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## **Loma Negra Second Quarter 2018 Earnings Call and Webcast August 10, 2018 at 10:00 AM Eastern**

### **CORPORATE PARTICIPANTS**

**Gaston Pinnel – Investor Relations**

**Sergio Faifman – Chief Executive Officer & VP, Board of Directors**

**Marcos Gradin – Chief Financial Officer**

### **About Loma Negra**

Founded in 1926, Loma Negra is the leading cement company in Argentina, producing and distributing cement, masonry cement, aggregates, concrete and lime, products primarily used in private and public construction. Loma Negra is a vertically-integrated cement and concrete company, with nationwide operations, supported by vast limestone reserves, strategically located plants, top-of-mind brands and established distribution channels. The Company also owns a 51% equity stake in an integrated cement production plant in Paraguay, which is one of two leading cement producers in that country. Loma Negra is listed both on BYMA and on NYSE in the U.S., where it trades under the symbol "LOMA". One ADS represents five (5) common shares. For more information, visit [www.lomanegra.com](http://www.lomanegra.com)

### **Disclaimer**

This release contains forward-looking statements within the meaning of federal securities law that are subject to risks and uncertainties. These statements are only predictions based upon our current expectations and projections about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases, you can identify forward-looking statements by terminology such as "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "potential," "seek," "forecast," or the negative of these terms or other similar expressions.

The forward-looking statements are based on the information currently available to us. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including, among others things: changes in general economic, political, governmental and business conditions globally and in Argentina, changes in inflation rates, fluctuations in the exchange rate of the peso, the level of construction generally, changes in cement demand and prices, changes in raw material and energy prices, changes in business strategy and various other factors.

You should not rely upon forward-looking statements as predictions of future events. Although we believe in good faith that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Any or all of Loma Negra's forward-looking statements in this release may turn out to be wrong. You should consider these forward-looking statements in light of other factors discussed under the heading "Risk Factors" in the prospectus filed with the Securities and Exchange Commission on October 31, 2017 in connection with Loma Negra's initial public offering. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements.

Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this release to conform these statements to actual results or to changes in our expectations.

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Loma Negra Second Quarter 2018 Conference Call and Webcast. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the start key followed by zero. After today's presentation there will be an opportunity to ask questions.

To ask a question you may press star then one on your telephone keypad. To withdraw a question please press star then two. We would also ask that you please limit your questions to one question and one follow-up please. If you have additional questions you may re-queue for those questions. Please note that this event is being recorded.

I would now like to turn the conference over to Mr. Gaston Pinnel, Investor Relations Manager. Please go ahead, sir.

### **Gaston Pinnel**

Thank you. Good morning, everyone, and thank you for joining us today. Speaking during today's call will be Sergio Faifman, our CEO and Vice President of the Board of Directors; and Marcos Gradin, our CFO. Both will be available for the Q&A session.

Before we proceed I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements and I refer you to the forward-looking statements section of our earning release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statement to reflect new or changed events or circumstances.

Now, I would like to turn the call over to our CEO, Sergio Faifman.

### **Sergio Faifman**

Thank you, Gaston. Hello, everyone and thank you for joining us today. It is a pleasure to welcome you to the Loma Negra second quarter 2018 earnings conference call. I will start with an overview of our performance during the quarter and then Marcos will go through market trends and over our financial results. Afterwards, we will open the floor for the questions.

Starting with slide 3, we experienced a challenging macroeconomic environment in Argentina, which implied a slowdown in cement demand growth in the quarter. Despite this, cement in Argentina our core business delivered solid results, reporting continuing year-on-year top-line growth and EBITDA margin expansion. This performance was achieved despite relatively flat volumes as we continue to balance profitability and market position.

On a consolidated level we reported year-on-year growth in both revenue and EBITDA, which were up 37% and almost 27% respectively. We continued to

expand cement margin year-on-year in Argentina. However, our consolidated adjusted EBITDA margin contracted mainly reflecting a poor performance in our railway segments and robust growth in our lower margin concrete business. Year-on-year however, our bottom line fell 34% impacted by foreign exchange loss, largely non-cash resulting from the sharp peso depreciation in the period.

