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PRESENTATION

Operator

Good morning and welcome to the GCC Fourth Quarter and Year-End 2019 Earnings Call. Before we begin, I would like to remind you that this call is being recorded and all participants will be in listen-only mode. Please also note a slide presentation will accompany GCC's earnings results webcast. The link is available on the company's website at gcc.com, within the Investor relations section. Also note that there will be an opportunity for you to ask questions at the end of today's presentation.

At this time, I would like to turn the call over to Ricardo Martinez, Head of Investor Relations. Please go ahead.

Ricardo Martinez

Thank you, operator. Good morning everyone and thank you for joining our earnings call. With me on today's call are Mr. Enrique Escalante, our Chief Executive Officer and Luis Carlos Arias, our Chief Financial Officer.

As a reminder before we begin, today's discussion contains forward-looking statements about the Company's future business and financial performance. These are based on management's current expectations and are subject to risks and uncertainties. You can find more information about risks, uncertainties and other factors that could affect our operating results in our most recent filings with the Mexican Stock Exchange.

At this time let me turn the call over to Enrique.

Enrique Escalante

Thank you, Ricardo, and good morning everyone.

Let me begin our conversation today with a quick recap of key highlights from our performance during the year.

In 2019 GCC, and our industry as a whole, faced several challenges, particularly related to the extraordinary winter weather and record snowfall we saw in the U.S. during the first quarter. This was compounded by an extended rainy season which caused extensive floodings throughout our region delaying the spring construction

startup and, as a result, GCC's volumes during the first half. However, our considerable backlog and ability to leverage GCC's operational capabilities and our extensive and uniquely advantaged distribution network enabled us to close the year delivering strong results. In this regard, our state-of-the-art production facilities and logistics again proved to be an important competitive advantage for our Company. This was boosted by the favorable weather during the second half of the year.

GCC's performance for the year was also a strong testament to our teams' outstanding customer relationships. Our sales team worked closely with key customers to understand their needs and challenges, to develop specialized and highly innovative solutions.

We're therefore pleased with the results delivered in 2019, as we were able to fully recover the cement volumes lost in the U.S. during the first half of the year, exceeding our guidance.

Along these lines, we are very encouraged by the acceptance of our specialty products segment developed in Mexico, a small but growing higher-margin segment that enables us to respond better to our customers' needs through innovative solutions and best in class customer service. Importantly, the unique specifications of these new solutions enable us to offer a compelling and competitive product outside of the Chihuahua state.

2019 was also a year of significant progress aligned with GCC's continued focus on sustainability. We further strengthened our Company's long-term strategy by implementing best practices to mitigate impacts on our environment and on the communities we serve.

We signed two long-term agreements with renewable energy suppliers in 2019. The first, a ten-year agreement with a leading U.S. based energy provider to supply solar and wind power to GCC's Odessa, Texas cement plant, covers one hundred U.S. of the electricity consumed at these operations, for a nearly 22% decrease from current energy costs at this plant. The agreement takes effect beginning July 2020 two.

The second, a fifteen-year agreement takes effect beginning January 2020 one and was signed with a leading Mexico-based energy supplier of solar energy for 20% of GCC Mexico operations' total energy needs, including our Juarez cement plant, ready mix and aggregates operations and concrete block plants. These two agreements will translate into approximately US\$ 3 million in annual savings and an approximate 66,000 metric ton reduction in CO₂ emissions per year, according to a U.S Environmental Protection Agency estimate.

Let me now take this opportunity to provide a more detailed review of our key business drivers during the fourth quarter. Luis Carlos will then share more color on our financial results, and he'll then turn the call back to me for comments regarding 2020 full year guidance and closing remarks.

As I've commented, we are very pleased with the results we achieved in both of our markets, particularly in the U.S. given the industry's difficult start to the year.

We delivered another quarterly record high cement volumes in the U.S., which rose 12.3% for the fourth quarter with a 5.6% increase for the full year or 2.4% on a like to like basis, largely addressing the volume demand which we were not able to ship during the first half of the year.

Pricing dynamics in the U.S. were more challenging than expected for the industry as a whole at the beginning of the year, mainly due to weather conditions that prevented inventory from being sold, creating a temporary increase in supply industry-wide shipment delays that resulted in pricing downward pressure. Still, GCC was able to implement a 2.6% price increase in 2019.

