Loma Negra
Second Quarter 2021 Earnings Call and Webcast
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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. 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

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 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.

Slide 1

Operator

Good morning and welcome to the Loma Negra second Quarter 2021 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, Head of IR. Please Gastón go ahead.

Slide 2

Gastón Pinnel

Thank you. Good morning and welcome to Loma Negra´s second quarter earnings conference call.

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 I turn the call over to Sergio, 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 healthy.

So as usual, I am going to mention a few highlights of the second quarter, and then Marcos will walk you through our market review and financial results. After that, I will provide some final remarks, and then we will open the call to your questions.
As you could saw from our release issued yesterday, we are pleased with the second quarter great performance which was mostly explained by our cement business. It is quite encouraging that the strong momentum experienced in cement sales since last year´s bottom, continues and is already exceeding pre-pandemic levels, with July posting the highest figure since 2016.

Our world-class operation, enable us to expand our EBITDA by 74% and expand our margins by 483 basis points, posting the best second quarters since IPO, as higher operational leverage and cost controls more than offset the impact of higher production during winter months compared to an unusual second quarter of last year.

Our Adjusted EBITDA in the quarter was 48 million dollars, 22 million dollars higher than in the same quarter last year, impacted by COVID-19 pandemic restrictions, and 9 million higher when compared to pre-pandemic second quarter 2019. When measured in US dollars per ton, EBITDA increased compared with the same period last year, around 28%, standing at 34 dollars per ton.

Regarding our capital structure, we have a solid balance sheet, with a low Net Debt ratio of 0.13x and sound debt profile.

During the quarter our bottom line was hurt by a “one-off” deferred income tax charge related to the recent tax reform, Marcos will elaborate on this later.

Finally, in June, we inaugurated the new kiln in L´Amalí plant, which is now up and running and producing clinker. Full commissioning of the second line is moving towards completion and is now programmed for the end of September.

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

Slide 4

Marcos Gradin

Thank you, Sergio. Good day, everyone.

As you can see on Slide 4, leaving behind the fierce double digit drops of GDP in 2020, is now expected to be partially recover by year end. Construction activity, measured by the ISAC remains strong, and is recovering since last November.

In the case of the Cement national industry sales the recovery was much stronger, actually the recovery cycle that started in September last year is now starting to exceed pre-pandemic levels of 2019. 2Q21 posted a total volume of 2.8 million tons, a 50.5% higher than 2Q20, and 2% above 2Q19.
When breaking it down by segment, both bag and bulk contributed positively to growth. Naturally, bag segment accumulates a longer recovery cycle and is already above 11% in respect to 2Q19. On the other hand, bulk is still down around 9% when compared to 2Q19, yet it is experiencing a sharper recovery year-over-year as this was segment the most hit by Covid-19 restrictions last year.

Consequently, the share of cement sold in bulk increased by almost from 22% in 2Q20 to almost 39% in 2Q21. We expect this breakdown to remain rather stable on the following months, with a moderate Bulk recovery, as seasonality and some higher public works activity could factor in.

Certainly, the economy as a whole still faces different tests, particularly on the macroeconomic outlook, expectations about GDP growth for 2021 revolve around a 6.8% recovery, definitely far from pre-pandemic levels.

Slide 5

Turning to slide 5 for a review of our topline performance by segment.

Consolidated revenues increased year-on-year by 46.6%, mainly reflecting the positive momentum experienced by our core cement business, with all other segments contributing positively to sales recovery.

Cement, masonry cement and lime segment was up 43.4%, with volumes expanding 39.5% and good pricing performance.

Concrete and Aggregates posted outstanding revenues recovery of 492% and 1000% YoY, respectively, beard in mind that sales in the comparable quarter last year had collapsed due to covid-19 restrictions. In the case of concrete volume expansion of 584% was partially offset by negative pricing performance. On the contrary, Aggregates experienced sharp volume recovery of 620% together with positive pricing mix.

Finally, Railroad revenues increased by 23.5% in 2Q21 versus the same quarter in 2020, as the higher transported volumes were offset by poor pricing performance due to product mix.

Slide 7

Moving on to slide 7, consolidated gross profit for the quarter was up 88% year-over-year with margin expanding by 664 basis points, a result largely driven by our cement business.

Cement gross margin expanded by 411 basis points from 38.0% to 42.1% in the back of higher operational leverage and profiting from costs discipline, yet we experienced some pressure from seasonal energy charges, as winter production in 2020 was abnormally low due to the sharp drop in demand including cost initiatives to face last year´s uncertainty.

