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Loma Negra Second Quarter 2023 Earnings Call and Webcast August 10, 2023 at 10:00 AM Eastern

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 2023 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 1

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 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 2

Sergio Faifman

Thank you, Diego. Hello everyone and thank you for joining us this morning.

I would like to 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 two. I'm very pleased to present you this second quarter as we are highly satisfied with the results achieved during this period.

The macroeconomic struggles and the increasing political uncertainties as we approach the presidential election started to affect the level of economic activity. In this context, the construction activity and the cement industry remain resilient, with sales volumes ranking second for a second quarter in historical terms, despite showing a decrease year on year. Moreover, the first six months of the year set a new record, slightly surpassing the mark reached in 2022.

Our top line for the quarter reached 51 billion pesos, decreasing 6.5%, primarily due to the contraction of our core segment, Cement, partially compensated for the good performance of Concrete, reflecting the positive momentum of the bulk dispatch mode. Our Adjusted EBITDA for the second quarter stood at 63 million dollars, flat from second quarter 2022. When measured in pesos, it shows a decrease of 26.1% compared to the same quarter last year, adjusted by inflation.

Consolidated Margin suffered some compression primarily due to a decrease in the cement segment and the increased participation in the top line of Concrete, with lower margin. Despite the contraction, the margin for the Cement Segment continues to rank among the world-class EBITDA margins in the industry.

In this sense, the US dollars EBITDA per ton stood at 36.8 dollars for the quarter, 1% above last year's second quarter.

This set of results allowed us to keep on maximizing value to our shareholders. In this sense, this quarter we announced two dividend payments, that adding the one we distributed in January, sums the total amount of approximately 120 million dollars, representing approximately 1 dollar per ADR. And we achieved this, always maintaining a strong balance sheet with a low indebtedness ratio that stood at 0.82 times.

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.

Please turn to slide 4.

As you can see on this slide, the last Market Expectations Report from the Central Bank, worsened their estimates for 2023, reflecting the increase in the economic uncertainty and a lower level of overall activity.

While the construction activity shows mixed results for the first half of 2023, the cement national industry sales showed resilience. Despite posting a decrease of 1.9% for the quarter, this second quarter is the second best in history, only behind 2Q22 and the accumulated figure for the first half of this year is record for a first semester for the industry.

Although still in high figures, bagged cement is the dispatch mode showing contraction, reflecting lower demand from the retail sector. On the other hand, bulk cement continues to show solid growth, underpinned by Concrete producer's demand, boosted mainly by private infrastructure projects and public works.

In this sense, when seeing the breakdown by dispatch mode, bulk shipments continue to gain terrain, showing a participation of 45% against 43% in 2Q22 and reaching a record high for quarter.

Even considering the strong resilience of the cement industry, the lower activity level of the economy in the recent month together with a high inflation reflects the effect of the macroeconomic challenges, coupled with an increase uncertainty driven by the upcoming elections. For the second half of the year, we expect volumes to be slightly below the 2022 figures, but to remain in robust shape in historic terms.

Slide 5

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

Topline was down 6.5% in the second quarter, where the good top line performance of Concrete and Aggregates partially offset the decline in Cement and Railroad.

Cement, masonry cement and lime segment was down 12.4%, with volumes contracting 3.6% YoY, mainly due to a decline in bagged cement sales, coupled by softer price dynamics that, even moving with inflation, showed a decrease due to higher monthly inflation figures and price adjustments timings.

Concrete revenues strongly increased 26.6% in the quarter. Volumes were up 14.8% in line with the strong momentum of bulk cement, coupled with good pricing performance. Private construction and public works, especially urban pavement and route projects in the Province of Buenos Aires boosted dispatches.

Aggregates segment showed an expansion of 1.8% with a sales volume down of 8.3%, mostly due to operational setbacks that affected the dispatches, compensated with strong price performance.

On the other hand, Railroad revenues decreased 13.4% in the quarter YoY. Transported volumes were down 9.6%, affected by the decrease in transported volumes of fracsand and aggregates. The lower volumes of fracsand also affected the average price per ton, as is by far the product with longer average transported distance.