However, I'd like to draw your attention to the fact that GCC was nevertheless able to deliver strong topline and bottom line growth, EBITDA margin expansion as well as strong free cash flow generation, despite these headwinds.

Let me now turn to the key performance drivers in the U.S., starting in the South and moving North. I will then review GCC's Mexico operations.

In El Paso, Texas and Southern New Mexico we saw strong shipments during the quarter, particularly in our ready-mix business and for cement volumes exported from Mexico. Looking ahead we remain optimistic overall as a region, GCC's El Paso operations are continuing at sound pace.

Regarding the Permian Basin oilfields in West Texas, cement consumption demand and shipments remain solid despite the well-publicized challenges the oil industry is currently facing. However, we are expecting demand to soften during the current year. It's important to note that GCC's Odessa plant is sold out and we are supplementing the demand with exports to the Permian from our Chihuahua and Tijeras, New Mexico plants. Therefore, while other producers are forced to ship from longer distances, GCC has a meaningful "home advantage" with our plant and terminals strategically located near our customers. We therefore expect to operate our Odessa plant at full capacity in 2020 and expect some oil well cement exports to the Permian Basin from our Chihuahua Kiln 2, and the Tijeras, New Mexico plant.

As we have noted on previous calls, during 2019 we saw a very competitive pricing environment in this region, as oil well service companies remain focused on cost reduction across the supply chain driven by extreme market pressure to improve overall profitability. For that reason, we decided to maintain flat pricing in this segment and successfully maintained our market share while we continued to build long term relationships with our customers.

During the last two years we experienced cost increases in several operations, importantly power and fuel in Mexico and distribution expenses in the US. Therefore, for 2020, we have announced an additional eight U.S. dollar on average per short ton price increase which will come into effect across all our markets on April first excluding oil well cement which we are looking at a phased program. We are cautiously optimistic for a good year ahead.

In Colorado, we continue to see strong performance and have expanded our market share, driven by solid demand from housing and public infrastructure construction. Feedback from our larger customers indicates they are comfortable with the current backlog in this market.

Turning to the northern Midwest and Plains states, the windfarm construction sector in the Dakotas and Iowa was again a strong driver for demand during the quarter and for the full year, as we reached record high in shipments to this region.

As described, we experienced some weather-related delays during the first half of the year and therefore several projects pushed to 2020. However, the fourth quarter saw an acceleration in the commencement of windmill construction works, particularly at key Iowa windmill projects. This was triggered by favorable weather conditions and the extension of certain financial incentives to this industry, as Federal subsidies expiring at the end of 2019 were extended. We're encouraged by these favorable developments as a promising sign that new projects are on the horizon.

In the Dakotas, demand remained solid supported by favorable Bakken oil field market dynamics, while we're also seeing price softness due to additional supply from certain competitors in the U.S. and Canada.

In Montana, we continue to see strong demand and our plant is currently operating at full capacity. Further, I'm very pleased to share with you an excellent example in this market of our progress on the sustainability front

during the fourth quarter, when we successfully converted a project from traditional construction cement to a blended cement with a lower carbon footprint, reduced clinker factor and an increased limestone component. This is an encouraging step which we plan to replicate in this and other markets in the future ahead.

To briefly touch upon our Rapid City facility stabilization process: as we have commented on our third quarter call, this plant is running well, having achieved near optimum levels. The two main issues that we faced during the first half of last year which affected the variable cost of this plant are now largely under control, one of which has been fully resolved.

Needless to say, we're very pleased with our results in the fourth quarter and for our overall full year performance in this market. Cement volumes grew two point nine and concrete four point seven in the year. We began two thousand nineteen with considerable uncertainty related to the macroeconomic conditions and the direction of USMCA renegotiations, coupled with an increasingly competitive industry environment. However, our results demonstrate that we achieved price and volume growth on top of a challenging comps, and on the back of long term customer relationships, best in class operational capabilities and our Company's important competitive advantages which I've described.

During the year we saw solid performance in the Chihuahua region overall and particularly in Juarez-area industrial warehouse construction, which we believe reflects a favorable initial response to USMCA. Further, these important projects also drove employment, creating additional self-construction demand in this market. Importantly, GCC again successfully maintained market share on a customer by customer and project by project basis in the Chihuahua market.

