Elementia 3Q16 Transcript

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10:00AM CT

Operator: The following is a recording for Melanie Carpenter of I-Advize on Friday, October 21, 2016 at 9:00AM Central Time. This is the Elementia third quarter 2016 conference call. Good morning. My name is Katie, and I'll be your conference operator. At this time, I would like to welcome everyone to the Elementia earnings conference. All lines have been placed on mute to prevent any background noise. There will be a question and answer session after the speakers opening remarks, and instructions will be given at that time. Thank you. I would now like to turn the call over to Melanie Carpenter of I-Advize. Please go ahead.

Melanie Carpenter: Thank you. Good day, everyone, and welcome today. Elementia will discuss its third quarter 2016 earnings. This call is for investors and analysts only. Questions from the media will not be taken. Joining us today from Mexico City are Mr. Fernando Ruiz Jacques, the Chief Executive Officer of Elementia and Mr. Juan Francisco Sanchez Kramer, Chief Financial Officer and Interim Investor Relations Officer. They're going to be discussing the recent transactions and the performance as per the earnings released issued yesterday after the close. This document is available on the website, but if you didn't receive it, and you need any assistance during the call, please contact I-Advize in New York at 212-406-3694. I want to briefly mention that managements comments may include forward looking statements and they're based on information that's currently available. Please refer to the disclaimer in the earnings release for more detail and guidance on this matter. All figures that are going to be discussed are in Mexican pesos unless otherwise stated. It's now my pleasure to turn the call over to Fernando Ruiz Jacques, Chief Executive Officer of Elementia to begin with the main highlights and a strategic overview. Fernando, please go ahead.

Fernando Ruiz Jacques: Thank you, Melanie, and good morning everyone. Thank you for being with us today to go over the many new developments that are happening at Elementia. It's an exciting time for the company as we prepare ourselves financially and operationally for another phase of growth expansion.

I'll start with our capital increase and the rights offering currently underway, then take you through our plans to acquire a controlling stake of Giant Cement in the U.S. before turning to the results for the quarter.

This past Monday at an Extraordinary Shareholders' Meeting, our shareholders approved a capital increase of up to 4.4 billion pesos through a rights offering. Elementia will issue up to nearly 218.5 million new shares, at a price of 20 pesos per share which will generate proceeds of up to US$230 million. These funds will be mainly used for our potential investment in Giant Holding Inc. The decision to proceed with this mechanism was made based on several strategic factors. First, it gives all of Elementia's shareholders, whether controlling shareholders or minority shareholders, equal rights to participate. Second, this mechanism is non-dilutive. It gives all of our shareholders the opportunity to strengthen their commitment in Elementia and share in the economic benefits of its growth and value creation. Third, it enables us to maintain the financial discipline Elementia is known for by not having to over increase our leverage levels by increasing debt to fund our growth projects.

We have had several questions as to whether our controlling shareholders will participate or not, and what we can tell you is that we are confident in their commitment to Elementia and their interest in sharing in its growth. We should have the final results of the rights offering by mid November.

In the event that any shares are not taken, it will be the board’s decision as to how to proceed, but they have outlined a number of options, including the redistribution or cancellation of non-taken shares or their absorption by our controlling shareholders.

Let me turn now to our plans to acquire 55 percent of Giant Cement Holdings’ outstanding common stock for US$220 million. Given the status of this potential transaction, we are limited on what we can disclose, and the position is very similar to that last Friday when we first discussed the potential transaction.

Giant is a private company owned by Cementos Portland Valderrivas and is among the top four largest cement producers in the East Coast of the U.S. This acquisition would add over 2.8 million short tons of cement production per year.

Many questions have come up since we made this announcement, and I want to take the opportunity to address them.

First is the rationale. Why enter the U.S.? Why not focus on Mexico? I can tell you that there’s no doubt we are experiencing tremendous success in our cement business in Mexico, and we intend to continue our momentum there. Our Tula plant expansion is evidence of this, and it remains on track with the expected startup date still for mid-next year.

However, the Giant opportunity goes in line with what we have been saying since our IPO. Our main focus of growth is the Cement Division in countries in which we already have other operations. Therefore, Giant is in the U.S.

Right now, we feel it is the right time to enter one of the largest cement markets with an established operation that has potential for the turnarounds we are known for known for achieving. This, as opposed to the complexities and investment required by a greenfield project in the U.S.

Let me start with the U.S. cement market potential. We are in the beginnings of a positive economic cycle in the U.S. Employment is rising, housing starts are gradually recovering to pre-crisis levels, and $US400 billion are budgeted for infrastructure investments over the next five years.

Cement consumption per capital in the U.S. is currently at 290 kilograms with the potential of reaching 350, driven by the growth in demand. Cement consumption is forecasted to continue with a CAGR of around 5 percent to 2020.

So, why Giant, and how did we find this opportunity? Giant is one of the oldest cement businesses in the U.S., so they are part of the market we are constantly monitoring for opportunities. Their presence along the high growth markets of the East Coast are very attractive as an entry point into the U.S.

