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Loma Negra Third Quarter 2018 Earnings Call and Webcast November 9, 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

Disclaimer

This release may contain 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 Company's Annual Report on Form 20-F, as well as periodic filings made on Form 6-K, which are filed with or furnished to the United States Securities and Exchange Commission.

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.

The Company presented some figures converted from Argentine pesos to U.S. dollars for comparison purposes. The exchange rate used to convert Pesos to U.S. dollars was the reference exchange rate (Communication "A" 3500) reported by the Central Bank for U.S. dollars. The information presented in U.S. dollars is for the convenience of the reader only. Certain figures included in this report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be arithmetic aggregations of the figures presented in previous quarters.

Note: Loma Negra's financial information as of and for the three- and nine-month periods ended September 30, 2018 has been prepared in accordance with the Argentine Securities Commission (Comisión Nacional de Valores-CNV) and with International Financial Reporting Standards, with the sole exception of the adoption of IAS 29. The Board of Directors and Management of the Company are in the process of analyzing and calculating the effects of the adoption of IAS 29 in its financial information. Although the quantification has not been completed, it is estimated that the effects of the adjustment could be significant. Numbers presented throughout this presentation might vary when applied this standard. This must be taken into account by the users of the financial information contained herein. For further information please refer to the company's Earning Release and Financial Statement as of September 2018

PRESENTATION

Operator

Good morning and welcome to the Loma Negra 3rd Quarter 2018 Earnings 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 star 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 your question, please press star then two. Please note that this event is being recorded.

I would now like to turn the conference over to Mr. Gaston Pinnel, the IR manager. Please go ahead.

Gaston Pinnel

Thank you. Good morning, everyone, and thank you for joining us today. We appreciate everyone's participation. By now, everyone should have access to our earnings press release and the presentation for today's call, both of which were distributed yesterday after market close. Speaking to you in 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 statements. Today's call will contain forward-looking statements, and I refer you to the forward-looking statements in section of our earning release and recent filing with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances. Now I will like to turn the call over to our CEO, Sergio Faifman.

Sergio Faifman

Thank you, Gaston. Hello, everyone, and thank you for joining up today. It is a pleasure to welcome you to the Loma Negra 3rd Quarter 2018 Earnings Conference Call.

We're starting with slide 3. We reported solid results this quarter despite the challenging framework in Argentina. We'll maintain our focus on balancing growth and profitability, delivering year-on-year consolidated top line growth of 47% while adjusted EBITDA increased almost 70% and margin expanding by almost 360 basis points. And measured in US dollar, adjusted EBITDA declined only 9%, reaching \$53 million in the quarter. This would result, while driven a robust performance, particularly our core Argentine cement business, where we achieved a 492 points expansion in a Adjusted EBTIDA margin despite lower sale volumes.

Our bottom line however was impacted by foreign exchange losses, that's where mainly non-cash that resulted from a sharp peso depreciation experienced in the quarter. Our leading market position is further reinforced by the a healthy balance sheet with net debt to last 12 months EBITDA of 0.88 times, providing a solid platform

to continue implementing our strategic plans.

The L'Amalí plant expansion is an important element of our long-term strategy, which will allow us to enhance production efficiency and profitability while providing much needed capacity when demand take overs.

I will now hand off the call to Marcos Gradin who will through our market review and financial result. Afterward, we will open the call for questions. Please, Marcos, go ahead.

Marcos Gradin

Thank you, Sergio. Good day, everyone. Please turn to slide 4 for a quick overview of the macro outlook and industry trends. Consensus expectations for GDP growth have been adjusted downward since our previous earnings call, to negative 2.4% for 2018, recovering gradually to negative 1% in 2019 and to positive 2.4% in 2020. Overall, construction activity constracted during the quarter, resulting in almost 6% year-on-year decline in overall cement sales, where bag and bulk declined 8% and 2%, respectively. Driven by public infrastructure works, bulk cement demand continued to gain share of total cement sales. We see current public works moving ahead, particularly in the Buenos Aires metropolitan area. We remain cautiously optimistic despite the construction of cement demand that's occurred over the last month. Expected industry cement demand levels for the full year to remain at similar levels to those in 2017.

Now please turn to slide 5 for a review of our top lines performance in greater detail. Starting with our core segment, our Argentine cement business posted a robust performance with revenues up 42% year-on-year as we focused on balancing growth and profitability. We continued to see our favourable pricing environment this quarter while sales volume declined by mid-single digits. Adding to the weaker overall demand environment, volumes were also impacted by less business days this quarter.

