GRUPO ARGOS

Quarterly Earnings Call

1Q2024

May 2024

JUAN ESTEBAN MEJÍA (Introduction)

Good morning everyone. I want to thank you for joining us today. This conference will be dedicated to presenting Grupo Argos's financial results for the first quarter of 2024.

With us today are Jorge Mario Velásquez, President of Grupo Argos; Alejandro Piedrahita, Vice President of Strategy and Corporate Finance at Grupo Argos; Rafael Olivella, Vice President of Legal Affairs at Grupo Argos; Mauricio Ossa, President of Odinsa; María Clara Aristizábal, Manager of the Urban Development Business; Pablo Arroyave, Vice President of Corporate Finance at Odinsa; and Andrés Bejarano, President of Pactia.

I remind you that all the quarterly information and the presentation we will follow during the teleconference are available on our website. You can download them by accessing the "Financial Information" menu and then the "Reports" section.

Additionally, we are broadcasting this earnings call via a Space on X.

I invite you to move to slide 3 of the presentation to start the meeting, and I now hand over the floor to Jorge Mario Velásquez, President of Grupo Argos.

Introduction

Introduction Slide

Thank you, Juan Esteban, and good morning to everyone. I send a special thank you for joining us today.

This first quarter, we have presented results in which we recorded all the profits harvested during 2023 with transformational transactions that will define the company's future direction. Highlights include the combination of assets between Argos USA and Summit Materials, which valued our operations in that country at USD 3.2 billion, and the agreement to divest Grupo Argos's stake in Grupo Nutresa. This last move resulted in greater economic rights for Grupo Argos in Grupo Sura, allowing each organization to focus on managing its strategic path to continue growing and generating value for its stakeholders.

Summit/Sprint Closure Slide

With the successful closure of the transaction between Summit Materials and Cementos Argos in January of this year, a leading platform in the construction materials sector was created with a national scale in the United States and a company value of USD 9.5 billion. The investment of COP 5 trillion made over 18 years in the United States resulted in a net profit of COP 53 trillion reflected in this quarter's financial statements. Since the transaction's announcement highlighted the significant discount at which Cementos Argos's shares were traded on the Colombian Stock Exchange (BVC), the company's market capitalization has increased by over COP 70 trillion.

As a result of the cash received as part of the transaction, Cementos Argos closed March with a net debt/EBITDA leverage ratio of 2.0 times, the lowest in over a decade. This positions the company to consolidate its presence and boost its growth in Colombia, Central America, and the Caribbean, further enhancing its export capabilities to the United States and other geographies.

Since the transaction's closure, Summit Materials' share price on the New York Stock Exchange has trended upwards. As of May 15, Summit's market price stood at USD 42, representing an increase of USD 6 from the USD 36 at the transaction's close. This indicates a valuation increase of over USD 300 million in Cementos Argos's investment in just a few months.

At current market values, the investment in Summit is worth more than COP 6,500 per Cementos Argos share. Given that the average analyst target price for Summit Materials' stock is around USD 50, we are very optimistic about this investment's valuation potential.

Teseo Closure Slide

On the other hand, all operations envisaged in the Framework Agreement dated June 15, 2023, were completed in the first months of this year. As a result, Grupo Argos and Grupo Sura no longer hold shares in Grupo Nutresa, and IHC, JGDB, and Nugil no longer have shares in Grupo Sura or Sociedad Portafolio.

As detailed on slide 5, Grupo Argos exchanged 99% of its historical stake in Grupo Nutresa and USD 115 million in cash to increase its economic rights in Grupo Sura. As a result of this transaction, Grupo Argos now has the right to receive 39.5% of Grupo Sura's economic rights, considering both the shares it is the real beneficiary of and the economic rights it will receive from the autonomous equity to which Grupo Sura's shares were transferred. Additionally, it received a stake in Sociedad Portafolio, in which it now holds 16.6% of the outstanding shares.

Considering that Grupo Sura also received its own shares in these share exchanges and that while these shares are repurchased, their rights are suspended by legal provision, Grupo Argos transferred Grupo Sura shares equivalent to or even more than what it was entitled to receive under the Framework Agreement to an autonomous equity that has the irrevocable instruction not to exercise political rights.

