

## **2Q19 - TALKING POINTS**

### **SLIDE #1 – [TITLE PAGE] COVER PAGE**

#### **JAIME MUGUIRO:**

Good morning, everyone. Thank you for your continued support of CLH and for joining us for our second quarter 2019 call and webcast.

As usual, our initial discussion of the results will be in English. These remarks as well as the results presentation are being transmitted live in our webcast at [www.cemexlatam.com](http://www.cemexlatam.com).

Afterwards, I will be more than happy to take your questions. For the benefit of the person asking, I will answer the question in the language in which it is asked, either English or Spanish.

And now let me discuss our results.

### **SLIDE #2 – [TITLE PAGE] LEGAL DISCLAIMER**

### **SLIDE #3 – FINANCIAL RESULTS SUMMARY**

- Before we start, let me remind you that our 2019 financial information—as well as the comparable 2018 figures—now reflects the introduction of IFRS16, under which there is a single accounting treatment for all leases.
- As we commented in our last conference call, we are operating under challenging market conditions, particularly in Central America, that are putting pressure on our EBITDA.

- In Colombia, the positive volume and price trend continued during the quarter. We are very pleased with the 7-percent sales growth achieved during this period, in local-currency terms. However, increased energy and logistics costs, as well as a negative foreign-exchange effect, prevented us from improving our EBITDA in the country.
- Additionally, challenging market conditions continued in Panama, Costa Rica and Nicaragua, while in Guatemala our results were affected by increased purchased-clinker costs.
- During the quarter, the U.S.-dollar appreciated versus the currencies of Colombia, Costa Rica, Nicaragua and Guatemala by 14, 4, 5 and 3 percent, respectively, on a year-over-year basis.
- In this context, our consolidated net sales during the quarter declined by 11 percent in U.S.-dollar terms, or by 4 percent in local currency. Increased sales in Colombia and El Salvador were more than offset by lower sales in the other countries, in local-currency terms.
- Our EBITDA during the quarter in U.S.-dollar and local-currency terms declined by 28 and 23 percent, respectively.
- Our consolidated EBITDA margin during the second quarter declined by 4.3 percentage points on a year-over-year basis, to 18.3 percent. This margin decline was mainly due to lower prices which accounted for 6 percentage points, partially offset by the SG&A savings related to our Stronger CEMEX plan, which improved our margin by 1.2 percentage points.

#### **SLIDE #4 – CONSOLIDATED VOLUMES AND PRICES**

- During the quarter, our consolidated gray cement volumes increased by 1 percent, while our ready-mix and aggregates volumes declined by 5 and 6

percent, respectively, on a year-over-year basis. We saw improvement in gray cement volumes in Colombia and El Salvador.

- Consolidated prices for both cement and ready-mix declined by 1 percent during the quarter, while aggregates prices increased by 2 percent, in local-currency terms on a year-over-year basis.
- In our cement business, improved prices in local-currency terms in Colombia and the Rest of CLH, were more than offset by lower prices in Panama and Costa Rica, on a year-over-year basis.

### **SLIDE #5 – EBITDA VARIATION 6M19**

- Our EBITDA during the first six months of the year declined by 31 million dollars, mainly due to increased variable costs, lower volumes, and the appreciation of the U.S. dollar, partially offset by lower SG&A from our Stronger CEMEX initiatives, and by higher prices.
- Regarding the increase in variable costs, the main impacts were seen in Colombia, where we faced increased energy and distribution costs, and in Guatemala, where we had higher imported-clinker costs.
- The impacts on EBITDA of lower volumes in Costa Rica, Panama and Nicaragua were 13, 6 and 5 million dollars, respectively, and were partially offset by a 13-million-dollar improvement in Colombia.
- Most of the negative foreign-exchange effect was due to the 12-percent appreciation of the U.S. dollar versus the Colombian peso during the first half of the year, on a year-over-year basis.
- In this very challenging environment, we are working relentlessly in the following initiatives to manage our cost base as efficiently as possible:
  - First, under our Stronger CEMEX plan, we identified 11 million dollars in recurring savings for 2019, out of which we already

realized 6.5 million during the first half of the year. These savings relate mainly to SG&A reductions and the low-cost sourcing initiative

