Elementia 2Q17
Conference Call Transcript
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Operator:
The following is a recording for the Elementia earnings conference call on Thursday, July 27, 2017 at 10:00AM Central Time. Good morning. My name is Cassie, and I will be your Conference Operator. At this time, I would like to welcome everyone to the Elementia earnings conference call. All lines have been placed on mute to prevent any background noise. There will be a question and answer session after the speakers opening remarks, and instructions will be given at that time. Thank you. I will now turn the call over to Ana Lourdes Benavides, Investor Relations Officer. Please, go ahead.

Ana Lourdes Benavides:
Good day everyone, and welcome to Elementia's second quarter 2017 earnings conference call. It's my pleasure to be here with you today on my first call since joining Elementia. I hope to meet all of you in person very soon. Joining me is our Chief Executive Officer, Fernando Ruiz Jacques and our Chief Financial Officer, Juan Francisco Sanchez Kramer.

Please be advised that this call is for investors and analysts only. During this call, we will be discussing Elementia's performance as per the earnings release issued yesterday after the close. If you did not receive the report, it is available on our website at www.elementia.com within the Investor Relations section.

Let me remind you that forward looking statements based on information that is currently available may be made during the conference call. Please refer to the earnings release for more detail and a full disclaimer. Also, all figures discussed are in Mexican pesos, and quarterly variations are computed against the same quarter of the previous year, while cumulative variations are computed as compared to the same period of the previous year unless otherwise stated. It's now my pleasure to introduce Fernando Ruiz Jacques, our Chief Executive Officer who, will cover the main highlights of the quarter and provide a strategic overview. Fernando, please go ahead.

Fernando Ruiz Jacques:
Thank you, Ana, and welcome to the Elementia family, and thanks to everyone with us today for your interest in our company. I am pleased to have this opportunity to discuss Elementia's second quarter and first half 2017 results.

In line with our long term strategic plan, Elementia is shifting into a more integrated company as we enter into the mid-term stage of what we call Elementia 2.0. We continue shifting from being a company with three divisions into a more integrated one that will be able to deliver products and solutions for both the traditional building as well as a more industrialized and sustainable building system.

Aligned to this strategic plan, while addressing and not losing of the short term, we are currently focusing on the following three milestones. First, completing the cement capacity expansion in Mexico and executing its ramp up. Second, fully integrating the 55 percent acquisition of the cement operations in the U.S. Last but not least, the reopening of the Indiana facility to further expand our BuildingSystems operations in the U.S. I will go into more detail on each of these shortly, but now, let me review our operating performance of the quarter.

As expected, Elementia reported yet another satisfying double-digit EBITDA and operating income growth for the second quarter, coming to 32 percent and 20 percent, respectively above last year, or 1 percent and .04 percent, respectively, in a proforma basis as Giant was consolidated since January 2016. This performance was driven by the continued growth in both the Cement and BuildingSystems divisions while the Metal part of the divisions faced temporary headwinds.

Let me give you some highlights and achievements by division starting with Cement. In the Mexican operations, we had another consecutive quarter of strong results. Both revenues and EBITDA significantly grew by more than 37 percent compared to second quarter 2016, despite the slow startup in April due to the Easter holiday. Not only does the shift for the first quarter in 2016 to the second of this year creating a tougher comp, but the effects this year lasted one week longer than usual. This was, however, offset by additional volumes sold in May and June as part of the ramp up strategy for the Tula plant, or in other words, the output from grinding operations using third party clinker; which brings me to our most recent event.

The Tula plant expansion has been one of our main focuses; and I'm very proud to say that we have just started this operation, which was scheduled for the second half of the third quarter, but our focus and dedication to this project allowed us to deliver this ahead of schedule in early July. The project will increase Tula's production capacity by 1.5 million tons per year, increasing our cement capacity in Mexico from 2 million to 3.5 million tons per year. Moreover, with the hopes of staying true to the relevance that innovation has within our strategy, the new line will be the most modern in American, as it was built using cutting edge technology that guarantees quality, high energy efficiency, and environmental protection to meet Elementia's sustainability and social responsibility standards.

