Elementia 4Q17
Conference Call Transcript
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Carolina: Good morning. My name is Carolina, and I will be your conference operator. At this time, I would like to welcome everyone to the Elementia earnings conference call. All lines have been places on mute to prevent any background noise. There will be question and answers after the speakers' opening remarks. The instructions will be given at that time. Thank you. I will now turn the call over to Ana Lourdes Benavides, Investor Relations Officer of Elementia. Please go ahead.

Ana Benavides: Thank you, Carolina. Good morning, and welcome to Elementia's fourth quarter 2017 earnings conference call. We really appreciate your participation in this call. On the call with me are Fernando Ruiz, our Chief Executive Officer, and Juan Francisco Sanchez Kramer, our Chief Financial Officer. Please be advised that this call is for investors and analyst only. During this call, we will discuss Elementia's performance after the earnings release issued yesterday after the market close. The report is also available at www.elementia.com in the investor relations section.

Let me remind you that forward-looking statements discussed today are based on current expectations and are subject to certain risk and uncertainty. Actual results get deferred because of sectors mentioned in the earnings release, in today's call, and in the risk factor section of our reports, followed by the Mexican studies. We do not undertake any duties or base any forward-looking statements. For further information, please refer to our disclaimer included in the earnings release.

Also, bear in mind that all figures discussed are in Mexican pesos, and quarterly variations are computed against the same quarter of the previous year, while cumulative variations are computed as compared to the same period of the previous year, unless otherwise stated. Finally, and as you may have noted in the earnings report, we are including once again volume and price variations for our cement addition. Please bear in mind that this level of disclosure is strategically sensitive in our industry, and we may need to reduce it in the future should market conditions erupt.

As usual, today's call is being webcast live and recorded. You can replay today's call and review its corresponding transcript on our investor relations website.

It is now my pleasure to introduce our chief executive officer who will begin the presentation, the review of the main quarterly highlights plus strategic overviews. Fernando, please go ahead.

Fernando Ruiz: Thank you, Ana, and welcome everyone. Thank you again for taking the time to join us here today. I will begin by saying that our fiscal year came through many challenges, some which we anticipated and others we did not, like natural disasters and higher than

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expected energy costs. Nevertheless, the entire Elementia team has stepped up to the challenge, facing adversity like an unstoppable force. Together, as one, we were able to overcome these obstacles, achieve profitable growth, both in sales and EBITDA, and make significant strides towards reaching our vision of Elementia 2.0.

The Elementia 2.0 project will enable us to transition from a silo-oriented company to a mid-term stage that will eventually take us from offering a product-based portfolio to providing comprehensive solutions that serve all stages of the construction industry. That is from groundworks to interior finishing and facades geared towards and inspired by improving customers experience as well as generating efficiencies and value throughout the chain.

Throughout these years, we have gained a strong understanding and expertise in the construction industry. Having said that, in order to leverage our strengths and know-how, Elementia 2.0 considers both the traditional construction business and sustainable life building construction system. In both tracts, innovation is key to our success. Moreover, in the latter, we gain to incorporate state of the art technology and leverage on our strong distribution network to play a key role in the industrialization of the construction industry, mainly in Latin America, in the medium term, and across other regions in the longer term. But why mainly in Latin America?

First, we see more opportunities for innovation and processes standarization. Second, the region also represents a huge opportunity due to home deficits and significant infrastructure needs, which will inevitably continue to grow as more and more people join the economically active population. Additionally, they continue migration to see this, is and will continue driving the shift towards vertical instead of horizontal construction. Nevertheless, as I just mentioned this, these drivers also represent significant opportunities in other regions, which we will definitely continue to store in the long term.

As such, in 2017, Elementia continued to evolve in an inch culture through the power of oneness, which encompasses our company through strategic vision and Elementia 2.0 by creating a separate and independent entity with its own resources and personnel, which in 2018 will focus on putting out a pilot project to test some of the business model's hypotheses like us offering a product portfolio that includes both Elementia's and third party products. I am confident in the fact that we have laid the foundation for continued development and growth in this project and are well on our way towards our ultimate goal of becoming a comprehensive solution supplier.

Now, prior to reviewing the quarterly operating performance, I would like to discuss a few of the most significant projects and milestones achieved in 2017.