- Second, we expect to reduce our energy costs through alternative fuels projects, while we also capture opportunities in the primary fuel and electricity markets
  - In Panama, we recently switched from coal to petcoke taking advantage of lower international prices. Also, we are working on a project to increase our alternative-fuel substitution to more than 20 percent by processing in our kilns waste oil from ships. Additionally, we recently signed a new electric-power contract that should save us 2 million dollars per year in our electricity bill from January 2020 onwards.
  - In Costa Rica, we are working on a project to increase alternative-fuels substitution to more than 35 percent, by processing used tires in our kiln. This project provides adequate disposal of this waste while it also should reduce our costs.
- Third, we are working to reduce our clinker factor and CO2 footprint. One of the main initiatives is to produce calcined clay industrially in our Cucuta cement plant in Colombia. We have ample experience using calcined clay in our Santa Rosa cement mill in Bogotá, which has one of the industry's lowest clinker factor at around 61 percent.
- Fourth, we are optimizing our ready-mix business across all our countries, reducing costs and focusing on locations with growth potential. For example, in Panamá we renovated more than half of our ready-mix trucks and closed plants to concentrate our footprint around the metro area. During the first six months of the year, the EBITDA of the ready-mix business improved by 3 million dollars compared to that of 2018.
- Fifth, in Guatemala we are working on reducing purchased-clinker costs by sourcing it locally. Also, we are analyzing investing in an additional cement mill that should allow us to

reduce costs by substituting our current cement imports from Mexico with locally-sourced clinker. Additionally, this project should allow us to increase sales in Guatemala and supply cement to our operations in El Salvador, replacing imported cement from third parties.

- Regarding our efforts to provide a superior customer experience, we have been working on different initiatives including:
  - CEMEX Go; currently 75 percent of our cement orders and more than 55 percent of our total orders are placed digitally. Other services, like digital invoice administration and electronic proof of delivery—or EPOD—reached adoption levels of 77 and 53 percent, respectively. CEMEX Go is improving our customer service, while allowing our sale force to focus on consulting and prospecting new business.
  - Our MIX3R value proposition is another example of our efforts to provide our customers with solutions. In Colombia, this initiative is enhancing our market position among construction and industrial customers. We help them optimize their concrete mixes with our cement, additives and aggregates, reducing their costs and producing high-performance concretes.
  - Also, our digital technology is enhancing initiatives like “Radar Comercial”, under which we can match construction projects with our distribution customers, based on geographical location and supply capabilities of our customers

## **SLIDE #6 – REGIONAL HIGHLIGHTS**

- Now, I will discuss the main operating and financial results in our markets.

## **SLIDE #7 – COLOMBIA SECTION**

## **SLIDE #8 – COLOMBIA – RESULTS HIGHLIGHTS**

- We are encouraged by the positive cement-demand trend in Colombia driven by the infrastructure and the informal-residential sectors. We estimate that industry-cement demand increased by 2 percent during the quarter and by 3 percent year-to-date.
- Additionally, we are very pleased with our cement volume and price performance during the quarter. Our cement volumes increased by 12 percent during this period, while our prices in local currency increased by 2 percent sequentially and 3 percent year-over-year.
- Furthermore, our cement prices from December 2018 to June increased by 6 percent in local-currency terms. Additionally, last week we implemented a 3.5-percent price increase in bulk cement in locations with positive market dynamics.
- Our estimated market position during the quarter remained relatively stable, compared to that of the previous quarter and the fourth quarter of 2018. After a decline in our market position last year because of our pricing leadership, we regained our position during the fourth quarter of 2018. This recovery was driven by our commercial strategies like MIX3R, “Radar Comercial” and “Construrama”.
- Regarding our financial results in Colombia, net sales during the quarter increased by 7 percent in local-currency terms due to higher volumes, as well as higher cement and aggregates prices. In U.S.-dollar terms, net sales declined by 6 percent.
- Our EBITDA during the quarter declined in U.S.-dollar and local-currency terms by 25 and 14 percent, respectively. EBITDA margin declined by 3.1 percentage points, to 14.1 percent, during the quarter.
- Regarding the margin variation, higher sales and lower SG&A accounted for an improvement of 2.1 and 1.1 percentage points, respectively. These gains were more than offset by increased freight and variable costs, which

accounted for 2 and 4.5 percentage points, respectively. During the quarter we performed major maintenance to our Ibagué kiln number 2, with a similar cost impact to the works performed in kiln number 1 during the same period of last year.

