

**C O R P O R A T E P A R T I C I P A N T S**

**Enrique Escalante**, Chief Executive Officer

**Luis Carlos Arias**, Chief Financial Officer

**Ricardo Martinez**, Head of Investor Relations

**I N Q U I R E R S**

**Adrian Huerta**, JP Morgan

**Alberto Valerio**, UBS

**Carlos Peyrelongue**, Bank of America Merrill Lynch

**Coleman Clyde**, HSBC

**Francisco Suarez**, Scotiabank

**Froylan Mendez**, JP Morgan

**Nikolaj Lippmann**, Morgan Stanley

**Federico Galassi**, PAAMCO

**Yassine Touahri**, On Field

**P R E S E N T A T I O N****Operator**

Good morning and welcome to GCC's Fourth Quarter and Year-End 2020 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 note that a slide deck will accompany GCC's earnings results webcast. The link is available on the company's website at [gcc.com](http://gcc.com), within the Investor Relations section. 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.

**Ricardo Martinez**

Thank you, operator. Good morning everyone and thank you for joining GCC's earnings call. With me today, are 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.

As seen on slide 2, our forward-looking statements provide information on risk factors including the effects related to COVID-19 that could affect our financial results. There is still significant uncertainty about the duration and anticipated effects of the pandemic. GCC's outlook could change. The effects on the Company's business and its results are a best estimate based on the information available today.

Let me now turn the call over to Enrique.

### **Enrique Escalante**

Thank you, Ricardo, and good morning everyone.

2020 is behind us, and wow, what a year it was. At the start of the year, the world was hit by the pandemic which forced a sudden economic stop. We watched the protests against racial injustice and felt the economic and political uncertainty, just to name a few issues. Notwithstanding the challenging year, I can tell you with confidence that GCC entered 2021 even stronger than how we went into 2020. Let me begin today's earnings call with a brief recap of key highlights and achievements of our performance during this atypical year.

In the middle of March, we quickly adapted our operations and processes to the disruption created by the COVID-19 pandemic. We took immediate measures focused in two main areas:

- health & safety as top priority, and
- GCC's business continuity & liquidity

GCC developed mandatory health & safety protocols for each of our operations; we alternated shifts and skeleton crews, and anyone who could work from home began to do so. While some of our colleagues have contracted the virus, no cases appear to have been contracted at a GCC facility. These actions were important for keeping our teammates permanently employed for the long term.

Because the cement industry was deemed as an essential business, we focused and completely aligned all efforts on selling, producing, shipping our products, and collecting receivables, in other word, business continuity. Our contingency plans ensured uninterrupted supply of products to our customers. None of all GCC facilities were ever shut down because of COVID.

We deployed and successfully executed a comprehensive plan to reduce US\$24M in costs and expenses, in addition to decreasing significantly working capital requirements. Our employees found ways to do more with less, showing our adaptability and what GCC is able to do in challenging times. Our performance for the year was a strong demonstration of the outstanding enthusiasm, and dedication, that every GCC employee puts in daily. I could not be prouder to be part of this amazing organization.

We are very pleased with the results delivered in 2020. We increased top and bottom-line growth and EBITDA margin. GCC generated a very strong free cash flow, despite several constraints, fewer resources, and the headwinds already mentioned.

In order to meet the global climate challenge, 2020 was a year of paramount progress in GCC's sustainability strategy, where:

- We reached the first important milestone by reducing net CO2 emissions by 9% from 2005 levels,
- GCC signed a long-term agreement with an energy provider to supply wind power to more than 50% of Rapid City's cement plant consumption,
- We joined the global cement and concrete industry to state a collective ambition for a carbon neutral concrete by 2050, and finally
- GCC proudly joined the Science Based Targets Initiative, whereby we committed to set emission reduction targets aligned with the ambition of the Paris Agreement

I'm very pleased to share examples of how GCC is increasing the sustainability of our products and bringing value to customers.

- In Texas and New Mexico, GCC is the first cement company to have DOT-approved blended cements containing natural pozzolans.
- Additionally, GCC had a record year of Portland Limestone Cement sales (PLC), which is very similar to traditional cement. However, it features a percentage of limestone added to the clinker, making it a greener cement with lower CO2 emissions. We believe PLC could, and should, become the standard for general-use cements in our markets. PLC provides our customers with equivalent performance and reduces, on average, 7% CO2 per ton. We experienced six times the growth in 2020 and expect similar growth rates in 2021.

GCC's blended products feature a lower CO2 footprint - as much as 25% lower - and improved long-term durability versus general use cement in addition to being a more sustainable solution for our customers and ultimately our communities.

Let me now take this opportunity to review GCC's Q4 and year-end results as well as our performance drivers.

Then Luis Carlos, our CFO, will review GCC's financial results – after which, he will turn the call back to me for final comments. After that, we will take your questions.

Turning to slide 5, we are very pleased with the strong operational results in both Mexico and the U.S. We leveraged our cement and ready-mix expertise and took advantage of our sophisticated distribution network. We took advantage of GCC's connected system of cement plants with terminals, reinforcing that it is one of our main competitive advantages.

