Elementia 3Q18 Conference Call Transcript

Operator: Good day, everyone. My name is Keith, and I'll be your conference operator. At this time, I'd like to welcome everyone to the Elementia earnings conference call. All lines have been placed on mute to prevent any background noise.

There will be a question and answer session after the speaker's opening remarks and instructions would be given at that time. Thank you.

I will now turn the call over to Alfredo Recke, Elementia's Investor Relations Officer. Please, go ahead.

Alfredo Recke: Thank you very much, operator. And good day, everyone. And welcome to Elementia's Third Quarter 2018 earnings conference call. Joining me today is Chief Executive Officer, Fernando Ruiz Jacques, and Chief Financial Officer, Juan Francisco Sánchez Kramer.

Please be advised that this call is for investors and analysts only. During this call, we will be discussing Elementia's performance as per the earnings release issued yesterday. If you did not receive the report, please contact i-advize in New York at 212-406-3694, or visit our website www.elementia.com under the Investor Relations section.

Let me remind you that forward-looking statements may be made during this conference. These are based on information that is currently available and are subject to change due to a variety of factors. For more detail and a complete disclaimer, please refer to the earnings release. Also, all figures discussed are in Mexican pesos unless stated otherwise.

It is now my pleasure to introduce Fernando Ruiz Jacques to begin with the main highlights of the quarter.

Fernando Ruiz: Thank you, Alfredo. And welcome, everyone, thank you for being with us today. It's an exciting time and we continue to transform the Company and prepare ourselves financially and operationally for another phase of growth and expansion.

Last quarter, I started my message with Elementia's strategy which was summarized by becoming a comprehensive platform that offers a broader portfolio and then it evolves towards a Company that delivers solutions for the construction industry.

Now, I would like to start my message by briefly explaining the role of each business unit within this pipe plan. Starting with the cement business unit, this is where we're going and where we have focused on organic and inorganic growth throughout the Americas. Our focus will remain on expanding this business. The other two business units will help accomplish this goal by delivering cash flow. Having said that, and for the time being, the Building Systems has two roles: in the US, we have a great growth opportunity including the Indiana facility, where we are very well positioned to leverage for market dynamics and therefore increase volume and margins. In Latin America, we have the potential to become the supplier that will help industrialize the construction process, but for now, we need to regain the business profitability. And third, the Metal Products business will continue generating a strong cash flow that will continue funding the growth in other divisions.

Now, in terms of our short and medium plans for each unit. In Cement Mexico, we have accomplished our growth promises ahead of the expected timeframe. In summary, we completed the ramp-up of the Tula facility expansion by reaching optimum capacity utilization level by anticipating market dynamics and prioritizing volume positioning by temporarily changing the bag-bulk mix. We plan to gradually go back to the original mix throughout 2019.

Growth, from now one, would be more moderate until we start operations of the grinding facility in Yucatán in the second half of 2019, and the take the next steps in our growth path. For now, and in the following few quarters, we expect the market to remain somehow contracted as is statistically proven in a post-presidential election 12-month timeframe.

In the Cement US unit, during 2018, we have faced strong headwinds including (a) an equipment failure in the South Carolina facility with less than 5% chances of happening. This incident affected longer than the time it took us to fix the damaged equipment; however, I'm very proud to say that we have recovered more than 90% of the lost volume in less than six months by recovering lost customers and gaining new ones. (b) Additionally, operating impacts caused by Hurricane Florence, and (c), tougher competition in the New England region. Nevertheless, we continued our three-year CapEx plan to regain production and supply reliability. The third quarter results show the trends we expect in the following quarters.

Moving on, in Costa Rica Cement, we have accomplished what we promised ahead of the expected timeframe. In summary, in only three months of operation, we have reached more than 60% capacity

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utilization rate, that is close to 9% market share. We expect to complete the full ramp-up by 2019.

Going now to the BuildingSystems units in the US, we are three months behind schedule to reach the break-even point in the reopening of the Indiana facility. We're now expecting to reach it by the first quarter of 2019. One of the main reasons for the delay is the harsher winter we faced at the beginning of the year, and having one of our main competitors recover market share. We have done the necessary adjustments to get back on track in the following quarters and continued growing faster than the market.

In Building Systems LatAm, we are a quarter behind schedule to complete the learning curve of the technology change. The shift from natural to synthetic fibers meant a completely new formulation and major changes in process, equipment, and teams. We also faced headwinds in the region at macroeconomic levels and political environment that reduced consumption in the region and put pressure on prices. Therefore, in the short term, the focus is to regain profitability by rationalizing and right-sizing the business, this will enable us to continue being a fast-adapting, evolving, and decision-making organization. The quarter results show the cost derived from these programs, but we expect to render savings starting from the fourth quarter.