- Regarding the unfavorable impact in freight costs, landslides in the Bogotá-Villavicencio highway and in Antioquia impacted our cement logistics and disrupted the aggregates supply of our ready-mix business.
- Now, out of the 4.5-percentage-point impact in variable costs:
  - increased coal and electricity costs accounted for 2.2 percentage points. This effect should ease during the second half of the year as coal and electricity headwinds subside.
  - An additional 2.3 percentage points of the margin decline is due to the consumption of imported clinker in our cement mill in Clemencia. We commissioned earlier this year this plant again, to support higher dispatches in a year in which we are shutting down for maintenance works our 3 kilns, unlike in 2018 when we only shutdown 1 kiln for this purpose

### **SLIDE #9 – COLOMBIA – Residential Sector**

- Regarding the residential sector, we estimate that industry-cement dispatches remained relatively stable during the quarter on a year-over-year basis. Improved demand to the informal residential segment was offset by lower volumes to the formal mid-to-high-income segment.
- Improved volumes to the informal residential segment during the quarter were driven by the economic recovery, increased remittances and potentially, by the effect of immigration from Venezuela to the country.

- We are a bit more optimistic on social housing going forward due to the low levels of inventory and the recently announced government measures to support subsidy programs. Among the most relevant are:
  - The guarantee of funds for the “Mi Casa Ya” subsidy program until 2024, and
  - The increase in the maximum home price allowed to receive a subsidy from around 35 thousand dollars to close to 40 thousand
- The mid- to high-income housing segment continued to adjust during the quarter. Housing starts and permits in this segment declined by 33 and 2 percent, respectively, year-to-date May. However, housing sales increased by 1 percent during this period. If the positive trend in sales continues, the relatively high inventory in this segment of about 14 months might begin to be absorbed.
- For the full year 2019, we expect industry-cement volumes to the residential sector to increase in the low-single digits, supported by the self-construction and social-housing segments.

### **SLIDE #10 – COLOMBIA – Infrastructure Sector**

- The infrastructure sector continued its positive performance during the quarter. We estimate that industry volumes to this sector increased by high-single digits during this period.
- Our volumes to this sector were supported by 4G projects, as well as projects in Bogotá such as the “Salitre” water-treatment plant, the “CETIC” Hospital, and new community centers. Additionally, we supplied our products to the school-construction program sponsored by the government, the hospital “Clínica Valle del Lili” in Cali, as well as other projects across the country.
- Regarding 4G projects, we estimate that total ready-mix volumes for these projects will reach around 610 thousand cubic meters in 2019, and we expect to supply around 40 percent of that amount. Among other projects, we are currently supplying to “Autopista Mar 1”, “Neiva-Girardot” and “Pasto-



Rumichaca”, which last week announced its financial closure. We expect that industry ready-mix volumes under this program will peak in 2021 to around 900 thousand cubic meters.

- Regarding the project pipeline in Bogotá, relevant projects like the “Salitre” water-treatment plant and the “CETIC” hospital are in final construction stages, and there are no substitute projects of similar size in sight for the second half of the year. Some relevant projects like the Carrera-Séptima-BRT was recently put on hold and other relevant projects are now expected to start during the first quarter of 2020. With respect to the Bogotá Metro, the award of this project before the municipal elections in October is very relevant to avoid postponements in its construction. If awarded in September as per the current plan, construction might start sometime next year.
- During 2019, we expect industry cement volumes to the infrastructure sector to increase in the mid-to-high-single digits. We believe activity in this sector should be reinforced by a higher transportation-investment budget and by an increase in government royalties from extraction activities, which is used in part for transportation projects.