Mexico's low-income housing industry remained weak, as subsidies continue to contract. The middle to high income housing segment showed robust demand during the fourth quarter, and we began to see small but important incremental state government infrastructure projects coming on stream. Finally, the mining industry remains a strong driver for us. This is yet another example of an exciting opportunity for GCC to demonstrate our success in creating unique and innovative products and solutions designed to address mine-specific project challenges. Further, in this area GCC has again developed a robust logistics process which enables us to enhance our customer service and deliver to clients in challenging environments, often in remote areas with difficult terrain.

Let me now turn the call over to Luis Carlos to review the quarter's financial results and I'll return for some closing comments.

Luis Carlos Arias

Thank you, Enrique, and good morning to everyone. Turning to slide nine, let me begin by reminding you that our results reflect the reclassification of the Oklahoma and Arkansas ready-mix assets sold in June 2018 as discontinued operations and results have been restated in accordance with IFRS-five, including sales, costs, expenses and volumes. As well, our results for the Trident plant in Montana were consolidated effective July first, 2018, so the fourth quarters of 2018 and nineteen are now comparable.

Consolidated net sales for the fourth quarter increased by 11%. This was mainly driven by the increase in cement and concrete volumes in the U.S., increased concrete volumes in Mexico, and better prices in both countries.

In the U.S., we achieved a 12.3 percentage point increase in cement volumes and an 11.3 percentage point increase in concrete volumes, again reaching an all-time high for cement volumes as Enrique had commented. Results for the quarter also benefitted from a favorable year on year comparison, since the prior year quarter was impacted by severe weather conditions and certain one-time internal factors.

Mexico continues demonstrate better than expected performance, with sales growing 6.3% year on year driven by growth in cement and concrete prices and concrete volumes, and further supported by the appreciation of the Mexican peso against the U.S. dollar during the quarter. This was partially offset by a 1% decrease in cement volumes impacted by a difficult year on year comparison.

For the full year, net sales increased 5.8% driven by growth in both markets.

Cost of sales as a percentage of revenues decreased 11.2 percentage points to 65.6% mainly reflecting favorable selling prices, lower maintenance expenses and higher fixed costs dilution arising from increased volumes and the cost control initiatives that we implemented during the second half of the year. We also benefitted from the impact of one-time items recorded in both comparable quarters. In the fourth quarter of 2019, we reversed accruals to reflect the recovery of certain receivables which had previously been provisioned as bad debt. Results were also favorably impacted by a change in the accounting treatment of our long-term incentive compensation plan and employee benefits.

Cost of sales in the comparable period of 2018 was impacted by several one-time expenses related to the Rapid city plant expansion and tie-in process delay, and the reactivation of a kiln at the Chihuahua plant.

For the full year, cost of sales as a percentage of revenues decreased 80 basis points. The positive effect of increased prices and volumes as well as the one-time items, was partially offset by higher variable costs and freight cost. We also saw pressures on energy and fuel costs in Mexico, but as Enrique mentioned at the beginning of his remarks, we are moving forward working on alternatives in the form of renewable energy, we have recently signed a long-term agreement with a supplier of solar energy to cover approximately 20% of the total energy consumed at the Mexico operations. This will help us reduce overall cost of energy and CO₂ emissions while mitigating price fluctuation and will translate into a total annual savings of around US\$ 2.5 million.

Selling, general and administrative expenses as a percentage of sales decreased over 100 basis points to 8% in the quarter and remained relatively stable at 8.9% for the full year period.

EBITDA increased 49.6% in the fourth quarter, with a 9.7 percentage point margin expansion, to 37.8%.

We ended the year with an EBITDA growth of 13.9%, above our revised guidance range for 2019, and a margin expansion of 230 basis points.

As we explained before, this improvement was mainly driven by the strong recovery of sales volumes that we experienced in the last two quarters of the year, which was above our expectations as well as a strict control of fixed costs coupled with the year-end accrual reversals made during the fourth quarter.

Excluding the IFRS sixteen effect, EBITDA increased 41.4% in this quarter and 5.8% for the full year period.

As we mentioned on previous calls, EBITDA this year and hereafter will benefit from the implementation of IFRS sixteen due to the fact that the majority of the former rental expenses from operating leases is now reflected in amortization increasing this year's EBITDA in US\$ 20.8 million, neither impacting net income nor free cash flow.