We're also redefining the business growth strategy, focusing it back on core product segments and channels and removing less profitable SKUs from our portfolio. Our expectation for 2019 will show the beginning of the recovery, having ended the transition year of 2018.

And finally, going to the Metal Products Division, during the quarter we faced a steep fluctuation in copper prices and FX appreciation, which was partially translated to a market. The impact happened so rapidly, that given our inventory levels and transformation timeframe, we were unable to fully translate it to the market. In order words, when there are steep fluctuations, we have an impact on our inventory value that can either be positive or negative depending on the copper price trend.

In order to reduce our exposure to these effects, we're in the process of reducing inventory levels and the transformation timeframe by reducing SKUs, focusing on higher-value products, revisiting the pricing strategy, and redefining the hedging mechanism. It is worth emphasizing that we have a markup price mechanism that helps us pass through commodity fluctuations to the market. Additionally, copper prices are showing an upward trend that should help normalize figures for the business in the short term.

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So, have three short-term problems. As we continue expanding our business, we have also taken action to financially prepare ourselves. This past Monday, at an ordinary shareholders meeting, our shareholders approved a capital increase of up to $1.5 billion pesos through our Rights Offering. Elementia will issue up 120 million new shares at a price of $12.50 pesos per share, which will generate proceeds of around USD$80 million. These funds will be mainly used to improve our leverage ratio and potential additional investments in the Cement Division.

I reiterate our commitment to continue our growth strategy in a manner that is prudent and a credit for our shareholders.

With this, I conclude my remarks. I now turn the call over to the Juan Francisco for further details on our financials and the Rights Offering transaction. Juan Francisco, please go ahead.

Juan Sánchez: Thank you, Fernando. And to all for your continuing interest in Elementia.

My remarks will focus on a little more information with regards to the financial and operating results.

The third quarter of the year began with tougher dynamics brough by an overall deceleration in the market consumption throughout Mexico and Latin America. Additionally, there was a marked contraction in the demand for Metal Products and BuildingSystems. We also saw a continuation of higher energy costs and a steep fluctuation in copper prices and currency conversion.

Despite this, the challenging conditions did not stop Elementia from reaching 5% revenue growth on a consolidated basis during the first quarter, and 8% for the nine-month period, mostly driven by 8% higher sales volumes in Cement Mexico, with optimized capacity utilization at the Tula facility. As well as 12% volume improvement in the US BuildingSystems division.

EBITDA was 21% lower than the third quarter '17, reaching 1.02 billion due to the solid performance of the US BuildingSystems and Mexico Cement will enable fully offset figures in the other businesses. EBITDA margins however improved 16 basis points compared to the last quarter. It is important to mention that, as in the previous quarter, results included charges from the capacity optimization and rightsizing in LatAm BuildingSystems, as well as an extraordinary effect on the ramp-up process of our Indiana facility in the US, totaling close to 110 million. I would like to emphasize that these relative impacts will

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render savings and additional profits starting from the fourth quarter and on.

Lastly, Elementia reports a net income of 8 million from the third quarter which represented a significant 98% decline compared to the previous year. This change was mostly driven by lower-levels in operating income combined with higher integral cost of financing.

Turning now to the balance sheets...Cash before CapEx reached 1.39 billion for the nine-month period, mainly due to cash flow generated from improving our working capital as mentioned in the second quarter. Total investments so far total 1.4 billion, out of which 1.3 allocated towards organic growth including maintenance for all operations, asset improvement in the US Cement, and both expansions during the year.

The net debt positions total 14.9 billion, an increase that was due to a lower cash position resulting from the aforementioned investments. The net leverage ratio, therefore, reached 3.73 times, thus complying with the covenants set by financial institutions. We remain committed to seeking and implementing a strategy, deleveraging initiatives, and we will continue generating cash flow from working capital.

Now, I would like to reiterate our commitment and focus to our organic and inorganic growth strategy, while never compromising financial discipline, particularly when obtaining the necessary funds, we take advantage of the opportunities which, by the way, shows our shareholders' commitment towards the Company.

As such, this past Monday, at the Company's ordinary shareholders meeting, our shareholders approved a capital increase for 1.5 billion through a Rights Offering mechanism. Elementia will issue up to 120 million shares at a price of 12.50 per share, thereby generating proceeds of close to $80 million. The rationale for this Rights Offering mechanism is, first, it gives all Elementia shareholders – that is controlling and minority shareholders – equal participation rights which is important to us. We want to make sure that our shareholders are all deriving value. Secondly, this mechanism is non-dilutive, therefore all of our shareholders are given the opportunity to strengthen their commitment to Elementia and share in the economic benefits of its growth and value creation. And third, it is in line with the financial discipline Elementia is known for. Mainly, we will not be forced to surpass our leverage levels with higher debt to fund our growth projects.

