Elementia 1Q19 Conference Call Transcript

Operator: Good morning. My name is Bree, and I will be your conference operator. At this time, I would like to welcome everyone to Elementia's First Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. There will be a Question & Answer session after the speaker's opening remarks, and instructions will be given at that time.

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

Alfredo Recke: Thank you, Bree, and good day, everyone. Welcome to Elementia's First Quarter 2019 Earnings Conference Call. Joining us 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, they will be discussing Elementia's performance as per the earnings release issued yesterday. If you did not receive the report, it is available on the company's website in the Investor Relations section. All figures discussed today are in Mexican pesos unless otherwise stated. And all growth comparisons relate to their corresponding period of last year.

Let me remind you that forward-looking statements may be made during this conference call. These are based on the 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. And with that, I will turn the call to Fernando.

Fernando Ruiz: Thank you. Thank you, Alfredo, and good morning, everyone. We start the new year by adapting to the constant changes brought on by the global economy, anticipating and proactively addressing the challenges to recapture profitable growth. Our results in the Cement and Building Systems divisions, which are two of our most important units, showed great progress versus last year, despite the economic contractions seen in many of the regions in which they operate in. Nevertheless, this combined upbeat performance was not able to offset the impacts from copper and exchange rate volatility in Metal Products. As such, consolidated revenues for the quarter improved by 11.9%, yet our EBITDA was down 7.3%.

So, going further into details per business units, let's start with Cement, cement vertical. So, cement vertical was in line with the market's current trend, posting a 7.5% decrease in EBITDA, mainly driven by a contracted market environment and higher energy prices. Please bear in mind that energy cost in the first quarter last year were the lowest in several years. Likewise, as we mentioned in our fourth quarter report, a regular electoral year would have shown higher consumption in the first half and weaker in the second. And also, for statistics, in a post-electoral year, the first half should be weaker and the second stronger. 2019 has not been an exception, but it is showing a slower startup than expected, mainly because of weaker market conditions and lower public and private expenditures.

Regarding our grinding project in Yucatan, we have already begun preparing the market--the Yucatan market--to ensure a successful ramp-up for this new capacity. I am confident we will succeed in this strategy, just like we did when we expanded Tula. We estimate the project will begin commercial operations by year-end.

So, let me turn now to Cement USA, and here, it pleases me to say that we surpassed our biggest recovery yet, which was reported in fourth quarter of 2018. Revenues and EBITDA jumped double digits. Although absolute numbers remain on the negative side, our progress is undeniable. Our commitment to bringing back this business unit to the growth path is on track. The improvement is mainly thanks to the stabilization of operations, the implementation of the strategy to recover our customer base, our redundancy plans through imports, the fact that markets are growing, and to more favorable weather conditions versus last year. The second quarter already shows signs of continued volume trends. However, it is worth noting that cost will be slightly impacted for minor incidents occurred at the main facility during the planned annual maintenance program. Volumes won't be affected as inventory was built according to schedule.

Last but not least, from the cement division, we have Cement Costa Rica, whose ramp-up is on track and the new business model is proving successful. This unit contributed nearly MXN 28.6 million in EBITDA and posted EBITDA margin of 26.8%. This brings an increase in consolidated EBITDA for the cement division of 5%.

Moving to Building Systems. Consolidated EBITDA was up 35% supported by positive performances in both regions. So, let's start in the U.S. We have seen growth in revenues and EBITDA of 10% and 6%, respectively, and we are once again mainly driven by the ramp-up of the Indiana facility, by the focus to higher value-added products, as well as higher prices and improved volumes. But I'm more excited to announce our performance in LatAm. Our strategic initiatives taken throughout 2018--such as the capacity rationalization, the rightsizing, changes in technology, and most importantly, our decision to go back to basics--resulted in a high double-digit growth in the EBITDA of 71%, despite having quarterly lower sales volume coming from the back-to-basics program and the weaker market conditions in Mexico that also affected the cement business. Our focus is on core and profitable products, as well as an improvement in our operations, enhanced margins by 6.6 basis points to 12.1%.

