ELEMENTIA 1Q20 Conference Call Transcript
April 30, 2020 @ 12:00pm CT

Mariana Agueros: Good day, everyone, and welcome to Elementia's First Quarter 2020 Earnings Conference Call. Joining us today is Chief Executive Officer, Fernando Ruiz Jacques; Chief Financial Officer, Juan Francisco Sánchez Kramer; and Jaime Rocha, Head of the Cement Business.

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 press release released 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 unaudited and in Mexican pesos, unless otherwise stated. And all growth comparisons are related to the corresponding period of last year.

Let me remind you that forward-looking statements may be made during the conference call. This is based on information that is currently available and are subject to change due to a variety of factors. For a more detailed and complete disclaimer, please refer to the earnings release.

With that, I'll turn the call to Fernando.

Fernando Ruiz: So, thank you. Thank you, Mariana, and good morning, everyone, and thanks for being here with us today. All of us at Elementia send you our thoughts, and we hope that you and your loved ones are safe during this pandemic.

So, let me start with this unprecedented and unexpected event, a global pandemic that, without a doubt, will mark a before and after for humanity. The spread out of COVID-19 throughout the world and in our territories, in particular, will bring many, many challenges, impacting our results for 2020 and likely beyond. I want to use this opportunity to assure you that we are taking the right measures to face these challenges, and our actions are being guided by four key pillars to support our long-term success.

So, the first pillar is to take care and protect our people. And therefore, we immediately deployed our crisis protocols to ensure the well-being of our collaborators while continuing our operations wherever it is allowable. Currently, every administrative staff in the eight countries where we have operations are working from home. In all operations, every employee that has a condition that makes it more vulnerable has been sent home; and when each country government has declared a quarantine, we have followed diligently to help mitigate the spread of the virus. I will discuss key measures taken at our open plants later on. Lastly, we activated an emergency helpline for assistance to our employees regarding COVID-19.

The second pillar is a pillar to ensure the financial viability of the company. We created a corporate and regional contingency committee that meets daily. We are dedicated to strengthening our cash flow through strategies to accelerate collections and control credit lines to specific clients, make use of inventories, aligning procurement to demand and limiting CapEx to only maintenance, compliance, and strategic projects.

We initiated programs to accelerate the inventory reduction objective we mentioned in our fourth quarter report and executed an all-country expense reduction program that reaches every single area of the company. We started by triggering the ring-fences established in the annual budget, but we are going much deeper, all the way to temporary salary reductions.

I am proud and touched to report that once again, the team is showing an outstanding commitment and dedication to the company. I'm also proud to say that we have had great support, not only from our controlling shareholders, but from most of our creditors who have granted us special terms to overcome the cash flow challenges the pandemic is causing.

So, I want to thank every member of the Elementia team, our shareholders and all our creditors for believing in us and giving us their support.

The third pillar is to maintain our operational continuity. By government decree, we have stopped all of our Central and South American operations, except for Costa Rica, which is operating normally. In the U.S., we have been classified as an essential industry. And in Mexico, we are linked to various essential sectors designated by the Health Ministry. So, we continue to operate, but we have implemented special measures like dividing the facilities by zones to restrict personal mobility and reduce the risk of contagion. Likewise, everyone's temperature is scanned before entering our facilities; and if symptoms are detected, they are immediately tested and treated, followed up by contact tracing, of course.

Other measures include staggered hours and shifts, mandatory use of masks and antibacterial gel, additional transport and staggered hours for canteens to make sure safe distance is kept at all times. We are regularly sanitizing common areas among many, many other measures and, of course, following all the provisions recommended by local authorities.

And last but not least, the fourth pillar, which is to transform challenges into opportunities. We are adapting quickly to the constant changes in the global economy and these new circumstances. We are enacting strategies to turn them into opportunities to continue creating value, and we have a solid bases in each business line to surpass this event. We have maintained contact with our distributors and local governments to offer solutions that are currently required, like critical infrastructure, including hospitals, temporary shelters, water storage and conductions, among many others, looking always for the development of new products, channels and markets.

Turning now to the first quarter results. Let me begin with Materials, which is the way we call now the Building Systems and Metal business units. So, starting with Building Systems U.S. or Distribution U.S., how we call it now, we are moving on the right path, reaching an 11 percent volume growth and 15 percent revenue growth in the first quarter, thanks to the value proposition of our product offering as well as the commercial strategy implemented since last year.