Consequently, Grupo Argos will not exercise political rights beyond 49% of the shares represented at a Grupo Sura shareholders' meeting. This is because Grupo Argos, as an infrastructure holding, does not intend or aim to control Grupo Sura.

Furthermore, an extraordinary shareholders' meeting of Sociedad Portafolio was held on May 9, in which the company's bylaws were amended to set its duration until June 5, 2024. After this date, the company will be dissolved and start the liquidation process to distribute the remaining assets to Sociedad Portafolio's shareholders pro rata of their participation, once its liabilities are paid. Sociedad Portafolio's assets mainly consist of 62 million Grupo Sura shares and 823 million Grupo Argos shares.

It is noteworthy that after the transaction, S&P Global confirmed the AAA rating for the company, demonstrating Grupo Argos's financial strength.

Since the investment in Grupo Nutresa was classified as a financial instrument measured at fair value through other comprehensive income (OCI), the profit generated by transferring Grupo Nutresa shares this quarter was reflected in accumulated earnings as a reclassification from

OCI. The other transaction-related effects are recognized in the consolidated income statement, so both must be considered together to view the net economic benefit of the transaction.

The increase in accumulated earnings was COP 15 trillion, and there was a positive effect on the consolidated income statement of COP 1 trillion, for a net gain of COP 2.5 trillion. This gain includes the profit recognized by Grupo Sura on this transaction incorporated into Grupo Argos's income statements through the equity method.

The divestment in Grupo Nutresa marks a new chapter in Grupo Argos's history. The company will continue to focus on value creation for our shareholders and the deepening of the leadership achieved in the infrastructure sector over the past decade, consolidating investment platforms for energy transmission and distribution projects, solar generation, and transportation platforms, attracting global investor capital that rewards our managerial and operational capabilities.

New SOTP Grupo Argos

With the materialization of the exchange of its stake in Grupo Nutresa, Grupo Argos's portfolio has undergone a significant transformation towards infrastructure.

On slide 6, we can see how Grupo Argos's investment portfolio has changed.

Based on the book values of our unlisted investments, such as Odinsa, NDU, Pactia, and others, and the market price of our listed investments on the Colombian Stock Exchange (BVC) (Celsia, Cementos Argos, Grupo Sura, Sociedad Portafolio, and previously Nutresa), we observe that compared to the first quarter of 2023, Grupo Argos's portfolio has appreciated by COP 4.1 trillion. This increase is supported by the closure of strategic transactions and the strong operational performance of our businesses. Furthermore, the divestment in Grupo Nutresa and operations like Summit Materials have increased the infrastructure segment's weight from 55% to 63% within the company's investment portfolio.

Market Performance

So far in 2024, we continue to advance share buyback programs amounting to over COP 1 trillion for the listed companies of Grupo Empresarial Argos. To date, COP 330 billion of the approved amount has been executed.

As we repurchase our shares at current market values, the participation of each shareholder who maintains their investment grows, besides giving more dynamism and liquidity to the market when it is needed.

Since announcing the share buyback program before the 2023 meetings, coupled with the solid financial results and relevant transactions we have reviewed, the value of Grupo Argos's shares has nearly doubled, and Cementos Argos's shares have tripled. During this same period, the market capitalization of Grupo Empresarial Argos's companies has increased by approximately COP 15 trillion.

Consolidated Results Slide

Moving to the company's results for this first quarter of 2024 on slide 8, Grupo Argos closed this quarter with consolidated revenues of COP 4.5 trillion and EBITDA of COP 2.4 trillion, growing 21% and 90%, respectively, compared to the same period last year.

Considering that, as a result of the agreement between Cementos Argos and Summit Materials, Grupo Argos disposed of 100% of its subsidiaries associated with the United States region, the assets involved in this transaction were classified as a discontinued operation. Consequently, the company made changes to its consolidated financial statements presentation as of March 31, 2023, reclassifying all items associated with the disposed asset group of the United States region to a single line of net profit from discontinued operations.

As a result, the net profit closed at COP 6.5 trillion and the net profit attributable to the parent company at COP 3.8 trillion, reflecting the profits generated by the Summit transactions and the Nutresa share exchange.