While we experienced a 50% average peso depreciation, revenues measured in US dollar fell 8% year-on-year and adjusted EBITDA was down 15%. We closed the quarter with a strong balance sheet, with net debt to last 12 months EBITDA for 0.83 times, ensuring solid grounds and flexibility to pursue our strategic initiatives. In that respect the expansion of L'Amali plant remained on track to begin operation in 2020, driving profitability to a higher level and bringing additional capacity to increase efficiency towards Argentine demand.

I will now hand off the call to Marcos Gradin who will review our market trends and financial results. Marcos, go ahead.

### **Marcos Gradin**

Thank you, Sergio. Good day everyone. Turning to slide 4 for a review of the macro outlook and industry trends. A mix of external and internal factors affected the macro dynamics this quarter. As a result, consensus for GDP growth for 2018 has been adjusted downwards to negative 0.3%, recovering to 1.5% in 2019 and 2.5% in 2020.

In this context we saw a contraction in private construction activity which in turn impacted overall cement demand. Industry cement sales growth slowed to 1.3% year-over-year in the quarter. While cement demand continued to gain share of total cement, sales mainly driven by the current public infrastructure projects which continued to move ahead.

Looking forward, given the current economic scenario in Argentina and a tougher macro environment in the second half of the year, we expect cement demand to decline in the second half of the year and to remain flat in the year reaching similar record volumes reported in 2017. While public works currently in development are anticipated to move ahead, we expect private consumption to slow down.

Now, please turn to slide 5 for a review of our top line performance by segment. Keeping our focus on balancing profitability and market position, revenues from cement in Argentina were up 33% year-over-year. We continued to see healthy pricing dynamics in the quarter which more than offset relatively flat volumes. In addition to the challenging macro backdrop, volumes were also affected by adverse weather conditions in our key markets.

Good progress in public infrastructure works, mainly in metropolitan Buenos Aires, enabled us to deliver an 80% increase in concrete revenues from the year ago quarter supported by higher volumes and prices.

Cement revenues in Paraguay were up almost 50% as the appreciation of Guarani against the Argentinean peso together with local price increase more than offset low single-digit decline in volume. Note that this quarter we operated at a high utilization rate and with lower inventory levels compared to the same period in 2017.

Aggregates revenues were up 6% year-on-year affected by a mid-single digit decline in volumes and also reflecting a significantly higher share of FOB sales in the quarter. Finally, sales in our railroad segment was up 25% in the period as higher prices more than compensated the decline in transported volumes of owned and third-party aggregates.

Turning to slide 6, consolidated gross profit for the quarter was up 29% year-on-year. Our Argentine cement segment turned in an 88-basis point increase in gross margin to over 33% in the quarter, benefitting from a healthy pricing environment despite relatively flat volumes and higher thermal and efficiency costs reflecting both the peso depreciation against the US dollars.

At the consolidated level, however, gross margin contracted 189 basis points to 28% impacted by a combination of factors. First, the railroad segment which has a highly fixed cost structure experienced lower cost dilution impacted by the decline in own and third-party transported volumes of aggregate. In addition, strong growth in lower margin concrete revenues in Argentina.

Finally, in Paraguay we purchased third-party clinker this quarter to support demand resulting in slightly lower margins for this business. Margins in Paraguay have returned to previous levels in July as additional clinker purchases were not further required.

SG&A expenses in second quarter of 2018 rose, affected by the expenses rising from the new public company profile. As a percentage of revenues, SG&A declined 20 basis points year-on-year to 7.7% reflecting top line growth and a lower effective sales tax rate.

Turning to slide 7, our core Argentine cement business continued to turn in strong results during the quarter, posting a 36% year-on-year increase in adjusted EBITDA and a margin expansion of 60 basis points to 28%.

On a consolidated basis, the solid growth in our segment business in Argentina and Paraguay allowed us to deliver 27% year-on-year increase in adjusted EBITDA, which in a total of nearly ARS 1.2 billion pesos with Argentina cement representing around 85%.

Adjusted EBITDA margin, however, contracted approximately 200 basis points mainly impacted by weaker profitability in railroad and Paraguay along with robust growth in our lower margin concrete business.

