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Loma Negra First Quarter 2019 Earnings Call and Webcast May 10, 2019 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 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.

PRESENTATION

Operator

Good morning and welcome to the Loma Negra First Quarter 2019 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. Gaston Pinnel, 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 during today's call will be Sergio Faifman, our CEO and Vice President of the Board of Directors; and our CFO, Marcos Gradin. 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 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.

Finally, I would like to remind you that the Company is reporting results of its Argentinean subsidiaries by applying International Accounting Standards 29 – IAS 29 (Financial Reporting in Hyperinflationary Economies) ("IAS 29").

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

Sergio Faifman

Thank you, Gastón. Hello everyone and thank you for joining us today. It is a pleasure to welcome you to Loma Negra's First quarter 2019 Earnings Conference Call.

I will begin my presentation with a discussion of the highlights of the quarter, and then Marcos will take you through our market review and financial results. Afterwards, I will provide our outlook for 2019. We will then open the call to your questions.

Starting with slide three, we ended the quarter with another solid set of results, despite the Economic slowdown. Cement demand in the First quarter contracted YoY around 10.6%

Our top line for the quarter increased by 3.6% year-on-year to 7.4 billion pesos. We delivered an increase in adjusted EBITDA of around 18% achieving a margin expansion of around 350 basis points to 28.7%. During the quarter we incurred in some non-recurrent expenditures related to a "structure adequacy" of administrative and commercial processes, which resulted in a reduction of around 10% of these processes headcount. Excluding this effect the EBITDA margin would have been 30.5% or 528 basis points higher than 1Q18 .

This is a demonstration to our continued efforts on balancing growth and profitability. Our core Argentine cement business remained the principal factor behind these strong results, together with a good performance in Paraguay, Concrete and Railroad. This resulted in a Year-on-year, bottom line increased of 48%.

As shown on this slide, using the prior accounting methodology and measuring in US dollars, in this quarter, we achieved an Adjusted EBITDA of 54 million dollars. Excluding the non-recurrent charges, EBITDA in the first quarter would have been around 58 million dollars, down by only 3% year-on-year, despite the 13% contraction in the cement volume and the sharp Peso depreciation.

Additionally, our robust balance sheet with net debt to last 12 months EBITDA of 0.59 times provide us with a solid position to face the current volatility of the local financial markets.

The expansion of our L'Amalí plant continues to be a key element of our long-term strategy and will contribute to our production efficiencies and profitability. The project continues on track, and the start up date is expected to be in the second quarter of next year.

I will now hand off the call to Marcos Gradin. Please, Marcos, go ahead.

Marcos Gradin

Thank you, Sergio. Good day, everyone. Turning to slide 4, let me start by providing a quick overview of the macro environment and industry trends in Argentina.

Construction activity, measured through the ISAC, declined in the first three months of the year signaling that the downturn started last year has yet a carry-over at the beginning of 2019. In this regard, Economist's expectations call for a 1.3% contraction in GDP for this year, recovering gradually only after the second half, reaching growth of 2.2% in 2020.

During this first quarter, the cement industry declined by a rate of 10.6% YoY, but showing a softer decline when compared to the same rate of the previous quarter.

Taking a closer look to the cement demand, bag and bulk segments continue to present different dynamics. Bag segment declined almost by 15%. By contrast, bulk cement demand only by 3.5% continued to be supported by public infrastructure works, thus bulk cement demand continued to increase its share in total cement sales reaching 43% of total sales.

Looking into 2019, we still expect the negative cycle that began in the second quarter of 2018 to turnaround by mid-year following consensus expectations of an overall macroeconomic recovery in Argentina.

We see industry cement demand following these macro trends, while current public works are expected to continue moving ahead, particularly in the Buenos Aires metropolitan area.

Now, please turn to slide 5 for a review of our topline performance by segment.

Revenues were up 3.6%, despite softer Cement sales volumes

For the quarter, Cement Sales volumes dropped 13% year-on-year, impacted by overall weaker demand. Thus, revenues fell only by 1% year-on-year, compensated by a healthy pricing environment.

In Paraguay, revenues were up almost 34%, driven by the continued recovery in sales volumes were up 8% in the quarter, and the Guaraní appreciation against the Ps.

The concrete segments continue to present good revenue generation, with volume growth coupled with strong pricing. Revenues generated by the aggregate segments was benefitted also by positive pricing.

By contrast, revenues from our Railroad segments, decreased 1.6% and year-on-year, as a consequence of softer transported volumes.