We have already identified areas in which we can generate value from Giant in the short term. To start with, in some plants, they are operating at a low capacity utilization rate, below industry average, so we can increase that by driving demand.

There’s also room for improvement in pricing. The industry has shown strong recovery in the last years, and even though, pricing is currently above the pre-recession level, the consensus estimates a CAGR of around 4 percent through 2018.

There are also opportunities through financial optimization. We are experts in this area as evidenced by our successful track record in M&A.

Last, but not least, with regards to our current businesses, we can complement our extensive distribution network in the region with our products, share best practices, and generate economies of scale in areas such as fuel costs.

We want to reassure you that in accordance with our strict corporate governance policies, we did obtain a fairness opinion on the transaction, and the result confirms that this is being done at a fair market value. Again, we will disclose as much as information as possible when we move forward, and we get clearance to do so.

Now, let's spend a few minutes reviewing our operating performance for the third quarter. Elementia maintained its growth trends posting double digit growth in both EBITDA and the operating line. These results were driven by the performance of the Cement and Metal Products Divisions while the Building System Division continued to face some challenges.

In the Cement Division, we had another consecutive quarter of strong results. Revenues increased by 24 percent, mainly due to increase on our average price, and EBITDA rose by 60 percent due also to a reduction in operating costs. We believe the price trend will continue as demand remains strong due to the gradual recovery of Mexican homebuilders, the growing trend towards vertical construction within key cities, construction of shopping malls and office buildings, and the flow of remittances from the U.S. continue to make their way into improvements and renovations in the self-construction sector.

The Metal Products Division registered a 17 percent increase in EBITDA per ton thanks to our strategic focus on higher value added products and cost cutting initiatives that helped improve metal yields. Revenues were down 5 percent, mainly due to lower sales volume despite a close to 18 percent drop in the reference price of copper. We continue our copper hedging strategy of 2,000 tons per month which have helped mitigate copper price fluctuations.

Turning finally to the Building Systems Division, we reported a 2 percent increase in revenues for the quarter and 8 percent for the first nine months thanks to double digit increases in the average price in both periods. You also have to bear in mind that macroeconomic conditions in several countries in Latin America remain sluggish, and this is effecting overall consumption, particularly construction activities.

On top of this, volume suffered in both periods due to two main factors. In Mexico, we have had lack of government projects stemming from budget cuts. In Colombia, the mass transit worker's union was on strike or closed 50 days this quarter which brought economic activity in the central region of the country to almost a standstill. This was in addition to challenges in the Central American region that effected the first half of the year.

As a result, EBITDA was down 33 percent to 223 million pesos in the third quarter and down 18 percent to 725 million pesos in the first nine months of 2016. For the quarter, the strong EBITDA generated in the U.S., El Salvador, Honduras, Ecuador, and Bolivia were not enough to compensate for the deterioration experienced in the other countries.

Elementia's committed to turning around this operation. Their recent naming of Juan Luis Alfiero, as the new Director of this Division, was an important step in developing and executing the following plan of action.

In the U.S., we plan to go after the residential market which will further enable us to capture the market growth, and we will enter new market segments such as repair and remodeling.

In Mexico, we are right-sizing our operation, reducing headcount, and conducting capacity rationalization, and looking into 2017, we will increase our presence in the wholesale channel to have a greater coverage and expand our product portfolio with complementary products like boards, water tanks, plastics, and galvanized roofing.

In Central America, we will right size our operations in Costa Rica, given that the automatization is now performing according to expectation. We will renew our product portfolio in order to compete in specific categories which will drive volumes. We will introduce complementary products in the market like water tanks, and we will grow our sales of boards and floor panels.

Last, but not least, in South America, we will continue to recover market value. We will increase the competition on complementary products like water tanks and plastic roofing in Colombia and Peru, and we will start using ecommerce platforms for markets abroad.

Overall, throughout our entire operation, we will work to improve operating efficiencies through the reduction of cost by right sizing, optimizing of processes and logistics, and implementing the use of alternative raw materials.

We will also continue to increase our cross selling initiatives in order to complement our product portfolio and deliver a comprehensive solution to our distributors and customers.

As you can see, there is much to do, and I am confident that Elementia has the right team to execute its strategy of creating a profitable, comprehensive building materials platform. I will turn the call now over to Juan Francisco Sanchez Kramer who I'm pleased to confirm has been ratified as our CFO and I'm sure will continue contributing to the Company's strategy and profitability. Juan Francisco, please go ahead.

Juan Francisco Kramer: Thank you, Fernando, and hello to everyone. I am pleased to be here with you. Before I discuss our financial results, allow me to comment on the rights offering and the relevant events on Tuesday for regulatory compliance. We understand that the information included was highly complex and technical, so I would like to take this opportunity to summarize what we need to do to prepare our books for the rights offering.