Net financial expenses fell 24.4% in the quarter mainly due to a decrease in financial expenses resulting from lower interest rates and an increase in financial income from higher cash balance partially offset by a negative variance in our FX line due to the appreciation of Mexican peso relative to the U.S. dollar. For the full year period net financial expenses decreased 18.4%.

Income tax expense totaled US\$ 8.8 million in this quarter and increased 50.5% to US\$ 25.1 million in the full year period mainly due to higher pre-tax income.

As a result of these factors, and on the back of strong operating results, income from continuing operations increased 79.4% in this quarter and 11.3% for the full year period. Earnings per share increased 71.6% in this quarter and 79.9% for the full year period.

Moving to our cash generation on slide 14, free cash flow increased 87.6% to US\$ 82.5 million in this quarter, translating into a free cash flow conversion rate of approximately 95%. This strong cash flow generation was driven by increased EBITDA generation after operating leases, decreased working capital requirements, lower cash interest expenses, and a decrease in maintenance capex, partially offset by higher cash taxes.

We have maintained a strong balance sheet and efficient and prudent capital structure that provide us with flexibility, to capture future growth opportunities, which we continue to assess on an ongoing basis. We remain focused on improving returns and delivering strong stakeholder value, while investing in the future growth of our business.

Along these lines, I would like to highlight that our return on invested capital ROIC for the full year 2019 was 10%, above our weighted average cost of capital, WACC

Our dividend distributions continued to grow at historically high rates, during 2019 we made a dividend payment of zero point eight Mexican pesos per share, representing a 15% increase compared to 2018's dividend payment. All this was done while maintaining a healthy leverage ratio which as of December 2019, stood at one point eleven times, in line with our expectations and significantly below industry average level.

Our solid financial position combined with our strong operating track record, was also evidenced in our improved credit rating to BB+ that we announced during the year done by Fitch Ratings

With that, I will now return the call over to Enrique to discuss the guidance for the year ahead and to share his closing remarks.

Enrique Escalante

Thank you, Luis Carlos.

I would like to now take this opportunity to discuss our outlook for the year ahead. We're expecting positive momentum to continue in 2020, as the underlying trends of GCC's business remain solid.

The U.S. economy remains strong. Despite the unfortunate trade war headwinds, a strong domestic labor market in the U.S. has fueled consumer spending, to end 2019 with 2.3% GDP growth.

The housing market is also picking up, and should be sustained during 2020 by a strong job market and low mortgage rates. Overall, we're on better footing than a year ago, when we were faced with economic uncertainty caused by global trade tensions, stock market volatility and a partial government shutdown, along with rising mortgage rates and home prices.

These solid basic economic fundamentals of low unemployment, higher wages and GDP growth, coupled with the high capacity utilization we are seeing in the U.S., support GCC's outlook for this year.

Against this backdrop, we expect GCC's cement and concrete sales volumes in the U.S. to increase 1% to 3% year-over-year. In terms of prices, in light of the announcements we've already made, we anticipate another year of price increases in the 3% to 5% range for cement and 2% to 4% concrete.

Turning to Mexico, we expect market dynamics to remain solid in the Chihuahua region, fueled by positive sentiment coming from USMCA. Nevertheless, we remain cautiously optimistic, as the Mexican economy showed signs of deceleration. We also expect an increasing competitive environment. For 2020, we expect GCC's cement and concrete sales volumes to increase 1% to 3%, with price increases in the 2% to 4% range for cement and 3% to 4% for concrete.

Regarding profitability, we expect 2020 EBITDA to increase between 6% to 9% year over year.

We anticipate our capital expenditures at approximately US\$ 70 million, with US\$60 million allocated to 2020 maintenance expenses and US\$ 10 million from last year which were carried over to the current year.

As a result, strong EBITDA generation, a smooth maturity profile, stable capex should translate into a Free Cash Flow conversion rate above 50% and a net debt to EBITDA ratio at around 0.5 times, which is significantly below the industry's average.

Given our considerable financial flexibility, we remain committed to our clear and prudent capital allocation priorities. GCC's strong balance sheet enables us to prioritize strengthening our core business- cement either organically or inorganically, aligned with our strict M&A criteria.