Now, in the event that any shares remain unpurchased, the board has decided to offer a second round according to the acquired shares

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during the first one. Again, in the event that any shares remain unpurchased when the second round is concluded, the board has reserved the right to choose between the two following options. (a), cancelation of the non-taken shares, or (b), the absorption by the controlling shareholders.

We are confident that the Rights Offering was the best choice to increase capital to support our growth strategy of expanding our footprint in core businesses; we expect to use these funds towards the leveraging and investment to continue growing in the Cement Division, like the Yucatan project.

Now, let's move on to operating performance and expectations for the rest of the year.

The third quarter numbers came in below the same period last year, as we faced several external factors affecting operations in all three divisions, including Hurricane Florence in the US, presidential elections in Mexico, metal prices and currency fluctuations.

It is important to mention that we have started to see a more promising fourth quarter, and growth levels are showing hints of stabilization and we expect an improvement in cash flow from working capital and profits that will give us the flexibility and financial power for deleveraging and funding further growth.

Going in detail for business units.

First, with Cement US. At the beginning the year, this division was heavily impacted by the failure of the finish mill of the South Carolina facility at the commissioning phase, setting us back in our plans for gaining market share. However, I'm pleased and proud to report that both revenue and EBITDA posted a 6% growth for the quarter. We have advanced significantly in our objective of production reliability and reached our objective of client recovery of over 90%. And as we speak, we continue to improve. As a result, volumes decreased only 3% in the quarter, despite a temporary stoppage of the cement production in the South Carolina facility that undertook emergency protocols and was evacuated because of the Hurricane Florence. This stoppage lasted a week. On that side, I'm happy to announce that our employees and their families remained safe throughout this devastating event.

It is very important to mention that QoQ basis, the improvement was astonishing. On an EBITDA basis, we improved 155 million or more than 300% from 49 to 204 million, and the EBITDA margin improved from 5 to 16%.

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Moving along, and despite expected volume decline of 1% in Mexico due to statistical electoral cycle, Cement Mexico posted a single-digit EBITDA and revenue growth of 3 and 7% year over year. Our margins remain stable at 46%, and we do not expect any contractions in the fourth quarter. We trust that we will be able to continue with the general trends thanks to the construction GDP expectations. It is important to mention that remittances are also contributing, having reached a historic high in the third quarter.

We are confident that having reached optimum capacity utilization levels in Mexico, we will be able to navigate the current environment of uncertainties, showing double-digit growth at year-end on an accumulated basis.

Finally, the grinding operations in Costa Rica are booming and showing a great progress. EBITDA margins reached 7% and over 50% of capacity utilization was reached. This was done in just three months of operations. We are in good shape to achieve our expected ramp-up plan of 2 years by leveraging and on self-consumption, and revenues to third parties with EBITDA margins expected of close to 20%.

Moving now to the BuildingSystems, consolidated EBITDA for the business fell 60% year over year, same as last quarter, due to various external factors impacting both US and LatAm. Yet, it has improved on its EBITDA margin on a QoQ basis of 1%.

We remain confident that 2019 would be a recovery year that could show EBITDA margin expanding from current 6% to somewhere around 8%. For the Latin America region, we believe results gotten in the third quarter, with EBITDA down 64%, may be due to the technology changes that includes a completely new formulation, different raw materials, including the migration from chrysotile to synthetic fibers, and production process which brought additional costs and a steep learning curve.

We expect a one-off impact for 2018 of approximately 250 million, of which more than 200 million has already been registered.

EBITDA was also lower due to the continued weak economic growth in LatAm, especially in the Andean region. In response to this situation, we have implemented as strategic plan focused on profitability by going back to basics, meaning focus on corrugated panels while we continue to develop our main vision of migrating to flat panels and integrated solutions in the medium and long term. But first of all, the target is to really gain profitability of the business. By

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going back to basics, we will be able to satisfy current customer needs that are closely correlated to the economic conditions in the region.

These panels of quality product at affordable prices, while we work on preparing the market to migrate to flat panels.

2018 is a transition year for the BuildingSystems in Latin America. With the third quarter '18 showing one-time costs and expenses related to this restructure, capacity rationalization, and changes in raw materials. We expect a full-year 2018 EBITDA below 2017. Nevertheless, we foresee a turnaround to help drive growth in 2019.