Moving on to slide 8, we delivered profitable growth despite the challenging macro backdrop. In addition to the good operating results, net income also benefited from a decline of around 160 basis points in the effective tax rate down to 30.7% in the quarter as a result of the tax reform approved at the end of last year.

Net majority income however, declined 35% year-on-year, impacted by a foreign exchange loss of ARS 515 million, mainly due to non-cash losses from the 43% Argentine peso depreciation in the period. This compares to an ARS 130 million FX loss last year, when the local currency depreciated only 8%. Year-on-year, net financial expense decreased by ARS 7 million as a result of increases in both cash balance and interest rate.

Turning to Slide 9, our strong financial position provides us with a solid platform to pursue our strategic initiatives despite the more challenging macro backdrop. We closed the quarter with net debt to adjusted EBITDA ratio of 0.8 times compared to 0.3 times at year-end 2017, and a decline from 1.4 times in the same quarter of 2017.

While working capital requirements are seasonally more intensive in the first half of the year, resulting in lower cash flows generation, this semester we also saw higher working capital needs mainly regarding inventories as per higher replacement cost and maintenance stoppage schedule requirements when compared to the previous year.

We also invested 1.3 billion pesos, approximately US\$ 60 million during the first half of the year, with 52% allocated in the expansion plan of the second production line at our L'Amali plant. We have already ordered the main equipment and are moving according to plan with the construction process.

I will now hand the call to Sergio to complete this presentation.

### **Sergio Faifman**

Now please turn on to slide 10. Looking ahead, we remain cautiously optimistic for the remainder of the year. We expect cement demand to contract in the second half of the year. Though full-year figures could come close to the record level achieved in 2017. Supported by our leading market position and strong balance sheet, we are well positioned to continue pursuing the balance between profitability and market position in a more complex economic environment.

We're confident about the long-term prospect for our business and the completion of the capacity expansion of L'Amali plant in 2020. This will bring a higher level of efficiency addressing Argentine cement demand and driving profitability gains.

This ends our prepared remarks. We are now ready to take questions. Operator, please open the call for questions.

## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now conduct the question and answer session. If you would like to ask a question, please press star then one on your telephone keypad. A confirmation tone will indicate that your line is in question queue. You may press star then two if you would like to remove your line from queue. For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the keys. Once again, star one on your telephone keypad.

We would also like to ask that you please limit your questions to one question and one follow-up please. If you have an additional question you may re-queue for those questions and they will be addressed. Also, please note that Mr. Sergio Faifman will be responding in Spanish immediately following an English translation. Please hold on momentarily while we assemble our roster.

Our first question comes from Daniel Sasson from Itaú BBA. Please go ahead.

### Daniel Sasson

Hi, Sergio, Marcos, Gaston, thanks for taking my questions. Good morning. My question is related to your cost performance. It caught our attention that if we consider that 40% of your costs in the cement business in Argentina are denominated in dollars, probably the portion denominated in pesos would have to have decreased sequentially, so you could prevent a harsh decline in margins.

Can you please give us more color on what drove your cost performance or this good cost performance and if you think if it is sustainable going forward? That would be my first question. Thank you.

### Marcos Gradin

Hi, Daniel, how are you? This is Marcos. I will say as you mentioned yes, 40% of our cost structure is in US dollars and adjusted to this currency the other part obviously it's adjusted by inflation, but we are confident that we focus in trying to maintain this cost on—focus and try to avoid overshooting the inflation our cost.

That's why you're seeing that margins in the cement business is improving and that also has to be because of the analysis that we make of price movements and how the cost structure affects the dollar and inflation affects our cost structure. Yes, we're always looking the different variables of the cost structure and then trying to maintain the profitability or to defend ourselves against this cost improvement.

### Daniel Sasson

Thank you, Marcos. Just a follow-up on your comment about prices. If you could give us a sense on where prices are in dollar terms now versus where they were at the end of last year before the 45%, 50% depreciation in the peso. And were

prices are in Argentinian pesos versus inflation year-to-date versus the levels they were in the end of last year that would help us a lot. Thank you.

**Marcos Gradin**

Daniel, we prefer not to answer about this particular—on prices where they are on the call. Yes, we don't give this kind of information. The number that you get from our balance sheet is around 100 dollars per ton.

