

# 2020

## FIRST QUARTER EARNINGS REPORT



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## GCC REPORTS FIRST QUARTER 2020 RESULTS

Chihuahua, Mexico, April 28, 2020 – Grupo Cementos de Chihuahua, S.A.B. de C.V. (BMV: GCC\*), a leading supplier and producer of cement and concrete in the United States, Mexico and Canada, today announced its results for the first quarter 2020.

### Q1 2020 HIGHLIGHTS

- U.S. cement and ready mix volumes increased 12.5% and 21.2% respectively
- Consolidated net sales increased 11%, to US\$ 181.4 million
- EBITDA increased 18.4% to US\$ 45.3 million, with a 25% EBITDA margin; a 1.6 percentage points point increase
- Free cash flow totaled US\$ 11.1 million, with a conversion rate from EBITDA of 25%
- Net leverage (net debt/EBITDA) ratio stood at 1.12x as of March 2020
- Earnings per share increased 321.6% year-on-year, to US\$ 0.0495

### KEY FIGURES (millions of dollars)

	Q1-20	Q1-19	Q1-20 vs. Q1-19
Net sales	181.4	163.4	11.0%
Operating income before other expenses, net	20.6	11.0	87.3%
EBITDA*	45.3	38.3	18.4%
EBITDA margin	25.0%	23.4%	
Free cash flow**	11.1	(22.4)	n.m.
Net income	16.5	3.9	321.7%
Earnings per share (US\$)***	0.0495	0.0117	321.6%

\*EBITDA: operating income before other expenses + depreciation and amortization.

\*\*Free cash flow before expansion CapEx.

\*\*\*Earnings per share calculated based on average number of outstanding shares during the quarter

**Enrique Escalante, GCC's Chief Executive Officer, commented:** *"We are undergoing an unprecedented health crisis that has impacted the global community and the economies across the world. In these challenging times, health and safety of our employees is our top priority, and we have reacted rapidly taking the necessary measures to protect the well-being of them and their families while mitigating the financial impacts in our business.*

*Both our divisions delivered strong results in the first quarter of the year, as the economic impacts of the pandemic weren't fully realized until late in the quarter. All of our operations are running at a steady pace, but we do expect an impact on our results in the quarters ahead."*

**Mr. Escalante continued,** *“We are entering this crisis from a position of strength; we have built a strong a resilient business over the years, and while we cannot predict the length and severity of this pandemic, nor the impact in the overall macro environment, we have been through downturns before and we are confident that we will successfully navigate today’s challenges as we have done in the past.”*

## **UPDATE ON ACTION PLAN TO MITIGATE IMPACT OF COVID-19**

GCC has taken immediate measures in response to the rapid changes and challenges caused by this pandemic since the beginning of the Covid-19 outbreak.

A Task Force was enacted, comprised of the company’s CEO and the head of each business unit, to assess operations and coordinate efforts across the organization to ensure an agile and appropriate response.

In this time of crisis and uncertainty, health and safety is GCC’s first priority. To that end, the following measures have been implemented:

- 1) Developed specific health and safety protocols for each of GCC’s operations to minimize the potential spread of the virus
- 2) Enacted “work from home” protocols for the majority of GCC’s employees in administrative areas
- 3) Established skeleton crews wherever possible, this entails working with the minimum number of personnel required for each operation
- 4) Ensured that every employee receives their full salary and benefits.

GCC has not been forced to shut-down any portion of its operations to date. In the US, GCC’s facilities and distribution centers are located in areas where construction has generally been deemed essential by government authorities and all market segments continue operating at a steady pace.

In Mexico, in response of this health crisis, the government established a national lockdown starting April 1, advising citizens to remain at home and mandating the shutdown of all non-essential businesses tentatively until mid- May, and potentially extended until May 30 based on the evolution of the pandemic within each respective county. On April 7, the Mexican Government issued another decree through which the cement industry was deemed as essential business. However, a significant portion of GCC’s customers were forced to halt operations since their sector have not been designated as essential to date.