First, I would like to elaborate on the integration of Giant Cement into Elementia. As you know, 2017 was the year of transition for the plants and of preparation towards its expected growth plans based on catching up with the industry trends in both market growth and price trends. I would also add that although it has not been an easy task, mainly due to the status of the assets and organizational climate, we have made

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significant progress in the standardization of operational performance and product reliabilities by bringing assets back to industry standards.

Moreover, suspected cap rates program was carried out according to plan in 2017 and foresee an additional $20 to $30 million per year for the coming 2018 and 2019. More importantly, we fulfilled around 80% of the positions that have been vacant for a long period of time, despite a blow to full employment in the US. As according to our plan, these positions were key for a Giant's well in performance.

Secondly, the Tula's rampup, which has been nothing less than outstanding. Ever since we began commercial operations in July, results have exceeded all expectations. I dare say that we will be able to meet our goal of full capacity operations sooner than expected, since by the end of 2017 we have already got close to 80% of capacity utilization of the full system. One of the many initiatives contributing to this success is our new sack-bulk mix, which we altered slightly from a mix of 70/30 to a mix of 60/40. We believe that this strategy supported us in increasing sales volume and it allows us to continue serving the south construction segment while maintaining quality standards. It is also important to mention that we expect to go back to our original 70/30 mix in the coming years and continue to strictly adhere to our premium brand, higher quality, and top quartile pricing in the market in which we operate.

Third, the reopening and beginning of commercial operations of our Indiana plant just a couple of weeks ago. For those of you who are not familiar with Elementia, this is our largest fiber cement plant in the U.S., which was idled back in 2014 to optimize the total install capacity utilization of the system.
Its total install capacity is approximately the equivalent of the sum of the other two plants, which are located in Oregon and North Carolina. As we have been emphasizing throughout 2017, we worked on preparing the market by shipping products mainly from our facilities in the U.S. to the Indiana region. While this affected our operating margins in 2017 due to extend logistics and preparational expenses, we have learned from past experiences that such indicates at Tula, that this is an investment worth making as it has helped us to partially allocate the plants additional capacity.

Fourth, the footprint expansion of the cement division. In September, we held the groundbreaking ceremony of our $17 million brand new facility in Costa Rica. We are happy to report that the project is progressing according to plan, and we expect to be operations towards the end of cap of 2018. Costa Rica brings great market opportunities, as well as DOW capacity of over 2,050 tons, represents 50% of the total market demand. It will allow us to supply the main raw materials used in the production of 5% of products by our Plycem brand in the country.

And finally, we successfully completed the refinancing program, and that was in 2016. And I will let Juan Francisco go over the details of this achievement later on.

Now, let's move on to the operating performance. In 2017, Elementia posted revenue and EBITDA close of 35% and 24% respectively. On a proforma basis, that is considering Giant generated in 2016, sales and EBTIDA grew 11 and 7%, respectively

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in 2017. This result was mainly driven by our Mexican cements operation, which both extraordinary growth and offset the temporary challenges faced by our Metal Products and Building Systems Division, as well as additional cost and expenses due to a transitional year in our U.S. cement operation.

Starting with the Mexican cement operations, we experienced another consecutive order of strong results. Both revenues and EBITDA significantly rose by 48 and 76% respectively, compared to the fourth quarter of 2016.

These results were achieved primarily due to the operations of the cement capacity expansion in Tula, driven by high acceptance of our product in the region, and despite a slowdown in the demand during October because of the rainy season and the aftermath of the September earthquake in Mexico City and to energy cost headwinds. Also, contributing to the result is the fact that the south construction indicators in Mexico continue to be strong, confirming that our focus on the south construction segment continues to be the most resilient throughout the years, and our aim is to ensure its continued success going forward.

In terms of pricing, 2017 was another year of increase, following the previous year trends, which also contributed to our results. Overall, we are optimistic in Cement Mexico and believe that volume growth and continuing trends look solid in the first half of 2018, but perhaps not as consistently strong as in 2017, mainly due to some uncertainty related to the presidential election period and its strength to sharply decrease government infrastructure projects.

Our accelerated growth now includes presence in 21 Mexican states, compared to 15 states in 2016. The first months of the year continue to look strong, and for the rest of the year, a number of projects, both private and public, including the airport project, will continue to drive market demand.