Pricing dynamics in the U.S. were more challenging than expected for the industry as a whole, mainly due to COVID-19 uncertainty and its related economic impact. In construction cement, GCC postponed the effective date of the annual price increase by 60 days from April 1<sup>st</sup> to June 1<sup>st</sup>. With respect to oil well cement - as an effort to support our long-standing customers - we offered a price reduction of US\$10 per ton from April to October.

Still, without considering oil well cement in 2020, cement price increased by around 3%. GCC achieved a 0.5% price increase in the fourth quarter and 1.3% for the full year.

In the quarter, sales rose 2% while EBITDA decreased 6%. And as we reported yesterday, our Q4 2020 results in the U.S. were mainly impacted by:

- a tough comparison against an all-time-high fourth quarter, and
- a drop in oil well cement volumes

On an accumulated basis in 2020, GCC's sales were basically unchanged. However, EBITDA and margins had a solid increase, showing once again, the continued and successful execution of a cost and expense reduction plan throughout GCC.

In Mexico, fourth quarter results showed an impressive V-shaped recovery after the negative impact of the national lockdown when most of our customers remained closed.

I will now provide a more detailed review of our business' main drivers by region and sector, starting in the U.S. I will then, review GCC's Mexico operations.

Please turn to slide 7. During Q4, favorable weather conditions allowed GCC to continue to deliver products at steady levels until year end. Thus, during 2020 we experienced an extended construction season for the second year in a row. Despite the good weather shipments, due to a difficult year-on-year comparison in both

businesses, cement and ready-mix volumes declined by 4%, and by 9%, respectively, whereas full-year cement volumes declined by 3% and ready-mix volumes increased by 4%. However, I would draw your attention to the fact that, excluding the shortfall felt from the oil-well cement market, our U.S. construction cement volumes showed a strong performance, growing around 5% against last year's levels. That growth was in an economy which PCA was forecasting to shrink 3.7%.

On a regional basis, during Q4 we didn't see any significant changes in our main business drivers from what we saw during previous quarters.

El Paso, Texas, and our southern New Mexico markets were a bright spot. We saw strong shipments in this area with some big projects that are worth highlighting.

- The restart of the Biggs Airforce base runway, and
- The construction of a new Amazon distribution center

These projects will continue through early 2021.

Regarding the Permian Basin market in West Texas: Volumes somewhat stabilized during the quarter, backed by the increase in oil prices. This market is showing signs that the market contraction has bottomed out; we are seeing a slight and gradual increase in volume. The oil well cement market definitely diminished in GCC's relevance this year. Until demand for oil fully returns, we do not expect to recover to pre-pandemic volumes in the short term.

On slide 8, in Colorado, we closed 2020 with a robust demand for public infrastructure and residential projects.

Turning to our northern Midwest operations: our expertise, safety track record, and great customer relationship in the wind farm construction sector is bearing fruit. This sector was again, a strong driver of our demand the entire year.

GCC experienced bold levels of activity across our markets, with some doing better than others.

- The Infrastructure sector - our most important segment - represented more than fifty% of GCC's total U.S. cement volumes in 2020. The FAST one-year extension and DOT's funding through the year, backed these types of projects.

In this regard, with the Democrats controlling both the House and the Senate – as well as the Executive Branch - we are now more optimistic for further economic stimuli from the government, including a significant infrastructure package, although we don't expect its main effect in demand would materialize until 2022.

- In the residential sector, record-low mortgage rates, tight inventory levels and families looking for more space supported the housing market.
- The non-residential and commercial sectors showed mixed signs. On one hand, projects related to entertainment, hospitality, retail and office space were under pressure or put on hold. On the other hand, projects related to e-commerce, distribution centers and warehouses showed a positive trend.

Historically the non-res and commercial sector are supported by the residential sector. Therefore, given the current positive housing market and the new homes being built, one would expect this sector will improve in the medium term.

In terms of pricing for 2021, we have faced an increasing competitive environment coupled by moderate customer pushback. Consequently, the already- announced price increase of US\$8 per short ton, went into

effect in January with a few markets sliding to April. After the price increase takes effect on these dates, we do not expect any further pushback given the tight supply and demand and the high utilization levels in the cement industry.

To summarize, our U.S. business results were far better than expected when the COVID-19 pandemic started.

Turning to our Mexico operations on slide 10, the state of Chihuahua, our sole Mexican market, showed a sharp V-shaped recovery. We are very satisfied with our results in the fourth quarter and for the full year. GCC views the two-month national lockdown as a temporary hindrance.

Our fourth quarter began with good momentum and positive demand for our products. We leveraged on our Construred state-wide retail stores network, and on our customer-focused culture. Cement volumes rose 14% and ready-mix volumes were unchanged in the quarter. On a yearly basis, cement volume grew 3%, and ready-mix volumes decreased 7%, as most of our ready-mix customers were not deemed essential. At the same time, the depreciation of the Mexican peso against the U.S. dollar reduced Mexico's sales by approximately US\$5.4 million in the quarter and US\$28 million for the full year.