Moving on to slide 6, consolidated gross profit for the quarter was up by 28.6% year-on-year, with a margin expansion of almost 560 basis points reaching 28.8% in the quarter

This was mainly driven by our core Cement operation in Argentina, and further supported by our cement business in Paraguay, and our concrete and railroad segments.

On the cost side, upward pressure continued due to the impact of the peso depreciation and higher inflation on the Company's cost structure, mainly in thermal and electricity costs. This impact was partially mitigated by savings in energy costs measured in US\$, both thermal and electrical.

SG&A expenses as a percentage of revenues, increased by 74 basis points to 8.4%, principally due to non-recurrent expenditures related to the structure adequacy in our administrative and commercial processes of approximately Ps.95 million, and partially compensated by a reduction of the effective sales tax rate. If the non-recurrent structure adequacy is excluded, SG&A as a percentage of revenues would have declined to 7.1%.

Please turn to slide seven. Despite the softer demand, we reached Consolidated Adjusted EBITDA growth of 17.9% in the quarter, over 2.1 billion pesos or 54 million dollars with margin expanding 347 basis points to 28.7%, mainly driven by the cement segments in Argentina and Paraguay, and further supported by growth in Concrete and Railroad. Excluding the non-recurring charges the Ebitda margin would have been, 30.5%, reaching 2.3 billion pesos or 58 million US dollars.

The application of IAS 29, impacted in a reduction of 98bps in the Consolidated Ebitda margin in this quarter.

When excluding the application of inflation accounting, Adjusted EBITDA for the Cement segment in Argentina, increased 68.5% YoY and the margin expanded by 310 basis points to 31.8% . Also Paraguay posted around 110% growth in Adjusted EBITDA with the margin improving 126 basis points to almost 45%.

Adjusted EBITDA margin for our concrete segment presented a strong expansion of 620 basis points compared to the year ago quarter mainly driven by sales volume growth and favorable pricing.

We continued to post margin expansion in our railroad segment, with adjusted EBITDA margin up almost 518 basis points year-on-year benefitting from higher revenues and a lower fixed cost structure

By contrast, Aggregates segment Adjusted EBITDA margin deteriorated as the favorable pricing environment could not compensate lower volumes and higher cost of sales

Importantly, despite the strong devaluation of the argentine peso in the First quarter YoY, around 100%, together with a decrease in volumes, our cement business in Argentina remained relatively stable in terms of EBITDA per ton measured in US dollars, above 32 dollars per ton, slightly over the year ago quarter.

Moving on to the bottom line on slide eight, net majority income for the quarter increased by 51% year-on-year reaching 1.0 billion pesos, resulted from an Adjusted EBITDA growth, and a positive impact in the income tax line as we decided to exercise the tax revaluation option of the latest Tax Reform.

Measured in US dollars, our net majority income decreased 6% to 25 million dollars in the quarter from 27 million dollars in the year ago quarter.

Moving on to the balance sheet, as you can see on slide 9, our robust balance sheet provides us with a solid position to face the current volatility of the local financial markets, and more flexibility around the funding of our meaningful investment plan.

We finished this quarter with a Net Debt to Adjusted EBITDA ratio of 0.59 times compared to 0.43 times in FY18.

Our net debt at the end of the quarter was 113 million US dollars with a gross debt breakdown by currency of 46% in US dollars, 40% in Guaranies and 14% in Argentine pesos.

We continued to make progress in our capital expenditure plan, with investments for the quarter reaching 1.9 billion pesos, or approximately US\$40 million. Of the total amount in Ps., around 67% was invested in the second production line at our L'Amalfí plant.

I will now handle the call back to Sergio.

Sergio Faifman

Thanks Marcos, now please turn to slide 10.

To wrap up this presentation, I would like to highlight a few final takeaways.

The challenging macro-economic environment in Argentina, make us remain even more focused on our results, leveraging our leadership position while seeking productivity gains.

We are pleased to see that our core Argentine Cement business, delivered both Adjusted EBITDA growth and margin expansion, even with weaker volume demand in the country, and that Paraguay, concrete and railroad had strongly performed.

Throughout the first quarter cement demand in Argentina declined around 10.6% YoY, although in seasonally-adjusted terms volumes presented an increase compared to the previous quarter. We expect this trend to remain in the following quarters. In this context, we remain focused on managing the business to deliver strong results.

We are going to continue optimizing our processes and structure to make Loma Negra a more efficient and agile company preparing ourselves for the challenges to come. In this direction is that we have recently adequated our administrative and commercial processes.

