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Loma Negra First Quarter 2020 Earnings Call and Webcast May 15, 2020 at 10:00 AM Eastern

CORPORATE PARTICIPANTS

Gaston Pinnel – Head of 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 presentation 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-month periods ended March 31, 2018 has been prepared in accordance with the Argentine Securities Commission (Comisión Nacional de Valores-CNV) and with International Financial Reporting Standards. Following the categorization of Argentina as a country with a three-year cumulative inflation rate greater than 100%, the country is considered highly inflationary in accordance with IFRS. Consequently, starting July 1, 2018, the Company is reporting results applying IFRS rule IAS 29. IAS 29 requires that results of operations in hyperinflationary economies are reported as if these economies were highly inflationary as of January 1, 2018, and thus year-to-date, together with comparable results, should be restated adjusting for the change in general purchasing power of the local currency, using official indices. For comparison purposes and a better understanding of our underlying performance, in addition to presenting 'As Reported' results, we are also disclosing selected figures as previously reported excluding rule IAS 29. Additional information in connection with the application of rule IAS 29 can be found in our earnings report.

Operator

Good morning and welcome to the Loma Negra First Quarter 2020 Conference Call and Webcast. All participants will be in 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. Also, Mr. Sergio Faifman will be responding in Spanish immediately following an English translation. 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. Gastón Pinnel, IR manager. Please go ahead.

Slide 2

Gastón Pinnel

Thank you. Good morning and welcome to our first quarter 2020 earnings release conference call. Above all, we hope you and your families are safe and well.

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.

Joining me on the call this morning, will be Sergio Faifman, our CEO and Vice President of the Board of Directors; and our CFO, Marcos Gradin. Both of them 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 section of our earnings 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.

This conference call will also include discussion on Non-GAAP financial measures. The full reconciliation to the corresponding financial measures is included in the Earnings press release.

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

Slide 3

Sergio Faifman

Thank you, Gastón. Hello everyone and thank you for joining us today. First I hope you and your families are safe and well during this unprecedented times. Clearly we are operating in a difficult environment and we expect from now on things to start improving gradually. I want to thank all our people in Argentina and Paraguay, who faced enormous obstacles and showed a great resourcefulness to keep this business running.

We produce and sale products that people rely on every single day to provide themselves, their families, and their communities the infrastructure and shelter they need.

Our concern to our employees, our customers, our suppliers, and our communities has never been more imperative, and we treat it with the outmost importance, and we tend to do our best for all our stakeholders.

I would like to mention a few highlights of the quarter, and then Marcos will take you through our market review and financial results. Afterwards, I will provide some final remarks, and then we will open the call to your questions.

Starting with slide three, let me share with you the key measures that we took, in the ad-hoc crisis committee that we created, in order to manage the effects of the Covid-19 crisis.

Our people's health and safety are non-negotiable, and it is our main priority, always. This is why we suspended national and international trips, and we implemented as fast as possible a home-office scheme aiming to protect our people and their families.

On March 20, and in compliance with the government declaration of a wide-ranging lockdown, we temporarily suspended our production facilities and the L'Amalí Expansion project.

After the first week of April we resume production and dispatches of cement, with the adoption of new sanitation protocols. As of today, and after governmental permits were granted, L'Amalí expansion works have resumed.

During this situation, we extreme our efforts to securing working capital needs, tightening fixed cost structure, and reformulating our capital expenditure priorities.

Of course, the speed or breadth of the recovery dynamic is yet uncertain, and we remain alert regarding the evolution of the crisis.

Slide 4

Sergio Faifman

Now turning to slide 4,

2020 started with some headwinds, particularly related with the fragile macro-economic situation of the country and a rampant recession. By the end of the quarter the Corona Virus pandemic outbreak, bringing additional challenges to the already adverse context.

Cement demand in Argentina in the First quarter contracted around 29% YoY. Our top line for the quarter decreased also around 30% year-on-year to 7.8 billion pesos, and our adjusted EBITDA declined by 17.9%, still we were able to expand margins by 479 basis points to 33.5%, mainly reflecting rigorous focus in cost control and our commitment to maintaining a high productivity and healthy profitability levels.

Our core Argentine cement business remained the principal factor behind these margin expansion.

As shown on this slide, measured in US dollars, we achieved an Adjusted EBITDA of 42 million dollars, down by 22.4% year-on-year and our bottom line decreased Year-on-year and stood at 10 million US dollars.

