Loma Negra
Second Quarter 2022 Earnings Call and Webcast
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CORPORATE PARTICIPANTS
Diego Jalón – 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 Second Quarter 2022 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. Diego Jalón, Head of IR. Please, Diego, go ahead.

Slide 2

Diego Jalón

Thank you. Good morning, and welcome to Loma Negra's 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 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 filings 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 of non-GAAP financial measures. The full reconciliation of 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, Diego. Hello everyone and thank you for joining us today.

As usual, 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. After that, I will provide some final remarks, and then we will open the call to your questions.

Starting with slide three, we ended the quarter with another solid set of results, supported on the positive trend of Cement demand that is surpassing historical records.

As you could see from our release issued yesterday, our Adjusted EBITDA for the quarter reached 63 million dollars, compared with 48 million in the second quarter of 2021. When measured in pesos, it shows an increase of 2.6% year on year.

Sustained by our production efficiencies and increased flexibility, supported to a large extent by the recent investments in capacity, Loma is successfully coping with the complex situation of the global energy market, that has damage Cement´s profitability worldwide.

In this context, we keep delivering solid results, with Consolidated Adjusted EBITDA margin of 29% and a sound US dollars EBITDA per ton of 36.5, 8% above 2021's second quarter.

Finally, following the dividend that we paid in April, and leveraged on our solid balance sheet and cash flow generation, we decided to distribute a second dividend of 81 million dollars, totalizing 126 million dollars for the year, reaching an outstanding dividend yield of 17%.

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 morning, everyone.

As you can see on Slide 4, the GPD forecast for 2022 was slightly increased in the last Market Expectations Report from the Central Bank, reaching 3.4 from the previous 3.2, as the first quarter showed a 6% growth.

In this context, construction activity measured by the ISAC shows the strong momentum, pulling the general economy growth, as figures for the sector are above consolidated economy level, showing its robustness in this moment of political and economic uncertainty.

Regarding Cement national industry sales, the first half of the year has exceeded all initial expectations. After a strong first quarter thar showed a 7% increase YoY, the second quarter surged, growing almost 16% YoY, with six months accumulated figures reaching 11.5%. This tendency continued in July, that registered an increase of 9%, which makes us optimistic that this trend is going to continue, and that we are on track to surpass the annual historical record of 2015.

Bagged cement volumes remain solid on the back of residential demand showing a more moderate growth, but as in the last few quarters, growth came specially from the Bulk shipments. Driven by a higher level of activity in private, residential and industrial infrastructure projects, and coupled by a moderate recovery in public works, particularly at the municipal and provincial levels. We can see this dynamic in the breakdown by dispatch mode, where bulk shows a participation of 43% against the previous 40% in 2Q21.

As we said before, we are cautiously optimistic for next quarters, taking into consideration that the challenging current political and macroeconomic situation, could negatively affect future growth.

Slide 5

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

Topline was up 8% in the second quarter, mainly due to the increase in Cement revenues coupled with a positive performance of all other segments.

Cement, masonry cement and lime segment was up 6.2%, with volumes expanding sharply 19.3% YoY with a softer pricing dynamic.

Concrete revenues recovered strongly 27.5% in the quarter. Volumes were up 26.3% coupled with good pricing performance and following the strong momentum of bulk cement.

In the same way, Aggregates showed sound revenues recovery of 105%. Volumes expanded 64.7% on the back of concrete demand and ongoing roadworks in the province of Buenos Aires, coupled with good pricing performance.

Finally, Railroad revenues increased 5.6% in the quarter YoY. Transported volumes were up 11.4%, boosted by constructions materials while price was negativity impacted by product mix and a lower average distance transported.

Slide 7

Moving on to slide 7, consolidated gross profit for the quarter slightly improved 0.6% year-over-year with margin contracting by 205 basis points to 28.1%, mainly impacted by a lower price performance of our core segment and higher depreciations due to the completion of L'Amalí second line, partially offset by proper cost management due to our operational improvements and production flexibilities.

Cement and Railroad gross margin contraction was slightly offset by a better performance of Concrete and good results in Aggregates.

SG&A expenses as a percentage of revenues remained flattish, slightly increasing 11 basis points to 8.7% from 8.6%.

Slide 8

Please turn to slide eight.

Our Adjusted EBITDA for the second quarter stood at 63 million dollars, up 31.7% from 48 million dollars in the same quarter a year ago, boosted by our top line and adequate cost management.