Separate Results Slide

Driven by the same non-recurring events that affected consolidated results, the separate financial statements showed accumulated revenues for the year closing at COP 3.0 trillion, EBITDA at COP 2.94 trillion, and net profit reaching COP 2.6 trillion.

Financial Statements and Consolidation Slide

Now, let's move to slide 10, where we can see a summarized structure of the company's managed assets at the close of this first quarter of 2024 and how their financial results will continue to be recorded.

We can observe that although Grupo Argos continues to control and consolidate Cementos Argos, Celsia, and Odinsa, the transactions carried out by our subsidiaries in recent years, framed in revealing value to our shareholders and in the strategy of transforming the company into an infrastructure asset manager, have caused many results and debts associated with many of their assets to no longer consolidate line by line in their financial statements and, consequently, not in Grupo Argos's financial statements either.

From now on, the 31% stake that Cementos Argos holds in Summit Materials will be reflected in our Consolidated Financial Statements through the equity method. Likewise, the asset management business of Celsia, including platforms such as C2Energía, Tesorito, Laurel, and Caoba, where much of this subsidiary's growth is anticipated through associations with third-party capital, will also not be recorded line by line in the company's financial statements. Similarly, the creation of Odinsa's road and airport platforms in partnership with Macquarie results in the non-consolidation of concession results.

Therefore, it is important to consider that from now on, the consolidated financial statements only incorporate a minority group of the assets managed by the company. In other words, the consolidated revenues and EBITDA do not fully reflect our business's operational performance.

Non-Recurring Effects and Accounting Changes Slide

The next slide details the accounting changes the company will have for 2024.

Besides the deconsolidation of Cementos Argos's assets in the United States and the corresponding change in the presentation of the Income Statement in 2024, the company will record a lower level of revenues in its energy business due to the divestment of most of its assets in Central America during 2023. Additionally, it will deconsolidate its stake in OPAIN and record a lower equity method in Quiport due to the creation of the airport vertical with Macquarie. It will also experience an increase in the equity method of Grupo Sura due to the rise in its economic rights in this investment and will cease to record the dividends it used to receive from Grupo Nutresa.

Proforma Slides

In slides 12, 13, and 14, we present a summary of the contributions to consolidated income, EBITDA, and net profit, along with the main considerations and non-recurring impacts that have affected this quarter and the previous one in each segment. The results have been mainly influenced by the deconsolidation of Argos USA and the transaction costs reported by Summit this quarter in the cement business (totaling USD 61.3 million for Summit), the deconsolidation following the sale of certain assets in Central America, and the effects of the El Niño phenomenon in the energy business, a negative accounting impact due to the adjustment in the fair value of the Pavas and Barú lots, a deferred tax in the real estate segment, and the deconsolidation of OPAIN following the creation of the airport platform in the concessions business.

We also present a summary of the variation in income, EBITDA, and net profit of the energy, road, and airport platforms, as well as the results of Summit Materials. These company investments, although not consolidated in the financial statements and therefore not evident in the segment contributions to the consolidated, continue to show positive and relevant growth and operational performance.

Cementos Argos

CemArgos Slide – Qualitative

Now, let's move on to see the results of our businesses on slide 16.

Amid a challenging sector outlook, Cementos Argos continued to show results focusing on profitability in its operations in Latin America, improving its EBITDA margin by approximately 200 basis points despite the economic slowdown in several markets where it operates.

On another front, to improve the liquidity of the stock and aim to meet the criteria to be eligible for the MSCI Emerging Markets index, the Cementos Argos Assembly approved converting the company's preferred shares into common shares.

As a result of this process, 99.8% of the preferred shares were converted into common shares, and thus the latter now represent 99.96% of the company's outstanding shares. This measure is expected to improve the stock's liquidity, bringing it closer to its fundamental value.

Additionally, continuing with the measures to reveal value to all its shareholders, including Grupo Argos, Cementos Argos continued its share buyback program this quarter, having acquired 26 million of its shares since the program started.

