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Loma Negra Third Quarter 2020 Earnings Call and Webcast November 11, 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. 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 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 Third 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, Head of IR. Please Gastón go ahead.

Slide 2

Gastón Pinnel

Thank you. Good morning and welcome to our third 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.

I am going to mention a few highlights of the third 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.

I would like to begin by thanking all our people, and stakeholders, without whom these set of solid results would have been very difficult, particularly during this unprecedented times.

During this third quarter we achieved very important results, with EBITDA growth and margin expansion. The recovery-pathway of cement dispatches was consolidated as we experienced a very strong sequential growth in every region of the country, and an overall volume increase of almost 3% in a year on year basis.

As observed in previous quarters, the reason behind this rebound was the Bag segment, driven mainly by residential demand. On the contrary, the delay in larger private and public works execution is preventing the Bulk segment to starts its recovery and also harming our Concrete and Aggregate business.

Our Adjusted EBITDA stood at 48 million dollars with an expansion of 9.4% in the quarter compared to the same quarter last year, as we remained diligent on our operations, being able to recover sales volumes while improving our EBITDA margin by 454 basis points to 31.5%.

Additionally, during the quarter we decided to execute the sale of our entire 51% stake in the Paraguayan company, Yguazú Cementos. This was an excellent deal in terms of value generation and timing, with an implied multiple of approximately 9x last twelve month EBITDA.

As our country and the world continues to battle the COVID-19 pandemic, economic activity remains weak and uncertainty high. Yet, lockdowns are less restrictive, and more sectors are operational, which is expected to bring additional dynamism to the economy as a whole.

As a key element of our long term strategy, L´Amalí expansion project is right on track, expecting it to be inaugurated by the beginning of 2021.

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 4

Marcos Gradin

Thank you, Sergio. Good day, everyone.

As you can see on Slide 4, we are leaving behind the bottom levels of the second quarter, where the GDP recorded a fierce drop of 19%.

Auspiciously, the construction sector continues the sequentially recovery started in May. In particular, the cement sector is experiencing a more vigorous rebound. After fourteen months of year on year decline, September was the first month in recording a positive 10.5% growth.

The main drivers behind this trend is bagged cement sales which is explained by a surge in self-construction and retail demand. This segment grew around 18% in the third quarter relative to the same quarter in 2019, and also posted in September a historic record. A similar trend was also observed in October with a 12.8% yoy growth for the industry.

By contrast, during this quarter, bulk segment, together with Concrete and Aggregates, continues to suffer the most, hampered by the halt in infrastructure works, as the restrictions to operate combines with economic uncertainty.

Unsurprisingly, the share of cement sold in bag increased by almost 14 percentage points from 58% in 3Q19 to more than 72% in 3Q20. We expect this breakdown to remain rather stable on the following months. Eventually, Bulk demand would catch up as more restrictions are lifted on larger private construction works and public works are to gain some momentum again.

Definitely, the economy as a whole is yet far from turning around, and Argentina still faces different tests, particularly on the macroeconomic outlook, expectations about GDP growth for 2020 revolve around a double digit decline. In this sense we watch carefully the vigor of different economic sectors as they are re-opening for business.

Slide 5

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

While consolidated revenues drop 4.5%, revenues of our core business cement, masonry and lime was up 5.3%, with sales volumes increasing by 2.9% year-on-year, and favorable pricing environment.

As mentioned before, Bagged cement continues to be the driver behind this vigorous rebound, growing in this quarter around 23% compared to the same quarter last year.

Revenues from our Railroad segments decreased 29.8% year-on-year, with volume drop of 5.8% further impacted by the change in product mix. Namely a drop in transported building materials and frac-sand, partially compensated by other services rendered.

Revenues of Concrete and Aggregates are still the most hampered by the halt in public and private projects, plummeting 70.2% and 25.2%, respectively.

Slide 6

Moving on to slide 6, consolidated gross profit for the quarter increase by 3.9% year-on-year and margin expanded by 225 basis points, explained by our core business.

In particular, the recovery of revenues of the Bag segment with good cost performance, especially in energy inputs and lighter fixed cost structure which reflects footprint adequacy efforts achieved last year.

Energy inputs benefitted from earlier prices re-negotiations together with improvements in unitary energy consumptions.

SG&A expenses as a percentage of revenues, increased by 67 basis points to 7.7% from 7.0%, mainly due to the higher percentage of bagged cement sales.