In pesos, Adjusted EBITDA was up 2.6% in the quarter reaching 7,3 billion pesos with consolidated EBITDA margin of 29%, contracting by 151 basis points year on year, affected by Cement margin contraction and the higher participation in the topline of the other segments with lower margins.

Cement segment Adjusted EBITDA margin reached 32,5%, contracting 155 bps mainly due to a softer pricing dynamic and higher energy inputs, partially offset by an increase in sales volumes.

In a per ton basis, EBITDA reached 36.5 dollars per ton, increasing 8% from 2Q21.

Concrete Adjusted EBITDA increased 46 million pesos compared to 2Q21, mainly explained by a positive price performance and higher volumes, with margin expansion of 371 bps, but still in negative grounds.

Aggregates Adjusted EBITDA improved from 25 million pesos in 2Q21 to 64 million pesos this quarter, reaching a margin of 9.7% and showing a great recovery for the segment, favored by a better pricing and higher sales volume.

Finally, Railroad Adjusted EBITDA decreased 25 million pesos to 73 million pesos for the quarter, with a margin of 3.4%, mainly due to the impact of price performance, affected by product mix and a lower average transported distance despite the volume expansion.

Slide 10

Moving on to the bottom line on slide ten, our profit stood at 2.5 billion pesos, reverting a loss of 2.0 billion pesos posted the same quarter of last year, which was affected primarily by an increase in the income tax rate

Total finance cost stood at 0.3 billion pesos in 2Q22 from a total financial gain of 0.5 billion pesos the same quarter last year, where the decrease of the Net Financial Expense partially and the lower gain on the monetary position, compensated the loss in exchange rate differences.

As mentioned, our Net Financial expense, decreased by 0,2 billion pesos to 0.5 billion pesos compared to same quarter last year, due to the variations in our debt and cash position and the effect of the real interest rate.

Measured in US dollars, our net income for this first quarter was 55 million dollars compared to 49 million dollars in second quarter 2021.

Slide 11

Moving on to the balance sheet, as you can see on slide eleven, we ended the quarter with a cash position of 13.3 billion pesos and total debt at 13.6 billion pesos, consequently our Net Debt to EBITDA ratio stood at 0.01x compared to -0.12x at the end of 2021.

Our operating cash generation stood at 2 billion pesos reflecting higher profitability coupled with the positive effect on taxes paid in the comparison YoY, due to the impact of the divestment in Paraguay on 2Q21.

Regarding capital expenditures, we spend 1.1 billion pesos, mostly for maintenance CAPEX, after the termination of the L'Amalí expansion and the corresponding reduction on capital requirements.

During the quarter, we increased our debt in 100 million dollars, standing at 109 million dollars at the end of the quarter. Breaking it down by currency, 58% was denominated in US dollars while the rest is in pesos.

Leverage on our strong balance sheet and standing by our focus on maximizing value to our shareholders, following the dividend payment in Abril of 45 million dollars, in July we distributed another dividend of 81 million dollars, reaching a sound dividend yield of approximately 17%.

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

Slide 13

Sergio Faifman

Thank you, Marcos.

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

As we mention before, the construction activity in general, and in particular the cement market, is showing a great dynamic, consolidating the tendency shown in the first quarter and on track to settle a new historic record.

On the other hand, we are going through a complex political and macroeconomic situation, the scope and outcome of which are still difficult to determine. In this context, we are very satisfied with the results that we have just presented to you, that remark Loma's operational efficiency and flexibility, and the commitment to always keep improving. As we state in one of our principles, “We constantly challenge ourselves”, and is at times like this when we can show that we really stand by it.

Looking ahead, and considering that some volatility could be expected due to the macroeconomic situation and recent FX tensions, we are optimistic that the positive trend for cement in going to continue, and LOMA is up to face the challenge.

As always, I would like to thank all our people and stakeholders, very important pillars where we support our sustainable growth.

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

Q&A SESSION

Operator

Thank you. We will now begin the question-and-answer session. As a reminder, 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 touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

And our first question today will come from Alejandra Obregon with Morgan Stanley. Please go ahead.