Our concrete business also boasted strong growth with revenues more than doubling year-on-year, driven by record high volumes level for the quarter and higher prices. Volumes benefit from the current infrastructure works in the market where we operate.

In Paraguay, we delivered at 73 percent increase in revenues compared to the prior year quarter. Supported by a continual position of the Guaraní against the Argentine peso. During the quarter, the improvement in market share partially offset the construction of the industry.

Aggregate revenues were relative flat as a healthy pricing was offset by a double-digit decline in volumes and a significantly higher share of FOB sales in the quarter. While we posted strong growth in concrete volumes, leveraging from our strategic position to serve current infrastructure projects, this was not the case for overall

aggregate demand which faced lower demand from other infrastructure projects.

Lastly, revenues from our railroad segment posted solid growth this quarter, up 37% year-on-year. Prices remain strong while volumes remain relative flat compared to last year with growth in cement and fracsand offsetting lower transported volumes of own and third-party aggregate.

Moving on to slide 6, consolidated gross profit for the quarter increased 59% year-on-year with gross margin up almost 230 basis points to 30% this quarter. It was mainly driven by our cement operation in Argentina and further supported by our cement business in Paraguay and our concrete segment.

Gross margin for the Argentine cement segment decreased over 400 basis points year-on-year to 34% supported by healthy pricing and tight cost control along with an efficient cost structure. Our concrete segment contributed with margin expansion of over 330 basis points to 6.9%, benefitting also from higher sale volumes coupled with lower input cost.

While in Paraguay, we saw gross margins recovering sequentially but to historical level, as we fully relied on our own clinker production. By contrast, we experienced lower gross margins in our aggregate and railroad segments. SG&A expenses as a percentage of revenues declined close to 80 basis points to 6.7% in the third quarter driven by cost management and a lower effective sales tax rate.

Please turn to slide 7. We turned in a 69% year-on-year increase in consolidated adjusted EBITDA, which is nearly \$1.7 billion pesos with margin expanding close to 360 basis points to 27.6%. Measured in US dollars, adjusted EBITDA declined only 9% which is \$53 million in the quarter despite the 85% peso devaluation year-over-year.

Our Argentine cement business continued to deliver strong profitability with adjusted EBITDA margin expanding over 490 basis points to 30%. We also achieved adjusted EBITDA margin expansion of over 230 basis points year-over-year in the Paraguay cement segment and almost 370 basis points in the concrete business. Adjusted EBITDA margins for our railroad segment contracted 300 basis points year-over-year. However, sequentially we recovered almost 800 basis points as we adjusted its cost structure and volumes recovered around 6%.

Moving on to the bottom line on slide 8, net majority income for the quarter declined 66% year-on-year to \$101 million pesos. We reported a net-majority income of 3 million dollars in the quarter, down from 17 million dollars in the same quarter last year, affected by the sharp peso devaluation measured in US dollar terms. The positive contribution from a robust adjusted EBITDA growth and a lower effective tax rate was partially offset by foreign exchange losses and higher financial expenses. We reported a foreign exchange loss of \$1 billion pesos, mainly non-cash in the quarter, reflecting the peso devaluation of 42%. This compared to an exchange loss

of over 172 million pesos a year ago when the Argentine peso depreciated 4%. These effects represent around 16 million in our bottom line when compared to previous year.

Moving on to the balance sheet, as you can see on slide 9, our leadership market position is further underscored by a strong financial position that provides flexibility to carry out our strategic initiatives despite a more challenging macro backdrop. We ended the quarter with a net debt to adjusted EBITDA ratio of 0.88 times compared to 0.3 times in fiscal year 2017.

During the quarter, cash flow generated by operation activity was \$1.7 billion pesos compared to \$66 million pesos in the second quarter of the year, explained mainly by higher operating results which were positively affected by seasonal lower working capital needs after the end of the annual maintenance stoppage of our main facilities.

We continue to move ahead with our investment plan with capex for the nine months totaling 2 billion pesos, approximately 85 million dollars. Of this, around 40% was invested in the second production line at our L' Amalí plant. During the quarter, we continue to move ahead with Civil Works and expect that main equipment will be delivered by year-end. Total investments remain on schedule and within budget, while we foresee savings in dollar terms, mainly impacted by costs tied to Argentine pesos. I will now hand the call back to Sergio.