In the US operations, the Indiana plant continued its ramp-up, and could reach 30% utilization rate by year-end. In turn, its EBITDA margins will grow from 8% currently to somewhere between 10 and 12% next year. While break-even is approaching – in the first quarter next year, and costs are already going down because of this – it could take four to five years to reach normalized capacity utilization implying 10 to 12% higher volume year over year and 18% EBITDA margin in a normalized basis.

Total revenues for the region reached 895 million, and EBITDA fell 54%. This derives from comparing a peaked Q3 '17 versus Q3 '18. Last year, this quarter presented an increased number as we leveraged from our main competitors' operating problems at the time, and temporarily gained part of their market share.

On a pro forma basis, excluding the impact from the reopening of the Indiana plant, EBITDA in the US operations grew 7% in the nine months of 2018.

Turning now to Metal Products, the business presented a one-time event that hasn't been seen in the last 7 years. This came from its exposure to commodity and currency price fluctuations risks. The third quarter '18 suffered from the combination of lower copper prices caused by the imposed tariffs to China from the US, and the appreciation of the Mexican Peso as a result of the new trade agreement that strengthened the trading relationship of the three North American economic powerhouses. This effect was most notable in August. For the quarter, revenues reached 2.1 billion, that is 1% down year over year, and EBITDA of 97 million representing a 58% year over year decline.

The good news is that copper prices are starting to stabilize and showing recovery; thereby we expect a much more positive fourth quarter and year-end. The division would continue saving as a very strong cash flow generated.

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In summary, and on a consolidated basis, we expect 2018 figures somewhat lower than 2017.

Thank you. And at this point, I want to ask the operator to please proceed with the Q&A session.

Operator: And at this time, if you'd like to ask a question, please press the * and 1 on your touch-tone telephone. You can remove yourself from the queue by pressing the # key. Once again, * and 1 on your touch-tone phone.

We'll take our first question from Mauricio Serna with UBS. Please go ahead, your line is open.

Mauricio Serna: Good morning. Thanks for taking my question. Just very quickly on Mexico, on the Cement business, I just want to get your thoughts on pricing going forward, since, as you mentioned on your remarks, dynamics are not going to be that strong, at least, I guess over the next six months. So, given that your faith in this energy cost pressures is already reflected in EBITDA margins this last quarter, is pricing a lever that you would use to offset this?

And I guess if you could, maybe, talk a little bit more on the Metals business? You provided the profitability per ton in the press release, which is very good. But I guess, I mean, we've seen that also deteriorate significantly this quarter, so is there any target that you're thinking of for that metric long-term? Thanks.

Fernando Ruiz: Thank you, Mauricio. Thank you for your questions. Regarding cement price, as we stated before, yes, we see a more complicated fourth quarter, the market dynamics are beginning to complicate.

Our strategy here is switching the mix; we have sold more bulk than bags lately, so we believe that by switching to more bags, we will able to compensate what is happening out there in the market dynamics.

Juan Sánchez: Going to your second question on Metals, if you saw the chart that we included in the release, what we tried to show there is the impact of the fluctuation of prices from the point that we buy the raw materials to the point that we sell the products. So, just as an example, in August, the difference between the acquisition price to the selling price was close to 26 pesos per kilo, and we sell roughly 4,800 tons per month. So, just that impact gives you an idea of the full potential impact that we will have faced, if we didn't have the pass-through strategy and the hedging strategy along the business.

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In this regard, of course, we acknowledge that we have a risk there, and the actions that we're taking to reduce this risk, as Fernando mentioned, one, reducing the inventory levels; two, reducing the transformation timeframe, and three, revisiting the hedging strategy.

Mauricio Serna: Okay. Got it. Just very quickly, I'm very curious about the first answer regarding the cement pricing. Is there... if you could just give us an idea of how much of a price gap difference you see between bulk and bag that could compensate for that... I guess that would increase, actually, the average pricing so much to compensate to compensate, maybe, for energy cost?

And just going back also to metals, so should we think about the profitability per ton going back to annual levels from the third quarter last year, I mean just thinking about how fast that recovery of that particular business will come. Thanks.

Juan Sánchez: Sure. To your first question on pricing and energy cost, there is, of course, a difference between bulk and bags, and this is driven because of the nature of the buyers. And that is why we have chosen to be in a mix of 70 to 30%. As we mentioned, we temporarily reduced that in order to first allocate the volume, and then slowly but steadily go back to this mix. This, of course, will help somehow, to offset the potential energy increases, but also the optimizations or best practices that we have implemented in the operations, along with running the facilities at optimum capacity level. This, also, will help to offset the impacts from power.

