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## **Loma Negra Second Quarter 2019 Earnings Call and Webcast August 9, 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](http://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.*

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*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 Second 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 this event is being recorded.

And 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 our recent filing with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

Now I 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 Second 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 the remainder of the year. Finally, we will open the call to your questions.

**Starting with slide three**, we ended the quarter with another solid set of results, as we remain focus in looking for profitability enhancement initiatives.

Our top line decreased by 2.2%, still affected by a weak economy that starts to show signs of stabilization. In this sense, in the last months, cement demand presented a couple of positive numbers in a year on year basis, starting to observe an incipient recovery of private consumption.

In the back of a positive pricing environment and our cost efficiencies initiatives, is that our EBITDA grew by 7.1%, with margin expansion of 225 basis points.

During the quarter we continue with our effort to streamline our production-footprint, and this is the reason why we reconverted the Barker facility into a grinding and distribution center. Consequently, we incurred in some non-recurrent costs, therefore excluding this effect the EBITDA margin for the second quarter would have been 28.3% or 476 basis points higher than 2Q18.

As shown on this slide, using the prior accounting methodology and measuring in US dollars, in this quarter, we achieved an Adjusted EBITDA of 44 million dollars. Excluding the non-recurrent charges, mentioned before, EBITDA in the Second quarter would have been around 49 million dollars, remaining flat year-on-year, despite the 10% contraction in the cement volume and the sharp Peso depreciation.

The bottom line increased 525% year-over-year, as a consequence of a good operating results and the reversal of the financial loss in the second quarter of last year.

Additionally, our robust balance sheet with net debt to last 12 months EBITDA of 0.76 times provide us with a solid position to execute our strategy.

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 kick in date is expected to be at the end of the second quarter 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 Second quarter of the year signaling that the down turn started last year has yet a carry-over. Thus, Economist's expectations still call for a 1.4% contraction in GDP for this year, recovering gradually only after the second half, reaching growth of 2.2% by 2020.

During this Second quarter, the cement industry declined by a rate of 4.5% YoY. In a sequential basis, the second quarter remained almost flat compared to the first quarter this year.

Taking a closer look to the cement demand, bag and bulk segments continues to present different dynamics. Bag segment declined by 9%. By contrast, bulk cement demand increased by 2.8% continued to be supported by public works coupled by an increasing demand driven by private project.

Consequently, bulk cement demand continued to increase its share in total cement sales reaching 44% of total sales.

According to recent data, we started to see some signs of stabilization with year-over-year growth in May and July, explained by a mild recovery of private consumption driven by a higher purchasing power as the inflation keeps trending down and wages increase in real terms.

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

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

Revenues were down 2.2%

For the quarter, Cement revenues remained almost flat, impacted by sales volumes dropped of 10%, but compensated by a healthy pricing environment. In Paraguay, revenues were up 11%, driven by the Guarani appreciation against the Ps. with volumes rather stable.

Concrete segment presented a decline of 17.6% in revenues, as both sales volumes and prices were down when compared to the strong 2Q in the year ago period. Several large infrastructure projects that had commenced in recent years were in completion phase and, during this year, other new large projects did not ramp-up yet.

Railroad revenues decreased 6.5% YoY, as price decreased in real terms and sales volume slip 2%, mostly affected by lower transported cement. By contrast, Aggregate revenues were up 24.6% YoY during the period, driven by improving volume and prices.

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**Moving on to slide 6**, consolidated gross profit for the quarter was down by 4.9% year-on-year, with a margin expansion of 72 basis points reaching 25.7% in the quarter.

Non-recurrent costs related to reconvertng Barker accounted approximately Ps.188 million or \$ 4.2 million dollars. If excluded, gross profit would have grown by 4.5% with margin expansion of 179 basis points to 28.2%.

Energy cost continues to decline as result of grasped cost opportunities related to natural gas and electricity supply, affecting positively our Gross profit.

SG&A expenses as a percentage of revenues, decreased by 108 basis points to 6.5%, positively impacted by previous structure adequacy measures adopted in 1Q19, together with a further reduction in the effective sales tax rate.

**Please turn to slide seven.** Despite the softer demand, we reached Consolidated Adjusted EBITDA growth of 7.1% in the quarter, over 1.9 billion pesos or 44 million dollars with margin expanding 225 basis points to 25.8%, mainly driven by the cement segments in Argentina and Paraguay, and further supported by growth in Railroad. Excluding the non-recurring charges the Ebitda margin would have been, 28.3%, reaching 2.1 billion pesos or 49 million US dollars. This Ebitda in US dollars remained flat when compared to a year ago.