These criteria continue to be: to expand to adjacent markets, generate synergies, and/or solidify GCC's leadership position. Should we not identify the appropriate investment by year end 2020, we would look to pay down debt. We also will continue paying dividends at a historically high rate.

Finally, also related to our Sustainability efforts and complementing my initial remarks, on January thirty of this year we announced that GCC joined the Science Based Targets initiative with the commitment to establish science-based emission reduction targets in line with the goals of the UN Paris Agreement, ensuring the Company's low-carbon transformation is aligned with climate science. In addition, we expect to achieve our 2020 goal of reducing CO₂ emissions by 9%.

This compliments our focus on energy efficiency initiatives, alternative fuels, blended cements and commitment to become an early adopter of the new carbon capture technology once it is fully developed. As such, we remain committed to implementing global best practices related to sustainability, taking actions against climate change throughout our organization while we continue generating value to all stakeholders; our shareholders, customers, employees, and the communities where we operate.

Now, before opening the call for questions, I would like to briefly thank our employees for their effort and dedication, which were key to accomplishing our 2019 goals. We are very proud to have again been recognized as one of Mexico's best companies according to "Great Place to Work", an organization considered to be a global authority in workplace culture. GCC's Mexico's Great Place to Work ranking is in the top thirty. In addition, in November our U.S. Division was certified as a great place for the first time

With that, this concludes our prepared remarks. Let's now turn to your questions. Operator, please go ahead.

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star, one to ask a question. Our first question today will come from Eric Neguelouart with Bank of America.

Eric Neguelouart

Hi. Thank you for this call. I would like to glean the EBITDA growth you reported. So, 50% growth if we look at the figures as they are; if we take out IFRS, is around 41.4%. What happens if we take out the one-offs, just to get a glimpse of the actual growth, taking out all the other accounting noise that's around it right now?

Enrique Escalante

Eric, thank you for the questions. We're looking at the information to try to give a more precise number, give us just a second and Luis Carlos will answer that.

Luis Carlos Arias

Eric, it's a very complicated comparison because we have one-offs in 2018 and one-offs in 2019. Let me try to explain.

Of the 11.2 U.S. age points, around 1% comes from higher pricing in 4Q '19 and 3 U.S. age points come from the onetime effects in 2018, which were the new production in kiln 2 in Chihuahua, some purchase amends, some logistic costs, and the regional maintenance that we had to incur to—for the demolition in the Rapid City plant. Then cost effects in 2019 are around 3 U.S. age points. That's on 4Q '19, bad debt—the cancellation of the accrual of the bad debt is around and the effect of the long-term incentive is almost 2 U.S. age points of those 3 points. The rest is coming from operating leverage, which was—which is around 4 points. It's not as simple as just that explanation. Of course, we can follow up with you to understand more in detail these changes.

Eric Neguelouart

I understand it's complicated. It's not apples-to-apples. But this gives me a better understanding of the magnitude. Thank you very much.

Operator

Your next question will come from Adrian Huerta with JPMorgan.

Adrian Huerta

Thank you. Enrique and Luis Carlos, congratulations on the results. Two questions. One is, as you approach full capacity on some of your U.S. cement plants, are there any investments that you can make to expand a little bit further the potential capacity? If you're already planning on doing some of these investments this year or next year?

Then the second one, you compare a lot yourself to U.S. peers on valuation, on leverage ratios, et cetera. But I think—and you stand out pretty well on most metrics. But one is the dividends that you pay. I mean, this is still relatively low to U.S. standards. Any plans, given the strong balance sheet that you have, to move your dividends higher or at least implement a strategy to grow dividends at a much higher rate, given there is a very low base to increase at a higher rate over the next couple of years?

Enrique Escalante

Thank you, Adrian. Thanks for the questions. Let me address further, I mean, the capacity expansion. I believe we have mentioned before, yes, we are preparing to expand our capacity. We have basically been working on two projects, one is possibility to expand the Odessa plant. We already have the permit in place and the basic design in place. From that perspective, we're ready to move forward, I mean, when needed.

The other one is an expansion and modernization of the Chihuahua plant. In that particular one, we are ahead of what I just described for Odessa. We have, I mean, a full design, and we are currently reviewing tender offers

from different technology companies. It's very possible, I mean, if we don't find a growth opportunity, which is our main priority, as you know, inorganic, we will perhaps, I mean, move forward, I mean, doing the deal with one of these two expansions. That's in terms of capacity.