Going to metals... can you repeat the question, please?

Mauricio Serna: Sure. Just if you could give us an idea of the target of the EBITDA per ton if that should come back to last year's or what's the idea?

Juan Sánchez: Right. So, just to give you an example, the copper price in September closed to around $2.60 dollar cents per pound, and right now, the price is close to 2.8. So, we have already been seeing a recovery in the price that, according to our pass-through strategy, will help us, again, translate this into the market. Now, as we mentioned, with this pass-through we translate these fluctuations partially to the market, but we still have an exposure of about 30 days, that is what we're trying to reduce.

In summary, the recovery of the copper price surely will help, and we're expecting a better fourth quarter.

Fernando Ruiz: And Mauricio, just to complement Juan Francisco's first answer – just to let you know that as from this quarter, we have put in place a very strict cost control plan in the Cement Mexico, which has helped us to mitigate the increases in all the energetics – electricity and fossil fuels. So, this has helped us a lot, and it has proven to be very successful. So, we're continuing on with this plan which is very aggressive.

Mauricio Serna: Thank you very much.

Fernando Ruiz: Sure.

Operator: Our next question is from Alejandra Obregon with Morgan Stanley. Please go ahead, your line is open.

Alejandra Obregon: Hi. Good morning, and thank you for taking my question – actually, I have two questions in the US Cement business. The first one is related to pricing, could you please give us a sense of what you're seeing in terms of pricing, particularly in the northeast region of the country, particularly after McInnis has announced a new terminal in New York? And then, I have a follow-up in the US as well.

Juan Sánchez: Sure. Thank you, Alejandra. Going forward, going by the regions as you well stated, the dynamics of the market are quite different in the trade regions; with the main facility, we cover the New England region, with the Pennsylvania facility, we cover the Midwest, and with the South Carolina facility, we cover the southeast.

So, in particular, in the New England region, we are facing tougher competition from McInnis, and prices have come down in about $4 per ton. Also, volumes were affected, and we believe that, at least for this year, we have reached a kind of equilibrium. This does not mean that it might change in the following year, so we are taking the necessary steps in our strategy to shield us from this competition.

In the other regions, price are more stable, also in the southeast region, prices increased by about $3 per ton QoQ, and is the region that is showing better market dynamics for us.

Alejandra Obregon: Thank you. And just going back to the northeast where you were saying that prices have come down $4 per ton, what are these steps that you're taking in order to shield from the competition – that you mentioned?

Juan Sánchez: It is mainly a two-way strategy. For one, we are making long-term agreements with our customers, and making strategies to create or value their fidelity in terms of rebates. Second, we are optimizing the facility costs in order to be able to face this tougher competition.

Alejandra Obregon: Thank you. And then, just to follow up, if I may, on Giant, what's the status of the inter-company loan between Giant and Elementia, as of today?

Juan Sánchez: Can you repeat the question, please?

Alejandra Obregon: Sure. What's the status of the inter-company loan between Giant and Elementia today?

Juan Sánchez: It remains very similar to the levels of the starting point. If you remember, the way that we did the transaction is we give a loan to complete the prepayment of the current debt, and it is still there. Of course, with the figures for this year, the cash flow of the operation is very compromised, so it – Can you hear us?

Alejandra Obregon: I can hear you, yeah.

Juan Sánchez: So, did you hear the full answer, or shall I repeat it?

Alejandra Obregon: No, I think it was clear. Thank you very much.

Juan Sánchez: Thank you, Alejandra.

Operator: Our next question is from Santiago Taracena with Credit Suisse. Please go ahead.

Santiago Taracena: Hi. Thanks for taking my questions. I have three questions regarding cement operations in Mexico. My first question is, I would like to have more color on which specific fuels increased in prices. And in the case of petcoke, do you have a specific estimate on how much of the cost increase?

Regarding the grinding facilities, what import price of cement are you assuming to model this project? And the third question would be, what was the volume growth on a sequential basis in Mexico, and have you lost or won market share during the quarter? Thank you.

Juan Sánchez: Thank you, Santiago. First of all, in pricing. So, as Fernando mentioned, we're not expecting any movement regarding pricing, because right now the market is somehow contracted. This is very aligned to the statistical cycle of election year and post-election year in Mexico, so it is... what we're trying to say, here, is it is not something to be worried or very worried about; it is the natural behavior of the market.

So, again, we're not expecting price movement in the following... some nine months.