Lastly, in our Metal Products business, we continued to face several obstacles this year. EBITDA was down 51%, given a variety of factors. The first effect comes from tough comps. Last year, we were greatly benefited from the upward trend of copper prices and depreciation of the Mexican peso. This meant that we were buying copper at a lower level than we were selling it. However, this effect has reversed since mid-last year and has affected us all the way into first quarter 2019. We believe copper pricing will continue to be volatile in the short term.

Another factor was our high inventory levels. Our efforts to improve our cash flows, and therefore, one very important part is producing inventory, have been nonstop. We have managed to lower them by a significant 26% in the last 3 months. This strategy is helping us clean up all that inventory that perhaps does not bring the most optimum yields given the price at which they were acquired.

Likewise, the construction team in Mexico also affected the division, bringing lower volumes not in terms of the country but also in terms of margin. Also, given the aggressive commercial strategy of some Chinese companies, we have lost additional volumes in some LatAm countries, given their low prices.

In 2019, we will be proactively addressing these challenges by implementing our strategy focused on lowering our exposure time by reducing our conversion period, inventory levels and SKUs. We estimate to bear fruits from these initiatives towards the year-end.

Before I conclude, I would like to give you a quick update on the proposed corporate reorganization.

Yesterday, at our shareholders' meeting, we got the approval to spin off Elementia into a newly created entity, comprised by all assets that to date belong to Metal Products and Building Systems, while Elementia will be solely comprised by those in the Cement division.

It is important to reiterate that this initiative will not change the strategy that has been carefully thought out for each business unit. We will remain focused on pursuing the same strategic growth path for each one of these divisions, which are:

In Cement LatAm, our eye will be on growth and expansion to both the new business model and the traditional business model. Nevertheless, it is important to highlight that we remain committed to deleveraging the company with or without the spin-off.

In Cement USA, our priority will be stabilizing our operations, recovering clients and continue the path to recover our fair market share.

In Building Systems LatAm, we will focus on increasing profitability, and making the necessary changes to maximize our capacity utilization rates by reducing complexity, continue improving the operations with the new technology and higher-margin products.

In Building Systems U.S., our efforts will go towards further ramping up the Indiana facility, implementing cost efficiencies, profitable product mix and developing the modular repair and remodeling markets. Finally, in Metal Products, we will aim at higher value-added products and reduce our exposure to copper and exchange rate volatility.

With this, I conclude my remarks. And now, I would like to turn the call over to Juan Francisco for further details on our financials. So, Juan, please go ahead. Thank you.

Juan Francisco: Thank you, Fernando.

At a consolidated level, the first quarter continued the trends in the fourth quarter of 2018. Revenue decreased by close to 6% and EBITDA by roughly 7% when compared to the first quarter of 2018, while EBITDA margins remained fairly stable.

Let me begin with IFRS 16 effects. IFRS 16 was implemented in 2019. So, on a like-for-like basis, consolidated figures will show close to 13% contraction instead of the 7% shown in our figures.

Now going into the performance of each of the business units. I will begin with cement, which improved EBITDA levels by more than 5% during the quarter mostly driven by the recovery in the U.S. operations. In the U.S., we continued seeing the fruits from the implemented initiatives to regain lost customers. During the first quarter, revenues increased close to 25%, and EBITDA close to 39%. It is important to keep in mind the seasonality effects: the first quarter is always the lowest and normally shows a negative contribution.

In Mexico, we faced slower market dynamics that, according to statistics, pressured volume. We also faced significantly higher energy costs as a whole industry did, mainly due to increase on electricity prices. The new energy supply contract that will help to mitigate this effect is already delivering some benefits. These benefits will become relevant as of--late in the third quarter of this year. Last, the Yucatan project continues on schedule and we expect it to begin commercial operations by year-end 2019. Finally, the grinding facility in Costa Rica continues its ramp-up and our EBITDA margin there increased 3 percentage points quarter-over-quarter to 26%.