Even though there was an increasingly competitive environment in the industry, our results demonstrate once again that we achieved price and volume growth on top of a challenging comparison. This has been a robust market for several years now, that led to a 9% sales increase in Mexico during the fourth quarter, and a decrease of 3% annually. Without considering the FX effect, Mexico's sales would have increased 18% in the fourth quarter and 8% for the year.

GCC experienced solid demand of bagged cement since the beginning of the pandemic. We believe that the self-construction segment will continue to benefit from on-going quarantines and work-from-home policies.

We have seen an increase in demand from industrial warehouse construction projects, particularly at the U.S. border area in Juarez City, which is a reflection of the favorable conclusion of the U.S.M.C.A. negotiations. In this market, several sizable projects are being bid or have already been announced.

As we have said in previous calls that, with the U.S.M.C.A. already in place, the State of Chihuahua's geography means that GCC is likely to benefit from both the U.S.-China trade and tech wars, as well as the re-shoring of manufacturing processes from Asia. We are encouraged by the opportunities that these situations will generate in the mid-term in our Mexico operations.

Finally, the mining industry remains a strong driver for us. We developed a robust logistics system that enables us to deliver our products in very challenging environments, often in remote areas with difficult terrain. We continue to build a long-term relationship with our mining customers.

Thank you for your attention. I will now turn the call over to Luis Carlos to review this quarter's financials and full-year results.

#### **Luis Carlos Arias**

GCC's financial results for the year were a strong testament that our hard decisions taken during these uncertain times were wise, accurate, and strengthened GCC even more. We were always focused on increasing shareholder value. We believe that the market recognizes GCC as a solid investment. As a result, GCC's share price increased by nineteen% in 2020, with a bullish trend early in 2021.

We are cognizant that our valuation continues to be attractive; therefore, we will continue to deliver positive results and our commitments to continue building investors' confidence. We are confident that, eventually, the

market will completely recognize GCC's fundamentals, risks and capabilities, and that ultimately GCC's shares will achieve a fair valuation.

To our investors, we encourage you to keep confidence in GCC, maintaining and sharing our long-term perspective. GCC has maintained a remarkable, and healthy balance sheet, and continues to be financially strong, thanks to:

- the diligent efforts of our teams,
- a prudent capital allocation, and
- a clear growth strategy

We know where we are headed and how we can reach our goals. Although the road ahead is not always straightforward, we will hold on to our ultimate objective to keep creating value for all of our stakeholders.

While we were figuring out what we would be dealing with in 2020, at GCC and in the cement industry, M&As were put on hold. Given our very strong financial position, we are actively looking for new opportunities for growth. That being said, we will not leave behind the lessons learned during the pandemic and previous downturns. We will resume our goal of finding the perfect opportunity to enhance our core business - cement. Any decision will be aligned with a disciplined approach to acquisition, and growth investments. This approach continues to be:

- increasing presence in existing markets, and/or
- expanding to adjacent markets where synergies can be generated

If we do not find an appropriate asset by year-end 2021, we may pay down debt, saving in interest expenses.

Changing subjects, I am thrilled to share with you, that we surpassed our target of annual savings in cost and expenses announced in April. We ultimately, saved 20% more – a total of US\$24 million in savings, from the original US\$20 million. I would like to reiterate that we expect to maintain US\$10 million of this year's savings, having found a sweet spot between short- and long-term profitability without compromise to our operations, employees' safety or taking unnecessary risks.

Please turn to slide 16. For the fourth quarter, consolidated net sales increased by 2% and were basically flat year on year. During Q4, we saw a sharp increase in cement volumes in Mexico which were somewhat offset by U.S. cement, and ready-mix volumes. Excluding the FX effect, consolidated net sales would have increased by 4%.

On slide 17, cost of sales as a percentage of revenues increased 1.8 points to 67% in the quarter, while in 2020, COGS decreased 2.3 percentage points to 69% mainly reflecting better cement and ready-mix prices in both countries, lower freight costs due to lower cement shipments to the Permian region, as well as the absence of 2019 one-time expenses associated with increased cement freight due to weather challenges and purchased cement and coal.

SG&A expenses as a percentage of sales were basically unchanged in the quarter to 8.2%, and in the comparable period of 2019 decreased 0.5 percentage points. This was mainly due the execution of the cost and expense reduction initiative, and the depreciation of the Mexican peso relative to the U.S. dollar.

As a result, as we illustrate on slide 18, EBITDA decreased 6% in the quarter largely due to a difficult year-on-year comparison. EBITDA margin was 35.0%. We ended the year with an EBITDA growth of 6% with a 160-basis point margin expansion, climbing to 32.9%.

As we have previously said, we are highly focused on recovering the 34% EBITDA margin, which GCC generated prior to the financial crisis. GCC's track record shows that we are on the right path. EBITDA margin has increased uninterrupted for seven years. It has increased approximately sixteen percentage points, placing GCC on one of the top tiers in the industry regarding profitability.

Turning to slide 19, net financial expenses increased US\$5 million as a result of higher debt balance from drawing on one of our revolving credit lines, partially offset by lower interest rates on the variable portion of GCC's debt.