Our history, and leadership position provide us with a strong base to continue balancing our growth and profitability. And part of our strategy is the expansion in L'Amali plant, which will allow us to continue delivering production efficiencies, and profitability while providing much needed capacity for when demand recovers.

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

QUESTIONS AND ANSWERS

Operator

Thank you. We will now conduct a 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 line from queue. For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the keys. Once again, that is star, one, on your telephone keypad. We would also like to ask you to please limit yourself to one question and one follow up. 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 an English translation. Please hold on momentarily while we assemble the roster.

And our first question comes from Mauricio Serna with UBS. Please go ahead.

Mauricio Serna

Hi, good morning, and thanks for taking my question. One question on demand is you seem to be a little bit more optimistic on the second half of the year. So, I was wondering what kind of guidance are you having for the Argentina volumes on a full year basis.

And on that same note, we have seen some volume underperformance over the last quarters, probably as you prioritize the pricing. Do you believe this market share losses will be recovered in the medium term, or how should we think about this? Should this be more a structural share losses?

And then finally, you also mentioned the restructuring affecting your expenses on the SG&A front this quarter. I just wondering if this was only a one-quarter thing or could it occur again in the following quarters? Thank you.

Sergio Faifman

[Speaking Spanish] Good morning, Mauricio. Thank you for your question. [Speaking Spanish] So regarding the volumes, we keep our estimations for the full year. We are observing a certain recovery in volumes, and we expect positive numbers since June. [Speaking Spanish] Regarding the market share as we usually say, given the high inflation and the high turnaround in prices, we do have some impacts in our market share.

[Speaking Spanish] These are temporary variations in our market share, but this is included in our strategy. [Speaking Spanish] Regarding the structure adequacy. [Speaking Spanish] So, regarding our commercial and administrative structure. We have done all the adjustments that we needed to do to gain efficiencies in these areas.

[Speaking Spanish] And regarding operational efficiencies, we're going also take some measures in this direction, and they're going to be reflected in the coming times, as long as the market allow us to do so.

Mauricio Serna

Thank you. Thank you, very much. Very helpful. And one follow-up, if I may, just on the margins they've been doing very strong, especially on the gross profit level. I just want to understand how much of that was due to pricing and how much was it to actually better costs or better trends in terms of electricity and thermal fuels. Thank you.

Sergio Faifman

[Speaking Spanish] So the improvement that we have it is actually a combination of different factors. [Speaking Spanish] There is no doubt that pricing has an impact. [Speaking Spanish] But as well, we also have many improvements regarding costs, [Speaking Spanish] which are basically related to thermal and electrical energy, [Speaking Spanish] also packaging and overall higher efficiency in our facilities. [Speaking Spanish] And specifically regarding thermal and electrical costs, we have reductions of around 10%.

Mauricio Serna

Got it. Thank you very much.

Operator

And once again, if you'd like to ask a question, please press star, then one.

And our next question comes from Antonella Rapuano with Santander. Please go ahead.

Antonella Rapuano

Hello. Well thank you, for taking my question. I was wondering on the latest news

that were published this week on several media, there was some rumors on the close of the plant and also that Loma was going to fire around 100 employees. So, I think this is part of your restructuring plans and I think—well I just want to know if this is true, in the first place.

And then, when do you plan to do so? How is the impact in the structuring margins? And if that is part of the L'Amali expansion plan, so you're going to transfer part of the production of the Barker plant to L'Amali, and that's my first question.

And I have a second question, if you could give us an update on the class action against Loma related to the IPO. That would be helpful. Thanks.

Sergio Faifman

[Speaking Spanish] Good morning, Antonella, thank you for your questions. [Speaking Spanish] So the information about the Barker plant, they are correct. We do have a conflict with the union in the plant. [Speaking Spanish] It is within our measures to take regarding our operational structure, considering the current situation and the future situations in the market.

[Speaking Spanish] So, regarding the class action, it is over the regular process of the trial. [Speaking Spanish] So, there was an amendment to the demand and actually there was a new fact on top of the original facts. [Speaking Spanish] The next step is the company to answer this amendment. [Speaking Spanish] and the lawyers are still optimistic regarding the positive results on this class action. [Speaking Spanish] And one important concept here is that it is not yet a class action, for this the judge needs to certify this class action, which didn't happen yet.

Antonella Rapuano

Okay, very clear. Thank you.

CONCLUSION

Operator

And this will conclude our question-and-answer session. I'd like to turn the conference back over to Mr. Gaston Pinnel for any closing remarks.

Gaston Pinnel

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

Operator

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