#### Industrial and commercial (no slide)

- In the industrial-and-commercial sector, construction permits declined by 10 percent year-to-date May, and we estimate that industry-cement volumes to this sector declined by double digits during the quarter.
- Going forward, we expect better dynamics in this sector supported by lower corporate taxes, oil sector investments and improved business confidence.
- Because of all of this, we believe that industry-cement demand in 2019 might increase up to 3 percent in Colombia. Considering our volume performance during the first six months of the year, we now estimate our full year 2019 cement volumes in Colombia to increase from 4 to 6 percent.

## **SLIDE #11 – PANAMA SECTION**

## **SLIDE #12 – PANAMA RESULTS HIGHLIGHTS**

- In Panama, we estimate that industry-cement demand during the quarter improved by 2 percent, or by 5 percent adjusting for two fewer business days. However, volumes remained very weak considering that during the same quarter of last year the industry suffered a construction-workers strike, which paralyzed the formal-construction activity for 30 days.
- Cement demand continued to be affected by high levels of inventory in apartments and offices, as well as by project delays in the infrastructure sector. However, we are optimistic on the infrastructure sector going forward as relevant projects are expected to ramp-up volumes in coming months.
- Cement imports reached an estimated 6-percent participation during the quarter, compared to 2 percent during the second quarter of 2018 and 9 percent during the first quarter of this year.
- Our cement volumes during the quarter declined by 6 percent, or by 3 percent adjusting for two fewer working days, compared to those of the same period of 2018. Our cement prices declined by 2 percent sequentially due to difficult competitive dynamics in a weak demand environment.
- Our sales and EBITDA during the quarter declined by 5 and 29 percent, respectively. During the quarter, our EBITDA margin declined by 7.4 percentage points.
- Major maintenance works worth 4.1 million dollars performed to our kiln number 2 during the quarter, and not done during the same period of last year, accounted for 6.6 percentage points of the margin decline, while lower sales resulted in a 6.2-percentage-point drop. On the other hand, the

optimization of our ready-mix business improved margin by 3.2 percentage points, while the reduction of SG&A expenses impacted favorably by 2.2 percentage points.

### **SLIDE #13 – PANAMA – 2019 EXPECTATIONS**

- For the rest of 2019, we expect the infrastructure sector to be the main driver of demand. The “Corredor de las Playas” highway and the Fourth Bridge over the canal recently started construction and should ramp-up volumes soon. Additionally, the second phase of the urban renovation of Colon City, as well as the connection of the metro’s second line to the airport should start construction during the second semester.
- Next year, additional projects worth 4 billion dollars should start. Among the most relevant are the 2.6-billion-dollar third line of the metro, the 500-million water-discharge structure for the canal, a 300-million-dollar transmission line, and a 150-million-dollar wind farm.
- For the full year 2019, we expect industry-cement demand to bottom out and decline in the mid-single digits.
- In light of all of these, as well as our performance during the first half of the year, we now expect our full year cement volumes in Panama to decline from 6 to 8 percent.

### **SLIDE #14 – COSTA RICA SECTION**

### **SLIDE #15 – COSTA RICA – RESULTS HIGHLIGHTS**

- In Costa Rica industry-cement demand was very weak during the quarter. We estimate that it declined by 18 percent, or by 15 percent on a daily sales basis.

- Uncertainty related to the implementation of the fiscal reform affected consumer and business confidence. Additionally, we observed some delays in infrastructure projects.
- Our quarterly cement volume performance reflects a high base of comparison in the same period of last year, as the new competitor commissioned its cement-grinding mill in July of 2018. Additionally, please note that relevant projects ramped-up volumes during the first half of last year.
- During the quarter, our volumes were supported by infrastructure projects like “Circunvalación Norte”, “Ruta 32: Rio Frio–Limon” and the “Garantías Sociales” bridge. Ongoing projects like the Parliament building, a Coca-Cola plant and the Central-Bank building reached their final construction stages during the quarter.
- Regarding cement pricing, our quarterly prices in local-currency terms declined by 2 percent, both on a year-over-year and on a sequential basis, reflecting weak demand and difficult competitive dynamics.
- Our net sales during the quarter declined by 37 and 34 percent in U.S. dollar and local-currency terms, respectively, mainly due to lower volumes and cement prices.
- Our EBITDA during the quarter declined by 44 and 42 percent in U.S. dollar and local-currency terms, respectively. The EBITDA margin during the quarter declined by 4.2 percentage points mainly due to lower volumes.