In the U.S. cement operations, Giant registered more than 50 percent growth in terms of volumes sold for the first quarter 2017. This pretty much reflects the strong seasonality that we have in these operations during the coldest months of the year. As you can see, the seasonality effect has ended, therefore, it's important to highlight that we expect higher volumes in the third quarter. However, capacity utilization has not increased substantially as this is a transition year, and we are in the middle of operating these assets to the industry standards.

We are still in the integration phase, meaning that operations are not at standard levels due to ongoing maintenance work that will continue throughout the year. We have allocated maintenance CAPEX to bring these assets back to par. Nevertheless, thanks to our effective management of operations since the acquisition, we were able to report more than 260 million EBITDA in Terre Haute. As the year goes by, and equipment is revamped, we expect to show steady improvement, and our vision of doubling 2016 EBITDA in a three to four year timeframe remaining.

As our second main focus, Giant's integration process is going according to plan. Some of our recent achievements include:

-The integration of a technical team, including experts from both operations, Mexico and the U.S., in order to integrate these operations more effectively, exchange best practices and know-how, and accelerate Giant's ramp up.
- Also, as of one month ago, our U.S. cement operations welcomed its new comptroller, who's playing a key role in promoting Elementia's philosophy into Giant.

In terms of operating systems, and according to plan, we are making progress to integrate into one template both operations in Mexico and the U.S.

Integrating Giant into Elementia also means putting our best practices and know-how into process, and that includes having a company with the right team and structure. As some of you might know, due to Giant's limited cash flow before Elementia, there was a lack of personnel in key positions, so with that regard, we continue to be very active in giving Giant the organizational structure that it needs to thrive and improve its operating efficiency. We will make sure to provide additional updates as these continue to develop in the next coming months.

Moving now to the Metal Products Division, it registered a 24 percent decrease in EBITDA, mainly due to the Easter holiday effect in volumes sold, a decrease in copper prices, in combination with the strong peso appreciation, and a one-off event at the Vallejo facility caused by nonscheduled maintenance with works which also effected volume.

We expect results to improve in the next quarter thanks to our strategic focus on higher value added products and cost cutting initiatives that help improve metal yields.

Turning finally to the BuildingSystems Division, it pleases me to say that we continue to experience the strong turnaround that we expected as a result of the execution of the detailed strategy developed along with BCG. During the second quarter, we had an increase of 15 percent in revenues and 6 percent in EBITDA, largely drive by a strong performance in the U.S. and a solid turnaround in Mexico.

Going further in depth by region, in the U.S., also the third main focus, results are very good and promising in the future, as clients has been very accepting of our value proposition. Moreover, we have already begun the planning CAPEX allocations to reopen the Indiana facility. We have begun shipping products from the other facility to the Indiana region, so when the facility initiates operations, it will be partially allocated. As expected, it has affected our operating margins due the extended logistics and operational expenses. Nevertheless, the benefits of staying in the medium-term outweigh the downside as it will enable us to have a solid client base in Indiana, ready to go when the plant reopens in first quarter 2018. In Mexico, our go to market strategy, focused on distributors and direct clients, is already bearing fruits, reporting incremental volume as we have also been quite successful in decreasing the reliance on government projects and increasing what we call the "netewok". In Central America, despite a somewhat stagnant economy, operations remain strong as we have gained market share in the Caribbean and Panama. Also, we have increased exports to the U.S. from our operations in El Salvador. And in the Andean region, we reported mixed results. Colombia continues to face economic challenges due to limited disposable income derived from the increased in VAT, bank interest rates, and the lack of government support for housing projects. On the upside, in Ecuador, volumes and revenues have improved marginally due to the new construction project that has been finally launched following the devastating earthquake that took place last year. In Peru, we showed good volume growth due the expansion and relocation project.

2017 has been a year with many challenges. Yet, our results are proof that Elementia has the right team, technologies, and competitive advantages to excel in the construction business. Our clear roadmap allows us to make Elementia a driver of change and to revolutionize the construction industry in the time to come. We believe our momentum continues to be very strong, and therefore, we see ourselves reaching full Elementia 2.0 by 2020.

