Press Release no. 04/2022

Fitch Upgrades Fortaleza Materiales to 'BB' Outlook Stable

Mexico City, April 11, 2022.- Fortaleza Materiales, S.A.B. de C.V. (formerly Elementia, S.A.B. de C.V.) (BMV: FORTALE*) (the "Company", the "Issuer" or "Fortaleza Materiales"), announces Fitch Ratings has upgraded Fortaleza Materiales, S.A.B. de C.V.'s (Fortaleza) Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-' and its National Scale rating to 'A(mex)' from 'A-(mex)'. The Rating Outlook is Stable. Fitch has upgraded Fortaleza's Short-Term National Scale rating to 'F1(mex)' from 'F2(mex)'.

The upgrade reflects Fortaleza's continued improvement in operating cash flow generation in the medium term and its solid capital structure. The company is in the process of concluding a public offering to acquire its public shares (OPA) after completing its spin-off of Elementia Materiales, S.A.B. de C.V. (Elementia). On a pro forma basis, including MXN2 billion of new debt to fund the OPA, Fortaleza's net leverage as of Dec. 31 2021, was 2.9x, per Fitch's calculations. Fitch forecasts Fortaleza's adjusted net debt/EBITDA ratio to be around 3.2x and 2.4x by YE 2022 and 2023, respectively.

Key Rating Drivers

Diversified Medium-Size Player: Post spin-off, Fortaleza's primary assets are three cement plants in central Mexico with 3.75 million metric tons (MT) of cement production capacity; a 55% stake in U.S.-based Giant Cement Holding, Inc., which the company will continue to consolidate in its results; and cement grinding facilities in southern Mexico and in Costa Rica. Giant's capacity is approximately 2.8MT. The company is also investing in a new grinding facility in El Salvador. During 2021, on a pro forma basis, around 71% of Fortaleza's EBITDA was generated in Mexico, 25% in the U.S. and 4% in Central America.

Mexican Market to Normalize:

Cement consumption has been decelerating over the past months from the high levels during 2020 and early 2021. Fitch expects volumes to normalize throughout year-end 2022, of around 43 million metric tons (mt) from the 46mt registered in the last 12 months ending 3Q21 as pandemic driven homes improvement spending gradually subsides over the next few years. Overall macroeconomic scenario in terms of consumer confidence, interest rates, and access to credit remains key to sustain local demand.

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U.S. Market with Positive Momentum: Long-term demand drivers remain favorable in the U.S., supported by strong residential demand and recovering non-residential private investment. Economic growth should support increasing investment going into 2023 while the execution of works related to an infrastructure bill signed into law in November 2021 should support demand beginning in 2023 and more intensely in 2024 and beyond. The bill provides USD1 1 0 billion of funds for new roads, bridges, and major projects, USD40 billion for the repair and replacement of bridges, and extends the FAST Act through 2026 while increasing annual funding levels by over 20%.

Inflationary Pressures:

Fitch expects soaring oil prices and overall energy costs to pressure Fortaleza's EBITDA generation during 2022, and its ability to partially pass costs through prices will be key. Fitch expects some profitability deterioration, but it should recover throughout the second half of 2022 and 2023. For 2022 and 2023, Fitch forecasts adjusted EBITDA margin will range between 23%-25%, which represents a deterioration from the 25.4% and 26.4% of 2021 and 2020 (pro forma basis), respectively. For 2022 and 2023, Fitch foresees consolidated EBITDA of MNX3.2 billion and MNX3.7 billion, respectively.

Adequate Leverage:

On a pro forma basis, including MXN2 billion of new debt to fund the OPA, Fortaleza’s net leverage as of Dec. 31 2021, would be 2.9x, per Fitch's calculations. Fitch forecasts Fortaleza's adjusted net debt/EBITDA ratio to be around 3.2x and 2.4x by YE 2022 and 2023, respectively, this reflects a more challenging scenario in terms of raw material prices during 2022. For 2022, the expected higher capex also brings pressures on FCF generation and from 2023 it returns back to positive. For 2022 and 2023, FCF is forecasted to be MSN380 million negative, and positive in MXN1.3 billion, respectively. Capex are MXN1.7 billion in 2022 and MXN1 billion in 2023.

Good Access to Local Debt Market:

Fortaleza has a track record of keeping relatively low cash balances to short-term debt obligations, thus implying ongoing refinancing risks. The company has demonstrated either good access to local debt and capital markets or maintained committed credit lines, which helps to offset this weakness compare to other companies in the same rating/sector.

Standalone Analysis: Fitch expects the links between Elementia and Fortaleza will wane over time as debt is repaid or refinanced. From july 15 2022 on, there will be no more debt guarantees from Fortaleza to Elementia, only from Elementia to Fortaleza until mid-2024.