Moving now to Building Systems. We continue to see evidence that the strategy and actions implemented during 2018 to turnaround the business are paying off. This quarter is the second in a row in contribution--to show an important recovery. We are reporting close to 35% growth in EBITDA compared to the previous year. In the U.S., we increased volumes sold close to 10% while EBITDA increased close to 3%. In the LatAm region, EBITDA grew more than 70% despite revenue decreasing close to 22%. This was a shift mainly because of the benefits from the capacity rationalization, the rightsizing of the business through headcount optimization, and increased control of the production cost following the implementation of the technology change.

Finally, let me talk about Metal business. As Fernando mentioned, we faced several challenges related to the fluctuations in copper prices and the appreciation of the Mexican peso against the dollar. Keep in mind that 100% of our metal revenues are US dollar denominated. Consequently, despite our progress in labor force turnover, production and inventory optimization, the copper price situation still weighed upon the first quarter figures.

Let me switch now over to discuss the cash flow. Despite a challenging quarter, cash flow came from operations was MXN 412 million. Working capital generated MXN 171 million, mainly from inventory optimization according to plan. This, again, was achieved despite seasonality. CapEx totaled more than MXN 310 million mainly going to maintenance, bolt-on expansions and the continuation of the grinding facility in Yucatan. During the quarter, we also used our MXN 150 million working capital facility, which will be reduced as cash flow from operations increase. The net debt position increased MXN 369 million on a combination of currency fluctuation, cash flow consumption and lower EBITDA at a consolidated level because of seasonality. Net debt to EBITDA ratio reached 3.62x for the quarter.

Let me conclude my remarks by giving you a quick update on the spin off of the reorganization projects. The shareholder meeting approved to continue with the process. So, we will shortly begin the formal process of discussions with our creditors and bondholders, following a standard procedure including working through our solicitation agents. We will, of course, keep you and all the market informed of any developments. At this point, I want to ask the operator to please proceed with the Q&A session. Thank you.

Operator: At this time if you would like to ask a question please press 1 and * on your touch tone phone. You can remove yourself from the question queue by pressing the # key. Again, that is * and . And we will take our first question from Alejandra Obregon with Morgan Stanley.

Alejandra Obregon: Hi everyone and thank you for the call. I have two very simple questions. The first one is in the cement business. I was trying to understand--or perhaps you can help us break the contribution of volume and price into this quarter's revenue in all of the regions? That would be very helpful. And then my second question is related to the spinoff. Now, that it has been approved, what would be the next steps? Particularly in terms of timing, when can we see the next step?

Juan Francisco: Thank you, Alejandra, and good morning. So, for your first question, as we mentioned, there is a market contraction that is affecting mainly volume. Pricing-wise, we were able to increase a little bit. And now it is important also to mention that we're preparing the market for the Yucatan project, the grinding facility. So, we're beginning to sell in that region as we did for the startup of the Tula expansion. So overall, volumes are not that much affected because of this. But in our core market, they're affected.

To your second question, following steps of the spinoff, the most relevant is that we will begin discussions with our creditors and bondholders. So, there is a timeframe that is stipulated by regulations that is roughly 50 days. So-- and within these 50 days, that will be the name of the game. So timewise, probably the next... the next milestone will be communicated in about 40 to 50 days.

Alejandra Obregon: Understood. And then perhaps a follow-up in both questions, if I may. You mentioned that the market contraction in volume and pricing, that was in Mexico, right? But how about the U.S.? And then on the spinoff question, I was trying to understand how the Giant debt will be restructured after the spinoff? If you can give us some color there, that would be very helpful.

Juan Francisco: Sure. So, going to volume and pricing to the U.S. Volume continues to increase. Of course, we have to clock in the seasonality effects. The first quarter is always the weakest because of the winter. But despite that, we managed to increase our volumes at a faster rate than the other players. So, we believe that we're gaining market share. Now coming to the US statistics, we will be able to confirm this in a couple of months, when that information is released. The pricing in Central America, it's fairly stable. And we continue to ramp up the facilities. I mean, there is no comparison because last year was zero, but we are very happy with the progress.

And to the second point, and also as we stated in the pro forma figures that we released, the idea is to spinoff Building Systems plus Metal Products business units. And we will--the current Elementia will remain cement. So, in this company, if the spinoff really happens, will remain the international bond and other parts of the debt--debt that is specifically within the cement business that are the two ECA facilities. For the 3 bilateral facilities, there is still a need to confirm or to find out the best scope, but we will balance the total debt. To your specific question on Giant debt with Elementia, it will remain as it is. Basically, that's that.