I will now turn the call over to Juan Francisco Sanchez Kramer for further details on our financials. Juan Francisco, please go ahead.

Juan Francisco Sanchez Kramer:
Thank you, Fernando, and hello everyone.

During the second quarter 2017, Elementia continued its double-digit growth in both revenue and EBITDA, despite temporary expenses related to the startup of operations of the new cement line at Tula and higher price costs in the U.S. BuildingSystem Division because of the startup plans of the Indiana facility.

Supported by our commitment and discipline in implementing the Power of One corporate strategy, which helped us face an environment of prevailing economic and political uncertainty in the countries in which we operate, as well as the effects of the Easter holidays and the election period in Mexico.

Consolidated revenues increased 40 percent year over year, reaching $6.5 billion and 46 percent for the first half of 2017, totaling close to $13.1 billion, supported by higher sales prices and volumes in all three divisions: 38 percent in the second quarter of 2017 and 35 percent in the first half of 2017 in cement for Mexico. For the U.S., the cement operations minus 5 percent and minus 7 percent, respectively. 5 percent and 16 percent in the Metal Products Division respectively, and 14 percent and 22 percent for the BuildingSystems Division, respectively.

On a proforma basis, that is including the U.S. Cement that is consolidated since January 1, 2017, sales grew by 10 percent during the quarter to 16 percent for the first half of the year.

In terms of revenues by region, Mexico takes the lead with 44 percent, followed by the U.S. with 38 percent. South American with 12 percent, Central America with 5 percent, and the remaining 2 percent was the rest of the world.

EBITDA reported an increase of 32 percent, year over year, reaching close to 1.2 billion in the second quarter, and for the first six months, showed 28 percent increase, reaching $2.1 billion. This result is mostly driven by growth in the Cement and BuildingSystems Division as a result of management's abilities to properly execute the corporate and division strategy and strong brand positioning. We are also reporting net income of $245 million for the second quarter 2017 versus a net loss of $177 million during the same period of 2016. This is mainly due to an exchange gain with the company's debt position. For the first half of the year, net income reached $230 million versus a net loss of $26 million in the same period of 2016. On a proforma basis, this line item reported a net loss of $284 million pesos.

I would now like to into further detail with regards to the performance of each division.

The Mexican operations for the Cement Division reported more than $1 million in revenues for the quarter, 38 percent above second quarter 2016, and 35 percent higher than the first half of 2016, reaching more than $1.9 billion as a result of incremental volumes from the startup of grinding operations as part of the ramp up of the expansion project.

Meanwhile, EBITDA for the same period reached $437 million, up by 36 percent and 32 percent for the first six months, reaching $772 million, benefitting from operating efficiencies to counter an increase in energy, and fuel cost and the effects of the startup of grinding operations at the Tula plant, which as the management has mentioned has already started operations, meeting our expectations.

As you may recall, during our IPO roadshow, we announced our commitment to startup operations in the third quarter. I would also highlight that we were expecting margins to be around 35 percent of the Mexican operations as a result of the startup of the grinding operations and ramp up of the Tula facility, however margins came in being higher than 42 percent, also over meeting our expectations.

Turning to the U.S. operations of the Cement Division, first I would like to say, the integration of Giant as well as capital investments being made to bring the assets back to industry standards are going according to plan. We must keep in mind that 2017 is a transitional year for our cement operations division, as asset up-grade will be held throughout the whole year, partially impacting in production levels. Nevertheless, it is part of the value generation roadmap developed along with Bain and Company, and benefits from Giant's turnaround will slowly, but steadily, be seen in the second half of the year and the following year.

On a proforma basis, the U.S. Cement Division results for the second quarter of 2017 reported $1.2 billion in revenues, down 5 percent, and EBITDA of $232 million, a 17 percent decrease. For the first half of the year, revenues reached $2.1 billion and EBITDA $225 million, down 7 percent and 8 percent, respectively. This was mostly coming from the aforementioned maintenance work held during this year.