The first topic approved by the Shareholders' Meeting was to normalize the theoretical value of the shares that comprise the equity of the Company to 6.36 pesos per share. Given the capital increase undertaken by Elementia as a result of the IPO last year, the value of the shares was uncertain and therefore the fixed portion was different from the value of the variable portion, but the value of the combination of both of them was 6.36 pesos per share. The way to normalize the value of all shares to 6.36 pesos per share was to redefine the number of shares matching the total shares after the IPO. The rule is that it has to be done during the next Shareholders' Meeting.

The second issue approved by the Shareholders' Meeting was the capital increase through a new issuance of 280 million shares at 20 pesos per share which represents a 10 percent discount over the average price of the last two months for a total of 4.37 billion through a rights offering.

The accounting registration of this capital increase will be done as follows: The first part will be registered within the variable portion of the equity, the normalized value per share remaining 6.36 pesos, and thus, the registered value is 1.39 billion which is a result of 6.36 pesos per share times 218 million shares.

The second part which is the remaining of 2.98 billion will be registered as premium on shared subscription which has a theoretical value per share of 13.65 pesos.

Moving on to some key financial highlights that compliment what Fernando discussed, I would like to start with the profit and loss statement. In the third quarter 2016, Elementia reports consolidated revenues of 4.68 billion, a 4 percent increase year over year, and 5 percent of an accumulated basis, reflecting higher sales price in all Divisions.

In terms of the composition of our revenue by region and Division, these remain unchanged from the previous quarter.

Let me go further in terms of the performance of each Division. The Cement Division reported revenues for 798 million for the quarter, 24 percent above 3Q15 and 2.24 billion for the nine months ended in September 2016 or 30 percent increase. Additionally, the EBITDA for the 3Q16 was 395 million, up 60 percent year over year. Both of these line items benefitted from higher average sales price, a reduction in operating cost, as well as the maximization of the Division's capacity utilization rate. It is important to highlight that earlier this year; we signed an energy supply contract with Iberdrola Mexico, allowing us to reduce our energy costs which partially offset the recent price increase by CFE.

Moreover, we are closely monitoring fuel prices as they have an important influence on our energy costs. Starting January 2017, we believe prices might become more volatile as they will be defined via supply and demand, and new international competitors are expected to enter the Mexican fuels market.

We are committed to continue being proactive on implementing strategies that will protect us from further increases in energy prices like the aforementioned supply contract with the independent electricity producer.

Moving on to the Metal Products Division, in 3Q16, revenues reached 1.86 million, a 5 percent decrease from last year. However despite the drop of 13 percent in sales volume and an 18 percent decrease in the reference price of copper, this Division reported a net EBITDA growth of 17 percent in a quarterly basis and 15 percent for the nine months to 360 million and 904 million, respectively.

What is more, the Division's profitability also benefited from our continuous focus on higher value products, our copper hedging strategy and cost cutting initiatives.

The Building Systems Division reported revenues of 1.9 billion during the quarter, up 2 percent year over year, and 5.6 billion or 8 percent from nine months, 2016, resulting from a 16 percent increase in the average sales prices which contributed to offset the decline in sales volume. EBITDA for 3Q16 was 223 million, 33 percent lower than 3Q15. As Fernando mentioned, the new focus for improvement is allocated in Mexico and Central America, given that Colombia showed a one-off impact on the third quarter 2016. EBITDA for the nine month 2016 totaled 725 million, 18 percent lower than the same period of 2016.

We expect the action plan that Fernando outlined will help us return to growth in this Division.

Cost and expenses. Consolidated cost of goods sold 3Q16 decreased 1 percent to 3.2 billion while revenues increased 4 percent. The cost optimization was mainly due to operating and energy efficiency initiatives as well as higher sales volume in which delivered cost reduction in the same and Metal Divisions.

The 20 percent increase in SG&A resulted mainly from the increase in marketing expenses, non-recurring costs to improve operating efficiencies including the automatization of Central American operations, expenses related to the ongoing right sizing, and expenses generated during the implementation of the “go-to-market” and “zero-based budgeting” projects. Also, as stated in our IPO prospectus from the bargain purchase gain from the acquisition of fiber cement assets in the U.S. that reduced our 2015 figures.

In terms of consolidated EBITDA, the company reached 934 million in 3Q16, up 10 percent compared to 848 million reported in the same quarter 2015. In terms of EBITDA by Division and excluding the holding, the balance continued its trend to a higher Cement Division contribution which represented 37 percent of the total.

EBITDA margin for 3Q16 was 20 percent versus 19 percent last year. Lastly, Elementia reported net loss of 93 million for the nine months of 2016, mainly due to the effect of the exchange rate fluctuation and the lack of tax benefits this year as opposed to last year.

Turning now to the balance sheet, cash and cash equivalents as of September 30, 2016 reached 2.68 billion, a decline of 14 percent compared to September 2015, mainly due to investments in the capacity expansion project in the Cement Division and other projects.

I would like to state that the Company continues to have strong position in U.S. dollars. As such, during 3Q16, close to 65 percent of the cash was dollar denominated.