Income tax decreased US\$3 million in the quarter, and increased US\$6 million annually, reflection higher income before taxes.

As a result of these factors, and with the benefit of strong operating and financial results, earnings per share and consolidated net income increased 11% to US\$130 million in 2020.

Moving to our cash generation on slide 20, free cash flow was US\$100 million in the fourth quarter 2020, compared to US\$83 million in 2019, and US\$250 million for the full year, compared to US\$138 million in 2019. This translates into a free cash flow conversion rate above 120% in the fourth quarter and 81% for the full year. This was mainly driven by increased EBITDA generation after operating leases and much lower working capital requirements, as well as decreased interest expenses, cash taxes and maintenance CapEx.

I would like to point out GCC's improvement in controlling payables, receivables and inventories. Based on the last twelve months of sales, as of year-end, we reduced days in net working capital from 58 to 47 - a total reduction of 11 days.

Turning to our balance sheet, we ended the year with US\$562 million in cash and equivalents, after paying back US\$50 million withdrawn from a revolving credit line. This amount is by far the highest cash hold in GCC history.

In light of this, our 2024 US\$260 million bond starts being callable in June. We will constantly analyze the global bond market to see if we can further strengthen GCC's balance sheet lowering the coupon and/or extending the maturity profile, while we take advantage of the current positive market conditions.

Turning the page, our net debt to EBITDA ratio dropped to 0.2x as of the end of the year, supporting our balance sheet as one of the strongest and healthiest in our industry. Thus, we are starting 2021-one with an advantageous and solid financial position.

I am pleased to share a crucial outcome of our excellent financial results, as well as of an ongoing process of optimizing operations for value generation. GCC's return on invested capital ROIC for the full year jumped to 12.4%, well above our weighted average cost of capital, and higher than most of our global industry peers.

With that, I will now give the call back to Enrique for his closing remarks.

### **Enrique Escalante**

Thank you, Luis Carlos.

2020 was a unique year. The pandemic disrupted multiple areas of our personal and professional lives, and I firmly believe that it will permanently change the way we work in the future. But it is precisely during major crisis and challenging times that our values as a company, and our long-term focus, motivate us to spring forward and outperform expectations. That's why at GCC we recently launched our 2025 vision statement: To be the best cement company in North America with the proper balance of people, profit and the planet. This

statement is what we want to be and will guide what we need to do to get there. At GCC, we want to do everything with excellency, and we understand that we must balance and rebalance these three areas to ensure we keep flexibility and adaptability in a fluid environment, without losing sight of our 2025 destiny. An example of this proper balance is how in 2020 we refocused quickly on the people area, to protect their health during the pandemic.

Naturally, some of the challenges we faced in 2020, most likely will continue in 2021, like the lasting effects of the pandemic, and looming global recession. Therefore, in the short term, we will continue with focus to:

- looking intensely at efficiencies, costs and expenses, and
- operating with the same rigorous approach, to keep delivering strong results

But this year we are also rebalancing the three areas of our vision, changing the emphasis of the 2020 priority on cash preservation, to a 2021 emphasis on growth, both internally and through M&A.

Certainly, in 2021, we can see a light at the end of the tunnel. How soon we get out of the tunnel still hinges on the virus development, the vaccine rollout effectiveness, specific stimulus measures, as well as governments policy response to address the pandemic, and the economy in both countries, and globally. For these reasons, our short-term visibility is still blurry, therefore our full-year guidance will remain temporarily suspended until we have improved visibility. We will provide updates as they become available.

In a year of discoveries like 2020, we realized that we don't need to predict the future in order to say that we are prepared. We believe GCC is prepared for any challenge or opportunity we might face this year.

Finally, I would like to thank again and again, all of our teammates for their effort and dedication during this challenging time; the positive results we delivered, belong entirely to them. I would also like to thank our Board and shareholders for the trust and confidence they have placed in us.

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

### **Operator**

At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two to remove your question from the queue. For participants using speaker equipment, it may be necessary for you to pick up your handset before pressing the star keys. One moment while we poll for questions.

Our first question comes from the line of Adrian Huerta with JP Morgan. You may proceed with your question.

### **Adrian Huerta – JP Morgan**

Thank you. Hi, Enrique and Luis Carlos, and Ricardo. First of all, congrats on the great results and the challenging year. I have two questions; one is just on working capital. Very good performance. As you say down to 47 days. Is there room for more? Are there initiatives where you found ways in which we can see working capital days being even lower this year? That's my number one question.

The number two question is, what happened to the energy cost per ton during full year '20, and given the increase that we have seen on pet coke and other energy cost, what can we expect for this year?



**Luis Carlos Arias**

Thank you, Adrian. In terms of working capital, although we—as we expressed, we advanced a lot in the project to have a better—or optimizing the working capital. We still think that there's room for improvement going forward, more in the inventory and accounts payable. I will not give details, but I can confirm that we are continuously and we're going to be, very focused on achieving a better working capital management going forward.