Alejandra Obregon: Thank you very much. This was very helpful.

Operator: Our next question will come from Cecilia Jimenez with Santander.

Cecilia Jimenez: I would like to follow up on the cement part in Mexico. If you can give us or share with us the strategy on the pricing side. I believe, you before had the idea of implementing prices in light of the inflation and I'd like to see if that's being achieved? Or the market is too soft to actually put prices in line with that? That's my number 1 question.

And the second question is specifically regarding the U.S. If you can share with us on the volume--I'm sorry, on the margin side, which are--which is the contribution in volume you are seeing from higher prices or not? And which is the contribution margin you are seeing from efficiency being recovered since last year?

Juan Francisco: Thank you, Cecilia. Beginning with Cement Mexico, the pricing strategy remains the same. As you know, we're the smallest player in the country. So, we do not set the prices of the market. Of course, we keep it and we keep our philosophy to be and to allocate our prices in the highest quartile of the range according to different regions etcetera, and products, etcetera. We have been moving on also on the mix of products. We are increasing bags instead of bulk, and that is helping us also to increase the absolute figure of revenues. During the quarter, there was a price increase that we have done and that is something that--the whole industry, and again, as I mentioned, we do not set the price.

Fernando Ruiz: Also Ceci, bear in mind that energy prices, as well as fuel prices, have increased more than energy prices. So, we have an incentive to try to increase prices as much as we can. At the end of the day, we have been able to offset those increases with some optimization in our operations. But energy prices have increased a lot. And you know better than me that energy is a big factor within our cost structure.

Juan Francisco: Going to your question on Cement U.S. market and price changes. So, pricing has increased in all 3 regions that we operate in, according to what we expected that it's--the continuous increase in consumption. So, market-wise, it is performing quite well. This year, the winter was milder than last year, so volumes are much better, and particularly in southeast region, it is booming and also, we are growing there faster.

It is important also to mention that also we are--we implemented last year several strategies to mitigate potential impacts, like we have, in April of last year from the halt--unexpected halt--of the grinding mill--the finished mill. So, one of that was the--the inventory strategy that includes having the capabilities for imports. So, we're using those capabilities because we did the yearly outage, and it is working pretty good.

Cecilia Jimenez: Thanks. Well, if things continue to be moving at this pace in the U.S. Cement part, when do you expect to have the operations up and running as we would like them to have in a steady state mode?

Juan Francisco: That is a very good question. So, this issue with the grinding--with the finishing mill-- we faced last year, basically delayed our overall program close to one year because it is close to nine months to recover the customer base. Nevertheless, we keep on with the CapEx program. We, in two years, have invested there close to MXN 60 million. For this year, we're expecting some 20 and with that we will continue to conclude the CapEx plan. So, what is outstanding to continue and accelerating to have the volume recovery and the last piece of the plan is related to pricing.

Cecilia Jimenez: One more, if I may. Would that mean you're going to have an additional 10 million next year? Or should we expect something in the range of MXN 30 million, as you have had in the previous years, in the year you mentioned specifically on CapEx?

Juan Francisco: Okay. No, once that we conclude the overall program that originally we mentioned would be between MXN 80 million and MXN 90 million, the CapEx will normalize to some MXN 10 million to MXN 15 million depending on how expensive we do the yearly outage and maintenance, but it will normalize around these figures.

Cecilia Jimenez: Okay. Thank you very much.

Juan Francisco: Thank you Ceci.

Operator: And as a reminder that is * and 1to ask a question. Our next question will come from Mauricio Serna with UBS.

Mauricio Serna: Hi good morning and thank you for taking my question. First, I would like, if you could, first remind us on the Mexico cement division. I think I missed out on--you were talking about your performance in terms of volumes and prices. Just to get a sense, how do you see yourself performing versus the market? Do you think you've continued gaining market share? And if that's the case, which regions have that--where have those markets change--market share gains taken place?