Nevertheless, our EBITDA dropped 83 percent due to the class action provisions we made, plus the capitalization expenses which were returned to last year's results. It is worth mentioning that derived from COVID-19 and the effect it has had and will have on the demand for construction materials in the U.S., we have decided to idle the Indiana plant. We will restore operations there once the market returns to normal. Meanwhile, this decision will help us reduce our operating costs during the low-demand period since we will consolidate volume into the other three plants.

Likewise, we have put in place different measures to lower our costs and improve our cash position. Some of these measures are an aggressive program to accelerate inventory reduction and SG&A

reduction, cost reduction as a result of R&D, and limit CapEx only to maintenance and essential projects.

In terms of the class action suit filed against Allura, we expect to reach an agreement in the following months. We are striving to continue growing in terms of both volume and profitability.

Going now to Building Systems or Distribution LatAm. As I mentioned, since mid-March, all the operations, except Costa Rica and Mexico, were halted by government decree. This affected the figures for the quarter despite the fact that the trend up until February was of solid growth for the region. Because of this, revenues registered a 5 percent decline, while volume was 9 percent down. EBITDA registered a 60 percent reduction versus first quarter 2019.

Cash flow is and will be our top priority, and we are strongly working in that sense. The ring-fence has been activated along with a much deeper reduction of expenses and CapEx.

Notwithstanding the fact of this challenging time, we managed to continue progressing in our target to supply building solutions through efforts such as Advance. Advance is our new business model we've talked about. We are delivering construction kits to construction sites. So, far, the results have been above our expectations. Today, we have more than 40 projects in the pipeline, including shelters and health clinics for government health systems and multifamily buildings.

Turning to industrial metals, we are focused on operational efficiency in an effort to turn around the low availability of specific rates of raw materials and the resulting incremental cost. Without a doubt, here is where we have the greatest challenge. The global situation is not helping at all. It is causing volatility in copper prices, which have a direct impact on both operating costs through inventories and selling price since it is assigned using COMEX as its reference.

Despite this, we are taking many actions such a new management team, cost reductions, raw material yield improvements, operational efficiencies, among many others. The results for the first quarter are not at the levels we want to achieve with a 12 percent decrease in revenue year-over-year, but the efforts are beginning to pay off with a 13 percent increase compared to last quarter. EBITDA showed a 59 percent decrease versus first quarter 2019, affected by higher metal costs and nonrecurring expenses, such as severance expenses.

On the road to reinvention, we are finding opportunities amid problems to exploit copper's antimicrobial properties by launching new products. Additionally, we're working around the clock on an inventory reduction plan to help cash flow and liquidity.

We will continue to search for new opportunities abroad through our U.S. metal commercial operation and help to strengthen this market as we have the know-how and capability to make this happen. This, combined with a strong operation, gives us the confidence that there is an enormous potential. And once the COVID situation is over, we expect a strong recovery in our results.

Turning to our Cement business unit, let's begin with Mexico. In the first quarter, we continued operating under a weak economy, which is slowing down further due to the pandemic. In order to support our results, we are aiming for a correct mix between bags and bulk. Likewise, we have been able to supply some of the Mexican government projects, which are helping us as well to support our volumes.

In the first quarter, volume showed a small increase of 5 percent versus first quarter 2019. Nevertheless, revenues decreased 5 percent versus first quarter 2019, which led to a 7 percent decrease in EBITDA. We maintained our focus on business profitability by optimizing expenses and costs. With that, we have been able to achieve a margin of 41 percent. That is higher than what we achieved in the first quarter of 2019.

For the Cement business in the U.S., we registered a 15 percent increase in revenue due to the combination of pricing and volume increase, which, combined with a better climate and control in expenses, allowed us to post a 157 percent growth in EBITDA compared to the same period of 2019. During this period, our main markets in the Southeast and Maine were not affected by the pandemic. However, the Mid-Atlantic market presented some decreases in volumes since the last week of March due to the health measures made by governors of each state, and this does have some potential risk. We are aware that these conditions may change. So, we continue with our commitment to reduce costs with an emphasis on generating cash flow.

Lastly, we remain engaged in completing the development of Keystone in the second half of the year and remain committed to using the proceeds of this transaction to reduce our leverage levels.

Going to the Cement operations in Costa Rica, this business proves that our strategy is working with a 15 percent higher volume. Nevertheless, our EBITDA decreased 3 percent versus first quarter 2019 because of FX impact. As of today, we continue to operate normally in Costa Rica. However, this could change in the coming months.