In order to minimize the financial impact of this crisis, ensure business continuity and preserve cash, GCC has taken the following measures:

- 1) Established contingency plans to ensure a safe operation and uninterrupted supply to customers, supported by GCC's robust manufacturing and distribution network, in case of a temporary closure of the US and Mexican borders.
- 2) Cost and expense reductions throughout the organization including:
  - a. Variable costs and distribution expense efficiencies,
  - b. US\$ 15 million in savings already identified, which includes among other initiatives, establishing a hiring freeze, not filling vacant positions and limiting external service providers to the bare minimum
  - c. US\$ 7 million will be deferred for the Cares Act
  - d. Adjusting maintenance expenses to lower production levels to align with the customer's shutdowns
- 3) Enhance liquidity position and financial flexibility through the following actions:
  - a. Reduction of 2020 capex to \$45 million from \$70 million and deferral of all non-essential projects.
  - b. Withdrew \$50 million of revolving credit lines in April of this year
  - c. Suspended temporarily GCC's share buyback program starting April
  - d. Continue dividend distributions, with flexibility in setting the payment date

## OUTLOOK FOR 2020

In light of uncertainty due to the COVID-19 pandemic and related effects, GCC is suspending its guidance for full year 2020. It currently is not possible to quantify said impact based on the dynamic nature of current events, nor to estimate results for the full year.

## FINANCIAL RESULTS

**Consolidated net sales** for the first quarter of 2020 increased by 11%, to US\$ 181.4 million, from US\$ 163.4 million in the first quarter 2019. This was primarily due to increased cement and concrete volumes in the U.S., increased concrete volumes in Mexico, as well as a favorable pricing environment in both markets.

### NET SALES (millions of dollars)

	Q1-20	Q1-19	Q1-20 vs. Q1-19
<b>Consolidated</b>	<b>181.4</b>	<b>163.4</b>	<b>11.0%</b>
United States	119.7	103.4	15.8%
Mexico	61.7	60.1	2.8%
Q1-20 vs. Q1-19			
	Volumes	Prices*	
<b>Cement</b>			
United States	12.5%	2.1%	
Mexico	-0.5%	5.9%	
<b>Concrete</b>			
United States	21.2%	5.4%	
Mexico	1.5%	5.0%	

*\*Prices in local currency*

**U.S. sales**, which represented 66% of GCC's first quarter 2020 consolidated net sales, increased by 15.8% to US\$ 119.7 million. This was due to a 12.5% increase in cement volumes and 21.2% increase in concrete volumes, as well as a 2.1% and 5.4% price increase, respectively.

**Mexico sales**, which represented 34% of GCC's consolidated net sales, increased 2.8% in the first quarter 2020, to US\$ 61.7 million. This was due to a 1.5% increase in concrete volumes with a 5.9% and 5% increase in cement and concrete prices, respectively, which were partially offset by a 0.5% decrease in cement volumes and by US \$2.4 million related to the depreciation of the Mexican peso against the U.S. dollar during the quarter.

Mexico sales were again primarily driven by demand related to industrial warehouse construction, mining projects and middle-income housing construction in the northern cities during the first quarter 2020.



**Cost of sales** totaled US\$ 139 million in the first quarter 2020, representing 76.6% of total sales, compared to 80% in the first quarter 2019. This decrease was primarily due to:

- Favorable selling prices in both divisions
- Lower variable costs at Rapid City plant and at the coal mine
- Lower variable selling expenses in the coal mine
- Higher fixed cost dilution from increased sales volumes

These were partially offset by a change in sales mix due to a lower share of higher margin Mexico Sales.

**Selling, general and administrative expenses** totaled US\$ 21.7 million in the first quarter 2020, equivalent to 12% of consolidated net sales; a 120 basis point decrease.

**Operating income before other expenses** increased 87.3%, to US\$ 20.6 million in the first quarter 2020.

**Other expenses** were US\$ 0.2 million, compared to a US\$ 0.2 million income in the prior year period.

**Operating income** increased 82.6% to US\$ 20.4 million in the first quarter 2020.

**EBITDA** increased 18.4% to US\$ 45.3 million, while the EBITDA margin expanded 1.6 percentage points to 25%. In the first quarter of 2020, 63% of EBITDA was generated by the Company's U.S. operations and 37% by its Mexico operations.