Slide 7

Please turn to slide seven.

Our Adjusted EBITDA was up 11.6% in the quarter, reaching 48 million dollars and consolidated EBITDA margin expanded by 454 basis points to 31.5%, thanks to margin expansion in our core business segment, cement, masonry cement and lime.

Adjusted EBITDA margin in this segment expanded by 472 basis points to 34.3%, as bag volumes recovery coupled with significant reduction in energy input costs and good pricing performance allow us to outperform previous year quarter.

Railroad Adjusted EBITDA margin worsened to 6.3% from 14.0%, impacted by lower volumes and costs declining less than proportional.

Concrete and Aggregate posted a negative Ps.58 million and negative Ps.42 million, respectively, as they remain severely affected by the limited to execution of larger public or private works.

EBITDA in US dollars per ton stood at 32, increasing around 16% compared with the same period last year, and above 21% in a sequential basis versus second quarter this year.

Slide 8

Moving on to the bottom line on slide eight, net income for the quarter stood at Ps.6.449 million or USD 113 million. This figure includes Ps. 4,204 million of income from discontinued operations in Paraguay.

Income from continuing operations were Ps. 2,245 million, comparing to a loss of Ps.180 million, mostly explained by a positive impact of exchange rate difference and the Adjusted EBITDA expansion, partially offset by impairment of assets in other segments .

As a consequence of the change in business perspectives, we registered a non-cash Impairment loss of approximately Ps.851 million from which the bigger stake is the impairment on Railway, that amounted Ps. 705 million and the remainder on Aggregates.

Finally, net income was also affected by a non-cash charge of Ps. 363 million related to the cash contribution done in Ferrosur to repay existing debt.

Measured in US dollars, our net income of UD\$ 113 million dollars in the quarter from a loss of US\$12 million dollars in the year ago quarter.

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Slide 9

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

As previously mentioned, during the quarter we executed the sale of our Paraguayan operation, resulting in an excellent value creation opportunity for the company. The proceeds from the sale were mainly dedicated to debt repayment and the distribution of an extraordinary dividend, of approximately US\$31 million, which was performed in October 2020.

Additionally, this transaction together with our positive operating cashflow of Ps.3.4 billion, enable us to face capital expenditure payments of Ps. 1.6 billion, 69% of which was dedicated to the expansion project, and to repay Ps. 8.9 billion of borrowings (around USD 117 millions), ending the quarter with a total cash position of Ps. 4.7 billion, with manageable short-term debt maturities of Ps.3.9 billion.

At the end of this quarter, our Net Debt was reduced to USD 19 million, and our Net Debt to EBITDA ratio to 0.12 times from 1.17 times in the second quarter this year.

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

Slide 10

Sergio Faifman

Thanks Marcos,

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

We proved resilient to this challenging times, and we are pleased to communicate these achievements.

Our efforts and adaptability to the unknown were translated to our results, once again delivering margin and EBITDA growth.

The initial recovery of cement demand observed at the end of the second quarter was confirmed during the last months, where bagged cement reached record high volumes. We expect this improvement to continue, and at some point in time major private and public infrastructure works should resume, reinforcing this positive trend.

Certainly, the economy as a whole is yet far from turning around, and Argentina still faces different challenges, particularly on the macroeconomic perspective. In this sense we watch carefully the dynamism of different economic sectors as they are re-opening for business, and how this could affect our own sector.

We executed seamlessly on the sale of our Paraguayan operation. We consider it was an excellent deal in terms of timing and value generation. We optimized the proceeds from the transaction, creating value for our shareholders at the time we strengthened our already robust financial situation.

We are now concentrating all our efforts in Argentina. In that line is that we keep the pace on the execution of L'Amalí expansion project which is planned to be ready by the beginning of 2021.

Once again, I would like to thank all our people, and stakeholders, without whom these above mentioned results would have been impossible, especially during this unprecedented times. Let's keep moving forward, with the same responsibility and resourcefulness we have shown so far. United we are able to overcome any challenge and grasp every opportunity on our way.

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

QUESTION AND ANSWER

Operator

Thank you. We will now conduct a question-and-answer session. If you would like to ask a question pl

ease press "*" "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*" "2" if you would like to remove from the 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 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 to those question and then they will be addressed.

And 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.

