been no public works spending in the state for the past two years, there is no downside risk in that market segment.

GCC's central forecast is for Mexico cement and concrete volumes to be flat, and for prices in peso terms to increase in the mid-single digit range.

On a consolidated basis, GCC expects EBITDA to increase by mid-single digits.

In terms of capex, GCC's budget is one hundred twenty million dollars. This is divided almost fifty-fifty between the remaining investment in the Rapid City plant expansion and major maintenance expenditures.

We don't see significant changes in working capital needs. Our expectation is for working capital to decrease slightly.

GCC has already surpassed our goal of bringing leverage below two-point-zero times. This is the Board's directive for the long-term, steady-state leverage maximum. This is what gives us the flexibility to pursue attractive growth opportunities that meet our strategic criteria. If we make acquisitions in the future, leverage may temporarily go above two times, but only with a clear path to bringing it back below that level.

In closing, I want to say that GCC's exceptional performance in 2017 has truly been a team effort. I give my thanks to all our employees for their skills and dedication in achieving or surpassing our business objectives.

GCC has a sound business model. We are building a strong, consistent operational and financial track record. We have a solid capital structure and leverage profile. We are well-positioned to take advantage of new market opportunities and navigate any external challenges we could face in our markets. I am confident that we are on the right path that will create and deliver the highest value to our shareholders and other stakeholders.

This concludes our remarks for today's call.

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

Thank you, operator.

**Operator**

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, 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 pause for just a moment to allow everyone an opportunity to signal for questions.

We'll take our first question from Pablo Ricalde, Bank of America. Please go ahead.

**Pablo Ricalde:**

Hey, good morning. Thanks for the call and congrats on the results. I have some questions on your EBITDA growth guidance. Based on your volume and price assumptions, I was expecting something slightly higher, so I don't know if you could provide some color on what are you expecting in terms of energy costs and FX?

**Enrique Escalante:**

Pablo, thank you for your question. As you will know, our multi-annual objective is to continue to increase margins in—year to year, at the rate of between 150 and 200 basis points per year. I have to say that we have a conservative outlook for 2018, and we remain cautiously optimistic these years that we can achieve a little better results but we would prefer to be on the conservative side.

The main reason of this, of course, I mentioned the Mexico uncertainty and volatility, increasing freight costs resulting from not enough drivers in the U.S., especially during the highest peak project construction season, and also natural gas prices that continue at the very low levels that are affecting the decrease of EBITDA in our coal business. Those three factors are incorporated in our forecast and that's why we are not seeing a higher EBITDA increase for 2018. I have to say, however, that these three aspects that I mentioned have of course upside potential that can result in higher EBITDA, and higher margins of EBITDA.

**Pablo Ricalde:**

Okay, useful. I wonder if you can share the FX assumption you're using for your mix in operations?

**Enrique Escalante:**

We are assuming 19 pesos per dollar.

**Pablo Ricalde:**

Okay, thanks.

**Operator:**

Our next question comes from Dan McGoey, Citigroup. Please go ahead.

**Daniel McGoey:**

Morning, gentlemen. Congratulations on the results. I'm wondering if you could recap the price increase announcements that you've made thus far, if they're in select markets or in all of them, and what level of announcement you've sent out?

Then, secondly, if I can ask, on the coal business in the U.S. The margin expansion that you experience both year-on-year and sequentially has been impressive; I was wondering how much of that may have been contributed from the sharp increase in coal prices? Can you give an idea of what that contributed to the result in the fourth quarter? Thanks.

**Enrique Escalante:**

Okay. On the first question—first of all, thank you for both of your questions. On the first one, I'll start with Mexico first. In Mexico, we announced prices for bagged cement in a range between 4.5% and 5%, and that was starting the year. For bulk cement, we are between 6% and 6.5%. Both price increases in both product segments are going well. We don't expect to have really much pushback on those price increases. We achieve those and we will be probably a little bit ahead of expected inflation which is what we want to achieve this year, at the minimum.

For the U.S., our price increases, depending on the market—and you mentioned on selective markets—are ranging from $6 to $8 per ton, with some others—specific markets where we are trying to achieve up to $10 per ton. We definitely believe that given that some of the increases were announced through January, but the bulk of them were April, we will end back with above $6 per ton.