Sergio Faifman

Thanks, Marcos. Now please turn to slide 10. Looking to what is left for the year. We remain cautiously optimistic as we continue to balance growth and profitability, leveraging our leadership position in challenging macro environment. Given the construction on cement demand and the quarter over the last month, we are expecting cement demand level very similar to those in 2017. We will continue to focus in delivering margin and profitability improvement in our different segments.

The expansion of our L' Amalí plant is an important element of our long-term growth strategy and we continue to make progress with this project. The expansion will not only allow us to realize production efficiency and that support profitability, but it will also provide much needed capacity for when demand recovers.

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

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin 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 additional questions, 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.

And our first question comes from Daniel Sasson with Itau BBA. Please go ahead with your question.

Daniel Sasson

Hi, Marcos, Sergio. Thanks a lot for taking my question. Congratulations on your results. My first question is on the performance of the cement made in-line business in Argentina. Specifically, on prices, you were able to increase prices to almost 20% quarter-on-quarter. How sustainable is that or, asking in another way, what's the limit for you to continue raising prices? What are the pushbacks you are receiving in negotiations? Is that sustainable going into the fourth quarter? If you could give us some color on that, that would be great.

And my second question, if you could remind us, what's the percentage of your capex for L' Amalí that is denominated in pesos because I expected the total capex for the project, that \$350 million, to be actually slightly lower than that, right, because of the peso depreciation, which would obviously improve the return on equity expected for the project. Those would be my questions. Thank you.

Sergio Faifman

[Spanish]. Good Morning, Daniel. Thank you very much for your questions. [Spanish]. So regarding your question about prices, we do not give specific guidance about that. But we can tell you that the increases were very much in line with the public information from the Indec. [Spanish]. So regarding our margins, what we can tell you is that currently the margins are in the same level, or even higher than what we published in the third quarter. And the perspectives we can say that are also in line.

[Spanish]. So again, our strategy would be to balance our profitability and our market position. And we will try to increase our prices in order to compensate our cost inflation. [Spanish]. Regarding the L' Amalí expansion capex, around 50% of the capex is linked to pesos, Argentinian peso, and the other 50% in US dollars. [Spanish]. So regarding the share of the capex in Argentinian peso, that has a formula for the adjustment of that amount that follows different indicators. Therefore we expect the total amount to be closer to 320 million dollars

Daniel Sasson

Thanks a lot. Thank you, Sergio.

Sergio Faifman

[Spanish]. Thank you, Daniel.

Operator

And our next question comes from Dan McGoey with Citi Group. Please go ahead with your question.

Dan McGoey

Good morning, gentlemen, and congratulations on the result. My question is, looking forward with the L' Amalí expansion and with the weaker demand outlook, I'm wondering if you could talk about what your base case plan is for shutting down capacity when L' Amalí comes online and if you have any type of updated expectation as to how that would affect the either cash cost of production or limit the margin improvement that you anticipated from L' Amalí, given your current demand forecasts. Thanks.

Sergio Faifman

[Spanish]. Thank you, Dan, for your question. [Spanish]. So, as we always said, L' Amalí project has many advantages and one is the overall cost improvement. [Spanish]. The L' Amalí 2 production costs, we estimate that it's going to be the lowest among all our facilities. [Spanish]. And the arrangement of the new production scheme, it will depend also on the different dynamics in the different regions of the country as the logistic cost also has a big impact. [Spanish]. Therefore in the future, with the L' Amalí 2, we're going to slow down productions in different facilities, trying to optimize the variable costs, the fixed costs, and the logistic costs.

Dan McGoey

Okay, are you able to give a tonnage figure on that, or which specific plans, or is it too early to say?

Sergio Faifman

[Spanish]. Without doubt, of course taking into account the distance between the Olavarría and Barker facilities to the L' Amalí plant, these are the most probable facilities are going to be slowing down its production. [Spanish]. Also take into account that the variable cost differential between the L' Amalí and the average is about \$15 per ton.

Dan McGoey

Perfect. Thank you very much.

Sergio Faifman

Thank you, Dan.

Operator

And our next question comes from Alejandra Obregon with Morgan Stanley. Please

go ahead.

Alejandra Obregon

Hi. Good morning and thank you for the call. Just very quick, two questions. The first one is related to raw materials. Last quarter you were mentioning that petcoke [ph] is typically bought in advance and therefore you have a fx advantage in this sense. So I was wondering if you could talk a little bit about the inventory turnover for petcoke and the US dollar denominator for raw materials and how long do you expect this sort of inventory hedge to continue playing out at the cash cost level?