**Enrique Escalante**

Good morning, Adrian. This is Enrique. On your second question on energy cost for 2020, I can tell you that our cost has been very well controlled and has remained very stable. Ricardo later on can try to look for more information to provide to you. But this is the result again of the hedge, the internal hedge that we have with our coal mine, and gas prices even though we have seen some increases in some markets, they have not really affected us in 2020 yet. We don't consume any petcoke. So, again, having the coal mine operating constantly during the year gave us a constant cost for our fuel.

**Adrian Huerta – JP Morgan**

Perfect. Thank you to both.

**Operator**

Our next question comes from the line of Nikolaj Lippmann with Morgan Stanley. You may proceed with your question.

**Nikolaj Lippmann – Morgan Stanley**

Hi, good morning, gentlemen, and congrats on the numbers. Good morning everyone. Two questions, if I may. First, great numbers. There's one little spot of weakness, of course, is oil-cement. Can you talk a little bit about what you're seeing there, if the pricing discounts have expired and you're rolling back a normalization of pricing in that space? So, that's number one.

Number two, in terms of the—the U.S. market looks to getting increasingly tight. When you're thinking about M&A, would that also include additional logistical assets? Thank you very much.

**Enrique Escalante**

Thank you for the question, Nikolaj. First, on pricing on the oil-well cement, yes, we did take away or recover the \$10 discount that we gave to the customers during last year. We started to basically recover that around October and by year-end it was basically done. We have announced price increases on top of that recovery for this year, and so for the market it's taking it well. We're very positive that oil-well cement prices will have an improvement against last year.

In terms of the M&A related to logistics, yes, you're absolutely right with the market getting more tighter, and as a result of the expansion of our South Dakota plant, we are working on two projects to install two new terminals this year in different markets, for the reason of giving room to the additional cement that is going to be produced in South Dakota.

**Nikolaj Lippmann – Morgan Stanley**

Got it. Thank you.

**Operator**

Our next question comes from the line of Carlos Peyrelongue with Bank of America. You may proceed with your question.

**Carlos Peyrelongue – Bank of America Merrill Lynch**

Thank you. Good morning. Thank you for the call, Enrique and Luis Carlos. Two questions if I may. First one on oil-well cement. Can you give us an idea of what is the percentage of U.S. cement demand that comes from oil-well cement? I assume it dropped quite a bit last year. It would be great to know as of 2020, how much of the cementing in the U.S. comes from oil-well cement? That would be the first one. The second one, do you expect to provide guidance at some point this year for the full year, or you're planning to go most of the year without guidance? Thank you.

**Enrique Escalante**

Thank you, Carlos, for the two questions. Number one on oil-well cement, as we've said and our top year for oil-well cement in '19 was 17% of the total output. Last year, we experienced a decrease of about between 40% and 50% of that volume. So, that will mean that at the most in this 2020, the share of oil-well cement as a percentage of the total U.S. sales will be close to 10%.

On your second question, yes, we will obviously be very open and look forward to giving guidance in the future during the year. Of course, we expect this blurriness that I spoke about is going to start, I mean, getting clear as the year progresses, so hopefully, in the second quarter we can give you—I'm sorry, on our first quarter report we can give you some guidance.

**Carlos Peyrelongue – Bank of America Merrill Lynch**

An additional question, if I may. On U.S. infrastructure, as you mentioned, it's 50% of your total cement demand in the U.S. What should we expect in terms of cement demand from infrastructure? Are there any large projects that you're finishing? Should we expect something similar to last year? Could you comment a bit more on that particular driver of your cement demand in the U.S.?

**Enrique Escalante**

Yes. As I said in my remarks, I mean, we are optimistic about the change in infrastructure. I can tell you that this month, in a sales meeting, our salespeople were informing me that we're seeing a very strong infrastructure demand, for example, in Colorado. So, probably above of what we expected at the end of last year. So, we continue to see projects bidding in that segment, so we don't think that it's going to be—that is not going to have any negative effect compared to what we were last year.

On the other hand, as I also mentioned, if there is a new infrastructure build that's passed by congress, obviously, I mean, and we think that's very likely, we're going to benefit from it, although the question is, if that would start to take place in the second half of the year or really in 2022.

**Carlos Peyrelongue – Bank of America Merrill Lynch**

Yes, most likely in 2022 and onwards. Okay, great. Thank you.

**Operator**

Our next question comes from the line of Francisco Suarez with Scotia Bank. You may proceed with your question.

**Francisco Suarez – Scotiabank**

Thank you. Good morning. Thanks for the call and congrats on your results. Also, congrats on seeing your blended cement approved by the local authorities. A question on the blended cement. First, how easy is it to source with pozzolan, that cement? Will that require any investment from your side? How comfortable do you feel with sourcing that blended cement with pozzolan?

Secondly, do you think that other types of blended cement will be worth seeking for approval, mainly with the use of fly ash or perhaps with slag or something else? Thank you.

**Enrique Escalante**

Francisco, thank you for your questions. On the first one, the pozzolan that we are working on and now it's a deposit that we have in the State of Chihuahua, and the cement has been produced in Samalayuca with very good results, and as I said, based on that it was approved by the Texas and New Mexico DOT. That's a natural pozzolan and we feel very comfortable with its performance and what we can do. It will not add a significant investment in the sourcing side, perhaps, and we are discussing it, we will require an extra silo at the Samalayuca plant to work with that additional product. But that's still under discussion.