Additionally, our net debt to last 12 months EBITDA of 1.26 times, and our cash position, provide us with a good position to manage our short-term debt maturities.

I will now hand off the call to Marcos Gradin who will walk you through our market review and financial results.

Please, Marcos, go ahead.

Slide 5

Marcos Gradin

Thank you, Sergio. Good day, everyone, I also hope you and your beloved ones are safe and well.

As you can see on Slide 5, Argentina is in the middle of an economic activity contraction, and neither the construction sector nor the cement industry are exceptions to this situation.

Argentina faces important challenges to achieve sustained growth over time, and forecasts for the Argentine economy, at the beginning of the year, already revealed a drop in GDP for 2020 compared to 2019. On top of this negative expectations, we now need to factor in the health and economic crisis caused by the COVID outbreak by the end of March.

In the first two months (-20%) of the year, bulk segment (-33%) was the most impacted by the delay in the execution of public and private construction projects, by contrast the bag segment was better supporting (-10%) the economic contraction.

Consequently, the share of cement sold in bag increased by almost 8 percentage points from 56% in 1Q19 to almost 64% in 1Q20. This trend will continue on the following months as bags will continue to gain share as public and private infrastructure sectors are suffering the most.

Initially, on March 20, the national government declared a broad quarantine providing for social, preventive and mandatory isolation, in the context of the COVID-19 pandemic. We virtually made a full-stop in all our production and in parallel demand dropped to nearly zero during the first few days since March 20.

Afterwards, in April third, the government decided to include mining and building material provided by building materials depots in the essential product list. Since this moment, some of the demand for cement was restored and consequently we resume cement production. Certainly, we are cautious, and we are attentive to development of the pandemic in the country and the effects that it may have in our product demand. Under this unprecedented situation we decided to withdraw any sort of guidance regarding the industry growth by the year end. We hope to have more clarity in the following quarters.

In April the market decline 55%, with the particularity that the first days of the months cement sales were almost zero, with private construction is not permitted, and public works were insignificant. Therefore, the demand was mainly observed in the bag segment sold through wholesalers.

Slide 6

Turning to slide 6 for a review of our topline performance by segment.

Revenues were down 29.6%, as sales volumes fall reflects the adverse economic context, and March was already impacted by Covid-19 pandemic

Cement Sales volumes dropped 26.9% year-on-year, thus, revenues were marginally compensated by positive pricing, felling by 25% year-on-year.

In Paraguay, where the first two month of the year were affected by sluggish public and private infrastructure works, volumes and revenues were down 13.0% and 13.5%, respectively.

Revenues of Concrete and Aggregates in Argentina were the most impacted by the halt in public and private projects, plummeting 73.6% and 67.1%, respectively.

Revenues from our Railroad segments, decreased 24.9% and year-on-year, as a consequence of softer transported volumes in almost every sector.

Slide 7

Moving on to slide 7, consolidated gross profit for the quarter was down 25.6% year-on-year, with a margin expansion of 164 basis points reaching 30.5% in the quarter. This was mainly driven by our core Cement operation in Argentina, reflecting production costs under-control, with significant reduction in energy input costs, and the benefits from previous footprint adequacy efforts achieved last year.

SG&A expenses as a percentage of revenues, decreased by 29 basis points to 8.1% from 8.4%, first quarter 2019 included some non-recurrent costs of structure adequacy, and with a contraction of 32% year-over-year.

Slide 8

Please turn to slide eight.

The drop in demand explained the 17.9% decline of our Adjusted EBITDA. Still, we achieved a consolidated margin expansion of 479 basis points to 33.5%, primary explained by costs efficiencies in Cement segment in Argentina.

When excluding the application of inflation accounting, Adjusted EBITDA for the Cement segment in Argentina, increased 35.0% YoY and the margin expanded by 656 basis points to 38.3%, as we benefited by a significant reduction in energy input costs, and also by the footprint adequacy efforts achieved last year.

Also Paraguay posted around 23% growth in Adjusted EBITDA with the margin going back 245 basis points to 42.2%.

In line with the building material sector, and the economic activity in general, our Railroad segment EBITDA contracted by almost 57%, with a margin contracting to 3.8%.

Adjusted EBITDA margin for our concrete and aggregate segment presented a strong contraction year-over-year to negative 7.7% and negative 11.7%, respectively. Mainly as these segment were more directly impacted by the halt in public and private infrastructure projects.

Despite the strong reduction in volumes in the First quarter, our cement business in Argentina continued improving in terms of EBITDA per ton measured in US dollars, around 36 dollars per ton, and above the year ago quarter.