Before asking Juan Francisco Sánchez Kramer to elaborate on the first quarter figures, the spin-off process and the Keystone development, I would like to share with you our expectations for the rest of the year. First, we believe that the economic impact of the pandemic will not only affect this year, but likely 2021 to recover overall levels by 2022. This, of course, will be different for each country and the measures that each of them takes in order to control and overcome the pandemic and its side effects.

Furthermore, the second quarter will be the one that will show the worst part of the effects of the pandemic, given that overall demand is decreasing sharply in every sector and every country. And last but not least, now more than ever, cash is king.

So, with this, I turn the call over to Juan Francisco Sánchez Kramer for further details on the financials. So, please, Juan Francisco, go ahead.

Juan Francisco: Thank you, Fernando, and welcome, Mariana. Mariana joined Elementia just a couple of months ago as Corporate Treasurer and Investor Relations Officer. She has more than 11 years of experience, mainly in finance, treasury and risk management. I'm sure her experience and capabilities will be key during these challenging times.

Before going into the figures, let me try to summarize both the impacts and actions we have taken related to the COVID pandemic. As Fernando mentioned, cash is king, so we are managing in a cash flow mode. For starters, we executed several programs to reduce SG&A, among which, first, we canceled or reduced services that third parties used to supply, which will bring savings of close to $50 million on an annual basis.

Second, in trying to figure out what will be the required organizational structure for the coming months, we reduced headcount and will have savings of close to $120 million per year. Of course, it had a one-time cost of close to $40 million during the first quarter.

Third, we executed the ring-fence that we included in the budget process to eliminate the expenses that were nice to have but not must-haves. Also, focusing on cash flow, we have established specific programs that are reducing the need for cash, like we did a CapEx review and redefinition focusing only on strategic projects, maintenance, and compliance that will reduce the cash requirements by close to $20 million for the year or roughly a 30 percent of our regular CapEx.

Second, inventory optimization acceleration plan. In the Fourth Quarter conference call, we mentioned the plans we established to reduce inventories. In summary, we are accelerating those plans, mainly focusing on Metals and Building Systems U.S. Also, we have put in place new strategies to accelerate collection and being more cautious on our analysis of credit lines.

Lastly, we have received support from our creditors to ease amortizations for the following quarters or through working capital lines to protect cash.

Regarding the spin-off process, there is not really any news from the fourth quarter report. In summary, it has been postponed in order to execute it under the best possible terms and conditions. As we have previously mentioned, an intermediate step is to conclude the divestment of the Pennsylvania cement facility. It is still under review by the antitrust authorities; and considering the COVID implications, we are changing our estimated time frame to the end of the third quarter. It is important to mention that both parties remain interested and committed.

Moving to the results of the first quarter, I will begin with the consolidated figures. During the first quarter of the year, revenues were 2 percent lower than the same quarter of 2019, mainly due to the ceasing of operations in LatAm since mid-March. The 15 percent incremental sales in the U.S. for both Cement and Building Systems helped reduce the negative impact of the market contraction in other regions.

Consolidated EBITDA showed a 23 percent decrease, mainly due to close of $65 million impact from COVID coming from the demand contraction and production health in LatAm; roughly $60 million of negative impact on inventories because of the downward trend of copper price; and close to $65 million from one-offs related to the headcount reduction and class action provisions. Financing costs represented a 34 percent reduction, mainly because of rate reductions and the foreign exchange rate profit.

Moving on to cash flow. Before CapEx, it was more than $100 million negative, mainly because of a nonrecurring payment on cash taxes coming from the end of the “fiscal deconsolidation” program in Mexico, which almost doubled the figure of the last quarter of last year. Lower EBITDA and working capital consumption mainly because of, at the beginning of the pandemic, we decided to acquire safety stock of products we bring from China. Also, we began the building of inventories, preparing for the seasonally higher demand, mainly in the U.S., and have currency fluctuations from the dollar-based operations. In hindsight, these decisions were not the best ones due to the unprecedented situation. And as I mentioned, we are accelerating plans to reduce inventories.

Capital structure operations include debt repayment according to maturities, and stock buyback consumed close to $300 million and CapEx totaling roughly another $300 million in the quarter. As a result, free cash flow was a consumption of close to $700 million.

In terms of our balance sheet, around 90 percent of our debt is long term. And our leverage ratio, considering the last 12 months of EBITDA, was 5.14x, which is above our leverage ratio of 3.5x, while the interest coverage ratio was 2.29x. The increase of net debt was mainly because of exchange rate impacts and cash consumption.