**Net financial income** totaled US\$ 0.2 million in the first quarter 2020, compared to an expense of US\$ 8.5 million in the prior year period. This was due to lower interest rates on the variable portion of the Company's financial debt and the depreciation of the Mexican peso relative to the U.S. dollar.

**Income tax** totaled US\$ 4.7 million in the first quarter 2020.

**Consolidated net income** was US\$ 16.5 million for the first quarter 2020, compared to US\$ 3.9 million in Q1-19; representing a 321.7% increase.

**Earnings per share** was US\$ 0.0495, compared to US\$ 0.0117 in Q1-19, a 321.6% increase.

**Free cash flow** was US\$ 11.1 million in the first quarter 2020, compared to negative US\$ 22.4 million for the same period in 2019. This is a reflection of increased EBITDA generation after operating leases (IFRS-16), lower interest expenses, decreased working capital requirements and maintenance CapEx, partially offset by higher cash taxes.

## FREE CASH FLOW (millions of dollars)

	Q1-20	Q1-19	Var
Operating income before other expenses	20.6	11.0	87.3%
Depreciation and amortization	24.7	27.2	-9.4%
<b>EBITDA</b>	<b>45.3</b>	<b>38.3</b>	<b>18.4%</b>
Interest (expense)	(2.4)	(2.9)	-18.0%
(Increase) Decrease in working capital	(11.0)	(31.4)	-65.0%
Taxes	(3.0)	(0.5)	496.3%
Accruals and other accounts	(4.6)	(6.4)	-28.7%
Operating leases (IFRS 16 effect)	(4.7)	(5.0)	-5.6%
<b>Operating cash flow</b>	<b>19.6</b>	<b>(8.0)</b>	<b>n.m.</b>
Maintenance CapEx*	(8.5)	(14.5)	-41.5%
<b>Free cash flow</b>	<b>11.1</b>	<b>(22.4)</b>	<b>n.m.</b>
Growth & Strategic CapEx	(0.4)	(7.1)	-94.9%
Share repurchase, net	(4.4)	0.0	100.0%
Debt amortization, net	(2.0)	0.0	100.0%
FX effect	(16.3)	1.0	n.m.
Initial cash balance	350.5	251.8	39.2%
<b>Final cash balance</b>	<b>338.7</b>	<b>223.3</b>	<b>51.7%</b>
<b>FCF conversion rate**</b>	<b>24.6%</b>	<b>N.A.</b>	

\*Excludes capital expenditures for growth and expansion

\*\*Free cash flow conversion rate: free cash flow after maintenance CapEx/EBITDA

**Total debt** was US\$ 655.4 million as of March 31, 2020, based on contractual balances; a 1% year-on-year decrease.

Short-term debt was US\$ 33.4 million, representing 5.1% of the total debt.

As of March 2020, 100% of GCC's total debt was denominated in U.S. dollars.

Net leverage (net debt/EBITDA) at the end of the first quarter 2020 was 1.12 times, compared to 1.11 as of December 31, 2019, appropriately aligned with contractual obligations.

## INTEREST-BEARING DEBT\* (millions of dollars)

	Mar-2020	Mar-2019	2020 vs. 2019
<b>Total</b>	<b>655.4</b>	<b>661.8</b>	<b>-1.0%</b>
Short-term	33.4	6.4	422.3%
Long-term	622.0	655.4	-5.1%

\*Excludes amortizable commissions and issuance expenses

**BASIS OF PREPARATION FOR FINANCIAL STATEMENTS**

Financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and use the U.S. dollar as the presentation currency.

Currency translations from pesos into U.S. dollars use the average monthly exchange rates published by Banco de México, as shown below.

**EXCHANGE RATES (pesos per U.S. dollar)**

	2020	2019
First quarter average	19.9138	19.2169
As of March 31	23.5122	19.3201

Unless otherwise stated, all percentage changes refer to the first quarter (or three months) of 2020 compared to the corresponding periods of 2019.