In U.S. cement operations, Giant registered lower volume sold and EBITDA compared to the fourth quarter and full year 2016. Results were impacted by the caps and Opex program to bring actives back to industry standards and by respective seasonality which began early in the quarter and was harsher than that registered in the first quarter of 2016. At this point, I would like to emphasis that we expect to continue to see the effects of harsher winter conditions through the first quarter of 2018, as January and February weather conditions have been reflected in the operations. As we did last year, we're taking advantage of the weather to do major maintenance and yearly overall works. I will add, however, that we were able to keep supplying the market request due to inventory growth.

It is also important to mention that we expect higher cost in the U.S. cement operations during 2017 for two main reasons. First one being the additional Opex for maintenance preventive measures, which will affect 2018 to a certain degree, but this amount will eventually normalize into industry standards. Our goal with these measures is to be more efficient in terms of maintenance costs and put more of an emphasis, once again, on prevention and on ensuring operations continuity and reliability; and unsteady

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operations due to continuous works related to bringing back the assets to industry standards and then increase in energy costs.

On the upside, Giant's operations have stabilized even further since November. In 2018, we plan to move from a transition year towards the second phase of Giant's integration. This year will be the startup of fully recovery and the strengthening of our market share. Moreover, 2018 will set the foundation for the following years where are goal is to keep closing the existing capacity utilization gap and begin closing the price gap between our product and that of the industry's average.

Moving on, in the fourth quarter, the Metal Product Division registered a 5% increase in revenues, despite a 5% decrease in volume and 13% decrease in EBITDA, mainly due to lower demand during the period as a result of the aftermath of the earthquake that took place in Mexico City, hurricanes in the U.S. and the Caribbean in the third quarter of 2017, as well as significantly higher energy costs. Volumes were also affected since we decided to abandon several South American markets due to rising competition from China and in an effort of staying true to our strategy and focus on higher volume products.

Despite the obstacles faced in 2017, including cutthroat prices and FX volatility, we expect energy headwinds to ease in 2018 and are confident that the Metal Products Division will begin a recovery period during 2018 that should be more in line with its 2016 levels. We anticipate a more favorable market environment since we identified several businesses opportunities toward year end 2017, including a recovery in the demand from construction, a recovery of the oil and gas and naval industry in the U.S., and we see also tremendous potential on enhancing and leveraging our historically renown and high reputation of our Cobre brand, as well as a strong distribution channel to expand our commercialization activity by offering services and products that tackle end customer needs.

Now turning finally to the Building System Division, the division growth recording at a consolidated level continues to be supported by the successful results of the go-to-market strategy we have discussed throughout these past months. However, due to unfavorable weather conditions and natural disasters throughout a significant part of our geographical coverage, higher cost for new product launching and logistic costs derived from the reopening of the Indiana plant, and a one off reported in Colombia, as well as microeconomic challenges faced in Colombia during the fourth quarter, this division experienced 10% lower revenues and a 57 decrease in EBITDA. Part of the EBITDA is related to a $20 million investment made in the launch of a newer product with new technology across Latin America, which allows less breakage during transportation and represents great advantages to both our distributors and final users. I am very proud about the progress made and pleased to share with you that so far it has had an extraordinary acceptance among those clients. Nevertheless, and in all modesty, we are planting today for tomorrow's harvest. In other words, we are at the initial stage and thereby going through a steep learning curve that should at least extend to the next quarters.

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Focusing on each region, first in the U.S., our go-to-market strategy continues to demonstrate results, and the step we took with the top U.S. residential builders continues to yield positive outcomes, despite one of main competitors resolving its operational problems and recovering some of its clients. But we learned at the General International Builders lunch in Orlando is that the U.S. market claims to prefer to have a reliable supply alternative and is not willing to face supply restrictions again. Clients are eager to have access to a reliable alternative brand, such as ours, in the U.S. - the Allura brand - which has proved to deliver excellent product quality and customers service. For this reason, the timing and startup of Indiana operations were crucial as we plan to continue pressuring the top U.S. residential builders approach and develop markets throughout the mid-west during 2018.

We continue to be optimistic about the U.S. market and have confidence that our fiber cements home building products are a great alternative to wood, engineered wood, vinyl, and other traditional building materials, which are prone to damage from hail, termites, rot, fire, and manufacturing defects. Moreover, part of our success and distinguishing features are that our products stand up to weather conditions in any climate. Our factory is primed for life and backed by an industry living 50-year warranty.