Derivation Summary

Fortaleza has similar product offering relative to regional cement producers such as GCC, S.A.B. de C.V.

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(BBB-/Stable) and Cementos Pacasmayo S.A.A (BBB-/Stable). GCC derives around 70% of its EBITDA from the U.S. market. Its eight-plant network is similar to the regional footprints of global producers CEMEX (BB/Positive) and Buzzi Unicem, allowing GCC to compete profitably despite being smaller on a consolidated basis. GCC's contiguous presence from Chihuahua in northern Mexico to the Canadian province of Alberta results in an efficient distribution and logistics system allow it to serve markets in 16 states across the U.S. Midwest, Southwest and Rocky Mountain regions.

While Pacasmayo's scale is similar to Fortaleza and also benefits from being part of one of its home country's largest business groups, its position as a dominant cement producer in northern Peru is an important differentiator. Pacasmayo has a moderate capital structure, coupled with low-cost structure and well- developed logistical network that also support its higher rating.
Fortaleza's weaker competitive position and geographic diversification relative to major global peers, notably CEMEX, S.A.B. de C.V. (BB/Positive) based on scale and size of cement operations, is key rating differentiator. CEMEX's ratings have a Positive Outlook, reflecting expectations that the company could continue to generate robust FCF due to solid cement demand in the U.S. where CEMEX generates approximately 30% of its EBITDA as one of the country's largest producers. Fitch expects leverage for both companies to be around 3.0x or less.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer Include:
--Cement volumes increase in the low single-digits in 2022 and beyond;
--EBITDA Margin around 23%-25% in 2022 from pressured on raw material prices and recovery in 2023;
--Capex around MXN1.7 billion in 2022 and MXN1 billion onwards;
--Successful refinancing of short-term debt within local credit and debt market.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A larger scale and increased market position;

- EBITDA margins sustainable above 27%;

Consolidated net debt to EBITDA sustained below 2.5x;

- Sustainable improvement in financial flexibility with stronger liquidity position and no refinancing risks within 18-24 months.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

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- A weakening of operating cash flow and FCF expectations that lead to expectations of net debt to EBITDA being sustainable over 3.5x;
- Expectations of a sharp deterioration in Mexico's economic environment leading to a significant contraction in the EBITDA outlook;

- Large debt-funded acquisitions;

- Perception of weaker financial flexibility and ability to refinance short term debt at reasonable financial costs.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/101 1 1 579.

Liquidity and Debt Structure

Tight Liquidity Supported by Good Credit Access: Fortaleza faces debt amortizations of MXN4.3 billion over the next 24months, MXN3.2 billion of which is due within the next 1 2 months. This compares with cash of MXN1.9 billion as of 4Q21 and expected negative free cash flow generation of MXN380 million for 2022 year. Fitch incorporates the company's ongoing access to credit market into this analysis and its refinancing strategy over 1 Q22 and 2Q22. Fortaleza's total debt was MXN9.7 billion as of 4Q21 and was mainly comprised of credit lines with BancoMext (32%), Inbursa (29%), Santander (12%) and Cebures (10%).

Issuer Profile

Fortaleza produces cement and concrete sold in bulk and in bag form. It operates six cement plants in the Americas with a distribution network covering four countries. Around 49% of revenues are originated in

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Mexico, 47% in the U.S. and 4% in Central America. The company is controlled by Kaluz Group (43.3%), Condumex (37.7%) and Free Float (19%).
REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING
The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of'3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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FORTALEZA MATERIALES

FORTALE

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Fortaleza Materiales, S.A.B. de C.V.	LT IDR	BB	Upgrade		BB-
	Natl LT	A(mex)	Upgrade		A-(mex)

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	Natl ST	F1(mex)	Upgrade		F2(mex)

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◉	◆
STABLE	●	

Applicable Criteria

Corporate Rating Criteria (pub.1 5 Oct 2021) (including rating assumption sensitivity)
National Scale Rating Criteria (pub.22 Dec 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub.1 5 Oct 2021)

Applicable Models

About Fortaleza Materiales

Fortaleza Materiales is a cement company with a strong organic growth and, through Cementos Fortaleza® and the strategic acquisitions of Giant®, Keystone® and Dragon®, it provides structural solutions for the foundations, columns, floors and ceilings of houses, shopping malls, offices, hospitals, among other facilities, in Mexico, the United States and Latin America. Fortaleza Materiales has more than 1,300 employees.

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Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).
Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Fortaleza Materiales, S.A.B. de C.V. EU Endorsed, UK Endorsed

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