And then my second question is related to demand. You were talking earlier on infrastructure and public works in Buenos Aires. So I was wondering if you could give us an outlook of what are you expecting in this sense and also in housing . If you can give us some color that would be very helpful. Thank you.

Sergio Faifman

[Spanish]. Good morning, Alejandra. Thank you very much for your questions. [Spanish]. So regarding the petcoke, the stock that we were carrying on our inventories, it was basically consumed and the remaining we're going to be consuming along the year. [Spanish]. And also regarding the petcoke, since the natural gas production in Argentina is increasing, the availability of natural gas is also increasing. [Spanish]. And this higher availability of natural gas has basically a higher impact or benefit from the environmental perspective, the cost perspective, and also the operational perspective in our facilities.

[Spanish]. So, and also regarding the infrastructure plan, the public works, as they were planned, they are being executed. [Spanish]. And what we see is that many of them are also being executed into 2019, and some of them ending by mid-year next year. [Spanish]. And also we see both at the national level and the provincial level that there are some projects that are being talked about and, regarding the PPPs (Public Private Partnerships) , this is also something that we expect to have an impact next year.

Alejandra Obregon

Thank you very much. This was very helpful.

Sergio Faifman

Thank you, Alejandra.

Operator

And our next question comes from Dan Altman with Bradesco BBI. Please go ahead with your question.

Dan Altman

Good afternoon and thanks for the very good disclosure in your report again this quarter. This is a question on your comment regarding being cautiously optimistic.

It seems like the guidance that you're giving in your release is very short-term. It's related to how this year will end. But I'm wondering, given the projection that you have in your presentation for say -1% GDP growth next year, I'm wondering if that's part of your cautious optimism. Do you see—do you have visibility beyond the next month or two? And what is it that makes you optimistic about the current fundamentals in Argentina? Thanks.

Sergio Faifman

[Spanish]. Good morning, Dan, and thank you for your question. [Spanish]. So, when we say that we are cautiously optimistic, it has to do with that during the last month of this year we see of course a lower demand. And this we expect to be also stepping into the beginning of next year, but by the second half we expect a recovery. [Spanish]. There are some talks about projects and some different sources of information that give us a sense that by the second half there's going to be a higher activity, and that is why we expect also a higher demand.

[Spanish]. So, as you know, we do not give guidance regarding the next year figures, but taking a look to the history and the correlation between the cement industry and the GDP, there is—you have this multiplier of two times.

Dan Altman

Okay, great. Thank you.

Sergio Faifman

Thank you, Dan.

Operator

And once again, if you'd like to ask a question, please press star then one. And our next question comes from Andressa Varotto with UBS. Please go ahead with your question.

Andressa Varotto

Hi. Thank you very much for taking my questions. First, I wanted to ask you if you could elaborate on cost controls. And second, with all your SG&A expenses lagging inflation, so along which lines is the company being able to contain expense growth? And lastly, I just wanted to confirm if your pricing strategy focus is to preserve margins in terms of EBITDA per ton, or gross profit per ton in US dollars. Thank you.

Sergio Faifman

[Spanish]. Good morning, Andressa, and thank you for your question. [Spanish]. When we talk about cost control, what we say is that the company has different measures for the cost control. [Spanish]. And here we not only take into account the performance of our facilities but also the cost controls in the tariffs, both in expenditures and different costs. [Spanish]. In situations like are currently in Argentina with very high inflation, our experience in order to manage different relative

prices, it has an impact on our results.

[Spanish]. And could you please repeat your second question, please?

Andressa Varotto

Yes, sir. The second question is more specific on SG&A expenses as lagging inflation, so I'm just curious to knowing among which lines is the company being able to contain expense growth. And lastly, I just wanted to confirm if your pricing strategy focus is to preserve margins in terms of EBITDA per ton or gross profit per ton in US dollars. Thank you.

Sergio Faifman

[Spanish]. So regarding the SG&A question, we do have control in all the lines of these expenditures. But in this quarter, and particularly, we have an important savings in freights and tax. [Spanish]. So once again, freight and tax, these are the most important but we always keep focus in all of the expenditures, especially in the current situation with very high inflation and price changes. [Spanish]. So regarding your profit question, we take into account different indicators to measure profit. But we prefer to choose the EBITDA per ton both as percentages of revenues and measuring in US dollar.

Andressa Varotto

That was great. Thank you very much.

Sergio Faifman

Thanks.

CONCLUSION

Operator

And at this point there are no further questions. This concludes our question and answer session. I'd like to turn the conference back over to 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 we'll provide 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 the day.

Operator

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