The other one would be regarding the cash flow. I see as--an important decline in terms of working capital gains versus last year. I was wondering if you could comment a little about that, what was behind that? And lastly on the metal’s division, what's your expectation regarding the recovery? It seems the margins in terms of EBITDA per ton have been relatively stable over the last quarter, but still declining on a year-over-year basis. So just wondering if you could provide a little bit more detail on how the turnaround of that business is coming along.

Juan Francisco: Thank you, Mauricio. Going to your first question regarding Mexico volumes and pricing. As we mentioned, the market is contracted. We have seen pressure--a lot of pressure in terms of volume. Nevertheless, the industry managed a price increase during the quarter. And probably our volumes are not as much affected because, as we mentioned, we're starting to prepare the market for the Yucatan project. So, we have already begin planning there. This, of course, has an impact on cost, mainly logistics because we're reaching much further than what we are used to. This will be kind of mitigated once we start the project and we are expecting that to happen by year end, commercial operations.

Going to cash flow, mainly working capital. We did--the technology change that we have been mentioning throughout 2017, mainly, and because of that, we've had higher inventories and many things related to that. Inventory, receivables, etcetera, etcetera. In the first quarter last year, we managed to reduce very strongly our inventories in the Building segment and that was the main contribution for last year.

This year, given that it is much more stable, we are growing volumes in the U.S., mainly for both Cement and Building Systems, and because of also seasonality, we did have to increase inventories. That is one of the reasons that this year is not so much the contribution. Nevertheless, even with these considerations, we managed to reduce our inventory levels by 180 million. Also because of seasonality and the incremental volume, we assumed higher receivables, and that is consuming part of the working capital. On the other hand, suppliers generated roughly the same amount of receivables. And they, kind of, equalize in this regard and so the benefit that we see, it's only because of inventories. So, the net is mainly inventory level.

Fernando Ruiz: Regarding, Mauricio, your third question, on the Metals expectation. So, as I mentioned, a few minutes ago, bear in mind that the current situation of the metal's division is due to the copper prices fluctuation and the appreciation of the Mexican peso, the inventory levels that we have and basically the contraction we're seeing in Mexico. So, we're working very hard on a transformation plan, which we're very optimistic about. Basically, with this plan, we will review the complexity of the business. We'll optimize the resources, human resources, and supply resources. There are many opportunities. And we're also working very hard to refresh the business. So, we're working on some options, which will be shared with you in the near future. So, what I can tell you is that you can expect for this quarter, we will not recover as much as we would wish. I mean, I think, we will be slightly lower than last year. But without a doubt, I am--I think that for the third and fourth quarters, you'll see better figures, way better figures.

Mauricio Serna: Okay. Just going back very quickly on Mexico volumes, I know you did mention--I know you were talking about the industry declining--we have numbers for January and February. But regarding yourself versus the industry, are you outperforming or underperforming? Just to get a sense of that.

Juan Francisco: I mean, whatever we can say about that would just be guessing. So, we'd rather not guess at this point. What we can tell you is that we have seen market contraction. Then we--the main place or the main reason that we are probably not as much affected is because we're beginning to prepare the market in the southeast of the country.

Mauricio Serna: Got it. Thank you.

Operator: Our next question will come from Declan Hanlon with Santander. Please go ahead.

Declan Hanlon: Good morning. Thank you for the call. I have a few questions about the proforma structure that you're contemplating. I just want to understand a little bit... a bit more granularity about exactly what the process is with respect to the asks with creditors. The Building Systems and Metal business will remain a guarantor for the bonds. However, I imagine there is significant language amendments required in your existing covenant package, I guess, with respect to affiliate transactions or dividends or what have you. So, I assume it's a consensus solicitation process you're considering. Could you talk bit more about what the high-level requirements are from your perspective at this point with--as far as getting that accomplished is concerned? That's question one.