In terms of dividends. There are no plans not to change. I mean, the current—I mean, the practice that we have here in the Company. As we mentioned, I mean, the priority is to find, I mean, a good way to allocate our capital in terms of growth. Second would be based on debt. In light of that, we have not considered to change the dividend policy.

Adrian Huerta

Understood, Enrique. If I may add, just on the capacity expansions, where in plants like Tijeras, I mean, as of 2018 was running at 94%, are there ways in which you can increase a few U.S. age points more the capacity by making some investments?

Enrique Escalante

If you're talking about product debottlenecking in some of the plants we're working, Tijeras, it's not our first priority. The reason is very simple. That's not the most competitive plant in our system because it doesn't have real assets. We prefer to try to, I mean, increase capacity in other plants that can bring additional cement into the system. In this case, it's Pueblo. In Pueblo, we're also working currently on the permitting part of our debottlenecking of the plant. We expect them—that to be approved and granted by the state, I mean, in this year and move forward with that expansion perhaps at the end of the year, if not early next year.

Luis Carlos Arias

To complement on Enrique's answer, Adrian, with the new capacity that we have in the Rapid City plant, of course, we have more capacity, more opportunities to produce more cement for our customers. We are not worried at this time that we will be out of cement in the year. That's why we increased the capacity in Rapid City plant because we were with a lot of challenges in previous years. Now we are ready to produce more cement in the U.S. and ship more cement.

Adrian Huerta

Excellent. Thank you to both.

Operator

Thank you. Our next question will come from Francisco Suarez with Scotiabank.

Francisco Suarez

Hi. Good morning. Thank you for the call. Congrats on your quarter. My question relates with the overall conditions that you have—that you see in Colorado. You mentioned in your press release that the overall conditions for real estate—residential real estate are good. If you can elaborate a little bit further because we had the idea that things were slowing down on that portion of demand?

Secondly, also, what are the overall conditions that you see? If you can describe, along with this, the overall backlog that you have in Texas, particularly, now with your—with the (inaudible) customers considering that the oil prices are very weak at the moment? Thank you, and congrats, again.

Enrique Escalante

Francisco, thank you. Thank you very much for your questions. I'll address them in order, although we'll probably need a little bit of clarification on your second question.

But let me address first, in Colorado, yes, we're pleasantly surprised, I mean, because as you're mentioning, during some parts of last year, it was—there were conversations that the residential market was at a peak. Certainly, I mean, housing prices are—have increased and are expensive in the Front Range, especially in the Denver, I mean, Boulder area. There were talks about, okay, this is cooling off. However, I mean, most recently, we hear from our customers, I mean, their feedback that the homebuilders are, I mean, actively getting permits, and they're continuing building at a very decent pace. Yes, there was a change in sentiment. According to the feedback of the customers, we think that the segment will continue to be, I mean, strong for 2020. I don't know if you can, I mean, just briefly, I couldn't understand exactly what you referred to a weak pricing...

Francisco Suarez

Sure. Yes. I was a little bit wondering if the overall sentiment that drillers may have for—I mean, the demand for oil well cement, considering that the oil prices are so low at the moment. If you can actually give us a little bit of a—what is the sentiment over there? What do you think your customers are seeing at the moment? If you think that even for that portion of your market, you can also assume that cement prices can actually go up for oil well cement.

Enrique Escalante

Okay. Thank you. Thanks for the clarification. Now it's pretty clear. Let me take first, I mean, before going to oil well cement, on construction cement, we're feeling—I am feeling very optimistic because, I mean, so far, customers' feedback, again it's, I mean, yes, the price is going to take—the announced price going to take. We see no problem to achieve a robust price increase in construction cement.

Now let me turn to oil well cement. Yes, last year, we could not increase, I mean, the price for oil well cement in the Permian, as I mentioned, as a response to that request from the industry about them and some help in terms of their profitability. However, based on that, we have already negotiated with our customers in the industry, price increases for 2020, which we divided into two phases, one in January and 1 in April. The one in January has already been implemented, and it's going very well. We're still cautiously optimistic. We know the industry is under profitability improvement pressure, but there seems to be a good understanding from the customers that we miss—I mean, they increase largely and we also need it. It went well in the first phase, and we are expecting the second phase in April to also go well. I think we're better and more optimistic today than what we were in October or November of last year.