Moving on to Mexico, results continue to be impacted by the aftermath of the earthquakes, and on the other hand, our latest approach to non-government projects, that is to retail, continue to prove successful. At year end, volume from retail customers grew by more than 40%, partially offsetting the close to 60% decline in government projects. As we mentioned at the beginning of this call, there are several uncertainties linked to 2018 due to the upcoming election period. However, we will remain focused on mainly selling to product projects.

In Central America, operations remain stable with moderate growth despite having lower volumes exported from El Salvador to Allura in the U.S and social political problems in Honduras derived from the recent presidential reelection. We expect a stable outlook for the region in 2018.

And finally, we continue to face some headwinds in the Andean region despite the fact that Peru presented a federal economic scenario. Corruption scandals have diminished growth potential in several industries including the construction one. We also detected some irregularities in products coming from Colombia, and in an effort to sustain our promise of high quality products, we opted to proactively recall this product, which of course, came at a cost. Additionally, social-political problems continue to affect Bolivia, while Ecuador remains stable, as there continues to be demand due to the floods and construction project.

Lastly, demand continues to be subdued in Colombia despite government attempts to improve this situation by the reducing interest rates and reactivating certain housing initiatives. We expect a slow but gradual recover throughout 2018 after the country's increasing political uncertainty also related to presidential election period in the first half of the year.

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Before I conclude, I would like to stress the fact that while we have taken the necessary measures and initiatives that will take hold, our Building Systems and our Cement Division towards the right path, we foresee a challenging first quarter due to tough or higher seasonality in the U.S. due to the harsh winter conditions and the aforementioned volume recovery gain by competition in global systems, impacting not only our U.S. operations but also our Nuevo Laredo and Central America South.

Finally, we also foresee challenging times in the Andean region mainly because of Colombia's microeconomic condition. Discussed before, we expect to prevail during 2018.

I will finally like to give a warm welcome of Alfredo Recke to the IR team. His seven-year trajectory in the company as treasurer have been exceptional, and I have no doubt he will continue to strength our communication bridges with the investor community at his new role as Investor Relations.

Also, I would like to personally thank Ana for all her work and dedication to Elementia. Ana has decided to move on to new challenges, and we wish her the best of luck.

Now, with this I conclude my remarks, and now turn the call over to Juan Francisco Sanchez Kramer for further details on our financials. Juan, please go ahead.

Juan Sanchez: Thank you, Fernando, and thank you all for being here with us today. As Fernando mentioned, one of our greatest accomplishments in 2017 was the successful completion of the refinancing program, announced in 2016. This program consisted in three main strategies aiming to bring equilibrium between our dollar-based operations and dollar-denominated balance sheet items, while maintaining a profitable growth and staying true to our policy of maintaining conservative ratios. These included:

Refinancing the committed credit lines used to complete the payment of the converted, which were necessary for Giant's acquisition. In this matter, we obtained $350 million through bilateral loans from Scotiabank and Citi, and the use of proceeds to prepay 100% of the committed credit lines.

Second, exchanging short for long term debt and thus releasing close to $200 million in cash flow in 2017 through 2018. By refinancing the committed credit lines, we managed to achieve a much comfortable maturity profile and have 98% percent of our gross debt at long term. As a result, the company will not face any significant commitment in the near seven years.

And third, financing viable and fixed income rate. For these, we hedged 15% of the Bank of Mexico's credit loan to reduce the interest rate risk on its floating rate for a fixed rate of 6.99% in Mexican pesos, 12-year maturity. As a result, at year end we managed to significantly reduce our exposure to variable rates and managed 73% of our total debt to fixed rate. Additionally, we maintained what we believe to be a comfortable exposure, which regards, and our debt and cash flow generation that we achieved in

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2016, and with that in 2017, 55% of our debt denominated in Mexican pesos and the remaining in U.S. dollars, pretty much aligned to assets and cash flow generation.

Aligned to our goal of delivering net debt to EBITDA ratio, our interest coverage is now 3.23x and 3.9 times, respectively, fully complying with covenants set by financial institutions and going in the right direction according to--I would like to also highlight that Alfredo was key to achieving all this, and I am confident that his performance as Investor Relations will also contributed towards Elementia's development. Welcome, Alfredo.