Also, it is important to highlight that based on the year's seasonality, volume sold during the second quarter was more than 16 percent higher than the first quarter of 2016.

On to Metal Products, this quarter, the division faced some headwinds caused by several factors. The first and most relevant one is the combined effect of the accelerated decline of copper prices and the steep appreciation of the Mexican peso against the U.S. dollar. These external and atypical factors have mainly had an impact on division inventory valuation which was reflected in the production cost.

Second, the Easter holiday celebration which effected volumes sold in April for all three divisions, but particularly for metal products.

Third, a one-off at one of our facilities that translated into an unplanned downtime which also affected volumes sold.

Fourth, higher electricity and natural gas costs.

These factors were partially offset by the strategy of focusing on higher value-added products and operational efficiency. Nevertheless, EBITDA was 24 percent down for the quarter and nearly flat during the first half of the year when compared to the first half of the previous year. We expect to go back to our growth trends in the second half.

Finally, moving to the BuildingSystems Division, I am proud to say that this division continues its upturn, supported by the go to market strategy and posted net sales growth of 14 percent in the second quarter of 2017, and 22 percent in the first half of the year, besides the Easter holidays effect, which as we mentioned mainly effect operations in Mexico, and also an increase in energy price.

The division's strong performance was also a result of our customers' high acceptance of our products in the U.S., Mexico, and Central America, helping offset the low demand in the Andean region, specifically in Colombia due to microeconomic conditions that have affected the domestic consumption, mainly a 3 percent increase in VAT, interest rates increased, and the reduction of social housing subsidies.

In terms of EBITDA, this division registered $285 million, 6 percent higher than 2016 and $539 million in the first half, showing a 7 percent increase versus 2016.

Turning now to the balance sheet, cash and cash equivalents reached $3.2 billion, an increase of 20 percent compared to the year in 2016, mainly due to CAPEX invested in the cement capacity expansion in Mexico, maintenance and organic growth, as well as for the use of working capital related to sales increase of from volume and price. Given the fact that more than 70 percent of our cash and cash equivalents are dollar denominated, there is also a currency exchange rate impact when expressed in Mexican pesos, due the aforementioned currency revaluation.

Free cash flow before CAPEX totaled 1.4 billion for the second quarter 2017 due to an investment in working capital related to the additional volumes sold in the BuildingSystems in the U.S. operations and higher interest paid on the loan obtained for Giant's acquisition.

Elementia's debt position totaled $15.7 billion, decreased mainly due to the impact of the Mexican peso versus the U.S. dollar exchange rate on our dollar denominated debt; the total payment of the U.S. cement revolving credit line and finally the partial payment of $2.9 million on the ECA credit line with HSBC.

It is also important to mention that our debt position increased by the use of close to $9 million from the ECA facility with Santander for the cement capacity expansion.

In line with the company's strategy to keep a solid and flexible balance sheet, net debt to the last twelve month EBITDA ratio, including Giant proforma, was 2.89x times, and interest coverage 4.54 times, both in line with the covenants set by financial institutions.

Also supporting this strategy, earlier this week, we signed a new credit line with Scotiabank for $1.9 billion which will be due partially prepay the syndicated loan used at the bridge for the acquisition of 55 percent and control of Giant cement.

The new facility is part of Elementia's strategy to restructure our debt from short to a long term. Also, at a very competitive rate. We expect to give further news on this regard in the third quarter. Finally, CAPEX for the second quarter reached almost $1.3 million allocated towards the cement expansion in Mexico as well as the yearly maintenance and both plant expansions, including the U.S. cement operations.

With this, I conclude my remarks, and before going to the Q&A, once again, we are pleased to welcome Ana to the Elementia family, so please Ana, go ahead.

Ana Lourdes Benavides:
Thank you, Juan Francisco. Very briefly, and before moving onto the Q&A session, I would like to briefly recap on some other recent relevant events starting by reminding our listeners that we chose our first Analyst Day just a couple of months ago. I strongly recommend that you visit our website and review this presentation as it contains important information and updates regarding Elementia's overall strategy and that of its divisions.