Moving now to figures by business units and starting with Building Systems U.S., let me give you an update on the status of the class action lawsuit. Considering the COVID-19 situation, we think that the process might slow down. Nevertheless, we think we may be able to reach a formal settlement agreement during this year.

Revenues for the first quarter show a 15 percent growth by a combination of 11 percent more volume and pricing, but EBITDA was down by 83 percent, mainly due to the class action provision and the Indiana facility not reaching yet the breakeven point. The factors mentioned before, along with the slow in demand due to the COVID-19 crisis, were some of the facts that lead to the decision to close the Indiana plant for the time being.

For Building Systems LatAm, revenues decreased 5 percent, but EBITDA was down 60 percent, mainly due to the halt in operations we did since mid-March and the resulting less fixed cost absorption, along with the severance costs. According to the latest official information, some of the facilities might resume operations at the beginning of May. It's important to mention that in some countries, we took some government stimulus such as a delay in utilities or tax payments that have helped us to maintain liquidity.

Moving to Metals. Revenues were 12 percent lower than the first quarter of last year, and EBITDA was 59 percent, mainly coming from slower market dynamics and lower inventory costs in the first quarter of '19. It's important to mention that despite the market contraction, we have a recovery compared to the last quarter showing an EBITDA growth of 150 percent as a result of the seasonality, operational efficiencies, SG&A reduction, the launching of new products and a more selective SKU model.

Now on to Cement. Cement U.S. showed a 15 percent increase in revenues and an impressive 157 percent increase in EBITDA, mainly stemming from cost and expenses rationalization. The U.S. government is considering cement production as an essential activity. And because of that, we didn't have a COVID impact in the quarter. For the following quarters, we expect some market contraction with the Mid-Atlantic region being the most affected.

For the Cement business in Mexico, there was a slight decrease of 1 percent in volume compared to the last quarter and a decrease of 5 percent compared to the same period of last year, in line with the expected economic slowdown published by several firms, including Moody's, due to the COVID-19.

It's important to mention that the production of cement was also considered as essential. Our business focus will be prudence, thus maintaining credit lines, monitoring cash flow, rationalization expenses, taking advantage of the low oil prices, and keeping production and inventory levels in line with the market demand.

Finally, our Cement business in Costa Rica showed a 2 percent decrease in revenues and a 3 percent contraction in EBITDA, mainly coming from currency fluctuation. In dollars, the business showed a 6 percent and 30 percent increase in revenues and EBITDA, respectively, mainly coming from price and volume increases.

With this, I conclude my remarks and ask the operator to please proceed with the Q&A session. Thank you.

Operator: We can take our first question from Alejandra Obregon with Morgan Stanley.

Alejandra Obregon: Hi. Thank you for taking my question and for the call. I just have one related to Mexico. I was just trying to understand what you meant on your operating rates in Mexico. So, you did mention that you have been allowed to operate to service specific projects or areas. So, I was just trying to understand what that means for your volumes and operating rates in your plants. So, if you could help us quantify that and give us more color on what plants are you operating and at what rates, of course? And maybe just give us some color on how is that playing out in April, that would be very helpful. Thank you.

Fernando Ruiz: Thank you, Alejandra, for your question. First, I would like to apologize for the audio. As you know, the situation is making us take this call from our homes. So, please rest assured that in a couple of days, we will make the full transcript available on our IR website. So, rest free of that. Now turning to our question, Alejandra, let's split it in what is cement and materials. So, Jaime, would you like to jump in, Cement, and let us know your answer, please?

Jamie Rocha: So, the answer for that about Mexico, we are all open. We have the three plants open in Mexico. We just closed two days of labor--let's say Saturday the 2nd and the Monday, the 4th of April. And we were included into the list in which cement was considered as an essential activity. So, for cement, the production and the open activities is not an issue.

Fernando Ruiz: Thank you, Jaime. And regarding, Alejandra, the Materials business. Today, we have eight of the 21 plants--22 plants closed. So, basically, all Central and all South America is closed, except Costa Rica. So, today, we are operating, I would say, Metals at 80 percent, Building Systems at 59 percent.