Elementia's debt position reached 10.07 billion compared to 8.39 billion as of December 31, mainly due to currency fluctuations that effected dollar denominated positions and the partial implementation of the ECA facility.

In terms of the progress of our debt hedging strategy, on September 21st, we hedged 85 percent of the debt contracted with the Economic Credit Agency or ECA in two tranches. One was held on August 26th and the second on September the 6th. Both with a notional value of 47 million each and an exchange rate of 18.25 pesos and 18.30 pesos per dollar, respectively.

Aiming to keep a solid and flexible balance sheet, net debt to EBITDA ratio was 2.26 times, and interest coverage was 5.97 times, all within the governance set by the financial institutions.

In terms of our CAPEX for the period, we spent 3.13 billion in the nine month 2016, however we have only used 422 million of cash. What is more thanks to a strong working capital generation, cash flow before CAPEX represented 98 percent of the EBITDA generation.

For the third quarter 2016, CAPEX is broken down as follows: 69 percent or 2.17 billion in capacity increase for the Cement Division, and the remaining 31 percent were 956 million in the maintenance replacement and organic bolt-on expansions.

I would like to stress that we are truly focused on our organic and inorganic growth strategy without having to compromise our financial discipline when obtaining the necessary funds to take advantage of the opportunities we foresee. The rights offering was the best choice to increase capital to support our growth strategy of expanding our footprint in core businesses.

We see a great growth potential along our three Divisions by effacing our leadership in all geographies and markets that we operate in. Our sound financial position gives us the capability to continue seeking regional expansion opportunities and product diversification to deliver profitable growth to all of our shareholders.

That concludes my remarks, but before going to your questions, I would like to remind you that regarding the potential acquisition of the 55 percent stake of Giant Holding, we are limited on the information that we can disclose given that we have only signed a letter of intent. As we have done so far, once we further information that we can share with you, we will do so. Now, I ask the operator to please open the floor for your questions.

Operator: Thank you, sir. At this time, we will open the floor for questions. If you would like to ask a question, please press the star key, followed by the one key on your touchtone phone now. If at any time, you would like to remove yourself from the questioning queue, please press star, two. Again, that is star, one if you would like to ask a question. Our first question comes from Nikolaj Lippmann from Morgan Stanley.

Nikolai Lipman: Hi. Good morning, and thank you very much for taking the question. I have three questions first. On the transaction, I've been going through a couple of different findings. I was wondering if you could help me with the very basic how we get to the EV. It appears that the convertible is about $430 million, and it could convert into an increased stake. My question is if you could just confirm how much are you paying for the equity stake or the 55 percent? And also, if you could give a little bit more color on the liability side. In the findings, we saw some higher liability numbers. Also, if you can confirm that the convertible could not convert into such a high stake say 12 percent, 15 percent where you would end up, potentially losing control, so that's question number one. Question number two is on the cement, and congratulations on such strong numbers. Could you tell me if you have any sort of nonrecurring above the line, or if you just think about what is happening in the quarter as a very exceptional cost control, it really looks like you reduced cash cost very significantly there. Finally, sorry for all these questions, in the Building Systems Division, as far as we can see, you're growing the U.S. by about 15 percent the first nine months of the year. Can you confirm that, and if that would also imply that the South American business is doing really poorly? So, if you could give a little bit more light on what's going on there beyond the trucker strike. Thanks.

Juan Francisco Sanchez Kramer: Thank you, Nikolai. Thank you for your questions. Regarding the first question on enterprise value and liability. Basic calculation is we are paying 220 million for the 55 percent of the company. It also has some debt position that we cannot disclose at this point the amount of it, but we can make a quick calculation on what we have mentioned. That is that we are paying at the rate of US$250 per ton given that it has a capacity and ton capacity of 2.8 million tons per year. Your question on sharing control, this 55 percent is also the controlling stake, so we will be able to consolidate all three years, and you will be seeing the output of these as a minority right.

Nikolaj Lippmann: So, the 220 million is for 55 percent of equity or 55 percent of EV?

Juan Francisco Sanchez Kramer: Equity.

Nikolaj Lippmann: Equity, got it. What we found in the findings was that the convert was about 430 which would put the EV slightly above. Would there have been a prepayment of some of that?

Juan Francisco Sanchez Kramer: Again, we cannot disclose too much, but what I can tell you is that the convert has changed a little since the publication, and the rough numbers that I'm giving you, it's what we are seeing.

Nikolaj Lippmann: Okay, thanks.

Fernando Ruiz Jacques: Regarding your second question Nikolaj, regarding the good months that we've had in cement, what I can tell you, it was mainly driven by a reduction in costs. We had lower maintenance costs. Basically, we did all the major maintenance during the first and second quarters, so all the maintenance costs, we did not have many this quarter. Likewise, we had a higher utilization rate which also helped us to reduce costs. Last, but not least, the energy consumption efficiencies that we had, and also we signed a contract with Iberdrola where we have a better tariff.