**Daniel Sasson**

Perfect. Thank you.

**Operator**

Our next question comes from Nikolaj Lippmann from Morgan Stanley. Please go ahead.

**Nikolaj Lippmann**

Thank you and good morning everyone. Thanks for taking my questions and congrats on the numbers. My question is very similar to the prior question on the cost structure. As we come into the third quarter where you would typically use more petcoke, how should we think about your cost base there? I don't know you can provide any color.

If you have already contracted petcoke or whatever fossil fuel that you will be using in the third quarter and towards the second half of the year, if you had longer term contracts already with the FX done or whether we should think more in terms of spot for the third quarter and second half? Thank you very much.

**Marcos Gradin**

Nikolaj, sorry. We are currently working at I will say, 70% relying on natural gas and 30% relying on petcoke and the petcoke we acquired, it was not acquired recently, yes. It's at last year cost, yes. You shouldn't see a pickup in thermal energy in the third quarter regarding this kind of mix of thermal energy.

**Nikolaj Lippmann**

That is very useful. Congratulations on that. Thank you very much.

**Operator**

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

**Dan McGoey**

Great, thanks gentlemen. Good morning and congratulations on the inline results in a challenging environment, as well as for providing the updated outlook for the remainder of the year. My question is about, your sense of visibility into the demand in the second half of the year, and I'm wondering if you can speak a little bit about what you're seeing both on the infrastructure side as well as in the bag sales. For instance, on the infrastructure side there's a number of highway

construction projects underway. Are you seeing any deferment of work due to the recent scandal or any difficulties in terms of financing? Thanks.

**Sergio Faifman**

Thank you, Dan. This is Sergio Faifman. I speak in Spanish and then Gaston will translate, okay.

**Dan McGoey**

Okay.

**Sergio Faifman via interpreter**

Regarding the second semester, where we are expecting a contraction in Argentinean demand, but still we believe by the year-end we're going to meet the same volumes as in 2017. Our expectation is that on the second half this slowdown should be stopping and beginning and from 2019, we expect our growth in the GDP as the consensus of the economists of 1.5% and for 2020 of around 2.5% on the GDP growth.

And regarding the public works currently they remain in the same level and for the next year we expect that the PPPs are going to increase their participation. We are already working together with the PPP concessionists, the six PPP concessionists, and the government is also planning new PPPs for, in the near future.

**Dan McGoey**

Great, thank you very much for the response.

**Operator**

Our next question comes from Tony Christ from Capitol Securities. Please go ahead.

**Tony Christ**

Thank you. If we have questions after the call, I assume we can use your email you provide and/or the telephone number you provide—and during the course of the quarter to call you. Who will we be talking to Marcos or Gaston? I'm just a little curious about it who your investor rep is.

**Marcos Gradin**

Yes. Tony you can talk with me, Marcos or Sergio, Sergio or with Gaston, yes but you can also email the Investor Relations; it's received by us.

**Tony Christ**

Okay. Thank you. Excuse me. And as a follow-up just on a macro level Argentina has gone through—well let me pick a number, 60 years of socialism and it's embedded and people have learned it, they've grown up, their parents have grown up, the children have grown up in it to be to be adults.



On the other hand, I firmly believe there's a tremendous need for concrete in that kind of an environment going forward, but how do you feel about Macri's efforts? Is he going to be successful in bringing the country out, or is it going to partially remain socialistic? Because certainly the company is endeavoring to practice free enterprise. This is a big macro question and I know I'm just asking for an opinion and I'm not going to hold anybody to it, but please comment.

**Sergio Faifman via interpreter**

Hi, Tony. Our vision is that the government is taking the right measures for the future, although with an impact in the short term, but we remain confident.

**Operator**

The next question comes from Mauricio Serna from UBS. Please go ahead.

**Mauricio Serna**

Hi. Thanks for taking my questions. Sorry I got cut off from in middle of the call I'm sorry if I'm asking something that has already been asked. But just like to talk a little bit more about the prices. We've seen your pricing in Argentinean pesos roughly 6% above the average inflation. Just was wondering if we could expect that strategy going forward as a way to protect the margins, and are you not concerned for any potential intervention from the government in terms of trying to fix the prices just to control inflation.