So, the virus has spread a lot, as you know, in basically all the countries where we currently operate. And in Costa Rica and in Salvador, they have had a good contagion strategy, and it hasn't spread that much. So, given--having said that, our sales have--this has impacted our sales. So, in the U.S., it has impacted us around 22 percent of sales; in Mexico, I would say around 20 percent; and in Latin America, as I said, basically all sales are frozen. So, I don't know if we answered your question, Alejandra.

Alejandra Obregon: Yes. Thank you very much.

Operator: And we can take our next question from Jamie Nicholson with Crédit Suisse.

Jamie Nicholson: Hi, thanks so much for the call. You mentioned that you had renegotiated some of your amortizations. Can you tell us what percentage of your short-term debt coming due this year has been renegotiated? And then related to that, do you have access to any undrawn committed credit line?

Fernando Ruiz: Thank you, Jamie. Juan Francisco, do you want to address that question, please?

Juan Francisco Sanchez Kramer: Sure. Thank you, Jamie, for your questions. So, we have been in discussions with our operators, the...

Fernando Ruiz: Juan Francisco, we're having problems hearing you. So, can you speak louder, please, and closer to the mic?

Juan Francisco Sanchez Kramer: Sure. Can you hear me better now?

Fernando Ruiz: Yes, yes.

Jamie Rocha: Much better.

Juan Francisco Sanchez Kramer: So, Jamie, thank you for your question. So, we have been in discussions with all the banks. And all the bilateral facilities, which has a maturity schedule, that is clearly quarterly or semi-annually due. So, we have negotiated with most of them a six-month time frame. So, it is not that much in terms of percentage, but it certainly helps to work through the critical moment a little bit.

Jamie Nicholson: And then access to any committed undrawn credit lines?

Juan Francisco Sanchez Kramer: Sure. So, we have a couple of uncommitted credit lines. We have already drawn one of them. That is roughly $13 million, and it's just to protect cash. We have another that is still available and reduced to that committed credit line that we will do it at the beginning of the year.

Jamie Nicholson: So, I'm sorry, I didn't quite hear. So, what is the actual amount you said you had in that one undrawn credit line? What magnitude is that?

Juan Francisco Sanchez Kramer: It is roughly $50 million.

Jamie Nicholson: Can you say like 1-5 or 50?

Juan Francisco Sanchez Kramer: 5-0.

Jamie Nicholson: OK. Thank you.

Operator: And we can take our next question from Elizabeth Gunning with Prudential.

Elizabeth Gunning: Thank you so much for the call. I just have a follow-up question on some debt also. Bear with me. You said you were renegotiating your short-term debt. Do you have any bank loan covenants that might be at risk of being breached?

Fernando Ruiz: Juan, can you take that question, please?

Juan Francisco Sanchez Kramer: Sure. Yes. Thank you. Thanks, Elizabeth, for the question. Yes, I mean, we have not covered the covenants or not fulfilled the covenant since the third quarter '19. So, we have requested for the waivers, the preferred waivers. And we have almost all the waivers for last year, and we have already let know the banks what are our views for 2020. So, they are all aware of what we are seeing in terms of covenant.

Elizabeth Gunning: Okay. And can you tell us what these covenants are? What is the metric?

Juan Francisco Sanchez Kramer: Sure. It is a net debt-to-EBITDA ratio that should be in 3.5x. In the first quarter, we were higher than that, 5.14x.

Elizabeth Gunning: I'm sorry, could you say that again? And can you get off speakerphone by chance? That might be helpful. It's hard to understand you.

Fernando Ruiz: Yes, speak louder, Juan.

Elizabeth Gunning: So, it's going from 5x to what?

Juan Francisco Sanchez Kramer: Can you hear me better now?

Elizabeth Gunning: Yes.

Juan Francisco Sanchez Kramer: Great. So, the covenant is 3.5x net debt to EBITDA. And we are in the first quarter showing higher than 5x.

Elizabeth Gunning: OK, thank you.

Operator: And we can take our next question from Andres Gonzales with Zquare.

Andres Gonzales: Hi, sorry. I just wanted to ask if you could provide some color on how many COVID cases you have in the company so far? And what are the safety measures you are taking?

Fernando Ruiz: Thank you. Thank you, Andres, for your question. So, far, we have four cases within the company. And unfortunately, as you may know, one of our Board members died two weeks ago. It's a very sad story, Jaime Ruiz Sacristán, which was a great guy that we loved a lot. And we are taking many, many, many actions to prevent this.

So, let me tell you, I mean we have divided our facilities by tranche to restrict personal mobility and reduce the risk of contagion. We are taking everybody's temperature, and they are scanned before entering our facilities. And if they present symptoms, they are immediately tested and treated, followed up by contact tracing, as I said in my speech.