When excluding the application of inflation accounting, Adjusted EBITDA for the Cement segment in Argentina, increased 62% YoY and the margin expanded by 113 basis points to 29%, and excluding the non-recurrent cost would have been 32.6%. Also Paraguay posted around 112% growth in Adjusted EBITDA with the margin of more than 41%, improving 745 basis points compared to 2Q18, when we had to acquire clinker to a third party.

Our concrete segment reported a decline in Adjusted EBITDA reaching Ps.15.5 million, with the margin contraction of 186 basis points, from 3.4% to 1.5%, mainly as a result of a lower sales volume and a more competitive price environment.

We continued to post margin expansion in our railroad segment, with adjusted EBITDA margin up more than 950 basis points year-on-year to 12.8%, as a result of structure adequacy efforts.

Aggregates segment Adjusted EBITDA remained almost flat as higher volume and favorable pricing environment was compensated by higher cost of sales.

Notably, despite the strong devaluation of the Argentine peso in the Second quarter YoY, around 90%, together with a decrease in volumes, our cement business in Argentina remained relatively stable in terms of recurrent EBITDA per ton measured in US dollars, above 30 dollars per ton, 8% over the year ago quarter.

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**Moving on to the bottom line on slide eight,** net majority income for the quarter increased by 525% year-on-year reaching 1.1 billion pesos, mainly due to an improve in Financial results.

Total finance results represented a gain of Ps.264 million compared to a loss of Ps. 954 million in the second quarter last year, which had been impacted by the FX depreciation.

Accordingly, measured in US dollars, our net majority income increased by 114% to 16 million dollars in the quarter from 8 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 move ahead with our meaningful investment plan.

We continued to make progress in our capital expenditure plan, with investments for the quarter reaching 2.7 billion pesos, or approximately US\$61 million.

We finished this quarter with a Net Debt to Adjusted EBITDA ratio of 0.76 times compared 0.69 times in previous quarter to 0.43 times in FY18.

Our net debt at the end of the quarter was 164 million US dollars with a gross debt breakdown by currency of 37% in hard currency, 33% in Guaranies, and 30% in Argentine pesos.

I will now handle the call back to Sergio.

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**Sergio Faifman****Thank you Marcos, now please turn to slide 10.**

Before taking your questions, I would like to mention that we are pleased to continue delivering strong results while executing on our immediate priorities. In this sense, on the last quarter, we put our effort in streamlining our production-footprint in the Buenos Aires region.

L'Amalí plant expansion is part of this strategy and will allow us to continue increasing production efficiencies and profitability, while providing much needed capacity for when demand fully recovers.

Certainly, some volatility could be expected associated with the election process in Argentina, although some signs of stabilization in the economy, together with recovering momentum in the industry, are encouraging us to remain positive for the second semester of the year. Our history, leadership, and determination in the search for greater productivity, provide us with a strong base to keep on delivering strong results.

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'd like to ask a question, please press star, 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'd like to remove your question. For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the keys. Once again, star, one on your telephone keypad. We would like to ask that you please limit your question to one question and one follow-up, please. If you have additional questions you may re-queue for those questions and they will be addressed. Also please note that Mr. Sergio Faifman will be responding in Spanish immediately following an English translation.

Please hold momentarily while we assemble the roster. And our first question today comes from Alejandra Obregon with Morgan Stanley. Please go ahead.

**Alejandra Obregon**

Hi, good morning and thank you for taking my question. I have two, if I may. The first one is on the volume side. It seems like the negative 10% volume for the second quarter is lower than that for the industry. So just trying to understand if there is some shared losses during the quarter or that's driven by originality chase, perhaps. And then my second question is with regards to the competitive environment. I was just trying to understand the pricing behavior in the cement space. Seems like cement inflation in the country is running up close to 84% for the quarter. And if I'm not mistaken, price increases on your operations were somewhat below that. So just trying to understand if you saw some more aggressive pricing strategies in certain areas or maybe by certain competitors, perhaps. Thank you.

**Sergio Damian Faifman**

[Speaking foreign language].