And also, if you could just tell us within your volumes the overall volume decline in Argentina was 0.6%, but how was the performance on the Great Portland cement category? Thank you.

**Sergio Faifman via interpreter**

Thank you, Mauricio, for your question. Lately our price increases have more to do with our cost inflation rather than the national inflation. Our strategy regarding prices has more to do with a trade-off between profitability and our market position, always looking to generate value in the long term.

When you have times with high FX volatility, we don't look the prices in measuring in US dollars. What we focus more is in the EBITDA per ton level and this was much more stable. Finally, when we talk about the cement, it is mainly grey cement. It is all that we have. The difference is that the numbers publish by the AFCP is 100% grey cement.

**Mauricio Serna**

Okay, got it. That's why I'm just trying to understand like if that minus 0.6% that you had for the quarter, if you isolate it just for grey cement, how does that compared to the industry? I think the industry was up 1% in the quarter, I just want to understand if there was some increased market share losses during the quarter?

**Sergio Faifman via interpreter**

Our numbers include grey cement, masonry and lime, while the industry numbers published by the AFCP are only grey cement. We do not disclose the specific numbers of grey cement due to both the relationship with our competitors and also as an inside information measure. At a final comment, our market share numbers remains around our target which is pretty much stable.

**Mauricio Serna**

Understood, thanks. And just a quick follow-up on when you mention on the EBITDA per ton, you mentioned it's been relatively stable, but just want to understand like throughout the quarter that number actually varied a lot just considering that in April the industry was still posting positive volumes and then May and June were weaker. Just trying to understand it like weaker volumes had also any impact on the EBITDA per ton or did that really maintain stable throughout the quarter?

**Marcos Gradin**

That's an average, yes, but it's pretty stable. Yes, because we got higher volumes on April, yes, but you haven't got the changes in the different variables such as prices for instance. It's an average, but obviously we are focusing in this EBITDA per ton in dollars and we're working on that and, as Sergio mentioned, should remain on these ranges.

**Mauricio Serna**

Okay. Thank you very much.

**Operator**

Our next question comes from Carlos Peyrelongue from Bank of America Merrill Lynch. Please go ahead.

**Carlos Peyrelongue**

Thank you, thank you gentlemen for the call. The question is related to future PPPs. Would you expect the different investigations on corruption allegations of companies in Argentina, construction companies, to affect the interest for PPPs in the future or those that are bidding for the PPPs are different from the construction companies? Thank you.

**Sergio Faifman via interpreter**

Hi, thank you, Carlos for your questions. Actually, we don't see an impact on the PPPs. There are some points. Most of the public work is pretty much atomized currently and also the PPPs that were granted, the concessionists are not involved in this scandal. Also, both the process and the PPP scheme, they have a system that prevents this situation, and provides more transparency and it prevents this process to stop.

**Carlos Peyrelongue**

[Speaks Spanish].

**Operator**

Our next question is a follow-up from Daniel Sasson from Itaú BBA. Please go ahead.

**Daniel Sasson**

Hi, thank you. Just to just a follow-up on the L'Amali expansion. I know you mentioned that the project seems to be on track and budget. I'm interested in are we already at a point of no return in terms of the start-up of the project, or if the market remains somewhat soft in 2019, you would consider postponing the start-up of L'Amali in order not to over flood the market with overcapacity? Thank you.

**Sergio Faifman via interpreter**

Thank you, Daniel for your question. According to the situation of the country of Argentina, we have done some analysis recently. Even considering the lower current demand and also lower growth trends for the future, the projects remains very profitable for the company. What is important to point out again and to remind that the L'Amali project is not only good for the capacity expansion but also due to the higher efficiency in the production and in the logistics that it provides.

**CONCLUSION**

**Operator**

And this concludes our question and answer session. I would like to turn the conference back over to Mr. Gaston Pinnel for closing remarks.

**Gaston Pinnel**

Okay, thank you for joining us today. We appreciate your interest in our company and we look forward to meeting more of you over the coming months and providing financial and business updates next quarter. In the interim the team remains available to answer any questions you may have. Thank you and enjoy the rest of your day.

**Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.