Also, like I mentioned during my speech, we have staggered hours and shifts. We have mandatory use of masks and antibacterial gel. We have additional transport. We have staggered hours for canteens to make sure we have a safe distance and it's kept at all times. We are regularly sanitizing common areas. And also, something very important is that we have an internal crisis response team.

So, we are meeting daily at 8:30 a.m. with this COVID committee. We have already deployed our crisis protocols, and we have documented all this in some sort of politics and procedures, and our internal auditor is giving full follow-up to this. So, I don't know if I answered your questions.

Andres Gonzalez: Yes, thank you very much.

Operator: And we will take our next question from Sean Glickenhaus with AIG.

Sean Glickenhaus: Good afternoon. I have two questions. One, you mentioned the extraordinary expenses related to layoffs. But I'm sorry, I didn't hear how much that one-off expense was. And the second question is at the beginning of the call, you mentioned support from your--yes, support from your main shareholders. Can you explain what that means exactly?

Fernando Ruiz: Sure. Do you want to address the first one, Juan, and I'll address the second one?

Juan Francisco Sanchez Kramer: Sure. Thank you, Sean, for your question. The layoff cost was close to $40 million, and that is all registered in the first quarter. We expect to have savings from that of close to $120 million for the year.

Fernando Ruiz: And regarding your second question, Sean, when I say that we have the support of our shareholders, what I mean is we have their total commitment to the company. They are more involved than ever. They are very involved. They are--as you know--very strong businesspeople in Mexico and in the world. So, they are here for the long term. And they are helping us negotiate with banks. And as I told you, very, very involved. So, they are over the business.

Operator: And we will take our next question from Jean Bruny with BBVA.

Jean Bruny: Hi there. Thank you very much. Just a quick one maybe on the spin-off process. I understand in your commentary that it's not promising to happen pretty soon, probably not before the sale of the assets in Pennsylvania, as you mentioned, in the third quarter. Did you have a timing in mind? Or you're seeing something can happen by since that's at least in 2021? When you have some recovery, you're saying that you will be back to normal in 2022? Can we project ourselves in expecting for the operations to open in '21, '22?

Fernando Ruiz: Okay. Thank you, Jean. Unfortunately, I had a terrible time understanding your question. So, I don't know, Juan Francisco and Jaime, if you were able to catch that question and if you can address it. I just hear talking about the Pennsylvania assets, but I don't know what else. So, if you got the question, Juan Francisco, please address it.

Juan Francisco Sanchez Kramer: The first question, if I understand correctly, Jean, it was about the Pennsylvania timeframe that we're expecting?

Jean Bruny: Actually, I don't know if you hear me better now. It's actually on the timing of the spin-off, the execution between one asset and the other one. So, if you can expect it to happen in 2021, '22 or where it will be.

Fernando Ruiz: Okay. Okay, I can address that, if you want, Juan. Or go ahead, Juan. Go ahead.

Juan Francisco Sanchez Kramer: Okay. Thank you. So, regarding the spin-off timeframe, as you know, we have postponed it, waiting for better conditions for both parties. I mean we didn't expect, or nobody expected this COVID crisis or pandemic. So, probably, it will take longer than what we first anticipated, so there is no precise date. The latest that we have is that it will jump into '21 at least. But we will see how the conditions are in '21. If the conditions are better, then we will execute it. If not, it is likely that we wait a little bit longer.

Jean Bruny: OK, thanks.

Operator: And we will move next to Coleman Clyde with HSBC.

Coleman Clyde: Hi, gentlemen. Thank you for taking my question. I just wondered if you could maybe give a little bit more color on U.S. Building Systems. I know EBITDA--on margins, in particular, which were down. I know that you mentioned that part of that was provisions made for the class action process. But also, you mentioned the Indiana plant not reaching its breakeven point even though volumes were up. So, just a little bit more color on that would be helpful. And then as well, the second question would be, how much of your U.S. Cement EBITDA came from your Pennsylvania plant?

Fernando Ruiz: Okay. So, let me address the first question, and then I leave the second question to Jaime. And please, Juan Francisco, jump in, so if you want to--if you have any additional comments. So, as I mentioned during my introductory comment, we're moving on the right path in Allura. We showed volume and revenue growth in the first quarter. The most important thing is that we have a great value proposition in a growing market. So, our commercial strategy implemented since last year has proven to be successful.