Alejandra Obregon
Hi. Good morning, Loma Negra team. Congratulations on the results and thank you for the call. My first question is on your recently released sustainability report and your targets and perhaps some of the trends that we have seen in the last quarters worldwide. And by this, I mean, blended cement is gaining a lot of traction either to reduce clinker factor or to protect profitability. So, I was wondering, if you could elaborate where your clinker factor is today, whether you see space to reduce it even more from where it is and whether blended cement is something that you are exploring and could gain some traction in Argentina as well.

Sergio Faifman
Good morning, Alejandra. Thank you for your question. [Speaking Spanish].

Translator
Within our report, we are defining our targets for the next few years. And we believe that regarding clinker factor, we have some space to improve. Clinker factor also with other KPIs, are what we are targeting and focusing on to improve and to advance in the next few years.

Alejandra Obregon
Understood. That was very clear. And if I may have a space for another question, I have a question on demand. So, you mentioned that there is a greater contribution from private buildings, from industrial, continued strength in residential. So, I was just wondering if you could provide some color on -- in terms of backlog, what you're expecting in terms of verticals for the back half of the year and for demand overall? Thanks.

Sergio Faifman
[Speaking Spanish].

Translator
For the second half of the year, we believe that volumes are going to be similar of what we saw in the first semester. We observe the bulk cement represents approximately 40% of the total market. With some variations between months, we think that this 60-40 breakdown is going to be sustained.

Alejandra Obregon
Understood. That was very clear. Thank you very much. And congratulations again.

Sergio Faifman
You’re welcome.

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

And our next question will come from Rodrigo Nistor with AR Partners. Please go ahead.

Rodrigo Nistor
Hi. Good morning. Thank you for taking my question and congratulations on the results. So, my question is regarding your pricing strategy. I expect the inflation for Argentina this year will likely exceed 90%. So, what are you planning to do to reduce the negative impact of rising costs? Thank you.

Sergio Faifman
[Speaking Spanish].

Translator
Good morning, Rodrigo. Thank you for your question. As we always say, our price strategy is linked to inflation and to the evolution of internal cost of Loma Negra. And as you can see in these financial statements, there is also a very strong cost management. There's no doubt that inflation -- cost inflation is an issue for us that we care about. But in this quarter, you can see the impact of some of the Winter costs, that are the higher costs that the company is going to face during the year. And looking forward, even though we see that the pressure of the inflation is going to continue, we are going to have lower thermal energy costs.

Rodrigo Nistor
Thank you. That was really helpful.

Sergio Faifman
You’re welcome. Thanks.

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

Our next question will come from Daniel Rojas with Bank of America. Please go ahead.

Daniel Rojas
Hi. This is actually Daniel Rojas from Bank of America. My question is regarding a follow-up from the previous question. Could you please drill down on the natural gas and the prices you've seen -- and the average prices you think you can see in the second half. And a follow-up on that one, the Néstor Kirchner gas pipeline. There has been a lot of talk on the potential benefit for the company. Do you have a timeline or an outlook on these projects and how it can help margins for the company? Thank you.

Sergio Faifman
[Speaking Spanish].

Translator
Hi. Thank you for question, Daniel. If you see the prices of natural gas, are above 45% compared to the same period last year. And some of the contracts that we closed for the second half of the year are above 30%. So we are seeing an increase regarding thermal energy from last year, but we should see it below the levels that we are seeing now. Regarding the pipeline, we are not seeing effects -- positive effects in the short term. Probably, and seeing the gas demand, we can expect to see some positive effects after next Winter.

Daniel Rojas
Do you have some idea on the level of savings you'll be able to achieve once the pipeline's online?

Sergio Faifman
[Speaking Spanish].

Translator
So, we think it's going to be linked regarding how many gas is going to be available for internal consumption and how many is going to be available for exports, and especially with the reference price of exports that is going to determine the savings that we are going to have in the internal consumption.

Daniel Rojas
Thank you. That's very clear. And a follow-up, if I may. Going forward, what do you think would be the running rate for your dividend in '23 and going forward? Thanks.

Sergio Faifman
[Speaking Spanish].

Translator
We don't have a written dividend policy, but probably in 2023, we are going to continue focusing on maximizing value for our shareholders.

Daniel Rojas
Thank you.

Sergio Faifman
You're welcome.

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

Diego Jalon
Thank you, Cole. Thank you, everybody, for meeting us today. We really appreciate your participation and interest in our company. We look forward to meeting you again in our next call. And in the meantime, we remain available for any questions that you may have. Thank you and have a nice day.