Operator: Thank you. Our next question comes from –

Juan Francisco Sanchez Kramer: Sorry, Katie. There was one question missing that is regarding the BuildingSystems. Again, what we can mention Nikolaj on your question to market share in the U.S., we have continued to expand our volume. Our locations are running now at higher rates, so I am taking advantage of the market growth, but that is the main driver. Of course, we are taking steps to further gain market share as discussed by Fernando, that is part of the plan. And of course, we are aiming to at some point in time reopen the Indiana facility. In

Colombia, to your question, this blockage was done in the central region of the country. We have the largest facility in the country in Bogota. We have also facilities in Barranquilla and Cali, but the largest is in Bogota. So, it affected a large piece of our business, and the truth is that despite the additional effort, we weren't able to recover all the volume that was lost.

Fernando Ruiz Jacques: What I can tell you about BuildingSystems is that from the nine countries where we currently operate, we truly have this opportunity in Mexico and Costa Rica. The rest of the country, we're doing well.

Operator: We're ready for the next question? Our next question will be from Pablo Ricalde with Merrill Lynch.

Pablo Ricalde: Hello, good morning, Fernando, Juan. Thanks for taking my question. I have two questions on the Cement Division. The first one is regarding the ready mix operations. I don't know if you could provide some details on the volume performance in the quarter. The second one is related to the greening facility expected this quarter. I don't know if you have an exact date on when are you planning to open it.

Fernando Ruiz Jacques: If you want, I can get the first question. We are doing fine in our ready mix business, as you know, it's a ready mix business like a sort of boutique. We currently only have four operations of those. We are selling close of about 20,000 cubic meters per month, more or less. If you take a look at the P&L of the Cement Division, it's very interesting. It's at double digits EBITDA, so it's doing very well.

Juan Francisco Sanchez Kramer: On your second question Pablo, the date to start production on the cement expansion remains at the beginning of the third quarter 2017. We are very happy with the progress. It is ongoing according to plan and budget, so we don't see any delays on that matter.

Pablo Ricalde: No, but my question was related to the greening facility, the 200,000-ton facility that you were planning before year-end.

Juan Francisco Sanchez Kramer: Can you repeat the question? I didn't quite follow.

Pablo Ricalde: My question was regarding not the cement plant, but the greening facility that you are planning to open before year-end, the 200,000-ton cement greening facility.

Fernando Ruiz Jacques: We will open that in the Tula plant by December, so it's running on plan and on budget. It's on time everything.

Pablo Ricalde: Alright, thanks.

Fernando Ruiz Jacques: I don't know if we answered your question, Pablo.

Pablo Ricalde: Yes, thanks.

Juan Francisco Sanchez Kramer: Great. Next question please, Operator.

Operator: Thank you. Our next question will come from Juan Tavarez with Citigroup.

Juan Tavarez: Hi. Thank you. Good morning, everyone. My first question on the Giant Cement acquisition, you mentioned you're planning to pay a price of 220 million for the stake, but you also mentioned that you're still in the due diligence phase. Is there any chance that this price could change over the coming days as you complete the due diligence? My second question is on your utilization rates across your Division. Could you give us an update on where we stand, and I know you mentioned in Building Systems, you had some challenges there with volumes, so I'm curious to know where utilization is across your segments. Maybe more specifically, that's my third question on Building Systems. We did see a sharp contraction in margins which could be utilization rates but also mix. You also mentioned that you're starting to make some adjustments to your Mexican operations to the realities of the current market. I'm curious if there any notable nonrecurring expenses also embedded in this weak EBITDA for this Division. Thanks.

Juan Francisco Sanchez Kramer: Thank you, Juan. Regarding your first question on the due diligence process. Usually, a due diligence process is focused on finding any risks on the transaction, so that is the focus of this due diligence too. We are focusing on the opportunities that we can reach from markets, operations, etcetera, as we have discussed. At this point in time, we cannot say that price might change or value might change. We will let you know as soon as we have further information.

Fernando Ruiz Jacques: Something very interesting Juan that we did not comment was that we hired (indiscernible 00:38:37) to help us with a full potential analysis, we started working with them in the last weeks, so we practically just announced this is done. We are very happy with what we are finding, which are very nice regarding the giant opportunity. Regarding your second question, the utilization rates, what I can tell you is in Metal Division, we are at 90 percent capacity. Likewise, in Cement, we are north of 90 percent capacity utilization rate. And in the BuildingSystems, we are close to 60 percent, so we still have great capacity there.

Juan Francisco Sanchez Kramer: To your question on margin contraction, the main reasons are: 1. the U.S. lower margins than the average of the other locations, but also, it has been effected by mainly two things. In Mexico, we don't have the government projects, and it has affected volume, and that is linked to your following question that we are right sizing the Mexican operations. Yes, in the third quarter, we reflected special additional expenses, in order to do this right sizing, and it is likely that in the fourth quarter, we will have some more.