Nevertheless, as you saw, our EBITDA dropped 83 percent due mainly to the class action provision we made, plus the capitalization expenses which we returned from--to last year results. So, maybe when I finish addressing this question, Juan Francisco, you can jump in and elaborate on that.

Going to the Indiana plant, idling this plant, Coleman, will help us reduce our operating costs during this low-demand period since we will consolidate volumes into the other 3 plants. So, I think we will have a nice margin improvement there. So, as we have been mentioning throughout all the call, we have been putting in place a lot of different measures to lower our costs and improve our cash position. Today, in Elementia, cash is king, and every decision we're taking is towards that. So, we are striving to continue growing in--as I said in my presentation, in both the volume and profitability.

So, Juan Francisco, can you elaborate on the EBITDA lower? Thank you.

Juan Francisco Sanchez Kramer: Sure. Thank you. So, Coleman, thank you for the question. There were 2 main factors that affected the results of the Building Systems U.S., as you mentioned. One is the class action that is roughly MXN 50 million for the quarter. We are building up the provision that we expect to use once that we reach a final settlement there.

The second impact is the Indiana facility. It is losing money or the result for the quarter was negative, and it was close to $2.5 million in this case. So, it is the biggest impact. Also, as Fernando mentioned, last year, we had a positive one-off that came from capital leasing in the part of the start-up of the facility.

Coleman Clyde: Understood. Thank you very much.

Jamie Rocha: The one that's impacting the Keystone results?

Fernando Ruiz: Yes, please, just take it, Jaime. Please.

Jamie Rocha: Okay. Thank you for the question because it's very relevant to highlight that Giant Cement in the U.S. had the best quarter ever in--okay, not ever, but in the last 12 years was the best one. And Keystone was at the best result in the last 17 years for the first quarter.

So, the question about which percentage was Keystone on the total result, it's a bit tricky because we have negatives and positives. And corporate cost has a relevant point there. But if we isolate the result from the corporate expenses, the Keystone result, first, was positive in the quarter; and second, it was about 25 percent of the total operational EBITDA.

Coleman Clyde: That's very clear. Thank you very much.

Operator: And we can now take a follow-up question from Alejandra Obregon with Morgan Stanley.

Alejandra Obregon: My question has been answered.

Operator: At this time, there are no additional phone questions. I'd like to turn the program over to Melanie Carpenter to address any web questions.

Melanie Carpenter: Sure. Thank you. We have one from Nicholas Fabianich from Jefferies. He's asking if there's any possibility that the M&A of Pennsylvania is canceled.

Fernando Ruiz: Okay. Jaime, do you want to address that one?

Jamie Rocha: Okay. Sure. The answer to this question would be that today, both parties are enforced to do the deal. We still have many months to go to cancel--or not to cancel-- to the agreement, the PPA is still valid until several months. And we are waiting for the FTC to approve. It had been taking some months--extra months to be approved because of first was Christmas and New Year holidays, and then we have the COVID and FTC was not working regularly. And we have a second request on detailed information in both companies. So, that delayed a bit the process. But today, FTC is in the process of analysis of all this detailed information they asked in the second request, and it's a matter of a couple of months to have an answer from them. And we are going to be--still enforce both parties to do the deal.

Melanie Carpenter: Okay. And he also had a question. Maybe Juan Francisco can take this one. What additional measures could you take to boost liquidity? You already discussed the support from the creditors, but he's asking if there is detail you could provide on support from the shareholders that you mentioned.

Juan Francisco Sanchez Kramer: Probably, I will let Fernando to answer about the support of shareholders, but I will certainly go into deep on what we are doing regarding cash flow. So, as we mentioned, we are reducing SG&A and COGS heavily. We have cut third-party services, and we are expecting to do $50 million savings for the year. Also, as I mentioned, we did a headcount reduction. We are expecting $120 million for the year. That comes with the one-off for severances. And as Fernando mentioned, we have also temporarily reduced salaries for the full organization.

In terms of working capital, we are accelerating plans that we have to reduce inventories, and we're expecting to get from there some $25 million for the year. On top of that, as we mentioned, we have had discussions with creditors. And so, we are working also in working capital lines. And that will certainly help to ease these probably more critical months.