The success of this program has been such that on December 21st, Moody's affirmed Elementia's rating at Ba2 and changed the outlook to positive from stable. This outlook improvement reflects much stronger than anticipated credit profile compared to agencies estimates and Elementia's track record of de-levering in the last twelve months.

Now turning to our financial performance, despite some obstacles faced at year end, like microeconomic volatility in several of the countries in which we operate, increasing the cost and further impacts from natural disasters across the regions, consolidated revenues post a double digit build of 12% to 6.1 billion pesos for the quarter and 5% of net pro forma basis. This result was mainly due to higher prices across our three businesses and to the extraordinary operating performance of the Cement Division in Mexico.

Overall, to give you a better idea on our performance for 2017, revenues pretax totaling 26 billion pesos were broken down as follows: 18 came from Cement Mexico, 17% from Cement U.S. for a combined 35% for the Cement division), 53% for Building Systems, and 32% from Metal Products.

In terms of EBITDA, this line item rose 24%, reaching 4.4 billion pesos in 2017 and 17% on a pro forma basis. With an EBITDA margin of 17% for the fourth quarter, EBITDA increased 2% reaching 1 billion pesos driven by the Cement performance in Mexico, which helped to offset divisions performance in the U.S. and the contraction reported in Building Systems and Metal Products Divisions.

The breakdown by division in terms of EBITDA is as follows: 44% came from Cement Mexico, 12% from Cement in the U.S., therefore a consolidated financial representing 56% of consolidated EBITDA, 21% from Building Systems, and the remaining 24% from Metal Products. Furthermore, our EBITDA generation in the U.S. was linked to the U.S. dollar as of 2017 represented 44% gain, this a line the equilibrium we look for between cash flow and debts.

Going further in depth for the performance of each division.

The Mexican operations for the Cement Division continue reaching new heights. Once again, revenues surpassed expectations totaling 1.2 billion pesos, a growth of 48%. As a result of the strategy to rampup the capacity expansion at Tula facilities during the

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first half of 2017, higher operating efficiencies and the state of the art technology, EBTIDA and EBITDA margin has significantly improved in this quarter.

For instance, EBITDA was 582 million pesos soaring 76% compared to 2016 and EBITDA margin was up by 8 percentage points to 47%. It is also important to highlight that in order to allocate additional volume, we have temporarily changed techniques for more than 70% in bags to close to 60% and the remaining in bulk, impacting our average price. Our premium brand superior quality and higher pricing remains unchanged. In a like for like base system mix to 2016, our prices grew close to 11% in the fourth quarter and close to 15% for the full year.

Now for the U.S. operations from the Cement Division, revenues went down 12% and reaching 1.34 billion pesos due in the quarter, as seasonality affected sales as expected. Although, it is important to stress that 2015 and 2016 winter was milder than the average winter, while the 2016/2017 winter was harsher than the average, therefore having a greater impact on year over year operations.

Moreover, revenues were also hit by maintenance works carried out during the year in order to bring us back to industry standards as Fernando mentioned, which implied both Capex and Opex investment. The Division's results for the fourth quarter reported at 50% decrease in EBITDA mainly due to the transition and trust-recovery process in the U.S. operations are undergoing, and to higher costs and expenses from maintenance works and groundwork preparations for future growth as well as one offs represented in 2016.

On the Metal Products Division, as Fernando mentioned, face many threats during the quarter, which led to an EBITDA slowdown of 13% in the quarter, caused by increasing power and gas prices throughout the year, which were partially offset by improved metal yield and the division strategy focused on higher value-added product. Within the quarter, we also registered a $2 million one off due to lack of payment of a customer in the U.S., which filed for Chapter 11. Experiencing this impact, EBITDA showed at 2% below what was reported for 2016.

Once again, our determination for the metal product division is to focus on EBITDA and EBITDA per ton, since our revenues are very much affected by the international price corporate. Our EBITDA generation is much more related to our own performance.

Finally, the Building Systems Division has come a long way since a year back. As you may recall, this division faced many challenges throughout 2015 and 2016, which is why we took the decision of designing a roadmap along with BTG Consulting to help us turn around this business. The end result was a plan, which as Fernando mentioned, we called "the go-to-market strategy". This plan was mainly designed for Mexico to redesign our approach to the market and market segment and for the U.S. to accelerate our growth strategy and the re-opening of our Indiana facility.