By the way, we are currently working on launching a new website which should be up and running in a couple of months. The idea is to basically make the experience more friendly and include additional relevant information for investors and analysts.

Also, as Juan Francisco mentioned, just a couple of days ago, we entered into a new product facility for 1.9 billion pesos with a maturity of seven years and a two year grace period, bearing interest at a scale of 140-160 basis points. Again, the intuition behind this transaction is to strengthen our balance and improve our debt profile by extending and well distributing our maturity profile. The proceeds from this transaction will be used to partially prepay the revolving credit line, freeing up to 78 percent of its availability. With this, we conclude the presentation of our results for the quarter, and let's now move to our Q&A session. Again, thank you for joining us today.

Operator:
At this time, we will open the floor for questions. If you would like to ask a question, please press the star key, followed by the one key on your touchtone phone now. Questions will be taken in the order in which they are received. If at any time, you

would like to remove yourself from the questioning queue, just press star, two. Again, to ask a question, please press star, one. Our first question comes from Aaron Holsberg of Santander.

Aaron Holsberg:
Yes, good morning, and of course, congratulations on the early startup of the ramp-up and the financing. I have a question regarding financing. We were wondering if Elementia had been planning to come to U.S. bond markets to finance, given your currency and given the strong demand we're seeing in bond markets, we were surprised that you placed a local issue.

Juan Francisco Sanchez Kramer:
Hello Aaron, and thank you for your question. As you might remember, we had this cost, Elementia balance in terms of currency for both balance sheet, debt, assets, and cash flow. For the time being, as we mentioned, we just get this new credit line that is based on Mexican pesos. For the time being, we are not planning on going out of the market to institutional markets. This does not, of course, limit this possibility for the future, but what I can tell you is for the time being, we are pretty much focused on pesos facilities.

Aaron Holsberg:
One more question. Could you give us a little more progress on the update of the turnaround of the Building Materials Division?

Fernando Ruiz Jacques:
Hi Aaron. This is Fernando. We had made an exceptional good job, I would say, in the U.S. market and in Mexico as a whole. In the U.S. market and Mexico, as you may recall, we made a full potential analysis along with BTG, and we've been very successful implementing and putting it into execution, so we have been growing at a very important pace in the U.S. as well as in Mexico. What I can tell you, and I don't want to disclose a lot, because it is a very important part of our strategy. What I can tell you is that we have begun executing the operating startup for the startup of the facility. This is a plant that was idle. I don't know if you remember. It's located in Indiana, and it's set up to reopen in the first quarter of 2018. We have a very good expectation there. Regarding Mexico, also we have been focusing a lot to our client network. We have been selling as you know, the government parts have been diminishing very importantly this year, so we have basically made a full swing there, focusing on our network, and we also have been very successful. I think we have very nice months to come regarding this division.

Aaron Holsberg:
Okay. Thank you very much.

Fernando Ruiz Jacques:
Sure.

Operator:
Our next question comes from Luis De La Torre of Morgan Stanley.

Luis De La Torre:
Hi, Fernando and Juan Francisco. Thanks a lot for taking my question, and congratulations on the results. I just have two questions on your U.S. operations and your ability to ramp up. I guess my question is on my numbers capacity utilization right around 60 percent to 65 percent. Is this sort of the highest number we should expect for the year? Then, going into 2018, should we expect volumes to ramp more significantly? Then, on fiber cement, we saw great results, and it looks like you guys are taking market share in the U.S. I guess our question here is if you were seeing anything from the competitor, any action? Thank you very much.

Juan Francisco Sanchez Kramer:
Hello, Luis, and thank you for your question. Starting with cement, I mean as we mentioned, 2017 is a transitional year, mostly because all the maintenance work we are doing, the heaviest maintenance work was done in the first quarter, but we will continue doing so throughout the year. Because of this, capacity utilization is not at the target yet. It is still going according to plan. It is also heavily affected by seasonality, because in the first quarter, the demand is much lower than in the rest of the year. The strongest quarters are the second and the third, so going straight to your question on capacity utilization, you have to balance yearly capacity utilization throughout the year. What I can tell you so far is we are doing progress, and capacity utilization is fairly flat when compared to last year, but we expect that this will begin to steadily show improvements in the second half of the year and the following year. For the second part of your question, 2018 should begin also to show improvements in this regard.