Slide 9

Moving on to the bottom line on slide nine, net majority income for the quarter decreased by almost 43% year-on-year reaching 857 million pesos, resulted mainly from an Adjusted EBITDA contraction, and a negative impact total finance loss.

Total finance results represented a loss of Ps.456 million compared to a loss of Ps.199 million in the first quarter in the previous year.

The Foreign exchange loss of Ps.170 million compared to Ps.239 million in 1Q19,

The higher interest rate environment together with the higher gross debt resulted in a Net Financial expense of Ps.410 million, or Ps.148 million higher than in 1Q19.

The net passive monetary position resulted in a Gain of 124 million pesos.

Measured in US dollars, our net majority income decreased 60% to 10 million dollars in the quarter from 26 million dollars in the year ago quarter.

Slide 10

Moving on to the balance sheet, as you can see on slide ten,

During the first quarter, and until March 20, we continued to make progress in our capital expenditure plan, with investments for the quarter reaching 4 billion pesos, or approximately US\$ 66 million, 79% of which was dedicated to the expansion project.

Our net debt at the end of the quarter was 226 million US dollars with a gross debt breakdown by currency of 49% in Argentine pesos, 38% in hard currency, and 13% in Guaranies. Net Debt to Adjusted EBITDA ratio of 1.26 times compared to 0.86 times at the beginning of the year.

As the current situation continues to be conditioned by the Covid-19 restrictions, we remain particularly on top of our liquidity and our liability management.

Our Debt, which is bank debt only, we consider that has a manageable maturity profile. We are working on and have already rolled over part of our short term debt. As we continue rolling over these maturities, in coming months, we expect the share of local currency debt to increase in our balance sheet.

Now for our final remarks, I would like to handle the call back to Sergio.

Slide 11

Sergio Faifman

Thanks Marcos,

Now to wrap up the presentation I please ask you to turn to slide eleven.

We believe that this unique time is an opportunity to probe to ourselves our true values. Health and safety of our employees are always a priority, as it is our commitment with our communities, our supplier and customers, and of course our shareholders.

At this moment, it seems pointless trying to provide a guidance for 2020 industry trends, as recovery depend on the local economy turn around, sovereign debt negotiation, and the evolution of the Covid-19 pandemic, among other challenges.

Yet, at the beginning of April we have already resumed production, adopting new sanitation protocols, and more recently, works on L´Amalí expansion project were restarted.

We need to keep looking forward, searching for alternatives that will help us navigate through this new environment, united and taking care of each other.

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

QUESTION AND ANSWER

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 the question queue. You may press star, then two if you would like to remove your question.

For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the key. Once again, star, one on your telephone keypad.

We would also like to ask that you limit your questions to one question and one follow-up. Please, if you have additional questions, you may reuse the--reenter the queue for 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 momentarily while we assemble our roster.

Our first question is from Alejandra Obregon from Morgan Stanley. Go ahead.

Alejandra Obregon

Hi. Good morning. Thank you for taking my question and for the call. This is related to infrastructure works and how do you think--or how do you envision the outlook for infrastructure once we exit the coronavirus outbreak? And then, if you could provide some color on what you're seeing for the month of April in terms of demand and dispatches in Argentina. Thank you very much.

Sergio Faifman

(Foreign language spoken.).

Good morning, Alejandra. Thank you for your questions.

(Foreign language spoken.).

Our view is that the government is preparing an ambitious infrastructure plan that once the sovereign debt and the coronavirus situation are solved, they're going to start to implement.

(Foreign language spoken.).

From our conversations with government officials, they're going to be focusing on--mainly on housing and middle to small-sized infrastructure works.

(Foreign language spoken.)

And we believe that this is one of the key elements that the government is betting on in order to boost the economy once the coronavirus situation is over.

(Foreign language spoken.)

Regarding the April volume, the industry ended up with minus 56 percent drop in volumes compared to last year.

(Foreign language spoken.)

We need to remind that in the first eight to 10 days of the month, we had virtually zero shipping since it was forbidden to produce and to operate in our plants.

(Foreign language spoken.)

Considering only the last 15 days of the month, the average drop will be around 40 percent.

(Foreign language spoken.)

One key factor from this volume is that it is mostly bag segment, mainly because the large infrastructure projects, either public or private, are halt.

(Foreign language spoken.)

So, we are optimistic that once--in the next few months once these larger infrastructure projects start to be execute again, the volume should increase, consequently.