Juan Tavarez: How much were those expenses in the third quarter?

Juan Francisco Sanchez Kramer: Close to 60 million pesos.

Juan Tavarez: Okay, thank you very much.

Juan Francisco Sanchez Kramer: Thank you for your question. Next question please.

Operator: Thank you. Our next question comes from Cecilia Jimenez from Santander.

Cecilia Jimenez: Yes. Hi, good morning everyone. Thanks for taking my question. First, regarding the Giant Cement acquisition, I know you can't disclose a lot, but could you give us a timeframe to have the acquisition taken, if it's approved and everything goes on schedule with your time? That's the first question.

Juan Francisco Sanchez Kramer: Hello Cecilia. Thank you for your question. Let me put it like this. On the things that we are seeing, on October 17, as you know we held the Extraordinary Shareholders' Meeting. From there, there are some days until the CNBV releases the time frame for subscription that lead us October 27, we believe your earning is the expected date for the subscription startup. Then, it has been defined as 15 days that we'll need from the Board Meeting Shareholders to subscribe which leads us to November 10^{th} which is Thursday. For practical purposes, we believe that we will have the capital available on November 15^{th}.

Cecilia Jimenez: I think I didn't explain myself clearly. If I think about the synergies you're expecting to achieve, how long could it take that to occur after you have acquired the company? Is it fair it will take twelve months, 18 months? A rough guess.

Fernando Ruiz Jacques: Good question, Ceci. We have detected many synergies. I just returned yesterday from this operation, and honestly, I returned very happy, because we see many opportunities. It's a great opportunity for us. Answering your question, I would see that the full synergies and the opportunities we will capture them around one year, year and a half, I see them. We will process the know-how that they have of some alternative fuels, economies of scale. We can have synergies in our back office in the U.S. We can have synergies from our distribution channels. There's vertical integration with some of our current fiber cement operations. There's tremendous opportunity in the U.S. market, so honestly, we are very excited about this opportunity. We think we can fully capture all of this value in around a year, year and a half.

Cecilia Jimenez: Perfect, thanks. Regarding the cement operations in Mexico, when should we expect the ramp up cost of the expansion to begin impacting results? Is it fair to assume that it would be second quarter next year? And also, if it's fair to assume a 35 percent EBITDA margin at that time, or could we see that number even lower?

Juan Francisco Sanchez Kramer: Let me answer your question in two dimensions. For one, as we mentioned, we will start the milling operation by the end of this year or the beginning of next. Then, we will be seeing some margin constriction. Most of the margin constriction will come when we startup of the new facility, because it will begin its ramp up. As far as volume, we'll be in the full scale, and peaks of cost will have a strong impact. So, in summary, we are seeing mid 30's margin which is a very reasonable level.

Cecelia Jimenez: Okay, thanks. I have one last question. It's regarding the BuildingSystems Division. You have mentioned before you have gone through a restructuring process with Boston Consulting Group, so my question is should we expect to see any specific expenses related to this restructuring in the next quarter besides anything going on in the operating side like closures, things like that?

Juan Francisco Sanchez Kramer: What we mentioned is that we are right sizing the operations in Mexico, and also we are undergoing capacity rationalization according to what we see as the real market that we can achieve without government projects. In other words, they'll be reducing capacity, but we are not idling it, mainly, because we would rather wait and see if next year will be some government projects. The strategy is to reduce our exposure to government projects, but we will take the chance if it comes in Mexico. It is likely though that you will be seeing some additional one off expenses related to the right sizing of the business both in Mexico and Costa Rica.

Fernando Ruiz Jacques: Also, in the BuildingSystems Division, we are finishing the expansion of the Chilca plant in Peru which will open the first quarter of next year, so that's running on time and on budget, so we're very excited about that. As Juan Francisco was saying before, we have also an expected date that we will let you know when we can to reopen the idle facility of Indiana which is a 250,000 ton in Indiana, so we're very excited about that. Likewise, we doubled our water tank capacity in Colombia. We were running at full capacity, so we doubled our capacity. We are doing very well in that sense. We also already open water tank production in some countries in Central America, so we expect to have some good news from those in the coming months.

Cecilia Jimenez: Okay, thanks. That's it for my side.

Operator: Thank you. Our next question will come from Hernan Kiszuk rom MetLife.

Hernan Kiszuk: Hello. Thank you for taking my questions. I have some of them regarding your Giant acquisition. First is to confirm that Elementia's cash disbursement is going to be just 220 million, and that's regardless of what happens with the liabilities that Giant has. Is that correct?

Juan Francisco Sanchez Kramer: Hello Hernan, and thank you for your question. Yes, the total disbursement by Elementia will be the 250 million, but we do see an opportunity of replacing the debt position that this target has. The main reason for that is the main facility that the target has remuneration it is with the funds, and the conditions are not the most competitive, so we do see opportunities to improve its financial position.

Hernan Kiszuk: Okay, but let's say the exchange of this debt is going to be at Elementia's *head* let's say, or financed by Giant?