SG&A expenses as a percentage of revenues, decreased by 83 basis points to 8.6% from 9.5%, mainly due to cost dilutions from higher sales volume which out weighted higher labor cost compared to last year´s level.

Slide 8

Please turn to slide eight.

Our Adjusted EBITDA was up 74.1% in the quarter, reaching Ps. 4,354 million with consolidated EBITDA margin expanding by 483 basis points to 30.5%. In USD, our EBITDA reached 48 million, or 22 million higher than same quarter a year ago, or 9 million higher than same quarter in 2019 previous de Covid-19 out-break. Mainly thanks to our core business segment, cement, masonry cement and lime, with Concrete and Aggregates contributing in a lesser extent to EBITDA growth.

Cement segment Adjusted EBITDA margin expanded by 472 bps to a world-class 34.0%, mainly due to the increase in sales volume and higher cost dilutions, posting the best margin for a second quarter in recent years. In an per ton basis, EBITDA increased compared with the same period last year, around 28%, and stood at 34 dollars.

Concrete Adjusted EBITDA increased 81 million pesos compared to 2Q20, explained by lower cost and SG&A in relation to revenues, yet margin remains at negative 6.8%.

Aggregates Adjusted EBITDA improved drastically from negative 41 million pesos in 2Q20 to positive 15 million in 2Q21, with margin of 7.7% as better pricing mix and volume outweighed costs increase.

Finally, Railroad Adjusted EBITDA margin deteriorated from 7.7% to 4.9%, mainly impacted by product mix, and partially offset by higher transported volume and lower burden of SG&A as a percentage of revenues.

Slide 10

Moving on to the bottom line on slide ten, driven by EBITDA growth and net finance gain, profit before tax stood at 3,286 million pesos.
In this quarter, our bottom line was impacted by the recent tax reform, which increases income tax rate from 30% to 35%, including the suspension of the subsequent rate reduction of 25%. This “one-off” effect is equivalent to 3 billion pesos of additional deferred tax charges, resulting in a Net loss of 1.2 billion pesos. Besides this impact, our accumulated net profit por the year posted positive figures of Ps. 1.6 billion.

Total finance gain stood at Ps. 292 million in 2Q21 compared to a net loss of Ps. 1,597 million in 2Q20, mainly due to a Foreign exchange gain of Ps. 193 million in 2Q21, reverting a loss of Ps. 864 million in 2Q20, as a result of a lower net debt denominated in foreign currency and a real appreciation of the Ps.

Additionally, Gain on net monetary position was Ps.552 million in 2Q21 compared to Ps.102 million on 2Q20.

Finally our Net Financial expense, declined by Ps. 381 million to Ps.453 million compared to same quarter last year driven by lower total Financial Debt.

Slide 11

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

We ended the quarter with a cash position of Ps. 2.9 billion and total debt at Ps. 5.4 billion, consequently our Net Debt to EBITDA ratio stood at 0.13x compared to 0.16x at the end of 2020.

In 2Q21, we reduced our debt in 21 million dollars, standing at 56 million, 83% of which is denominated in US dollars. Additionally, we repurchased share for a total amount of 511 million pesos.

During the quarter, our operating cash generation was almost fully dedicated to income tax payments and seasonal working capital requirements. As always, in the second quarter previous year´s income tax payment are scheduled. Particularly, in 2Q21 the payment of 3.0 billion pesos included 1.5 billion pesos charge related to last year´s divestment in Paraguay.

When compared to last year´s second quarter, we need to bear in mind that in 2020, working capital levels include several initiatives aiming to preserve liquidity under the pandemic uncertainty.

Regarding capital expenditures, we spend 1.6 billion pesos, 22% of which were dedicated to L´Amalí expansion project. As the second line is about to be completed so are the capital requirements.

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

Slide 13

Sergio Faifman

Thank you Marcos,

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

As we expect cement demand recovery from last year´s volumes to continue, we foresee an expansion compared to pre-pandemic levels of 2019.

For the second half, both seasonality and public works could play an important role, yet we are cautious as macroeconomic context could affect the recovery. At this point in time, impacts related to Covid seem more distant, however, we remain watchful to the evolution of new virus variants, both locally and globally.

After its inauguration in June, the brand new kiln in L´Amalí started to produce clinker and is already contributing to our world-class operation. Additionally, the new Cement mill and dispatch center are planned to start up by the end of September.

As we recently communicated, and in line with our expectations, a new open-access scheme will rule in Argentina´s railway network, and Ferrosur Roca´s concession will not be extended beyond the original expiration date of March 2023. Details regarding the new scheme are not yet available, therefore we are analyzing different scenarios, none of which should have a material impact on our current businesses, and where the most probable is to become an operator continuing the current operation.