**ANALYST COVERAGE**

Analysts at the following brokerages currently cover GCC's shares:

1. Actinver
2. Bank of America Merrill Lynch
3. Data Based Analysis
4. GBM - Grupo Bursátil Mexicano
5. Grupo Financiero Banorte
6. HSBC Global Research
7. J.P. Morgan
8. INVEX, Grupo Financiero
9. Itaú BBA
10. Nau Securities Limited
11. Santander
12. Scotiabank



## MATERIAL EVENTS

### **GCC committed to reduce CO<sub>2</sub> emissions**

GCC announced on January 30, 2020 its commitment to setting greenhouse gas reduction targets in line with climate science by joining the Science Based Targets initiative (SBTi).

GCC's commitment is to set science-based emission reduction targets in line with the level of decarbonization required to keep global temperature increase well-below 2 degrees Celsius compared to pre-industrial temperatures, as described in the latest Special Report of the Intergovernmental Panel on Climate Change (IPCC).

Through this initiative, GCC will ensure that the company's low-carbon transformation is aligned with climate science and is a further reflection of its unwavering commitment to implement global best practices related to sustainability across the company.

## CONFERENCE CALL

Grupo Cementos de Chihuahua, S.A.B. de C.V. will host its earnings conference call on April 29, 2020.

Time: 11:00 a.m. (Eastern Time) / 10:00 a.m. (Central Time) / 09:00 a.m. (Mountain Time)

Conference ID: **9889937**

Dial in:

U.S.: 1-888-204-4368 Toll Free

International: 1-323-994-2093

Replay (through May 6, 2020, 11:59 p.m.):

U.S.: 1-844-512-2921 Toll Free

International: 1-412-317-6671

Listen-only webcast and replay: [click here](#).

## Income Statement

(Thousands of dollars)

	1Q 2020	%	1Q 2019	%	Q20 / Q19
<b>Net sales</b>	<b>181,400</b>	<b>100.0%</b>	<b>163,424</b>	<b>100.0%</b>	<b>11.0%</b>
USA sales	119,671	66.0%	103,361	63.2%	15.8%
Mexico sales	61,729	34.0%	60,063	36.8%	2.8%
Cost of sales	139,043	76.6%	130,787	80.0%	6.3%
<b>Gross income</b>	<b>42,357</b>	<b>23.4%</b>	<b>32,637</b>	<b>20.0%</b>	<b>29.8%</b>
Selling, general and administrative expenses	21,725	12.0%	21,619	13.2%	0.5%
<b>Operating income before other expenses, net</b>	<b>20,632</b>	<b>11.4%</b>	<b>11,018</b>	<b>6.7%</b>	<b>87.3%</b>
Other (income) expenses	208	0.1%	(170)	-0.1%	n.m.
<b>Operating income</b>	<b>20,424</b>	<b>11.3%</b>	<b>11,188</b>	<b>6.8%</b>	<b>82.6%</b>
Financial income	1,785	1.0%	2,109	1.3%	-15.4%
Financial expenses	(9,820)	-5.4%	(10,528)	-6.4%	-6.7%
Exchange gain (loss), net	8,237	4.5%	(148)	-0.1%	n.m.
<b>Net financing expenses</b>	<b>202</b>	<b>0.1%</b>	<b>(8,567)</b>	<b>-5.2%</b>	<b>n.m.</b>
Share of profit of associates and joint venture	540	0.3%	487	0.3%	10.9%
<b>Income before income taxes</b>	<b>21,166</b>	<b>11.7%</b>	<b>3,108</b>	<b>1.9%</b>	<b>581.0%</b>
Income taxes (benefit)	4,701	2.6%	(796)	-0.5%	n.m.
<b>Consolidated net income</b>	<b>16,465</b>	<b>9.1%</b>	<b>3,904</b>	<b>2.4%</b>	<b>321.7%</b>
<b>Controlling interest</b>	<b>16,464</b>	<b>9.1%</b>	<b>3,904</b>	<b>2.4%</b>	<b>321.7%</b>
<b>Non-controlling interest</b>	<b>1</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>0.0%</b>
<b>EBITDA</b>	<b>45,304</b>	<b>25.0%</b>	<b>38,262</b>	<b>23.4%</b>	<b>18.4%</b>
Free cash flow	11,145	6.1%	(22,430)	-13.7%	n.m.