In terms of other types of pozzolan, fly ash, slag, etc., we are very open and looking forward to getting supply from many of these materials, although it's not likely that we can get these two specific materials in the short term. Obviously, fly ash is very scarce in the market now and in the case of slag, we're very far in our GCC facilities to the sources of slag for it to be an economically feasible ingredient of our cement. But we are continuing to work in searching other areas for other natural pozzolans too.

**Francisco Suarez – Scotiabank**

Very clear. Thank you. Also, on the commercial side of the question on your blended cement, how will that change the future sales mix between the typical Portland cement and this blended type of cement? Do you think that the market will receive the blended product with ease, or do you think that you may be experiencing some pushback?

A question along with that is that at the end of the day that would actually, for practical purposes, could actually be a way to increase your overall cement capacity with the use of blended cement. So, my question is, to what extent the rate of acceptance of blended cement in the U.S. market may affect or not your overall plans for future organic expansion in either Samalayuca or other plants? Thank you.

**Enrique Escalante**

That's a very good question, Francisco. A little bit difficult to answer. It's definitely a long-term process. The U.S., in my experience it's been slow in changing the standards for their construction materials, specifically cement. I think that there is more and more pressure from the sustainability point also for the builders and contractors, and that's helping us to make faster inroads in the market. So, it's going to be a matter of time. I mean, there was pushback years back with the introduction of limestone cement. I think that limestone cement in our case is going to be very promising because obviously it's readily available for us in the region and the market is appreciating more and more having a cement that performs at least as well as the Portland cement, but in addition having it also more readily available, more capacity available. Because this will go to answer

your second question. By adding limestone, long term we can at least increase our capacity by 10% in our plant from where we are today.

So, it's a win-win for us and for the market.

**Francisco Suarez – Scotiabank**

Enrique, thank you so much. Congrats again. Take care.

**Operator**

Our next question comes from the line of Alberto Valerio with UBS. You may proceed with your question.

**Alberto Valerio – UBS**

Hi everyone. Thank you for taking my questions. A quick one on my side. I would like to know if you could provide more color on the current exposure by segment of GCC in the U.S. and Mexico. You said that you have 30% exposure to infrastructure in the U.S. In case of increase in demand in-house that we see with low inventories and people searching for larger places to live in, how challenging is to migrate to that segment in both markets? Thank you, and congrats on the results.

**Enrique Escalante**

Thank you, Alberto. Exposure by segment, we've been saying that infrastructure in the U.S. is around 50%. Luis Carlos will elaborate on this a little bit more.

**Luis Carlos Arias**

Yes. The infrastructure is around 50%. The residential goes between 20% and 25%. Commercial between 8% and 10%. For us, we have said oil-well cement has been decreasing (inaudible) from 16%, 17% to 10% in the U.S. We also have exposure to agricultural in Iowa, South Dakota, Minnesota. So, that's how—and we're exposed to every single segment. We are not focused in one specific segment. So, we cover the whole industry.

**Enrique Escalante**

Alberto, on your second question, could you repeat that for me, please? I didn't quite get it.

**Alberto Valerio – UBS**

No problem. No problem. In case of increasing demand of housing, how you guys can manage it? You could move from one segment to the other easily or it's a challenging way to capture this demand? If you could also give some color on the exposure of Mexico in the fourth quarter?

**Enrique Escalante**

Okay. Thank you, Alberto. Yes, moving from segment to segment, actually, it's not difficult for us, because in the regions where we operate we go to every segment. So it's just a matter of—I mean, it's the same, basically the same cement and very, very little. It's just a matter of having enough capacity to attack every segment, which we don't see a problem this year. We have some plants that are sold out. Basically, like, Pueblo, but with the expanded capacity in Rapid City we can move cement along our network.

In terms of Mexico, Luis Carlos is going to give you the main segments and drivers.

**Luis Carlos Arias**

In Mexico, one big segment is of course the self-construction that we cover with our very strong distribution chain, Construred. Then, housing it goes between 6% and 10%, depending on the year. Mining is also a very strong segment. On the other side, infrastructure in Mexico, I mean, in the State of Chihuahua it's not as strong as the rest of the country, so that segment is not as important as the previous ones that I explained.

**Alberto Valerio – UBS**

Okay. Thank you very much.

**Enrique Escalante**

Thank you, Alberto.

**Operator**

Our next question comes from the line of Coleman Clyde with HSBC. You may proceed with your question.

**Coleman Clyde – HSBC**

Hi gentlemen. Thanks for taking my question. I was just wondering if you could give a little bit more color on margins. You've obviously made some great improvements, particularly in the U.S. on the margin side. Was just wondering if you could give any color on your outlook for next year and maybe the medium term. I know you've stated previously 34% as a long-term goal. Do you think that this is still realistic and where we can expect to see the remaining improvement on that front? Thanks.