## **SLIDE #16 – COSTA RICA – 2019 EXPECTATIONS**

- For the full year 2019, we now estimate that industry-cement demand will decline in the mid-teens during 2019, mainly due to larger than expected impact related to the fiscal reform, and to some extent infrastructure project delays.

- Considering lower industry-cement demand as well as the presence of the new competitor for the full year, we now expect our volumes to decline from 19 to 25 percent during 2019.
- We expect industry-cement volumes to bottom-out during 2019. Next year domestic demand should hopefully grow driven by the infrastructure project pipeline, which execution has been delayed this year.

### **SLIDE #17 – REST OF CLH SECTION**

### **SLIDE #18 – REST OF CLH – RESULTS HIGHLIGHTS**

- In the Rest of CLH, our cement volumes declined by 2 percent during the quarter. Increased cement volumes in El Salvador were more than offset by lower volumes in Nicaragua and Guatemala.
- Quarterly cement prices in local-currency terms increased by 1 percent on a year-over-year basis and remained flat sequentially. Cement prices in U.S.-dollar terms declined by 2 percent on a year-over-year basis.
- Net sales during the second quarter in U.S. dollar and local-currency terms declined by 17 and 14 percent, respectively.
- EBITDA during the quarter in U.S. dollar and local-currency terms declined by 23 and 20 percent, respectively, mainly due to lower volumes in Nicaragua, as well as to increased purchased-clinker costs in Guatemala.
- During the quarter, our EBITDA margin declined by 5.4 percentage points, mainly due to higher purchased-clinker costs in Guatemala. In Nicaragua, the margin remained relatively stable as the unfavorable volume impact was mostly offset by lower operating costs.

## **SLIDE #19 – NICARAGUA Highlights**

- In Nicaragua, the socio-political crisis remains unresolved and continues to take a toll in economic activity, including cement demand.
- Our cement volumes during the quarter declined by 6 percent year-over-year, and by 5 percent sequentially. Most of the highway projects sponsored by the government are in late construction stages and are not being replaced by new projects. Going forward, the self-construction sector should continue supporting cement consumption in the country.
- For 2019, we expect industry-cement demand to decline by around 20 percent. We expect our volumes in Nicaragua to decline in line with the industry. Our EBITDA should reach around 23 million dollars this year, compared to an IFRS16 proforma figure of 31 million in 2018.

## **SLIDE #20 – Guatemala Highlights**

- In Guatemala, the first round of presidential elections was in mid-June and the second round will take place on August 11<sup>th</sup>. We don't expect the result of the elections to have a material impact in cement demand because of the relatively low participation of public investment in the construction industry.
- Our quarterly cement volumes in the country declined by 2 percent or increased by 1 percent on a daily-sales basis. The decline in ready-mix volumes was due to unusual heavy rains, as well as a high base of comparison in the same period of last year, when some relevant projects were under construction.
- We expect our full year cement volumes in Guatemala to increase in the low-single digits during 2019, relatively in line with the growth of the industry.