Juan Francisco: Thank you, Declan. I'm not pretty sure that I understood quite well your question. But I won't hesitate to answer; if there is something missing, please ask again. So, if I understand correctly, and the main point is what will be kind of the general scope that follows? One, so that is that we have assembled a team that is in place and is in banking and an information agent, a solicitation agent, and of course lawyers etcetera, etcetera, and of course, the company. So, the standard procedure that follows once that--that the shareholder meeting has approved to continue with the process, is that we will begin, kind of, formal discussions with creditors and bondholders throughout of all these things that I have mentioned. Now--I don't--I think that was the question.

Declan Hanlon: Yes, that's broadly correct. I just wanted to get--I imagine there will be fairly significant amendments to existing covenant packages in your bonds in order to facilitate this transaction. That's what I'm trying to get my head around specifically on what they could be.

Juan Francisco: Yes. I think I get a better picture of your question. So yes, I mean, we're aware that we will have to do amendments, etcetera, to agreements that we have for all--most of all credit facilities, including the bond. So, that is considerate and within the discussions that we're planning to have.

Declan Hanlon: Pro forma for this structure--so the bonds stay obviously with the cement. So, there's about an incremental $240 million of debt that will also stay based upon your... about 80% of total debt. That, I presume, will be a credit facility, given this must be bilateral loans that will be traveling with the Building Systems and the Metal business. That's correct, right?

Juan Francisco: Yes, I mean, that is still pending on how can we do it and that will be discussed, of course, with creditors. There is, in our opinion, a lot of possibilities to manage that. But as you mentioned, yes, the bond will stay with the Cement business, also the two ECA facilities that I mentioned. And the three bilateral facilities are the ones that will be, kind of discussed how a part of that will remain with the Metal and Building Systems business and a part with the Cement business.

Fernando Ruiz: That's how we see it today. We're analyzing it and things may change, but that's what we think makes the most sense.

Declan Hanlon: I understand.

Fernando Ruiz: As Juan Francisco said, we're analyzing it and in the 40 to 50-day timeframe, we'll tell you what our findings were. That's what we think.

Declan Hanlon: Just one follow-up on that. So, the ECA is the facility that has the maintenance covenant, correct?

Juan Francisco: Yes, and within each of the facilities, they all have maintenance covenants and do and not to do covenants.

Declan Hanlon: So that's for--when you refer to the waiver, you are referring to that for the moment because you're--well, you'll need a waiver there I guess because proforma leverage at the Cement business will be through that. Correct?

Juan Francisco: Yes. And, again, we will not do the spinoff until all of this is cleared. That is very important because we will not, kind of break any covenants that we have until they are set. So, the transaction is in--what the shareholders meeting approved was to the continue with the process, not to do the spinoff right away. We have to conclude several steps among which, of course, there are these discussions.

Declan Hanlon: As you mentioned in a previous call, you said your plans were to return to the 3.5x net leverage at the Cement business this year. So that would solve that situation, I guess. But in order to that, my expectation is you'll need a nearly double-digit EBITDA growth at Cement. So that's kind of how you're thinking about this, I assume?

Juan Francisco: Yes, to your point, so--I mean, of course, the leverage level, the leverage level that we assume for year-end and the following years has to do with EBITDA generation. As Fernando mentioned, the outlook for the Cement business in Mexico is roughly still at figures to last year. For the year, we are expecting a big recovery because mainly we are not planning to have a failing facility this year and third, because of the ramp-up of the Costa Rica opportunity.

Declan Hanlon: Understood. Last thing, I know you've mentioned previously that investment-grade rating is a medium to longer-term target; that remains the case. But in the short run, the ratings may go the opposite direction given the lack of diversification or small asset base that will be rated at the Cement business, for example. Are you getting--where are you in discussions with the rating agencies about this so far? Can you provide us any context or color on that?

Juan Francisco: Sure. So, Building Systems and Metals, as we explained, the figures of this quarter and previous quarters mostly in the Building Systems, they're improving in a very fast way. We believe that this trend may continue for the rest of the year and the coming years and one of the important things about this is, from the Building System, we do not see a strong cash flow requirement in terms of CapEx. So, it's mainly organic growth. On top of that, there are, of course, higher opportunities that we continually analyze. And they might require additional capital that might be from equity and debt. But in the short term, we do see stability and cash flow generation from these two businesses--

Fernando Ruiz: And something very, very important, Declan, is that today our capacity utilization in the Building Systems is 55%, 60%. So, the opportunity we have to grow there without major capital investment is very attractive.