**Luis Carlos Arias**

Yes, thank you Coleman. Well, definitely we are continuously focused on increasing margins, of course there is several levers that we can pull. Of course, one of the most important is of course pricing. So, as long as we can continue push for better pricing in our markets, we will be delivering higher margins.

Also, while we continue to optimize our logistics business by sending cement closer from our cement plants to our customers, we will be reducing, of course, the freight costs of the Company.

Another one is the sustainability initiative of increasing alternate fuels in all the plants. We've been expanding the percentage of alternative fuel use and we will continue increasing that percentage. Of course, as we demonstrated in 2020, controlling fixed cost and being very conscious about the cost and expenses we will be of course pulling that lever of operating leverage going forward.

**Enrique Escalante**

And in addition, Coleman, to what Luis Carlos said, obviously, the more we progress on PLC cement, Portland limestone cement, of course, that also will help the margins.

**Coleman Clyde – HSBC**

Makes sense. Thank you. A quick follow-up, if I may. In the U.S., particularly on the environment, you guys have obviously been focusing a lot on that area. I was wondering, with the change in administration to Democratic leadership there, that's clearly focused a lot on green energy, do you guys expect to see any

tighter restrictions on the cement side, on the cement industry, and what would be some of the risks or opportunities you expect to come from that?

**Enrique Escalante**

Well, we have not heard of any specific changes in the legislation or regulation regarding emissions limits, but I will not be surprised that with time, the Biden administration will lean towards there. But there's nothing short term that I know of. Of course, the main challenge today continues to be the carbon capture, sequestration and usage, which we're working very closely with the Global Cement and Concrete Association on being very close to the latest technology developments to solve that issue for the industry as a whole. So, that's a more medium-term solution in that regard, but shorter term, I mean, contaminants I haven't seen anything coming out yet.

**Coleman Clyde – HSBC**

Understood. Thank you very much.

**Operator**

Our next question comes from the line of Froylan Mendez with JP Morgan. You may proceed with your question.

**Froylan Mendez – JP Morgan**

Thank you very much for taking my question, and congrats on the results. Following up on the blended cement that you mentioned, which other DOTs do you see following a similar path as Texas and New Mexico? Is this blended cement coming from the PLC product that you mentioned? If that is the case, how prepared are you in terms of capacity to serve this blended cement in case we see other DOTs changing their requirements? Additionally, how much of your U.S. volumes do you expect this blended cement to represent given the changes in the DOT requirements and what could be the margin implications? Thank you so much.

**Enrique Escalante**

Thank you, Froylan. Most of the DOTs are moving towards—I mean, these types of standards and some of them have already adopted them. For example, we are shipping PLC cement in Montana as we speak. We have also started the efforts in Colorado. So, I think that the DOTs will continue to change in the case of those that have not approved some specific type of cement, again, because there is a lot of demand from the users on more sustainable products.

In terms of our blended cement, we're talking here about two different types. The pozzolan that I referred to that are being produced now in Mexico, we have also done that in the Rapid City plant for a paving project in Nebraska; and the PLC, which is most likely what it's going to be more successful for us given obviously the availability of limestone for our plant.

We don't have yet a number to give you in terms of how fast and what will be the percentage of our total sales mix, but we are continuing working on that as we develop the market. A short-term target that we have for this year, it's 75,000 tons. But, that's just 2021, which is of course still a low number of what we would expect to get in the future.

**Froylan Mendez – JP Morgan**

Enrique, is there a big difference in the margins of these types of product versus the typical Portland cement?

**Enrique Escalante**

Well, it will depend obviously on the raw materials, on the pozzolans and where you can get them, because again, the challenge here is how close to your plant you can have this is natural pozzolan. So, it will be very variable, it will be case-by-case depending on what you can find it and where you can find it. As I said, at this moment we're working with the one that we have here in Chihuahua and with very good margins.

In terms of PLC, of course, I mean, Portland limestone cement, what you do is that you substitute grind limestone for clinker. So, the margin comes from the cost that you don't incur in burning the limestone in a kiln, all the fuel costs and associated power to burn it, because you add the limestone directly in your process, I mean, in your finish mill. So, that's basically the difference, the cost difference of the clinker as a substitute.

**Froylan Mendez – JP Morgan**

Thank you so much.

**Enrique Escalante**

You're welcome.

**Operator**

Our next question comes from the line of Federico Galassi with PAAMCO. You may proceed with your question.

**Federico Galassi – PAAMCO**

Hi guys. It's Federico Galassi from PAAMCO. Thanks for taking my question. Just one question, Luis Carlos. You mentioned that in the case that you don't find this year M&A opportunities you will pay more debt. When we look at the numbers and you show in the presentation that the net debt/EBITDA close to 0.2 at the end of the year, and since nothing happened next year will be net cash as your position. What are you thinking, pay dividends, increase the dividends, extraordinary dividends, something like that, buybacks or for this year and what do you believe is the right level of net debt that you see for the Company the next year? Thank you.

**Luis Carlos Arias**

Thank you, Federico. Yes, as we said, we're going to continue looking for opportunities. That's one of the main priorities of the Company in 2021, in M&A opportunities. Yes, if we don't find an opportunity, we're going to pay down debt. We want to have the right amount of cash going forward to take advantage of those market opportunities. Right now, the (inaudible) that we have, we're not seeing a special dividend.