Francisco Suarez

Fantastic. Thank you so much. Congrats, again.

Operator

As just a reminder, it's star, one to ask a question at this time. Our next question will come from Alejandro Azar with GBM.

Alejandro Azar

Hi, Enrique and Luis Carlos. Thank you for taking my questions. The first one is, if you exclude the IFRS 16 impact on EBITDA, your margins—your EBITDA margins would stay practically flat or expand by 10 basis points. My

question is, what were the impacts on—if I think that you grow volumes and prices during the whole year is? And if this is energy-related or distribution, how should we see this going forward?

The second one is, if you could, given your strong balance sheet and your talks about inorganic growth, what is, here, as I say, you could go to—your train of thought when thinking about M&A?

Enrique Escalante

Well, I will turn it to Luis Carlos for him to address first your question on EBITDA margins, and then I will take the other one.

Luis Carlos Arias

Alejandro, yes, as you were saying, without the IFRS effect, the margins were basically flat. The thing is that the challenges that we had with the first half of the year in terms of the weather and the higher energy cost couldn't be compensated by a very strong second half of the year. When you're asking what would be the—how would you think about the future, the very good thing is that the last two quarters were very strong for the Company. As we said during the whole year, the backlog was there, and the backlog is still there. As Enrique commented, we have seen so far very good signs of—in terms of the pricing strategy. Yes, in a nutshell, the first half of the year, we have a lot of challenges in terms of cost. We didn't achieve the price increase for last year as also we discussed during our remarks. But the good thing is the last two quarters have been very strong for the Company.

Enrique Escalante

Alejandro, I'm going to address now your question on M&A. I'd like to say that we in GCC have been very consistent on what's our growth strategy when we talk about inorganic growth, and I think, we can explain it basically in two axes. One is the geographic axis and the other one is the product axis. Priority number one, on the geographic axis, we have said it has to be an investment that we can connect to our current network and make sure that we can extract synergies from the use of that network. That's priority number one.

Number two would be another cement asset in the U.S. that is probably not connected to the network.

Number three, we have said in the past that we will be also looking at the Central South America. I have to say that this large one has lost, I mean, weight in the priority list given the complicated economies in the whole south hemisphere and all the political challenges in all those countries or many of them, I think, in our opinion. We're focusing, again, number one on the plant that we think connect to our system; and number two, potentially another investment in the U.S. out of our region. That's on the geographic axis.

On the product axis, we have said our core, and we will maintain it, is cement. That's priority number one. Priority number two would be the ready-mix or aggregator that we can fully integrate with our cement operations.

In summary, cement, we can connect to our network, it spreads, number one. We're actively, and I would say, intensively, I mean, looking for opportunities that fits both criteria.

Alejandro Azar

Okay. Thank you both on—that was very clear and congratulations on the results.

Operator

Our next question will come from Rodrigo Salazar with AM Advisors.

Rodrigo Salazar

Hi, Enrique. Hi, Luis. I just had one question about the free cash flow you presented. On the account accruals and other accounts, I was wondering what's inside of that? How can that develop going forward? Thank you.

Enrique Escalante

Can you repeat the question, please, Rodrigo?

Rodrigo Salazar

Yes. On the free cash flow, the accruals and other accounts, can you develop on what's inside of that? How can that develop going forward?

Enrique Escalante

Yes. Yes. The main explanation on that is that with better maintenance management for the plants, some of the plants are cheaper, have longer but—a longer production season without stopping. Some of the plant stoppage for general maintenance was moved to the first quarter of 2020. Under the accounting rules, we have to cancel all the accruals that we have for that maintenance during 2019. The maintenance idea is that we're going to have that maintenance in 1Q '20, which is already incorporated in the guidance that we have for the year.

Rodrigo Salazar

Okay. Thank you.

Operator

At this time, we have no further questions in our queue. I would like to turn the conference back over to Mr. Martinez for any additional or closing remarks.

Ricardo Martinez

Once again, thank you to everyone for your interest in GCC and for joining us today. We appreciate your questions this morning and look forward to talking with you again in the months ahead. This concludes our conference call. But our team and I are, of course, available for any follow-up questions you may have. Goodbye for now.

Operator

Thank you. Again, that does conclude our conference for today. We thank you for your participation.