Juan Francisco Sanchez Kramer: What we are doing in order to have it ready is we will use our revolving credit in order to create a bridge, but the idea is within the following months, is define the final financial position which we intend to be done directly by Giant.

Hernan Kiszuk: Okay, perfect. Very clear. Thanks. And the second question is regarding the Giant current situation, because the information we have is from Cementos Portland Valderrivas financial statements as of 2015. There we can see that it has a book buy of equity of around 7 million euros. It has this extensive debt that you have mentioned. Also, in this report, they said that Giant was in negotiations to accommodate the contractual payments to the cash they generate. I would like to know if something has changed during 2016 for Giant, or if not, what is the reason to buy this company at around 400 million, given what I have to say.

Juan Francisco Sanchez Kramer: Well, part of the rationale of the acquisition is the opportunity we see both from the market and from the team, the company, and also what we can achieve from the businesses and models we have through the country and throughout our full company. Basically, since the IPO, we mentioned that the main focus for growth was on the Cement Division and also in countries where we have operations in order to maximize market opportunities and potential synergies. That is one of the pieces of the rationale for the U.S. Another one is we see very positive market trends in both consumption and pricing opportunities as we believe we are in the right time to tackle them. Also, it is important to highlight that we see these targets as an opportunity trying to enter the U.S. market that is one of the largest in the world and expanding as I mentioned with an attractive value per ton, so that is part of it.

Regarding the figures that you mentioned from Cementos Portland Valderrivas. At this point, we cannot confirm or disclose any further. The figures that you saw are public, and at this point in this stage, we cannot disclose any further about that.

Fernando Ruiz Jacques: Also, expanding what Juan Francisco said, what I can tell you Hernan is that Giant as you know was owned by Cementos Portland Valderrivas who is now going through a very good moment, so they had some important cash constraints, so what we have found is that with very low investments, we can improve dramatically the numbers they currently have. I cannot tell you more than that right now, but what I can tell you is that with minimum investments, there's many things that can be done here and acquired.

Hernan Kiszuk: Okay, perfect. Fair enough. One last question, if I may, regarding also this deal. I would like to know if you can comment on the potential conflict of interest in this transaction given that this same shareholder namely, Grupo Carso on both sides of the deal.

Juan Francisco Sanchez Kramer: First of all, let me comment that we have world class corporate governance structure, so for example, within the Board meeting regarding these topics, the Board members appointed by Carso decided to not vote, because they do not want to have this conflict of interest. Furthermore, the negotiations are being done with Cementos Portland Valderrivas, and as far as we know, Carso has a stake on FCC that is the holding of Cementos Portland Valderrivas.

Fernando Ruiz Jacques: Also, expanding on Juan Francisco's comments, we got this fairness opinion that we commented more, and this opportunity was born from us. Elementia's the one that saw the opportunity from among many that we were looking at, and it is the one that we start to develop within our company's portfolio.

Hernan Kiszuk: Okay, perfect. Thank you very much. Very clear.

Juan Francisco Sanchez Kramer: Thank you Hernan. Katie, please, next question.

Operator: Thank you. Our next question comes from Ramon Obeso from Scotiabank.

Ramon Obeso: Hi. Good morning. Thank you for taking my questions. I have two questions on the Cement Division. The first one is if you could give us some color on the utilization rates in Central Mexico. The second one is if you expect further price hikes in Mexico for the Q4 and 2017?

Juan Francisco Sanchez Kramer: Sure. What we can tell you, and from what we know we are sold out. Also, you have to realize that Central Mexico dynamics or market dynamics are stronger than the rest of the country, so as far as we know, there are other two players that are close to sold out, and the largest players have the strong capacity utilization in the region. For the country and probably the dynamics are different, but this is what we can say, what we see. Also, because of this, the pricing change has been very positive, and that is the reason that you see a quarter of a quarter, 20 percent or close to 20 percent price increase.

Ramon Obeso: Okay, perfect. Thank you.

Operator: Thank you. Our next question comes from Omar Rodriguez from Credit Suisse. Sir, if you could please pick up your handset. I believe we have lost Omar. We will go the next question. Our next question comes from Jean Bruney from BBVA.

Jean Bruney: Hi. Can you hear me?

Juan Francisco Sanchez Kramer: Yes, we can. Thank you.

Jean Bruney: Just as a couple of doubts on the Giant acquisition. This is one, when you're speaking of 250,000 metric per ton and 2.8 million tons capacity, you're speaking of tons?

Juan Francisco Kramer: Jean, I didn't catch the last part of the question. We did understand the 250,000 per ton.

Jean Bruney: If you're speaking short or metric tons.

Fernando Ruiz Jacques: Short ton.

Jean Bruney: Short ton, sure. The second one is are you contemplating any expansion from liabilities in the Giant acquisition.