In terms of buybacks, actually, this year we bought back some shares at the beginning of the pandemic. We use the buyback program more for liquidity purposes. As of now, that's the strategy, that's the current strategy. Again, we're confident and we're pushing for M&A opportunities and that's the main focus. So, we want to have the right balance sheet to take advantage of those.

**Federico Galassi – PAAMCO**

Thanks. Sorry, a question if I may, a continuation. If you find an opportunity, the opportunity again to go to net debt, what do you believe is your target, or what is your maximum net-debt-to-EBITDA that you believe that will be the high number for the Company?

**Luis Carlos Arias**

Oh yes, Federico. Three times is what we're comfortable with. So, that's the number. If we find an opportunity, a very good opportunity, we may—that is bigger than that threshold, we may go above those three times, but we have a clear business plan to delever as quick as possible. We have done that in the past. So, that may be a possibility as well.

**Federico Galassi – PAAMCO**

Okay. The last question, I think that was two years ago CEMEX sold some stocks of the company. Do you know if there are—CEMEX still has this position? This is the first question.

The second one is, if they still have this position, do you believe that will be an opportunity to buy that? Thank you so much for the questions.

**Luis Carlos Arias**

Well, CEMEX has announced that they have sold most of the shares that were a part of the re-IPO three years ago, four years ago, I think. But again, that may be a question that you have to make to CEMEX. We don't see any options of investing those shares on our side.

**Federico Galassi – PAAMCO**

Okay, thank you so much guys, and again, congrats for the results.

**Luis Carlos Arias**

Thank you, Federico.

**Operator**

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

Our next question comes from the line of Yassine Touahri with OnField. You may proceed with your question.

**Yassine Touahri – On Field**

Yes. Just I have three questions. On the U.S., you mentioned the price increase of US\$8 per ton. Is it safe to assume that half of it is fixed and that you could in the end get a price increase of let's say 3% - 4%?

Then my second question is on Mexico. We understand that some of your competitors are facing substantial cost inflation because they're using pet coke and have increased prices by more than 5%. Is it something that you see in your region in 2021?

Then my last question is, I was actually impressed by your commitment to carbon neutrality by 2050. Here, do you have any indication that the Biden administration could consider implementing a tax on the CO2s that is emitted by the U.S. cement industry in the next four years? Could also the Biden administration put in place a carbon border tax to protect the industry from shipping (inaudible) from countries with no CO2 regulation?



**Enrique Escalante**

Yassine, hi. Thank you for your questions. In terms of pricing in the U.S., what I said is that the \$8 price increase went into effect on January 1, and we have a few areas, I mean, sliding into April 1. But we expect most of the prices, I mean, to get materialized of the price increase. So, we're seeing a strong year as we said, and so we don't see a big problem in the majority of this increase taking place.

I'm sure—I don't know if you heard me well. I still have my mask on. Sorry for that.

In pet coke, as I said, in Mexico, I understand—I mean, the scarcity of it and other companies having to take those cost increases which are not affecting us. So, the price increase of around 5% I think is possible for us in the Chihuahua market too where we already started with that process in our market and we believe it's going to be—I mean, it's not that perhaps a little bit above in certain products in 2021.

In terms of our commitment to carbon neutrality, concrete neutrality and carbon for 2050, of course, we're fully committed to it and we're working with the industry and in our plants to find out what exactly is going to be our solution, but definitely committed to it.

On your fourth question, I couldn't hear it well in terms of Biden administration. I think I heard, I mean, if there's going to be a border tax or...

**Yassine Touahri – On Field**

The question is, from what I understand, if you want to become carbon neutral, you will have to invest into carbon capture. For carbon capture to be profitable, you need to have some form of a tax on CO<sub>2</sub>, like you have in Europe. So, my question was, do you think that the Biden administration could introduce a tax on the CO<sub>2</sub> emitted by the U.S. cement industry?

**Enrique Escalante**

I think, yes, it's very possible. Of course, as an industry and through PCA, we are doing everything we can to convince the regulators and legislatures that this needs to be a federal legislation and not a state by state one, which will complicate things a lot. So, we need this to be federal and we of course need a carbon border adjustment tax to have a level playing field. We're working on that through the industry.

**Yassine Touahri – On Field**

Do you think this is something that could be implemented in the next four years, or do you think it's something which is going to happen more in the longer term, or you have good visibility?

**Enrique Escalante**

Well, it's hard to say. It's just been a few weeks since the administration took over, but I think it's something that is likely. I would not be able to say what percentage of certainty, I mean, we will place on it at this moment.

**Yassine Touahri – On Field**

Yes. That's it. Thank you very much for your answer.

**Enrique Escalante**

Thank you.



**Operator**

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Ricardo Martinez for closing remarks.

**Ricardo Martinez**

Thank you 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 is, of course, available for any follow up questions you may have. Goodbye and stay safe.

**Operator**

This concludes today's conference. You may disconnect your line at this time, thank you for your participation.

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