Fernando Ruiz: So, Melanie, if I could step in, just elaborating on Juan Francisco's response, I would like to summarize that we have been taking all the actions in our power to maximize our cash flow. So, that's including all the actions that Juan Francisco has been talking about. So, we're working very, very hard to strengthen our balance sheet. And so, in a few words, within this existing uncertainty, we see viability for the three divisions--for the Cement, Building Systems, and Metals.

Melanie Carpenter: Okay. Excellent. There was a question from Autumn Graham from Schroders. He's asking if there's a break fee for the asset sale in the U.S. And if so, how much is that?

Fernando Ruiz: Juan?

Juan Francisco Sanchez Kramer: I think Jaime can answer that better.

Jamie Rocha: Maybe I didn't understand the question. Could you repeat it, please?

Melanie Carpenter: If there's a fee for breaking asset sale in the U.S.?

Jamie Rocha: Additional, you mean other than…

Juan Francisco Sanchez Kramer: No. If I understand correctly, the question is if there is a penalty for a fee if the divestment is not done.

Jamie Rocha: According to my knowledge, it's not. There's no penalty.

Melanie Carpenter: Okay. Excellent...

Fernando Ruiz: Sorry, Melanie, just I want to--Juan Francisco, if you can clarify for us about the $50 million line that we're working on, no, that we are optimistic that we will renovate this without a problem. So, can you comment a bit of that--on that, please?

Juan Francisco Sanchez Kramer: Yes, of course. So, as I mentioned, we are--we have an uncommitted credit line for $50 million. And also, we are working on other alternatives on working capital facilities. So, with all of this, we believe that we will be able to go through the hard times, protecting the cash and protecting the company.

Melanie Carpenter: Okay. There was a follow-up from Autumn regarding--maybe this one is for Jaime Rocha – he asks, do you see resilience in Mexico bag cement? And what is the difference in infrastructure demand compared to bag demand?

Fernando Ruiz: Jaime, can you address that one, please?

Jamie Rocha: Sure. Well, the first quarter, I would say, was the market moving in the same way as normally usual. I would say bag and bulk were more or less in the same proportion than previous quarters. After the COVID, pricing was established and many constructions works start to stop, then we had, of course, a decrease in the bulk demand. The recent bag demand, that was more concentrated in specific cities and states, not overall. And I would say also a rise in the demand on bag cement also in some specific states.

What is supporting the demand, in my opinion, today is mainly the self-construction, the bag cement and also the governmental infrastructure projects that--in which we are, I would say, less well positioned according to the whole market and working in the new airport construction and also in the important highway that is built in the Southeast. So, I would say, today, bulk, in total, maybe have dropped 50 percent of the regular numbers. And some of the--some number or some percentage of this total decrease was compensated by higher demand in bag cement.

Fernando Ruiz: Okay. Anything else, Melanie?

Melanie Carpenter: Yes. There's another question that came from Gregoire Eymar from On Field Investment Research. And he asked, how long do you think your operations will be affected in Costa Rica? And how much will this impact your activity?

Fernando Ruiz: Okay. Let me address that one. And maybe I was not clear during my speech. Costa Rica is operating, likewise for Cement and Building Systems. So, it's operating. So, those operations which are not operating are Salvador, Colombia, Ecuador, Bolivia and Peru. With the information that we have today, we expect those operations to be back on track in the following two weeks. That might change because of government decrees. But with the information we have today, all of those operations should be back on at 100 percent in a two-week time frame. As we speak, this week, Barranquilla already began operations. And yesterday, we had the approval of the Colombian government to continue operations in Bogotá and in Cali. So, our three plants are already going back to work. And the other ones, as I told you, it's a matter of a two-week time frame with the information we have today.

Melanie Carpenter: Okay. And all the other questions have been answered, so I'll turn it back to our operator. Aaron?

Operator: There are no additional phone questions at this time. I'd now like to turn the program back over to Fernando Ruiz for any closing remarks.

Fernando Ruiz: Thank you. Thank you, operator, and thank you all once again for your interest in Elementia. I would like to thank again our shareholders and creditors for supporting us throughout these challenging times.

So, let me just close the call with two final thoughts. First, COVID-19 is a black swan. I have no doubt that once the storm is over, it will bring new and better opportunities. In the meantime, rest assured we are taking every required measure to protect our people, ensure the financial viability of the company, and maintain operational continuity. We are ready to move forward as the sound company that we are. And second, we are committed to finding the best strategies to deliver value to all our shareholders.

So, that concludes our call. Please feel free to contact me or Juan Francisco if you have any further questions. We hope that you and your families stay safe. Have a nice rest of the day.

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