## Statement of Financial Position

(Thousands of dollars)

	March 2020	March 2019	Variation
<b>Total assets</b>	<b>1,968,155</b>	<b>1,954,346</b>	<b>0.7%</b>
<b>Current Assets</b>	<b>627,034</b>	<b>529,379</b>	<b>18.4%</b>
Cash and cash equivalents	338,658	223,299	51.7%
Accounts receivable, net	87,069	77,114	12.9%
Other accounts receivable, net	41,487	59,673	-30.5%
Due from related parties	2,357	1,866	26.3%
Inventories	116,797	121,852	-4.1%
Urban land	29,370	34,610	-15.1%
Prepaid expenses	11,296	10,965	3.0%
<b>Non-current assets</b>	<b>1,341,121</b>	<b>1,424,967</b>	<b>-5.9%</b>
Investment in associates	15,146	16,325	-7.2%
Property, machinery and equipment, net	962,915	1,030,893	-6.6%
Long term right of use assets	36,783	52,457	-29.9%
Goodwill	240,545	247,242	-2.7%
Intangible assets, net	65,168	71,563	-8.9%
Other non-current assets	20,564	6,487	217.0%
<b>Total liabilities</b>	<b>908,891</b>	<b>979,333</b>	<b>-7.2%</b>
<b>Current liabilities</b>	<b>193,790</b>	<b>176,670</b>	<b>9.7%</b>
Current portion of long term debt	33,425	6,400	422.3%
Trade accounts payable	83,865	74,857	12.0%
Due to related parties	1,398	1,002	39.5%
Short term - employee benefits	28,152	25,365	11.0%
Accrued expenses and taxes other than income taxes	24,838	44,752	-44.5%
Provisions	2,355	3,914	-39.8%
Short term right of use liabilities	19,757	20,380	-3.1%
<b>Long-term liabilities</b>	<b>715,101</b>	<b>802,663</b>	<b>-10.9%</b>
Long term debt	615,618	644,923	-4.5%
Long term right of use liabilities	16,913	32,587	-48.1%
Employee benefits	42,045	36,179	16.2%
Provision for environmental restoration	22,451	22,266	0.8%
Other long-term liabilities	182	1,184	-84.6%
Income taxes payable	8,922	19,823	-55.0%
Deferred income taxes	8,970	45,701	-80.4%
<b>Total equity</b>	<b>1,059,264</b>	<b>975,013</b>	<b>8.6%</b>
<b>Controlling interest</b>	<b>1,059,237</b>	<b>974,982</b>	<b>8.6%</b>
Capital stock	32,070	32,070	0.0%
Additional paid-in capital	148,365	148,365	0.0%
Reserves	22,659	22,659	0.0%
Retained earnings	1,162,128	1,053,352	10.3%
Consolidated net income	16,464	3,904	321.7%
Other comprehensive income	(322,449)	(285,368)	-13.0%
<b>Non-controlling interest</b>	<b>27</b>	<b>31</b>	<b>-12.9%</b>
<b>Total Liabilities and Equity</b>	<b>1,968,155</b>	<b>1,954,346</b>	<b>0.7%</b>

## ABOUT GCC

GCC is a leading supplier and producer of cement, concrete, aggregates and construction-related services in the United States, Mexico and Canada, with an annual cement production capacity of 5.85 million metric tons.

Founded in 1941, the Company's shares are listed on the Mexican Stock Exchange under the ticker symbol GCC\*.

*This earnings report may contain forward-looking statements. All statements that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "expect," "estimate," "intend," "project" and similar expressions are generally intended to identify forward-looking statements. These statements are subject to risks and uncertainties including, among others, changes in macroeconomic, political, legal, public health crises including COVID-19, governmental or business conditions in the markets where GCC operates; changes in interest rates, inflation rates and currency exchange rates; performance of the construction industry; and pricing, business strategy and other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from the beliefs, projections, and estimates described herein. GCC assumes no obligation to update the information contained in this press release.*