Considering the increase in ownership resulting from both the share buyback program and the conversion of preferred shares to common shares, the 705.8 million shares that Grupo Argos holds in Cementos Argos went from representing 51.3% of the economic rights at the end of 2023 to 53.4%, a 2% increase in participation, which at current market values is worth more than COP 200 billion. This further strengthens its position as a leading player in the construction materials sector in America, Colombia, and the Caribbean, with significant exposure to the industry in the world's largest economy.

CemArgos Slide – Results

During the quarter, Cementos Argos dispatched 2.1 million tons in its operations in Colombia, Central America, and the Caribbean, 13% less than the same period last year in these geographies. Revenues decreased by 6% in the quarter, while EBITDA grew by 2%, resulting in an EBITDA margin improvement to 22%. Analyzing the figures in dollars, the functional currency of most countries in Central America and the Caribbean where the company operates, revenues grew by 13%, and EBITDA by 23%.

Celsia

Celsia Slide – Qualitative

The financial results of our energy business for the quarter show a significant decline in EBITDA and net profit, attributed to the challenges posed by the El Niño phenomenon in hydroelectric generation. However, the company's ability to provide reliability to the system during this critical period has demonstrated the strength of our assets.

This contrasts with the situation the company faced during the 2015/2016 El Niño phenomenon, when the company reported a loss attributable to controllers of over COP 82 billion and had to sell part of its investment portfolio and declare dividends in shares to ensure the necessary liquidity to weather that climatic challenge.

The robustness the company showed this quarter under similar climatic conditions results from an optimized portfolio towards a more balanced generation mix in recent years. This highlights the solidity with which the company can provide reliability to the Colombian electric system today and in the future, even in the face of the most challenging climatic conditions.

For the coming months, we anticipate a recovery in this business to an EBITDA margin of between 32% and 35% as climatic conditions normalize. This, along with positive results from Tesorito, reduced debt costs, and the deleveraging resulting from selling some assets in Central America in 2023, should allow Celsia to close 2024 with a net profit similar to last year.

In the Asset Management business, we highlight the results of the C2Energía platform, specialized in large-scale solar generation. With 300 MWp in operation, it recorded a generation of 127 GWh with a 17% growth, reporting revenues of COP 44 billion and an EBITDA of COP 37 billion, both with an increase of over 150% compared to the same period in 2023. Additionally, this platform has 308 MWp under construction and 522 MWp under development, continuing a growth trajectory that will consolidate Celsia as a leader in non-conventional renewable energy generation in Colombia.

Celsia Slide - Results

Celsia's revenues in the first quarter reached COP 1.4 trillion, a 3% decrease compared to the same period in 2023, considering the effect of the assets sold in Central America during the previous year.

Consolidated EBITDA was COP 326 billion, experiencing a 36% decline. However, considering the EBITDA of Celsia's investment platforms, which are not consolidated in the financial statements, total EBITDA for the quarter amounted to COP 437 billion, a figure that, compared to the EBITDA with platforms and excluding the assets in Central America in the first quarter of 2023, represents a 20% decrease.

During the quarter, the generated energy was 962 MWh, representing a 45% drop due to lower hydroelectric generation caused by the El Niño phenomenon.

Odinsa

Odinsa Slide – Qualitative

Let's now move to the results of Odinsa on slide 20.

Airport traffic continues to show outstanding growth. The platform accumulated 48 million passengers transported over the last 12 months, of which 42 million correspond to El Dorado International Airport, a record figure for the asset operating at full capacity.

On the other hand, the company began constructing the interchange that will replace the external roundabout of Rionegro Airport in Antioquia. The goal of this project, developed by the Aburrá Oriente Tunnel Concession in conjunction with the Government of Antioquia, is to improve mobility in the department's east and reduce travel times to this sub-region. The investment for this project will be around COP 67 billion, with a total term of 24 months, and it will generate about 300 direct jobs. With this and other investments, we continue to bet not only on Medellín's connectivity with José María Córdova Airport, given the city's growing interest in tourism and business but also on connecting the Aburrá Valley with the San Nicolás Valley, two development poles destined to be connected to enhance the entire region's competitiveness.

Regarding our commitment to generating shared value, Odinsa was included among the world's most sustainable companies in the latest edition of the Sustainability Yearbook conducted by S&P Global. The company ranked tenth among the 297 companies evaluated in its industry.