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Santiago Taracena: Just for the case of petcoke, what was the increase – or an estimate of the increase in the cost of petcoke during the quarter? Do you have an estimate?

Juan Sánchez: The highest impact that we have had in terms of an energetics is power. Power has increased 52% in the quarter, and is the one that has been moving faster. Of course, there is also a movement in petcoke, but it is not that much relevant.

Now, seeing the price strength of oil, it is likely that petcoke will somehow adjust, but it hasn't shown any important increases.

To your question regarding additional volumes or volume expectations for the following quarter, since we have already reached optimum capacity utilization level, the volume growth will be much moderate in the fourth quarter, and it will remain pretty much steady in the first half of the year or until we start the operations of the new grinding facility in Yucatan.`

Santiago Taracena: And regarding the grinding facilities, what import price of cement are you assuming to model this project? Could we have more details on it?

Fernando Ruiz: We will not be importing cement; we will be importing clinker, and the price remained to us. So, we can't tell.

Santiago Taracena: Okay. Thank you very much.

Fernando Ruiz: No worries.

Operator: Thank you. Our next question is from Eric Neguelouart with Bank of America Merrill Lynch. Please go ahead.

Eric Neguelouart: Hi. Thank you for the call. It's kind of a follow-up question from the previous one. Regarding electricity prices in Mexico, are you seeking any kind of long-term contract with CFE in order to mitigate the possible impacts from fluctuations in electricity prices going forward?

Fernando Ruiz: That is correct. Thank you, Eric, for your question. That is correct. We have already put in place – we have a new energy director in Elementia, who has been working with us for almost half a year. He has been working very hard in closing these mid-term negotiations with many suppliers. So, as we speak, we already have closed some deals, so we are covered there. We're fine there.

Eric Neguelouart: As a follow-up, what timeframes do these contracts have, usually?

Juan Sánchez: The contract, so far, is one year –

Fernando Ruiz: No, it is a three-year contract that we have already negotiated and signed. So, that one has been already signed, and we are working on another one from Year 3 to, I think, to ten years. But I think we have options there. We haven't closed that, but from here to three years, we have already closed it.

Eric Neguelouart: Alright. Thank you very much.

Operator: And as a reminder, it is * and 1 on your touch-tone phone for questions. We'll go next to Eduardo Altamirano with HSBC. Please go ahead.

Eduardo Altamirano: Thank you, gentlemen, for taking my questions. In terms for BuildingSystems divisions in both the US and Mexico, what is your expected turnaround for both of those? And also, what can we expect in terms of the outlook for the LatAm division, and what would it be going ahead in terms of what this new cost environment that you're saying, because of the changes in raw materials? So, I just wanted to understand a little bit further on those two divisions. Thank you.

Fernando Ruiz: Eduardo, we were not able to hear you well, can you repeat the question, please? Sorry.

Eduardo Altamirano: As it relates to BuildingSystems divisions in the US and LatAm, in the US, I just wanted to see if you have any expected timing on the turnaround, if there are any issues related to a slowdown in any sort of housing, or any sort of contraction that you're seeing, at least within the regions in which you're present in the US? And as well as the BuildingSystems division in LatAm, and what we can expect from this technology change, whether this lower margin environment if more of the new norm or it's something that we can expect eventual convergence or, at least, even higher, as to what the previous technology implementation was? Thank you .

Fernando Ruiz: So, I'm going to try to answer you, because I did not hear you very well. It seems that Juan Francisco heard you well. What I can tell you about BuildingSystems US, is that we are on the right track, volume has been growing, sales as well. Well, volume is practically the same, but the thing here is that the extra cost that we acquired because the reopening of the Terre Haute plant. So, I think we're on the right track, the market is there. It's a cost issue, and the only thing is to hit, as fast as we can, the break-even point from that plant.

This year, it has cost us nearly $17 million pesos, so we are about to hit that break-even; we assume that first quarter next year, we will be already there. So, we see a bright future for the Elementia BuildingSystems USA.

Juan Sánchez: And Eduardo, if I caught your question, it was also regarding some index that we might follow – or that we follow – in order to see the market behavior. So, yes, we follow housing stocks and housing trends, not only in our kind of country contribute, but in the specific regions that we are targeting, and specifically at this moment, in the Midwest, that is where the Indiana facility is targeting.

Overall, as probably you might seen, the southeast – the south – are the regions that are growing faster in the country, followed by the Midwest and sorry the West Coast. So, we believe that for our BuildingSystems, we are very well-positioned, and one of the things that we also follow there – particularly for the southeast region – is demographics. The Carolinas are becoming a very attractive alternative for retirement and so the population is growing; deals are growing, demand for housing is growing, et cetera, et cetera.