Last but not least, I would like to thank all our people, and stakeholders for their commitment to Loma´s operational excellence, without whom this set of solid results would have been much harder to achieve.

We are confident that supported by a robust and efficient productive footprint, our solid capital structure, and a dedicated team, Loma has the base to continue thriving in the years to come.

We are now ready to take your questions. Operator, please open the call for questions.

Q&A SESSION

Operator
Thank you, and we will now conduct a question-and-answer session. If you would like to ask a question, please press "*" then "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*" then "2" if you would like to remove your line. For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the keys. Once again, "*," "1" 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 additional questions, you may re-queue for their 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 the roster. And our first question today will come from Alberto Valerio with UBS. Please go ahead.

Alberto Valerio
Hi, Sergio and Marcos. Thank you for taking my question. I would like to know about the dynamics in Argentina. The impression that we had here--we know that the second quarter, it's seasonally weaker than the first one, but we estimate that the decelerating will achieve to the first quarter. And with the preliminary data from July, it looks like Argentina is accelerating again. So, my question is, is this is true, the second quarter comes a little bit weaker than the strong first quarter, and we can expect to recover in the second half of the year? Thank you.

Sergio Damian Faifman
Sorry, Alberto, you're speaking about margins or about volume?

Alberto Valerio
About margins. I think the volume comes as expected, but I think the price came a little bit below what we expect. So overall, the EBITDA that I was expecting was a little bit higher than what came because we saw a very strong first quarter.

Sergio Damian Faifman
Hi, Alberto. Thank you for your question (Foreign Language Spoken).

Translator
So typically, during winter months, there's a seasonality effect on our production costs.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
Additionally, when compared to the last year, we produced a very much lower amount of cement, including a lower price of gas derived from the pandemic situation.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
Additionally, by this time of the year, we were expecting to be producing clinker with a new kiln in the L'Amalí plant, which ended up starting in June, so the benefits were not collected in the second quarter, and we were producing in the Olavarría plant.

Alberto Valerio
Perfect. Thank you very much. And if you could just provide a follow-up for the second half of the year. Should we see the activity accelerating again?

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
So yes, as you may have seen on the AFCP reporting, July numbers were very good, and actually they were the second best July in history.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
The first days of August and also what we foresee for the remainder of the year are quite optimistic.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
Forecasting for the full year for the industry numbers above 2019 pre-pandemic levels.

Alberto Valerio
Thank you. Muchas gracias.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
You're welcome, Alberto.

Operator
And our next question will come from Carlos Peyrelongue with Bank of America. Please go ahead.

Carlos Peyrelongue
Thank you. Thank you, Sergio and Marcos, for the call. My question is related to the new kiln in L'Amali and the expansions. Can you comment on the expected margin expansion once you're up and running and provide some timing as to when you think this new kiln will contribute to margin and will be operating smoothly? Thank you.

Sergio Damian Faifman
Hi, Carlos. Thank you for the question. (Foreign Language Spoken.)

Translator
So, the numbers of the market will not only depend on the demand volumes but also the cost of the energy.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
So, why we are saying that is because the kiln in the L'Amali plant is much more efficient than the kiln in Olavarria, but there are also many other factors playing in.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
So, the efficiency of the new kiln regarding the specific consumption in kilocalories is around 10% better than the Olavarría kiln, and we are now analyzing if it's better to run during the summer with summer costs of energy or during the winter using Petcoke and naturally higher energy costs.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
So, now we are running the kiln, and it's already working above the guaranteed levels. And we are now planning to produce with these levels.

Carlos Peyrelongue
So a follow-up on this, so the margin expansion that you mentioned, assuming that things are running smoothly, and we don't have major surprises on the cost side, is 200 to 300 basis points on margin on a consolidated basis? Did I get that correct?

Sergio Damian Faifman
Yes, that's correct, 2% to 4% of margin increase.

Carlos Peyrelongue
Great. Thank you so much, appreciate it.

Operator
And our next question will come from Nikolaj Lippman with Morgan Stanley. Please go ahead.

Nikolaj Lippman
Thank you. Good morning, gentlemen, good morning, everyone. And again congrats on good numbers. Two questions--or one question, I guess, I'm allowed--so I'll bag into one. I was

wondering if you can give a bit of details on asset allocation, given the change in the concession, if you're thinking about a Plan B, maybe expanding your fleet of trucks in case there could be some disruption. And also--so the second part of the question would be, how do you guys feel about aggregates in Argentina these days? Thanks a lot, and thanks for taking my question.