Juan Francisco: So, because of that, the leverage level is quite reasonable, and we believe that it will decrease. So even though the size, as you mentioned, is smaller, we believe that the positioning will be very positive in terms of leverage...

Declan Hanlon: What I was getting at there was more--the Building Systems and the Metals business, it will be separate legal entities so it will be an arms-length relationship there. I'm talking more about the ratings of the bonds that will remain at the cement.

Juan Francisco: Okay. So--I mean, yes, of course, if we remove the Building Systems and Metals from Cement, the figures will change and that will make the leverage ratio for Cement business will increase. On a proforma level, we already released some figures and as was had pointed out, we are expecting to improve that by year-end 2019. We are expecting the analysis from rating agencies... basically, that's it. that.

Operator: Our next question will come from Vanessa Quiroga with Crédit Suisse.

Vanessa Quiroga: Thank you for taking my question. My first one is regarding prices in Mexico, with net sales growing up only 1%, but you're talking positively about volume performance. Can you tell us more or less how average prices moved and how you see that evolving going forward? And the other question that I have is on the corporate side on the--given the spinoff, do you have expectations in terms of the market liquidity that you expect for either of the entities that will remain listed?

Juan Francisco: Thank you, Vanessa. Probably, it is important to mention this and we--what we tried to explain is that given the pressure that the market is having because of the contraction, our volumes might not be as much affected as for other players because we are preparing--we're selling volume that we didn't sell previously for the preparation of the market in the southeast of the country that will go to the grinding projects. That is very important to clarify.

On top of that, also, as I mentioned in the industry as a whole, saw a price increase during the quarter and the combination of this plus--that we're increasing our mix more on the bags than bulk is what is the increasing our revenues in 1%. Also, the EBITDA is not increasing because of what Fernando mentioned regarding electricity and the incremental in logistics costs.

Going to your second question, that is liquidity for each of the potential companies. And we aware that the liquidity of Elementia as a whole right now is low; with the spinoff--or the spinoff means that it is kind of mirror copy of current shareholders and holders, etcetera, of the company, so we do not expect that to change immediately with this spinoff. Later on, there are opportunities for both businesses and for both new companies. In the Cement business, we have invested heavily in the last 10 years and that trend might continue for the near future. So, the opportunities for a follow-on or a combination of a follow-on plus debt or something like that to continue with the growth strategy, it's still there. And in my opinion--personal opinion--that will be the best way to increase liquidity for the stock. That will be fairly the same for the Building Systems and Metal new business, the newcos, so liquidity might remain fairly limited right now until there is something different that allows us to increase liquidity.

Vanessa Quiroga: Okay. Thank you, Juan, for the explanations. Going back to prices in Mexico, can you share with us more or less how prices performed during the quarter, specifically? Year-over-year and sequentially, for you?

Juan Francisco: I mean, the financially, the industry posted a price increase. It was roughly 4% as far as we know. But it's basically our figures. And again, the overall figures are also impacted by the mix and what we're doing in Yucatan. As probably you can imagine, because of this preparation of the market, we choose not to continue disclosing volume and pricing variation as we did when we prepared the market for the Tula expansion. So that is where we're at right now.

Vanessa Quiroga: Ok, thank you Juan.

Operator: And as reminder that is * and 1. And we'll take our next question from Mónica Luengo with LarrainVial.

Mónica Luengo: I have 2 questions. The first one is, do you have any guidance on how the CapEx will be distributed between the spinoff and the remaining company? And the second one is regarding the waiver that you just covered. Do you have like a time limit that you have to go back over the 3.0?

Juan Francisco: Thanks, Mónica, for your questions. No, at this point, for the first question on CapEx, allocation, no. At this point, we do not have a planned distribution. But we will let you know in a note.

Fernando Ruiz: Mónica, just to complement what Juan Francisco means. Basically, as I stated before, the strategies of the businesses will continue basically the same. Nothing changes. So, the CapEx should remain as it has been in the last years, minus obviously, in Cement USA it will not be like that because we were finishing the three-year program CapEx that we talked about. But other than that, it should continue to perform as the--way it has in last year.