Fernando Ruiz: I don't if we answered the BuildingSystems US question, if you have any further questions, or...?

Eduardo Altamirano: No, it's alright. Thank you.

Fernando Ruiz: Great. Now, going to BuildingSystems LatAm, as you know, this change in technology has been tougher than we originally thought. At the very beginning, just to give you an example, our cost increased close to 27%, and now we've been able to come down, and this increase versus last year is close to 12%. So, I think we're on the right track, and the learning curve is practically over.

But, also, all the costs that we have incurred regarding the restructuring or capacity rationalization, or the changes in raw materials – so, all these costs have impacted a lot during this year. So, if you take a look at the volume and sales in LatAm, we're doing a good job, we're growing a bit. But it is a cost issue, so that's why we feel pretty confident that from the first quarter of 2019, we would have very good news.

Juan Sánchez: And also – again, if we understand your question properly – you were asking on market dynamics of the region. So, we believe that, again, oil price trends should help a lot of – or most of – the countries in the regions where we have operation: so, Columbia, Ecuador, and Bolivia have a strong influence on oil prices, and we believe that, second, it would help if prices continue with their current trends.

Operator: Thank you. We'll go next to Hernan Kisluk with MetLife. Please go ahead.

Hernan Kisluk: Hello. Good morning. Thank you for taking my question. It's relating that comment that you made about the covenants in the report. So, could you please describe this 3.75 times covenants that you mentioned in the report? Meaning which debt is it, which kind of kind of covenant it is?

Alfredo Recke: Sure, Hernan. The covenant is a leverage ratio, and it's a net debt leverage. The 3.75 times EBITDA...

Juan Sánchez: It considers the last 12 months EBITDA and the net debt. So, it is kind of a simple calculation, and as Alfredo mentioned, it's leverage ratio.

Hernan Kisluk: Okay, I get that. But which debt is covering this covenant? Is the bond, is it syndicated loan?

Alfredo Recke: So, it's for the bank debt.

Juan Sánchez: The bilateral agreements.

Fernando Ruiz: Yeah.

Hernan Kisluk: And is it an incurrence covenant?

Fernando Ruiz: I didn't hear that very well.

Hernan Kisluk: Is it a covenant that prevents you from incurring more debt or is a maintenance covenant?

Alfredo Recke: No, it's the maintenance covenant.

Hernan Kisluk: Thank you. Also, in the indenture for the bond, you have an incurrence covenant – an incurrence limitation regarding a fixed charge covenant ratio that is two times – do you have the figure for that ratio right now?

Alfredo Recke Yes, it's three times.

Hernan Kisluk: Okay. Thank you very much.

Operator: And our next question is from Jean Bruny with BBVA. Please go ahead. Your line is open.

Jean Bruny: Hi, there. Maybe just one question on the capital increase. I think I did understand the logic behind – or the justification to ... to use the proceeds, potentially, for further cement business. But I don't fully understand the timing. I mean, the last time you did capital increase, it was at 22 per share, now you're doing at 12. And, maybe, what would be the use of the proceeds in terms of the cement industry? Do you want to invest in the current asset base or in other businesses? Thanks.

Juan Sánchez: Thank you, Jean. First, of all, the timing. So, we held a shareholders meeting on Monday 22, we are expecting that we will publish by this Friday, and then the commission set a timeframe of 15 days, so it will lead us around the 10 November, that will be the execution of the Rights Offering.

Then, as I mentioned, if there is unpurchased shares, the Board of Directors has already decided that we will open a second round to give, again, the same chances to all our shareholders. Again, if there is still un-acquired shares, the Board of Directors will have the decision either to cancel those shares or to allocate them to the controlling shareholders.

Fernando Ruiz: And the funds, Jean, again, as I stated before, will be mainly used to improve our leverage ratio, and also for potential additional investments in the Cement Division.

Jean Bruny: And for this investment, it's the current asset base you want to improve if you have some expansion or it's for other businesses in the cement industry?

Juan Sánchez: Yes, mainly it would be to continue the expansion of the Cement business in projects like the...

Fernando Ruiz: The grinding facility in Yucatan.

Juan Sánchez: Right. And also, it will help on deleveraging the Company, and again, this shows the commitment of the shareholders – the controlling shareholders – to the Company and the covenants.

Jean Bruny: Okay. Thanks.

Operator: Once again,* and 1 for questions. We'll go next to Delphine Palazzo with BNP Paribas. Please go ahead.

Delphine Palazzo: Hi. Hello. Thanks for taking my questions. And I wanted to know about the deleveraging plans, how it's going, and...