Although we saw a 10% decrease in net sales during the quarter caused by demand contraction in the Andean region and, of course, climate conditions in other countries,

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we can say that overall implementation of this strategy has been a success. We started to see a small glimpse of this turn around in late 2016, and one year later, our efforts continue to yield revenue growth. In 2017, we reported about 8.3 billion pesos in revenues, an increase of 7%, resulting mainly from higher volumes sold and the good level of acceptance of our products in the U.S., Mexico, and Central America.

That being said, in the fourth quarter ’17, EBITDA for this division from this divisions registered 94 million pesos, below in 4%, which was impacted by the reasons I just mentioned, it was also largely due to the higher investment and expenses related to the launching of new products and technologies, which are seen at the early stages of implementation as mentioned before.

As a result of the aforementioned and to additional logistic costs that are different in the U.S trade, during the year in intervention for Indiana, the fiber cement plant reopening planned this year. The division’s EBITDA margin was 11% in the year. The deterioration on the U.S. margin did significantly impacted the Building Systems Division as a whole, due to the fact that the U.S. operations already represent close to 30% of the division’s operations in 2017; and as expected this will tend to increase as we carry out the Indiana’s plant rampup.

Going back to consolidated figures, we show that working capital consumption, mainly due to increase in inventories, which was concentrated in the Metal Products and Building Systems Divisions. Going to Metal Products, the main reason is copper price that increased more than 20% going from $2.6 per pound to $3.9 per pound along the year, and also because of the slowdown in volumes in the last quarter due to the earthquake in Mexico. For Building Systems, it was mainly because of the launching of the new technology products, which have extended production time. The early arrival of a vessel with raw materials and the slowdown of the demand in the U.S. due to harsher winter.

It is also important to highlight that we will continue with the plan to produce inventories that we mentioned during the third quarter goals. We believe that there is extraordinary opportunity to release cash flow from here. Our Capex from 2017 was more than $2.5 billion, mostly including investments in the U.S., and the cement plant’s expansion in Mexico, along with the Capex that including many maintenance and quarter expansions.

For 2018, we have expanded to signing about $90 million for Capex, which will be broken down as follows: around $16 million for maintenance and quarterly expansions and around $30 million for Giant continuing operations in the US.

Net income was also affected by higher financial cost since we increased close to 50% our gross debt in compared to 2016, which was partially compensate by a lower FX loss in 2017 which led to an important improvement in our debt mix and higher net taxes reported which increased in $574 million.

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It is important to highlight that in the quarter, taxes declined by $221 million, while differed taxes include $795 million, mainly due an application of fiscal loses in Mexican operations. The government taxes, or pre-cash flow taxes, show the variation of $396 million, giving that in 2017 we compensated more than recorded taxes; while in 2016, it was the opposite.

We believe that 2018 comes along with a growth as our sometimes the capability continues seeking opportunities for regional expansion and product diversification to drive the long-term sustainable growth in our three divisions. Our commitment to continue search for ways to enhance our leadership in the regions and markets we serve is stronger than ever.

I would like to conclude my remarks by highlighting our focus on generating value to all our stakeholders by paying much more addition to capital location. As so, we will continue improving our earnings.

Thank you for your attention, and I am going to turn back the call to the operator for Q&A.

Operator: At this time, if you would like to ask a question, please press the star and one on your touchtone phone. You may remove yourself from the que at any time by pressing the pound key. Once again, that's star and one to ask a question. We'll pause for a moment to allow questions to que.

And your first question comes from Alejandra Obregon with Morgan Stanley. Your line is open.

Alejandra Obregon: Hi. Good morning everyone, and thank you for the call and for the additional disclosure on volumes and pricing by each division. We really appreciate that. My first question is on the Metals Division on the write off that you are disclosing in this quarter. I was wondering if you could give us some color on the size of the impact because maybe--how large is this client compared to sales, understanding or assuming that you will no longer be supplying to this client?

And then on the fiber cement in the U.S., if you could perhaps explain what your outlook for 2018, meaning we understand there was a very good first half of the year, so there's a very high comp for these Divisions. So, how should we think of revenues in 2018, particularly as you have this Indiana ramping up here? Thank you.

Hello?

Juan Sanchez: Sorry, Alejandra, I'm here for your question. Thank you also for your comments. So, the first question on Metal Products, the one off was $2 million, and as you mentioned, we are no longer selling to this customer. Even though we are very positive on the trend of volumes for 2018, because we are seeing a stronger recovery in oil and gas and marine applications for the U.S., also recovering the construction industry in Mexico.