As for your question on the coal effect on our margin in the fourth quarter, we don't see any effect coming from coal. We are producing at the same cost, which is what we take into consideration for the decision to operate on coal or switch the plants to gas. In the fourth quarter, we continued with all the plants in coal, which was better for the Company with no change in the transfer coal price, so there was no effect in our EBITDA derived from that.

**Daniel McGoey:**

Great, thanks. Then, on the price—the (inaudible) that worked for the U.S., the price increases in January. Which markets were those, or what percentage of your U.S. business saw price increases in January?

**Enrique Escalante:**

In January, we announced price increases in the regions of New Mexico, El Paso, Texas. Basically, the rest is coming in April.

**Daniel McGoey:**

Great, thanks very much.

**Operator:**

If you find that your question has been answered, you may remove yourself by pressing star, two.

We'll take our next question from Mauricio Serna with UBS. Please go ahead.

**Mauricio Serna:**

Hi, good morning, thanks for taking my questions and congratulations on the results. I want to talk a little bit about the guidance, going back to the price increase in Mexico. I wanted to get your sense since the rest of the market has announced bigger price increases.

Do you see a relatively a scenario for a pushback on that and that's why you're assuming a more conservative approach? What you are guiding on EBITDA, just going back to the previous question, also; does this mean that for this year we would expect a slower or maybe just flattish EBITDA margin?

Finally, just more on the strategic side, I saw that the press release now was published in U.S. dollars, so I think that's a very good move. Does this mean we could continue to see the company taking steps, for instance, to eventually have ADR—an ADR listed in the U.S.? Thank you.

**Enrique Escalante:**

Thank you, Mauricio. Let me comment first on your question on Mexican prices. We obviously, in Chihuahua, have a very robust price, so we believe that the increase that we make here will continue to protect our market share in this space. Going above the prices that we are increasing, we believe there is going to be an appetite or increased appetite for cement in other parts of the country to reach in the States. Besides that, we have a very robust price increase in 2017, as you know, so we feel very comfortable with the prices we announced.

Let me go to your last question first and then I will get back to the guidance on EBITDA. No, we have not decided to issue an ADR or anything like that in the U.S. What I can tell you is that, like many companies, we're always looking at alternatives and are always making the right analogies for the Company and its investors. But at this moment, we have not decided to release an ECC (phon) in the U.S.

Going back to your guidance on EBITDA, as we said, it's in the single-digits for the Company as a whole. I don't know if your question was relative to the Company as a whole or you were asking specifically about Mexico.

**Mauricio Serna:**

The Company as a whole.

**Enrique Escalante:**

I'm not sure if I answered your questions.

**Mauricio Serna:**

Just, does it mean that probably this year we're going to see a slowdown in EBITDA margin expansion? It seems, assuming that you have pricing and volumes, it looks like we would see pretty much EBITDA growing in line with sales.

**Enrique Escalante:**

Most likely it's in line with sales, and, what I mentioned at the beginning, that there's some possible upside potential. However, we want to remain on the conservative side, especially in Mexico, as I mentioned, because of that uncertainty and volatility. That's why we're forecasting flat volumes and only above inflation price increases. That's where the growth is basically going to come (inaudible).

**Mauricio Serna:**

Got it, thanks.

**Operator:**

Our next question comes from Froylan Mendez with JP Morgan. Please go ahead.

**Froylan Mendez:**

Hi, guys, thank you for taking my questions, congrats on the results. I wanted to understand a little bit more the margin expansion that was abnormal in my view for fourth quarter.

Could you give us a little bit more color on how are the utilization rates of the different plants across the system, if you are seeing something there that is allowing for additional margin expansion, especially maybe Odessa and Samalayuca? That's my first question.

My second question is on your acquisition outlook. Given the strong free cash flow generation, we are at levels similar to when you did the previous acquisition. Should we be expecting, or are you getting closer to anything more concrete in that sense, or it's more to increase dividends or start a buyback or anything there?