Sergio Damian Faifman
Sorry, Nikolaj. Could you repeat the questions because we can't hear the first part? Sorry.

Nikolaj Lippman
Sorry about that. My question relates to whether you--as the rail concession comes to an end--and of course every time that happens, there's a certain amount of risk associated with the new framework--are you considering increasing--you have a very strong balance sheet--are you considering buying a big of--increasing the fleet for logistics in case there's any sort of disruption? And also how are you seeing the aggregates market? Is that something that you're looking at in terms of sort of possible use of cash, making acquisitions in that space?

Sergio Damian Faifman
Hi, Nikolaj, thanks for your question. (Foreign Language Spoken.)

Translator
So regarding the railway, we do not foresee cost increases from now on.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
Initially, we are planning to keep our operation as an operator in those tracks.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
So yes, besides the fact that yet there are no details from the government regarding the cannon and other factors, we expect either to maintain or to even increase regarding the lower Capex requirements.

Nikolaj Lippman
Got it. And can you comment on whether you are seeing any opportunities in the aggregates market in Argentina?

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
So we're not thinking on expanding on the aggregate business, but we are increasing margins, thinking on what happened during the pandemic.

Nikolaj Lippman

Good. Thanks a lot.

Sergio Damian Faifman
Nikolaj. (Foreign Language Spoken,)

Translator
So one important point regarding the railways, we are considering L'Amali 2. We have an advantage, yes, because we are not going to rely that much on Lomaser, and we're going to increase the dispatch capacity from L'Amali 2.

Nikolaj Lippman
Got it. Thanks a lot, guys.

Operator
And our next question will come from Augustina Isidro with AR Partners. Please go ahead.

Augustina Isidro
Hi, good morning, and thanks for taking my question and for the presentation. So going back to the estimates for the cement shipments for this year, so the construction sector is showing interest dynamics you were talking about, and many attribute this to the FX gap. So, what do you think is behind the recovery, as a first question? And then as a second question, do you think that bulk cement will recover to pre-pandemic levels during this year? Thank you.

Sergio Damian Faifman
Hi, Augustina, thank you for your question. (Foreign Language Spoken.)

Translator
So there are no doubts that the gap between the FX rates have an impact on demand.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
We also observed an increase in public works, especially small public works, while larger public works are still hampered.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
We also observe consumer behaviour to expand the places where they live, and this is additionally driving demand.

Sergio Damian Faifman
(Foreign Language Spoken.)

Operator
Pardon me, everyone. It appears that our speaker has disconnected. Please wait while we rejoin them.

Translator
Sorry, we are having a small technical issue. We're going to be back in two minutes. Sorry for that.

Operator
And pardon me, I've rejoined the speakers.

Sergio Damian Faifman
Hello?

Translator
Yes, we can hear you now, Sergio.

Sergio Damian Faifman
Thank you. (Foreign Language Spoken.)

Translator
So when we observed July, yes, we observed that we are above pre-pandemic levels. Then when you take a look to both, bulk it's slightly lower than 2019 and bag is slightly higher than 2019.

Sergio Damian Faifman
(Foreign Language Spoken.)

Translator
And we are already with both volumes closer to 40% of total market volumes.

Augustina Isidro
Perfect.

Sergio Damian Faifman
Thank you.

Operator
And our next question will come from Alberto Valerio with UBS. Please go ahead.

Alberto Valerio
Thank you for taking my question again, Sergio and Marcos, just another one, now about dividends. You know that Argentina has remained (SP) with restriction of capital, and my question is, how further can you guys go with the buybacks?

Marcos Gradin
Sorry, Alberto. How--you're asking about the buyback?

Alberto Valerio
Yes, how much more you can do it.

Marcos Gradin
The volume that we are applying for the second buyback program is what we are allowed to do in the local markets, yes? So it's $2 million dollars per month, That's the one that we are achieving. We spent almost 5 million during the quarter.

Alberto Valerio
Perfect. And for how long can you keep doing the buyback? There is a limit, or the limit--it's the limit per month?

Marcos Gradin
The limit is 10% of total capital of L'Amalí (SP). So, it's still plenty of room.

Alberto Valerio
Perfect. Thank you.

Sergio Damian Faifman
You're welcome.

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

Gastón Pinnel
Thank you for joining us today, we appreciate your participation 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 questions you may have. Thanks again, stay safe.

Operator
The conference has now concluded. Thank you for attending today's presentation, you may now disconnect.