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Fernando Ruiz: Alejandro, this is Fernando. Going to the second question, we are very optimistic about the cement operations in the USA. We continue to see positive trends in terms of demand, and we believe that there are very big opportunities in the region. Likewise, as I mentioned before, we are taking the actions, so we have been working very hard with our assets, which were in worse conditions than we originally thought about. We have invested a lot in our assets and in our team. So, we are optimistic about the future that we will have with this operation.

Alejandra Obregon: Thank you very much, and perhaps some color on the fiber cement. How should we think of normalized revenues here for 2018? What are you expecting for this year there?

Juan Sanchez: Thank you Alejandra. For Building Systems, our expectation for the U.S. is also positive. As we mentioned we just reopened the Indiana facility, and we're expecting to run at close to break-even levels at the beginning. If it rampups, it will also improve revenues for the country. It is also important to highlight that, as we mentioned, in 2017 we have invested in all types of additional logistic cost mainly and also Opex for the reopening that we will not have in 2018. The overall outlook is positive, but for the first quarter, it is not that positive because of harsher winter.

Alejandra Obregon: Thank you very much for your answers. It was very, very helpful.

Juan Sanchez: Thank you.

Operator: And your next question comes from Mauricio Serna with UBS. Your line is open.

Mauricio Serna: Hi, good morning and thanks for taking my questions. First, I would like to talk about the working capital investments that you showed this quarter. I know you explained mostly related to the Metals and the Building Systems Divisions, but I just wanted to know if you see this as something that is recurring, given what you're expecting on the cooper prices or any additional investments that you might be doing? And also wanted to ask about what is your view on the outlook on the demand on the east coast in the U.S., given that you were mentioning that the winter could be continuing affecting? So, what are your expectations for volumes this year in the U.S. cement, also assuming that you're considering some market share recovery after the investments that you've done on the giant assets? And finally, if you could provide us some color in what you're seeing in the construction industry in Mexico cement? It's been a very strong year, last year, but that also sets very tough guns for you. So, what are you thinking in terms, at least, of industry growth and the pricing dynamics that you've seen so far in this year? Thank you very much.

Juan Sanchez: Thank you, Mauricio, for your first question related to working capital, as we mentioned, the Metal Products, or mainly the Metal Products and Building Systems. For the Metal Products, it was largely due to the impact on copper price. Since we have no control on the commodity pricing, what we are focusing on is the tons and pace of inventory that we have and optimizing this line item. So, we are sure that there are opportunities there, and we are improving already our inventory levels.

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Regarding Building Systems, the main reason was the change in technology that has additional conversion for production time, about a week longer. That is also increasing our inventory. Now, we see very important opportunities in Building Systems to the reduced inventories by having better demand planning and better operational performance. 2017, as we mentioned, was a year which we were running best with the new technology, and therefore operations were not at normal levels. 2018, once the operations normalize, we are confident that there will be a reduction in our inventory.

For your question on the view for the demand for the east coast in the U.S., since we did the acquisition of 55% of Giant, performance analysis on the market and so far this analysis has been confirmed. So, we are still expecting that demand for the region will continue growing at about 4% CAGR to 2020, at least. And in terms of pricing, we are still expecting some 3% CAGRr growth for the same time. As we mentioned, first we'll catch up with volumes, and this is the target that we have by bringing back the assets to industry standard. So, the next phase is recovery volumes, and pricing will come later.

Fernando Ruiz: Now, going Mauricio over to your third question regarding the Mexico cement industry growth, I'm well aware that there's some concern already linked to the upcoming presidential elections, but you have to bear in mind that our market segment continues to be the self-constructions because indicators continue to be quite strong. Where we see it growing, demand, in the future, we see that there's going to growth in this segment in the future, and this segment has proven to be the most resilient throughout the years.

So, having said that, we believe that volume growth and pricing trends look solid in the first half of 2018, but perhaps not as consistently strong as in 2017 due to what I just said about the uncertainty. And it tends to sharply decrease government infrastructure projects. Nevertheless, you have to bear in mind that a number of projects, both private and public including the airport project, will continue to drive demand market in Mexico.

Mauricio Serna: Great. Thank you. And just very briefly, I assume that given the investments that you're doing in Giant and the other divisions, you're probably not going to do any dividend payments or buy-backs, at least for this year, right?