Alejandra Obregon Martinez

Hi, good morning, and thank you for taking my question. I actually only have one. If you could please elaborate on your utilization rates across the different regions or assets and whether you are optimistic of getting more pricing power in the next months? Thank you.

Sergio Faifman

Good morning, Alejandra. Thank you for your question. The utilization rate in the plants, it depends on a monthly basis, and it is currently approximately 90% of its utilization. It is hard to talk about utilization rate because in this month of September, October, and November, we are usually with a higher demand.

If we take a look to clinker capacity utilization, we should be around 80%. (FOREIGN LANGUAGE SPOKEN) In this last month, due to the bag segment recovery, we do have more utilization rates in the dispatch in the bagging and dispatching sectors.

For the coming months, we are optimistic about the volumes. And we also think that it could be a slight decrease in the bag cement and most probably a recovery on the bulk because it is the one lagging behind.

Importantly to remark that the large infrastructure projects, not only in the metropolitan area of Buenos Aires but also in the rest of the country, has been virtually nonexistent. And for the last time, there has been some news about some infrastructure projects that are starting in the near future.

Alejandra Obregon Martinez

Thank you. And maybe a follow-up here. Is it fair to assume that the retail demand or the strength that we have seen in the retail demand is coming from the Buenos Aires area, or is there any other region that has outperformed as well?

Sergio Faifman

No, actually, demand is quite stable along the country. In the metropolitan area, the bulk cement was more affected due to the lockdown restrictions.

Alejandra Obregon Martinez

Understood. Thank you very much.

Sergio Faifman

Thank you, Alejandra.

Operator

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

Coleman Clyde

Hi gentlemen, thank you for taking my question. I have two really quick ones. My first one is on margins. I'm just wondering what your more medium-term outlook is for margins in light of the fact that the L'Amalí plant expansion is going to come online next year, and I know that you were initially expecting to see some improvements from that plant. We have already seen some pretty big improvements on the margin front. So, are you still expecting to see further improvement? What is your more medium-term outlook on that front?

And then the second question would be, in light of the sale of your assets in Paraguay, could you envision a scenario in the future where you pursued assets outside of Argentina again? Those are my two questions.

Sergio Faifman

Good morning Coleman. Thank you for your questions. Regarding margins, with L'Amalí expansion, we should have margin improvement. Certainly, this margin improvement will not be next year due to the ramp-up in the plant should also have a ramp-up in the margin improvement.

Additionally, there are two other things. One is the energy, the thermal energy costs. That due to the savings that we observed recently, the savings with L'Amalí should be less than what we had expected.

The other factor has to do with the volumes, yes, and the size of L'Amalí. And once we are ramping up production in that plant, we should also be diluting fixed costs. Regarding Paraguay, we believe that the sale proves the capacity of the company to develop a project and then to sell it with the right timing and value generation.

So at this moment, in the Board of Directors and the Finance Committee, we are revising and reviewing the strategy for the next five-years. And in this strategic plan, we are not discarding any alternative. It could be growth in Argentina, vertical integration or also abroad in other geographies. But as of today, we do not have any decision made about these future steps.

Coleman Clyde

Thank you very much. Very clear.

Sergio Faifman

Thank you.

Operator

Our next question is from Eric Neguelouart from Bank of America. Go ahead.

Eric Neguelouart

Yes. Thank you, good morning. So, I would just like to know if you have some more color on the stimulus program that were announced by the government earlier this year. Just anything you could comment. Thank you.

Sergio Faifman

Sorry, Eric, could you repeat your question? We didn't get it, actually.

Eric Neguelouart

Okay. Can you hear me there?

Sergio Faifman

Yes. Now it is better.

Eric Neguelouart

Okay. So, any color you could give us on the stimulus package announced by the government earlier this year, have those projects have started, or are they going to start anywhere in the near future? Just any color you can give us would be good. Thank you.

Sergio Faifman

Thank you, Eric. So, the governmental plans that we have knowledge about are focus on housing adequacy, right. Sewages, houses, and roads. (FOREIGN LANGUAGE SPOKEN) We believe that with the approval of the budget 2021 this week, we should have a better outlook for this plan.

Operator

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

CONCLUSION

Gastón Pinnel

Thank you for joining us today. We appreciate your participation and 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 meantime, the team remains available to answer any questions that you may have. Thanks again and stay safe.

Operator

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