**Gaston Pinnel**

Good morning, Alejandra, thank you for your question. Regarding the volume, we have in this quarter an impact in our market share, in line with what we have been talking about. So basically, regarding the price increases, as we are the leaders, we are the first movers and the competitors they have a lag in the time that they increase prices.

So additionally, we had two other impacts. One was regarding an adverse weather, and the other one regarding the large infrastructure in certain regions that had a consequent impact in our national market share. And in particular, the reconversion of the Barker plant, this brought some issues with the unions, and this may have a minor impact in our market share as well. So considering both the Barker conflict and the other two aspects that we mentioned, together with the inflation trending down, we expect this effect in our market share to reverse in the coming month.

Regarding the other question about prices, actually, our prices increased above inflation in the last year. And actually, the inflation number is 55%.

**Alejandra Obregon**

Understood this was very helpful thank you very much.

**Operator**

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

**Mauricio Serna**

Good morning. Thanks for taking my question. My questions are regarding the L'Amalí plant project. Just wanted to get a sense—you mentioned that the expansion plan [ph] should be operational by the second quarter of next year. So how much of the capex for this project has already been deployed? And on that sense, how should we think about the ramp-up? Meaning I know you discussed about the lower variable cost per ton of production in this plant, but how fast will the company be actually be able to materialize this lower variable production cost?

And on that note, what kind of utilization level should we think about? Meaning are you pretty much reallocating a lot of the production from other plants to this one to fill up its capacity? Or how should we think about this project going forward? Thanks.

**Sergio Damian Faifman**

[Speaking foreign language].

**Gaston Pinnel**

Good morning, Mauricio, thank you for your question. So, regarding your first question about the capex, accumulated until the second quarter this year, we already spent \$200 million. For the second semester, we expect \$50 million, and the remainder for 2020 would be around \$80 million. The estimated start-up date [ph] for the project will be at the end of the second quarter



next year. So as any project of this size, it will have a ramp-up period of two to three months. Therefore, we think that all the benefits coming from this project, from productivity and variable cost, will materialize by fourth quarter of 2020.

**Mauricio Serna**

Okay. And is that assuming like it's on a high utilization level, like I don't know, like 80%, 90% or how should we think about utilization of that capacity?

**Sergio Damian Faifman**

[Speaking foreign language].

**Gaston Pinnel**

So the volume, of course, will depend on the size of the market, but we are always going to have this plant as a priority to produce on top of the other one.

**Mauricio Serna**

Okay. Okay. Makes sense. And if I may, just very quickly, on the restructuring cost. Are we done with these or should we continue seeing more of these on the second half of the year?

**Sergio Damian Faifman**

[Speaking foreign language].

**Gaston Pinnel**

We're always seeking for these kind of opportunities in order to reduce our variable cost and our fixed cost and we're going to do as much as we can.

**Mauricio Serna**

Thanks, very helpful.

**Operator**

And our next question comes from Eric Degayboudard [ph] with Bank of America. Please go ahead.

**Eric Neguelouart**

Hi, good morning, thank you for the call. A couple of follow-up questions on Alejandra's point. Out of the three impacts you mentioned, could you maybe quantify how much comes from each impact or which of the three impacts is the most important for the decreasing in volumes? And regarding the lower demand from the large infrastructure projects you mentioned, should we expect seeing this during the second half of the year or at least until the elections come by and then the new administration takes office by the beginning of next year, or was this just a temporary situation that happened during the second quarter? Thank you.

**Sergio Damian Faifman**

[Speaking foreign language].

**Gaston Pinnel**

Good morning, Eric, thank you for your question. We do not give specific numbers around the market share but in the order of priority, first the delay in prices, the impact of the delay in prices; second, the impact of the adverse work conditions; and third one, the completion phase of the large infrastructure projects. And finally, although it was a minor effect, the reconversion process of the Barker facility also had an impact.

So, regarding the infrastructure projects, we are observing that the schedule is in line with what it was previously expected, although new projects are lagging to ramp up, especially the large infrastructure projects. What we are observing now is incipient growth in the private demand and also a reversion on the bag segment starting to grow again.

**Eric Neguelouart**

Understood. Thank you very much.

**Gaston Pinnel**

Thanks, Eric.

## **CONCLUSION**

**Operator**

And this concludes 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 next quarter. In the meantime, the team remains available to answer any questions that you may have. Thank you very much and enjoy the rest of your day.