Slide 7

Moving on to slide 7, consolidated gross profit for the quarter declines 21.1% year-over-year with margin contracting by 437 basis points to 23.7%, mainly impacted by a lower price performance and sales volume of our core segment, partially compensated by better performance in Concrete. Regarding the Cement segment, a decrease in electrical energy inputs and lower depreciation help to mitigate the gross profit compression. Also, the increase in sales volumes in segments with lower margins, in this case Concrete, also contributed to the compression of the consolidated figure.

Finally, SG&A expenses as a percentage of revenues increased 68 basis points to 9.4% from 8.7% in the second quarter of 2022.

Slide 8

Please turn to slide eight.

Our Adjusted EBITDA for the first quarter stood at 63 million US dollars, remaining flat from the same quarter a year ago and maintaining very strong figures.

In pesos, Adjusted EBITDA was down 26.1% in the quarter reaching 11.7 billion pesos with consolidated EBITDA margin of 22.9%, contracting 608 basis points year on year, mainly affected by Cement margin contraction and the higher participation in the topline of Concrete, a segment with lower margin.

Cement segment Adjusted EBITDA margin stood at 27,1%, contracting 536 basis points, mainly affected by lower top line performance.

In a per ton basis, EBITDA reached 36.8 dollars per ton, increasing 1% from last year's second quarter.

Concrete Adjusted EBITDA increased 287 million pesos compared to 2Q22, mainly explained by the positive price performance and higher volumes. Margin expanded 580 bps, reaching 2.7%.

Aggregates Adjusted EBITDA decreased 62 million pesos this quarter from 138 million pesos in 2Q22, reaching a margin of 5.3%. The segment's positive momentum encountered some operational setbacks in the quarter, which momentarily affected dispatches.

Finally, Railroad Adjusted EBITDA decreased 125 million Pesos to 32 million pesos for the quarter, with a margin of 0.8%, mainly explained by lower transported volumes of fracsand and aggregates that put pressure on costs, and the incidence of the decrease in fracsand in the average transported distance that negatively impacted the average price per ton.

Slide 10

Moving on to the bottom line on slide ten, this quarter we posted a net profit Attributable to Owners of the Company of 2.5 billion pesos, compared with 5.4 billion pesos on 2Q22, where the lower operational result was coupled with higher financial cost.

Total Net Financial Cost stood at 3 billion pesos this quarter, from a total financial cost of 0.7 billion pesos the same quarter last year, mainly due to an increase in the Financial Expense product of a higher debt position, and a higher negative effect of the exchange rate variation, partially compensated by a positive effect of the result on the monetary position.

Slide 11

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

We ended the quarter with a cash position of 24.1 billion pesos and total debt at 71.7 billion pesos, consequently our Net Debt to EBITDA ratio stood at 0.82x compared to 0.37x at the end of 2022.

Our operating cash generation stood at 11.9 billion pesos, where the increase in the net profit adjusted with the non-cash effects coupled with a positive effect of the changes in operating assets and liabilities explaining the positive variation against 2Q22.

Regarding capital expenditures, we allocated 3.1 billion pesos, mostly for maintenance CAPEX.

During the quarter, we increased our debt in 77 million US dollars, standing our net debt at 186 million dollars at the end of this quarter. Breaking it down by currency, the dollar denominated debt represents 53% of the total debt, while the rest is in pesos and a non-significant part in Euros.

As we mentioned before, in the quarter we announced dividends payments for 35.9 billion pesos. The one announced in May was paid in kind through Argentine T Bills, while the second one, was announced in June and the payment was made effective in July, and it was paid in cash. So far this year, we have paid approximately 120 million US dollars, which is equivalent to approximately 1 dollar per ADR.

Additionally, during the quarter, the company issued its Class 2 domestic bonds denominated in US dollars for a total amount of 71.7 million US dollars, with maturity in December 2025 and accruing interest at a rate of 6.5% per year. The response from the market was very positive and ratifies the investors' confidence in LOMA.