Fernando Ruiz Jacques:
Just to compliment Juan Francisco, please bear in mind that we're bringing these assets back to industry standards, so we are heavily investing to bring these back where they should be. We're working very hard on that.

Luis De La Torre:
I just meant for the year for 2017, so maybe 2Q and 3Q would be the peak at the level that we're seeing now, and then, going into next year, would you be able to start ramping up volumes without all the maintenance shutdowns that you need to do? I guess that's what I was trying to -

Fernando Ruiz Jacques:
Sure, and you are right. In 2018, we are expecting higher capacity utilization since the beginning of the year.

Luis De La Torre:
Okay.

Juan Francisco Sanchez Kramer:
Moving to the BuildingSystems question, as you well put it, we are growing faster than the market, so we are gaining market share. There is no doubt. We are very pleased with the progress that we have made implementing the go to market strategy. As we mentioned, we are preparing the market for the reopening of the Indiana facility. Again, very pleased with the progress, and I am confident of the startup in early 2018. Of course, we are hearing some noises in the market with all the players. Not just with the big ones. Of course, there is often going with the competitors is they are not easily defeated or played with. They are very strong, and we are very pleased to have competitors like that.

***Fernando Ruiz Jacques**:*
Also, Luis, bear in mind, there's a tremendous market opportunity. If you take into account that fibercement only represents 20 percent of the whole siding market, I mean there's a huge opportunity. We think we can have interesting growth in the coming years there.

Luis De La Torre:
Okay, thank you very much.

Fernando Ruiz Jacques:
Sure.

Operator:
Our next question comes from Pablo Carrillo of BBVA Bancomer.

Pablo Carrillo:
Thank you. My question has already been answered. Thank you.

Operator:
Thank you.

Fernando Ruiz Jacques:
Thank you, Pablo.

Operator:
Our next question comes from Ruben Lopez of Santander.

Ruben Lopez:
Hi. Thank you for taking my question, and congrats on the results. I have two questions. The first one is on cement in Mexico. Can you give us more color on volume and price performance during the quarter? I mean how results compare with the industry. The second one is on BuildingSystems. We saw an important improvement on margin quarter on quarter, despite the additional cost you are having related to the operating startup of the Indiana facility. What should we expect going forward? Is the margin of the first quarter sustainable for the back half of the year? Thank you.

Juan Francisco Sanchez Kramer:
Thank you, Ruben. Going to your question on the cement operations in Mexico, as we mentioned, we started the grinding operations to begin preparing the market for the startup of the full facility or the full expansion that we are just starting. As we mentioned, we completed or we managed to start just early this month, so we are very pleased, and thank you for your comment.

Going to volume and pricing, during the first half of the year, we increased the volume that we are selling, because of this branding operation. Now that we have started the full facility, volumes will be moving along according to plan. We remain on the plan for the full ramp up in a timeframe of two to two and a half years.

Regarding pricing, as you know, pricing in all markets are set by the normal industry dynamics, that is offer and demand balance, and also, bear in mind that we are focused on the self-construction segment of the market. We believe that pricing movement will be very steady for the rest of the year.

Going to margins, as we mentioned, we were expecting margins to come down because of both the grinding operations and the startup or beginning of the ramp up of the facility. We are very pleased again to so say that these declining margins have not been the mark we expected. These operations have proven to be much more efficient. We are pleased that margins have only gone down to some 40 percent. We expect or the expectation is still in place that margins will go up to some mid 40’s as we move along with the ramp up.