Alejandra Obregon

Thank you very much. This was very clear.

Sergio Faifman

You're welcome.

Operator

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

Oh, wait. We have a question--we have two questions. One moment.

The next question is from Nicolas Zalles from LW Investment Management. Go ahead.

Nicolas Zalles

Hi. Good morning. Thank you for taking the call. I just have a quick question. I mean, against the possibility of a possible sovereign default, could you comment on how would you see a change in your operations just in general and how that would change the business environment in Argentina? Hello?

Sergio Faifman

(Foreign language spoken.)

Good morning. Thank you, Nicolas, for your question.

(Foreign language spoken.)

We are working on a scenario that--on a best-case scenario that--where there's no default. And according to the last signals, there should be an agreement with the bondholders.

(Foreign language spoken.)

So, even in the scenario of a default, of course, it will have an impact in the economy and in the economy's growth, and particularly in the financing of the public works, yes, and other government expenditures. But we need to remind that during 2002 until 2007, where Argentina was in a default, the economy grew.

(Foreign language spoken.)

We also need to remind that our industry is considered as value haven. And in particular, for the infrastructure works, it's also a lever that the government can take in order to boost the economy and also to try to underpin the labor market.

Operator

Our next question is from Antonella Rapuano from Santander. Go ahead.

Antonella Rapuano

Hi. Thank you, all, for taking my question. Actually, I had two question, if I may. The first one is related to the EBITDA margins, which were very impressive, in my view, considering the volume drop.

So, I was wondering how much of this cost efficiency is sustainable along the year? Regarding this, how much of the cost reductions came from lower energy costs and how much from the fixed cost from your adequacy effort on the fixed structure side?

And my second question relies on the L'Amalí project. I was wondering how much CapEx--remaining CapEx is spending for the rest of the year to be deployed in this project? Thank you.

Sergio Faifman

(Foreign language spoken.)

Thank you, Antonella, for your question.

(Foreign language spoken.)

Regarding our margins, it is in line with all the structure adequacies that we have implemented last year.

(Foreign language spoken.)

Last year, we did this before-mentioned restructurings and also including staff reduction. And this year, we already observed the benefits from this restructuring.

(Foreign language spoken.)

The margins we mainly have an effect in the cement segment. And we did a few--we took a few measures in order to improve this margin even with the drop of volumes.

(Foreign language spoken.)

Regarding energy, both thermal and electrical, on average, we have a reduction of around 25 percent compared to last year.

(Foreign language spoken.)

Additionally, with the drop-in volumes, we have the ability to produce in a more efficient way in our most efficient facilities.

(Foreign language spoken.)

So, regarding L´Amalí, too, we have already resumed our plan to--for the expansion. And we expect to be ready by the year-end. And the remaining of the CapEx is approximately between 60 and \$50 million.

(Foreign language spoken.)

Most probably part of this 50 to \$60 million are going to be disbursed in the following year, in 2021.

Antonella Rapuano

Great. Thank you. Very clear.

Sergio Faifman

You're welcome.

Operator

Our next question is from Coleman Clyde from HSBC. Go ahead.

Coleman Clyde

Hi, gentlemen. Thank you for taking my question. I was going to ask on margins, and a lot of that was already answered. But, just to follow-up with that.

Do you--what improvement do you expect to see from the L´Amalí plant expansion? I mean, you've made some impressive improvements already in margins. And I know that you expected that plant to add to your efficiency. So, do you still expect to see a further margin improvement once that plant is underway?

And then my second question would be on prices. I see that prices were up 1 percent in the first quarter. How are you seeing prices during the second quarter? Has it been more challenging to pass along cost inflation given the current environment? Those would be my two questions.

Sergio Faifman

Thank you for your question.

(Foreign language spoken.)

Thank you, Clyde, for your question. Yes. Clearly, L´Amalí still has some further improvements in our EBITDA.

(Foreign language spoken.)

We still have some minor improvements in variable cost and also some improvements in fixed cost structure.

(Foreign language spoken.)

And regarding prices, we foresee the price environment similar to what we observed in the past considering the inflation and the FX and always trying to keep our profitability under control.

Coleman Clyde

Thank you very much. Very clear.

Operator

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

CONCLUSION

Gaston Pinnel

Thank you for joining us today. We appreciate your participation in these unprecedented times and your interest in our company. We look forward to meeting more of you over the coming months and providing financial and business updates next quarter. In the meantime, the team remains available to answer any question that you may have. Thanks again, and be safe.

Operator

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