Finally, sorry for being repetitive here, but if you're keeping the 150 to 200 basis point multi-year expansion target, does that mean that if margins stay flat this year, should we expect this catch-up to be done in 2019? Maybe coming from the expansion on Rapid City, or how—where will the margin expansion come, going forward, and if 2018 is a one-off year in your view? Thank you.

**Enrique Escalante:**

Thank you, Froylan. We have multiple questions from you here, so I will ask Luis Carlos to give you the more specific margin expansion for the last quarter of 2017, but I will keep both of those numbers (phon). Let me try to answer the rest of the questions.

In terms of utilization rate, as I mentioned, we're—in the U.S. plant, I can tell you that in Odessa, we're at full capacity. You heard Pueblo; it's running close to 87% capacity, and Samalayuca 90% capacity. I mention Samalayuca because of its important input in our used market (phon).

Rapid City is running at full capacity. Obviously we're coming up with 440,000 additional tons in the second quarter of the year that will be placed in the market slowly and responsibly. But having said that, basically our U.S. plant, except for the 440,000 additional tons, are around 90% of capacity already in 2018.

This, of course, goes into your third question about our outlook of our margin expansion because of that. Yes, we are very optimistic that, in the U.S., prices are going to continue to be robust. I wouldn't discard uncertain markets being able to announce a second increase for the year. We're not putting that into our guidance at this moment; we're going to decide as we go and we see the performance of each individual market. But there are some markets that are definitely very tight. One of them is, of course, all the (inaudible) oil base in the Permian.

In terms of the acquisition outlook, there's nothing today that we can talk about, but of course, we'll continue looking for opportunities according to our strategy to expand in cement in the U.S., and expanding cement in the U.S., if possible, near the region where we currently operate so we can take advantage of the synergies with our logistics system there.

We don't have plans to increase dividends beyond what the Company normally pays out, and we would prefer to lower our leverage ratio and build cash, and to be ready for the next acquisition opportunity that we can welcome.

The expansion on the margin of the 150 to 200 basis points per year; yes, definitely, it's a long-term objective. Two-thousand eighteen may be a little bit slower. If none of the three aspects that I mentioned where we're being cautiously optimistic change, namely again, Mexico, freight cost increase because of lack of drivers, and natural gas prices affecting the coal business; but if some of those change, we may be able to help improve the margins beyond what the price increases are going to do for us this year.

The Rapid City expansion, we don't expect to have much of an impact on the EBITDA margins this year because, as I said, we're going to absorb slowly that capacity into the market so we don't create big disruptions. That means that the freight savings coming from that new (inaudible) are going to be materialized mostly in 2019.

With this, I want to go back to Luis Carlos who's going to give you the specific drivers for the margin expansion in the last quarter.

**Luis Carlos Arias:**

Thanks, Enrique. Hi, Froylan. Yes, on the 570 bps increase in the margins for the quarter, of course volumes and prices played a huge factor. We've had a long construction season during the fourth quarter, because we had very good weather, as Enrique explained in his remarks.

Yes, the utilization rates definitely helped the operating leverage. Just as an example, at Samalayuca plant, utilization rate in 2016 was around 50% and we ended up last year, 2017, with around 90% utilization. Of course, that helps a lot in having the operating leverage to have this future margin expansion.

**Operator:**

Our next question comes from Jose Salce, Arzentia. Please go ahead.

**Jose Salce:**

Thank you very much for your excellent results. I just would like to ask you if the change in the corporate tax in U.S. is going to benefit your plants that you have there, and by how much is your estimate in the bottom line? Thank you.

**Luis Carlos Arias:**

Thank you, Jose. Yes, the change in the tax rate, of course, helps the Company. We do have NOLs coming from the tough years, so we are going to see that benefit eventually when we deplete those NOLs, but that's really—yes, it is a plus for us of, course, because of all of our operations in the year.

**Jose Salce:**

Okay, thank you.

**Luis Carlos Arias:**

Thank you.

**Operator:**

Our next question comes from Gordon Lee with BTG. Please go ahead.

**Gordon Lee:**

Thank you. Thanks very much for the call. Two quick questions, the first on the U.S. I was wondering if you could tell us, across the different regions in which you operate, which are the markets that you think are tightest from a demand and supply standpoint?