Juan Francisco Sanchez Kramer: We are currently on the due diligence process, so there are several teams running this process, financial, tax, environmental operations, operations, markets, etcetera. At this point, we cannot disclose much more than that, but if you referring to the liability on the debt position, what we can tell you is pretty much what we have said. That the main facility this target has is a group has is with the funds, and the conditions are not very competitive.

Jean Bruney: Cool. Thank you very much.

Juan Francisco Sanchez Kramer: Thank you.

Operator: Thank you. Our next question comes from Lillian Starke from Morgan Stanley.

Lillian Starke: Hi. Good morning. And thank you for taking my question. I have three questions, if I may. The first one is how at this level of effected tax rate do you expect that to be the same going forward? I know you probably provided some color last quarter, but I wanted to see if that remained the same. The second question is regarding the Indiana facility. I know most of the Northeast market is dominated by Geneva has around 80 percent market share. If you could share a little bit of the strategy of how do you expect to gain some market share from the Geneva even engineered wood which is fairly strong in the region. My third question is regarding the acquisition. Do you have already a binding agreement? I know you have already a letter of intent with Cementos Portland. Do you have any binding agreement with the lenders of this convertible? And to what extent would you be able to back off on the acquisition, or you would still go ahead with it despite this convertible is not sort of happens in the conditions that you expect.

Fernando Ruiz Jacques: Lillian can repeat just the first question? Tell the first one.

Lillian Starke: The first question is on the taxes. I know since last quarter, it was discussed around the high effected tax rate. If you expect this to be going forward, or something has changed since then.

Juan Francisco Sanchez Kramer: Clear now. Thank you very much Lillian. Regarding your first question on taxes, we have (indiscernible 00:59:53) with debt is held at the holding level, so we have (indiscernible 01:00:00) fluctuation, and it is effecting the net profit from the company on a consolidated basis. Nevertheless, each division (indiscernible 01:00:16), and therefore, it is paying taxes accordingly. If you remember, there is no more consolidating advantages on taxes, so each division is paying taxes accordingly and according the taxes of each country.

Fernando Ruiz Jacques: Regarding your second question about the Indiana facility. I cannot disclose a lot, because it is a strategy. I don't want to disclose on that. But what I can tell you is that we conducted a full potential analysis with BCG. We hired BCG five or six months ago. We are currently giving the plan that we found out with these guys. It has proven to be very good. We have been growing in many ways in the U.S. What I can tell you know is that we are going after the big dealers. We are going to add a residential market which will further enable us to capture the market growth, and we will enter new markets such as repair and remodeling.

Juan Francisco Sanchez Kramer: On your questions to the convert, what I can tell you now is we do not have any binding contract or whatever. So far, the only thing that we signed is as we mentioned a letter of intent. But of course, the intention is to replace the debt as I mentioned. At this point, there is no more.

Lillian Starke: Let's say, if you were not able to complete this transaction as you wish, would you still go ahead with it? Or that valuates it as a game changer to renegotiate the debt or not debt renegotiate whether you would still be going forward with the acquisition.

Juan Francisco Sanchez Kramer: This is part of the due diligence process, and it is a key issue. It is very relevant, because we believe that is one of the most important opportunities to improve the financial position of this company.

Lillian Starke: Okay, perfect. Thank you very much.

Juan Francisco Sanchez Kramer: Thank you Lillian. Operator, next question, please.

Operator: Thank you. Our last question will come from Cecilia Jimenez from Santander.

Cecilia Jimenez: Thanks. Sorry. One more question. I need to follow up on the BuildingSystems material in the U.S. I think you already partially answered it. How do you expect to gain market share from current operations regarding the Indiana facility, and what would be the timeframe to achieve those increases? Thanks.

Fernando Ruiz Jacques: Thank you for your question. As I was telling a few minutes ago, we have a clear strategy focused as I told you. I cannot tell you a lot more, because it is our strategy. What I can tell you is the timeframe we expect to gain in this market share during the next year, 2017, to reopen the Indiana facility in 2018, so we are already working on that. We are making investments to reopen this facility. As you know it's a 250,000 ton facility that you would have to pay north of $150 million, and we will have to invest no more than $3 million, $4 million to reopen this. We're very excited about that. The plan that came out from the BCG analysis is proving to work well, and we are gaining this market share that will enable us to reopen this facility as I said in 2018.

Cecilia Jimenez: Okay, thanks. That’s it for me.

Operator: At this time, I am showing no further questions in this queue. I would now like to turn the call back over to management for closing remarks.

Fernando Ruiz Jacques: Thank you operator, and while all of us at Elementia of our performance for yet another quarter, we also believe that many growth opportunities are still ahead as we continue focusing on constantly developing more agile and efficient practices for our operations to better serve our customers and consumers. We hope to have new developments for you soon regarding all of our recently announced transactions. So, once again, thank you all for your interest in Elementia. As always, we will remain available should you have any further questions. Just contact Juan Francisco or myself, and we will be happy to answer them. Have a nice rest of the day. Goodbye. Thank you.

Operator: Thank you ladies and gentlemen. This concludes todays conference. You may now disconnect.

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