Juan Sanchez: Yes, so far, we remain committed to bring the invest to profit, continue the growth, and for this 2018, as you mentioned, we still are going through additional capital plans for Giant acquisitions.

Mauricio Serna: Okay. Thank you very much. Very helpful.

Operator: And your next question comes from Pablo Carrillo with BBVA. Your line is open.

Pablo Carrillo: Thank you. He just asked my question. Thank you.

Fernando Ruiz: Thank you, Pablo.

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Operator: And once again, that's star and one to ask a question.

And your next question comes from Jules Prouteau with BNP Paribas. Your line is open.

Jules Prouteau: Hello. This is Veronica from BNP Paribas. Can you please give us an estimate of your Capex needs for 2018? And if possible breaking it down by areas? And if you can also comment a little bit of what's your normalized working capital that we should be considering for cash flow purposes, given that last year it was more of a ramp up in terms of inventory buildup? Thank you.

Juan Sanchez: Sure. Thank you, Jules. Regarding Capex, we roughly have about $15 million for maintenance and expansions that we constantly do year after year. And on top of that, we have about $30 million for Giant's program to continue with the plan to upgrade the assets.

Regarding your question on working capital, we believe that we can produce inventories at about 5 to 10%, while more normalized level. Now, it is important to mention also that, as we are planning to increase volumes in Cement Mexico, Cement U.S., Building System U.S., you might expect also some increase in working capital linked to that. Nevertheless, we are expecting this 5 to 10% reduction in inventory.

Jules Prouteau: Thank you very much.

Juan Sanchez: Thank you.

Operator: And your next question comes from Hernan Kisluk with MetLife. Your line is open.

Hernan Kisluk: Hello, good morning, thank you for taking my question. Regarding the Building Systems Division, I've seen in the report that there were several one offs affecting the EBTIDA margin for this quarter, not just in Colombia but also the general rampup and other issues. Could you quantify what were the main items that affected the EBITDA of this quarter?

Juan Sanchez: Hi, Hernan, and thank you for the question. Sure. While we're trying to go as retail as possible, the one off that we mentioned for the Colombian operations was close to U.S.$3 million, and that was largely due to a recall that we performed because we realized that we had some quality issues. And we decided to go one and make the recall. On top of that, we also have the pre-opening expenses in Indiana in the U.S., that for the full year was close to U.S.$3.5 million, also. And also, it is worth mentioning that given that we have change or we have done this change in technology for Building Systems in the full operations in 2017, business cost of this was close to U.S.$10 million.

Fernando Ruiz: I would like to expand on that, Hernan. We developed this new fiber cement product, which has had a very good acceptance, and it has been very encouraging. It's mainly because of the many benefits that this technology brings. This technology has less

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breakage. It’s more manageable, and it has a better look and feel. So, we’re very confident about the decision that we have made. We foresee a bright future here, but we are still going through the learning curve, and that’s why we have these additional costs.

Juan Sanchez: I would like to highlight that without these one-offs, the year would have shown double digit growth in terms of EBITDA.

Hernan Kisluk: Awesome. Thank you very much.

Juan Sanchez: Thank you.

Operator: And once again, that’s star and one to ask a question.

And there appear to be no further questions. I would like to turn the call back to CEO Fernando Ruiz for any closing remarks.

Fernando Ruiz: Thank you, operator. We’re very pleased with the results and progress made in 2017, especially given the load of big projects and initiatives we embarked upon last year and the challenges faced, such as rising volatility and energy costs, to geopolitical problems and natural disasters that prevailed in the regions in which we operate and overall characterized in 2017. I hope that 2018 comes with very challenging, but at the same time, very interesting and promising projects for Elementia.

And while you can expect us to continuously explore growth and expansion opportunities, we perceive 2018 as the year of facilitation, aggressive brand positioning, further innovation efforts, and restructuring of staff across the divisions and corporate level as well as continued transformation of our organizational culture entered at two levels: Being the supplier of choice and best place to work. You have our commitment to keep you updated on the progress achieved as we are determined to continue to solidify our communication bridges and remain closer to the investor community. So, once again, thank you.

Thank you all for your interest in Elementia. If you have further questions, please do not hesitate to contact Juan Francisco, Alfredo, or myself. Have a great rest of the day.