Juan Sánchez: What plans, sorry?

Delphine Palazzo: About the deleveraging plans?

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Juan Sánchez: Sure. Well, first of all, we're taking, kind of, operative steps to improve cash through working capital improvements. We have already released some 350 million from December through September, and we will continue improving working capital. Again, from the operating standpoint, we're expecting that the fourth quarter EBITDA generation will also help increasing the cash position, and since the debts will not increase, that will help to lower the leverage ratio – that is without considering the capital increase.

We will receive the capital increase, and a piece of it will be used for grinding project in Yucatan, and then we will still have a big piece of it remaining for future investments.

Delphine Palazzo: Okay. Great.

Juan Sánchez : Also, probably, it's worth mentioning – as we've mentioned since the beginning of the year – the total CapEx for this year will be around 80 to 90 million. So far, we are close to 60, so it is more likely that we'll end the year on close to 80. For the following year, the organic Capex will remain around 60 million, and on top of that, we will have this Yucatan project CapEx, and the US Cement CapEx that we are placing there according to the year plan that we stated.

Delphine Palazzo: Okay. Thank you very much.

Operator: Once again, * and 1 for your questions, and we have a follow up from Alejandra Obregon with Morgan Stanley. Please go ahead.

Alejandra Obregon: Hi. And thank you for taking my next question. I'm sorry to go back to the Offering, and just a follow-up on the previous question, what's the rationale doing an equity offering versus debt, for example, why funding this project on such a small offering via equity? And can you, please, repeat the dynamics of the offering? I'm not sure I got that right. Sorry for going back to that. Thank you.

Juan Sánchez: Sure. No problem. To your first question, again, we're committed on financial discipline that includes not over leveraging the Company, and also considering the general political and economic environment in Latin America, we'd rather not over-leverage the Company. That is one of the rationales for the capital increase instead of additional debt.

Two, for the timeframe, I would just repeat, somehow, the dates. On Monday 22, we did the shareholders meeting; the publication would be done this Friday 26, and from there there are 15 days to the execution of the transaction. So, it leads us to the beginning of the week of the 12th of November, and to have the funds ready.

	Then, that very same day, the Board of Directors might decide to launch a second round that will be executed in the following day, and then the Board of Directors might take the decision on that very same day, but together with the potential remaining shares. So, we're expecting to conclude the full transaction by November 14, 15.
Alejandra Obregon:	Got it. Thank you.
Operator:	Our next question is from Declan Handlon with Santander. Please go ahead.
Declan Hanlon:	Hi. Thanks for taking the questions. Just a couple of quick follow-ups. The new capital, was that at the request of the bank groups, coming that you've come very close on your maintenance covenants as previously stated?
Alfredo Recke:	We didn't hear you very well. Can you repeat the question?
Declan Hanlon:	Sure. The capital increase, was that at the request of your bank group, given that you came very close on your maintenance covenant that we've previously stated?
Juan Sánchez:	Thank you for repeating the question. The answer is no, it is not a request from the banks; it was a proposal that we took to the Board of Directors and they approved, the agreed. Again, the main target is not to over-leverage the Company and support the Company for the growth opportunities that we're seeing.
Declan Hanlon:	Does your maintenance covenant have a step down?
Juan Sánchez:	It was decreased to 3.5 in 2020.
Declan Hanlon:	Does that have a grace period, in the case of a violation?
Juan Sánchez:	Can you repeat the question?
Declan Hanlon:	Does your bank facility have a grace period in the event of a covenant violation?
Alfredo Recke:	Yes, we have a grace period, but we won't be pushing on the covenants. We believe we can deleverage the Company with the working capital plan that Juan Francisco just talked about, and we think we can be below 3.5 times within this year, and in 2019, below that.
Declan Hanlon:	So, pro-forma, your capital increase, you're below 3.5 times, right?

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Alfredo Recke: Yes, that's right.

Operator: Thank you. It does appear we have no further questions. I'll return the floor to our speakers for closing remarks.

Fernando Ruiz: Great. Thank you. And, as always, thank you for your continued interest, and certainly your trust and support to Elementia. As a final remark, I would like to emphasize the role that each of the business units has, and that we are progressing accordingly.

So, Cement is where we're going, and it is our focus. Metal Products will continue to be our main cash flow generator; BuildingSystems US equals growth, and BuildingSystems LatAm equals cash generator in the short-term and transformation in the mid-term.

So, once again, thank you. Thanks very much. Please feel free to contact our investor relations team or ourselves directly, for any further questions you may have. Have a nice rest of the day.

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