The second question, on Chihuahua, I was wondering if—let's say, beyond 2018, if you were to look at the pipeline of projects, on the private side, how meaningful do you think the pipeline is, if there's a favorable resolution to the NAFTA question? On the public side, how confident are you, or how do you feel about some of the progress on the fiscal consolidation that the new government has taken and would you expect the state, by 2019, to be able to start spending again? Thank you.

**Enrique Escalante:**

Thank you, Gordon. First, on the question in the U.S. region, definitely the Permian Basin and the West Texas market is super tight and we expect it to continue for the full year. Actually, we are analyzing a plan with some other (inaudible) that are not fully utilized in Mexico to see if those could be also a solution to—for us to ship more cement into that market.

We mentioned oil prices are also having now a positive effect on the back end, although that, it's not a tight market, by no means, today. We were thinking that it could be a good surprise in oil markets.

Colorado continues to be very busy. It's not completely tight because there's still some idle capacity there at the holding plant, and as we start up the Rapid City plant, that volume naturally, for us, is going to show up in Colorado because of shipments from Pueblo that we're going to start bringing back to home. There's going to be enough supply in the market, but still that market, it's very, very dynamic.

I just met with some customers there, last week and they all seem to expect a busy year, very comparable to what they saw in 2017. Minneapolis and (inaudible), we also had a comment from a customer, a very important customer in the (inaudible) market that they are expecting a much better year. I think that will be the order in which we see the dynamics of the market. I think there is room for improvement still in New Mexico, in the El Paso, Texas area and some other less important markets for us.

In terms of your question for Chihuahua, definitely the 2018 pipeline is not—you used the word meaningful, I don't think it's meaningful. I think that things are just looking okay, but we don't see any big, significant projects or we know we have any significant projects on the horizon. Yesterday, I was informed about another two large condominium towers, one in Chihuahua and one in Juarez, that were both just permitted. That's also a good time that in the commercial and residential business, there's going to be activity.

In terms of the (inaudible) industry, there is definitely a big expansion on Vestas, that it's building a lot of additional space in Juarez, producing, which we are, of course, working on today. There is another company that is building a manufacturing business. It's a facilities building, so it's already assigned that there are people believing that, irrespective of the end result of the NAFTA negotiation, there is going to be more than manufacturing in the Juarez area.

In terms of (inaudible) and construction from the state government; yes, I do believe that the fiscal condition of the state is going to improve. Also, yesterday, I was informed of some additional (inaudible) but projects funded by the state government in Juarez for this year. For 2019, I definitely expect an improvement in terms of the potential for infrastructure work from the state government.

As you probably heard in the news, the issues between the Federal government and the state government in terms of (inaudible) were already settled, so that's also a good indication that things are going to continue to progress in the right direction here.

**Gordon Lee:**

Perfect, that's very clear. Thanks very much.

**Operator:**

Once again, if you would like to ask a question, please press star, one on your telephone keypad.

We will take our next question from Pablo Ricalde, Bank of America. Please go ahead.

Pablo, your line is open.

**Pablo Ricalde:**

Thanks, sorry, I was on mute. I have a follow-up question on oil-related cement. Yesterday, (inaudible) announced that they want to become a player on oil-related cement. My question is, how are you seeing the competitive landscape in the sector, and if you're seeing any additional new players coming into the sector?

**Enrique Escalante:**

Thank you, Pablo. No, what you said doesn't surprise me. I mean, there is so much activity in the Permian Basin and there is unfulfilled demand that I have been hearing for many months now, that (Inaudible) has some interest in becoming a player there. I think that, of course, we will always have the main competitive advantage by being right there and having to basically have no freight to deliver the cement to that basin.

Also, this is traditionally a preferred product, the one coming from the Odessa cement plant, because of the quality and the chemistry of the product that has a proved history and good track record of working very well for all the major oil well service companies.

I think there is obviously an appetite from others, but we are very comfortable with what we're seeing there.

**Pablo Ricalde:**

Okay, thanks.

**Operator:**

Again, if you would like to ask a question, please press star, one on your telephone keypad.

There appears to be no questions at this time.

**Enrique Escalante**

Thank you for participating on today's call, and we look forward to speaking with you next quarter. Please do not hesitate to contact us should you have any questions.

**Operator**

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