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

Slide 13

Sergio Faifman

Thank you, Marcos,

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

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

We managed to achieve these solid results despite the prevailing political and macroeconomic challenges during the period that are already affecting the economy as indicated the last monthly estimate of economic activity published by the INDEC. As we approach the presidential elections, we are aware of the growing political uncertainty, which adds complexities to the business environment. Nevertheless, the industry remains resilient, and 2023 will probably end up being the second-best year in history in terms of sales volumes. This robustness, coupled with our strategic approach, puts us in good shape to navigate through these obstacles and maintain a strong performance.

We have reached significant milestones, reflecting the hard work and dedication of our entire team. We extend our gratitude to our employees, customers, business partners and to the communities where we operate for their ongoing support, and we look forward to a prosper and sustainable future.

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 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. For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the keys. Once again, star then one on your telephone keypad. We also 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 then 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 our roster.

The first question comes with Rodrigo Nistor with Latin Securities. Please go ahead.

Rodrigo Nistor

Hi. This is [indiscernible] filling in for Rodrigo Nistor. Thanks for the opportunity of asking questions. I have two. Given the industry's recent deceleration, what are your perceptions for the demand in the second half of the year, especially regarding the balance between bulk and bulk sales? That's the first one.

The second one is additionally considering election year and ongoing inflation, what do you expect in terms of pricing and cost pressures and what can you do to offset this negative impact?

Sergio Faifman

Hi, Rodrigo. Thank you for your question. [Spanish]. Regarding volumes for what remains of the year, we are expecting a slight decrease, more or less what we have seen in the last couple of months. Particularly in July, the volume was affected due to the bad weather. If we see what is going on in August, we can say that volumes are more like June, where the volumes were slightly below 2022.

With these projections, we expect to end 2023, even down 2022 figures, but still remaining the second best year in history. Regarding prices and margins, we keep on our strategy of adjusting prices, keeping our margins and considering what is going on with our costs. What happens with this high inflation period is when we have some delay in adjusting prices, we may have some temporary impact in margins. We do not expect any significant changes in competitiveness compared to what we have observed over the past couple of weeks.

Rodrigo Nistor

OK, thank you very much.

Operator

The next question comes with Daniel Rojas with Bank of America. Please go ahead.

Daniel Rojas

Good morning, gentlemen. Thank you for taking my call. Along those lines for the second half of the year and the outlook, regarding natural gas prices, what are you expecting the trend to be? And how do you expect this to impact margins? And this in light of the fact that you've started hooking up to the next [indiscernible] gas piping. Thank you.

Sergio Faifman

Hi Daniel, thank you for your question. Regarding natural gas, last year we had an increase in the contracts that we closed in that period. Those contracts were up to this winter. Starting in September and October we will start new contracts with prices below the ones we closed last year. As a difference from what we did in the past, these new contracts have longer terms than the one that we signed in 2022.

Looking forward, margins should be better than the ones we saw because we are not going to see the effect of the winter energy terms. Margins should be more like the ones we saw in the first Q of this year and the last Q of 2022. Obviously, considering that, if the businesses with lower margins increase their weight in the consolidated figures, that is going to impact the consolidated margin.

Daniel Rojas

Thank you. And in the Concrete business, the high growth we've been seeing, do you think it will continue into the second half and early part of next year, or should we expect it to normalize from here on? Thank you.

Sergio Faifman

We think that the Concrete business has room to grow. If the industry gets more professionalized this channel of dispatching cement should increase its participation.

Daniel Rojas

Okay. Thank you.

Sergio Faifman

You're welcome.

CONCLUSION

Operator

Thank you. And this concludes our question-and-answer session. I would like to turn the conference back over to Diego Jalon for closing remarks.

Diego Jalon

Thank you for joining us today. We truly appreciate your interest in Loma. As we look forward to meeting you again in our next call, we remain available for any questions that you may have. Thanks again and have a nice day.

Operator

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