## **SLIDE #21 – [TITLE PAGE]**

Now I would like to discuss our free cash flow generation

## **SLIDE #22 – FCF GENERATION**

- We are pleased with our free cash flow generation during the first six months of the year. Our free cash flow improved from 16 million in the first half of 2018, to 40 million dollars. This improvement was mainly due to a positive effect in working capital, the impact of the 25-million-dollar fine paid in Colombia during 2018 and lower financial expenses. Additionally, our free cash flow improved as a result of the proceeds from idle-land sales in Colombia. All of the above more than offset the EBITDA decline, during the first half of the year.
- Financial expenses during the second quarter reached 13 million dollars, 1.7 million dollars lower than those of the same period of last year.
- We are pleased with our working capital management. Our average working capital days during the quarter were reduced to negative 17, from negative 14 during the same period of last year.
- Taxes paid during the quarter were 10 million dollars, compared with 13 million dollars during the same period of 2018.
- During the quarter, we received 5.5 million dollars in proceeds from sales of idle lands in Colombia, booked in the “Other cash items (net)” line of the free cash flow.

## **SLIDE #23 – INCOME STATEMENT ITEMS**

- Our Controlling Interest Net Income was negative 4 million dollars during the quarter, compared to positive 4 million dollars during the same period of 2018. The Net Income reduction was due to lower Operating Earnings Before Other Expenses, and higher Other Expenses, partially offset by lower

Financial Expenses and Income Taxes, as well as a positive effect in the Other Income and Expenses line.

- The Other Expenses Net line, during the quarter, includes a 5 million dollars provision related to the potential impact from the early termination of an aggregates supply contract in Panama.
- The Other Income and Expenses Net line, was negative 9 million dollars during the quarter, compared to negative 14 million dollars during the same period of last year. In both cases, the negative effect was due to a foreign-exchange effect on the debt balance, mainly from the U.S.-dollar appreciation versus the Colombian peso from March to June in both periods.

#### **SLIDE #24 – DEBT PROFILE**

- During the quarter, our free cash flow was mainly used to pay debt. Our total debt was reduced by 24 million dollars during this period, from 835 million as of March, to 811 million as of June.
- The net-debt-to-EBITDA ratio increased during the quarter to 3.6 times mainly due to lower EBITDA.

#### **SLIDE #25 – GUIDANCE**

- Now, I would like to discuss our guidance.
- We expect our consolidated cement volumes to be from flat to declining 3 percent during 2019.
- We estimate to pay 60 million dollars in cash taxes for the full year.



- Our total capital expenditures are expected to reach 50 million dollars, 42 million dollars in maintenance and 8 million in strategic. These figures now include an additional 8 million dollars non-cash effect related to IFRS16.
- Regarding working capital, we don't expect to have any significant variation in working capital investment during 2019.
- We anticipate receiving proceeds of around 3.5 million dollars during the second half of this year from sales of idle lands in Colombia. We already received 6.5 million dollars during the first six months of the year, booked in the Other cash items, net, line of the free cash flow.
- With respect to our cement operations, during the quarter we executed maintenance-related operational expenses for 7.8 million dollars, 4.1 in Panama, 2.6 in Colombia and 1.2 in Nicaragua. During the third quarter, we budgeted 8 million dollars, 5.2 in Colombia and 2.8 million in Costa Rica. In total, this year we will spend around 15.8 million dollars, 5.8 million dollars more than that of 2018.
- As I mentioned at the beginning of my remarks, we will continue to focus on the variables we control under this challenging environment.

**[RETURN TO SLIDE #2]**

**[TITLE SLIDE] – LEGAL DISCLAIMER**

Now, I would like to remind you that any forward-looking statements we make today are based on our current knowledge of the markets in which we operate and could change in the future due to a variety of factors beyond our control. Unless the context otherwise requires it, all references to prices means our prices for our products.

**[RETURN TO SLIDE #1 - COVER PAGE]**

## **[TITLE SLIDE – Q&A]**

And now I will be happy to take your questions. As I mentioned earlier, for the benefit of the person making a question, I will be answering in the language asked, either English or Spanish.

Pasaremos ahora a la sesión de preguntas y respuestas. En beneficio de la persona que hace la pregunta, se responderá en el mismo idioma en que se plantee, ya sea en inglés o español.

Operator...

## **[Final comments after Q&A]**

Thank you very much.

In closing, I would like to thank you all for your time and attention. We look forward to your continued participation in CEMEX Latam Holdings. Please feel free to contact us directly or visit our website [www.cemexlatam.com](http://www.cemexlatam.com) at any time.