Going to BuildingSystems and your question on margins. This quarter, it was heavily impacted because of two main things. One, the U.S. operations. As we mentioned, we are in increasing volumes sold in the U.S., so we are moving or sending product from all three facilities to the Indiana region in order to prepare the market. This has an impact on margin because of additional freight cost. Second, as Fernando mentioned, the Andean region performance was not as good as it has been, because mainly, Colombia. Colombia is going through difficult microeconomic conditions. Mainly because of the increase on taxes, tax rates, interest rates and lesser subsidies for housing, social housing, in particular. We believe that this is temporary, and we believe that for the next year, things will come back to the usual performance.

Ruben Lopez:
Great. Thanks, Juan Francisco, and welcome, Ana.

Operator:
Our next question comes from Pablo Ricalde of Merrill Lynch.

Pablo Ricalde:
Hi. Good morning, Francisco. Thanks for the call. I have a question for your Mexican cement operations. When do you expect to see benefits from more spending related to 2018 presidential election, and how do you expect them to compare with this year's election cycle.

Fernando Ruiz Jacques:
Pablo, can you repeat the question please?

Pablo Ricalde:
Yes, I am wondering when do you expect to see benefits from more spending related to 2018 presidential election, and how do you expect them to compare with this year's election cycle?

Juan Francisco Sanchez Kramer:
Hello, Pablo, and thank you for your question. As you might recall, going through divisions, for the Cement Division, we are pretty much focused on self-construction, so we have very limited exposure to this kind of project. In Metal Products, it is none. We are focused on industrial applications and construction applications. None of them related to government projects. BuildingSystems that used to have more exposure to these kind of projects, part of the strategy has been to have less dependency on this kind of project, so we are not really focusing the strategy on projects related to government or elections or whatever. We are setting the strategy on a let's say steady and normal market dynamic.

Pablo Ricalde:
Okay. A second question, if I may. Have you secured anything for the new airport?

Juan Francisco Sanchez Kramer:
I mean, again, we are not focused on this kind of project. We have discussed before given the focus of the cement business mainly on self-construction. We are not targeting to get involved in the airport project.

Fernando Ruiz Jacques:
For instance, Pablo, we have a company within the BuildingSystem Division in Mexico which is called Comecop which is basically prefabricated, reinforced piping. Going to your question, our policies already specified for part of the airport, and we will compete maybe on concrete, but just a little bit. I mean we are focused to the self-construction industry.

Pablo Ricalde:
Okay, perfect. So, very little effect from both things.

***Operator*:**

And as a reminder, if you would like to ask a question, please press the star key, followed by the one key on your touchtone phone now. Again, that was star, on to ask a question. Our next question comes from Fernando Sanchez of UBS.

Fernando Sanchez:
Hi. Good morning and congratulations on the results. Just wanted to ask one question just to get a sense on volumes and pricing in cement in Mexico. Sales went up 38 percent, so assuming a high teen price increase for cement would it be fair to assume a volume increase of around 10 percent? Thanks.

Juan Francisco Sanchez Kramer:
Hello Fernando, and thank you for your question. As you might have seen in our report, we are not including or disclosing variations in pricing and volume because of strategic reasons. Basing the startup of the expansion, the capacity expansion. Because of both reasons, we cannot open these figures. But what I can tell you is that in the second quarter, we are, of course, increasing some volumes because of the grinding operations. It will continue to improve as we ramp up the new facility.

Fernando Ruiz Jacques:
Expect something similar to what we have done in the past.

Fernando Sanchez:
Okay, thanks a lot.

Operator:
As a final reminder, if you would like to ask a question, please press the star key, followed by the one key on your touchtone phone now. We have no further questions at this time.

Fernando Ruiz Jacques:
Thank you. Thank you, Operator. Just as a closing remark, I would like to highlight that we are on track on our three main areas of focus which are the start and ramp up on the cement capacity expansion in Mexico, the Giant integration, and the reopening of the Indiana facility.

Once again, thank you all for your interest in Elementia. If you have further questions, please do not hesitate to contact Juan Francisco, Ana, or myself. Have a nice rest of the day.

Juan Francisco Kramer:
Thank you all.

Operator:
Thank you, ladies and gentlemen. This concludes todays teleconference. You may now disconnect.

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