So, nothing changes. The strategies are the same. And we will continue moving on.

Juan Francisco: Now regarding your second question on the waiver and timing for this. We do not have a time limit. We--the idea is to do it as fast as possible, but there is no time limit for this. And, again, to be very clear on this, what shareholders meeting approved was to continue with the process, not to execute the spinoff immediately. The spinoff will be done once we have clearance on the waivers, etcetera.

Operator: And we will take our next question from Humberto Garcia with Mizuho.

Humberto Garcia: Just quickly on the waiver. So, on the last call, near the end of February, you talk about being in discussions for the waiver on the interest coverage covenant. And then you announced the spinoff on about, I guess, about five weeks later, April the 4th. And so what I'm curious is whether in the discussions of the waiver with the bank or banks, they had an opinion or you, sort of, already have had some discussions with banks regarding the spinoff and you had further whether there was some requirement or push one way or the other from the banks regarding the spinoff of Metals and Building Systems? Thank you.

Juan Francisco: Thank you, Humberto. The sound was not that good, if you could please repeat the question.

Humberto Garcia: Yes. I was asking about the--with respect to the waiver. On the last call for the fourth quarter, that was on February the 21st, you said at the time that you were in discussions with banks regarding the interest coverage waiver. Now the spinoff announced--that was on April 4, so it's about five weeks later. I'm curious whether the spinoff was something that was part of the discussions regarding the waiver. And if the banks expressed any opinion, one way or the other, with respect to the spinoff?

Juan Francisco: Thank you, but again--sorry the sound was not that good, but if we understand--understood your question. It's related to the waiver that we mentioned that we are in the process in the fourth quarter. So that is the question. The answer is the waiver has been granted. We have it. And it will continue like this. So, the impact of this for the spinoff process, there is no impact. And, again, all the covenants will be discussed with our creditors and bondholders in due time. And so--if I understood correctly your question, I hope that...

Humberto Garcia: I'm sorry. Yes, is the sound better now?

Alfredo Recke: Yes, very.

Humberto Garcia: Okay. I apologize. So, the last call was February 21. The announcement of the spinoff was April 4. On the last call for the fourth quarter, you said that you were in the process discussing the waiver with the banks. So that's about a five-week period. And I'm just curious whether--it takes time to develop plans for a spinoff, etcetera. And so, I'm wondering whether you had some discussions with the banks regarding the spinoff and if they had any opinion one way or the other. That's the question.

Juan Francisco: Okay. Clear. Thank you, again, sorry, for having you to say it three times. So, yes, I mean, the waiver was granted. It is done, the one that we mentioned that was in process in the fourth quarter. So, it is done this quarter. It was--it is clear, that part. Now on the discussions with banks, about the transaction. We have had some discussions. Nothing formal yet because the shareholders meeting hasn't been done and hasn't approved to continue with the process. So, we will begin formal discussions with banks now that we have clearance.

Alfredo Recke: And it's also important to mention that the waiver we were granted was only in the interest coverage ratio that we were breaching. So, we will, as Juan Francisco mentioned, we will seek and negotiate with our creditors, including the banks.

Operator: And there are no further questions at this time. So, I'll turn it back to the CEO, Fernando Ruiz, for closing remarks.

Fernando Ruiz: Thank you. Thank you, once again, for your interest in Elementia. So before--I would like to conclude this call with the following main messages we want to provide today. So, the first one would be, as we mentioned, as shown in our fourth quarter report and continue to do so in this first quarter, we believe we have set the foundations to recover the path of growth in the Building Systems unit in both regions. Second, the actions and strategies implemented to overcome the failure of the grinding mill in our South Carolina Cement Facility and ensure the reliable supply to our customers have been successfully executed, rendering recoveries in the fourth quarter and we'll continue to do so. Third, we will remain focused on deleveraging the company. And fourth, the spinoff evaluation process continues according to plan, and we will keep on informing all our stakeholders of the progress.

So 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. Thank you very much.