Odinsa Slide – Results

Moving to the company's operational results on slide 21, the road platform closed the quarter with an average daily traffic of 107,000 vehicles, stable compared to the same period last year. The platform's concession revenues grew by 23% for the quarter, while EBITDA stood at COP 164 billion, a 3% increase.

In airports, detailed figures on slide 22 show that traffic during the quarter reached 13 million, growing by 20%. OPAIN's revenues reached COP 458 billion, a 3% growth, and EBITDA reached COP 144 billion, decreasing by 12%, an effect explained by the drop in the exchange rate as 55% to 60% of this asset's revenues are dollarized. On the other hand, Quiport's revenues and EBITDA grew by 15% and 16%, respectively.

Pactia Slide – Results

In the real estate rental business, the effective gross income was COP 121 billion, growing by 10% year-on-year, and EBITDA for the quarter was COP 67 billion, also with a 10% year-on-year increase.

A total of 63,000 m2 of contracts were renewed, and 16,000 m2 of new contracts were placed during the first quarter of 2024. At the end of the period, the non-hotel portfolio's occupancy was 96.1%, a 24 basis point decrease compared to the same period in 2023 and a 113 basis point decrease versus the previous quarter.

Compared to the first quarter of 2023, the logistics and warehousing sectors achieved the highest income growth with a 15% increase, followed by offices with a 13% increase.

NDU Slide

In the NDU, net cash flow for the quarter was COP 23 billion, a positive result considering the market slowdown. Our plots continue to show resilience in a less dynamic market, reflecting the differentiation achieved through our quality urbanism and the strategic location of our projects. For this year and next, we anticipate a recovery driven by the unmet demand for social housing and the reactivation of government subsidy allocation.

In the first quarter of 2024, lot sales revenue was 25% higher, with the notarization of two lots in Ciudad Mallorquín. However, total revenues and recorded EBITDA were negative. This is due to a fair value adjustment of the Pavas and Barú lots in February, where the urban development cost assumption was modified, resulting in a deterioration for the quarter. It is worth noting that this deterioration is purely accounting and will allow us to consider more uses, potentially accelerating sales in the future.

Regarding the Ciudad Mallorquín project developed by this business in Puerto Colombia, Atlántico, it is progressing by meeting all environmental, social, and legal commitments, while also generating an unprecedented transformation for development and social inclusion in this region.

Ciudad Mallorquín is being developed to the highest urban standards by Grupo Argos, including a central park of 130,000 square meters, with the first quadrant of 10,000 square meters recently inaugurated. Housing projects are managed by some of the country's most prominent builders. Construction began in 2019 on an area of 80 hectares, of which 45 hectares are being developed for a total of 16,000 homes, 14,000 of which are VIS. To date, more than 1,000 of these apartments have already been delivered, over 5,000 are built, and more than 9,200 families have reserved or acquired housing solutions there.

It is a high-density project that will double Puerto Colombia's property tax revenue and generate over 2,000 construction jobs on average, although it linked more than 3,000 people in 2023 alone. In total, Ciudad Mallorquín will represent more than COP 3.5 trillion in sales, a relevant capital injection at a time when Colombia's housing sector has slowed, with a more than 60% drop in real estate sales in Barranquilla alone in 2023.

The Urban Development Business will continue to seek ways to generate value for all its stakeholders with this and other relevant projects.

Consolidated Debt Slide

Now let's move to slide 27 to analyze the evolution of consolidated debt.

In this regard, net debt closed the year at COP 7.6 trillion, a 42% decrease compared to the same period last year, mainly explained by the cash received in the Summit transaction. Similarly, net financial expenses for the quarter decreased by 20% year-on-year.

GA Separate Slide – Separate Debt

Thanks to the company's cash position, Grupo Argos's separate net debt detailed on slide 30 closed the quarter at COP 789 billion, 34% less than in the first quarter of 2023, giving the company complete financial flexibility and allowing it to close the year with healthy debt indicators in line with the current credit rating.

Among the treasury strategies, it is worth noting that the company closed the period with fixed-income paper investments of around COP 820 billion, generating a positive carry as their returns are above the cost of debt.

As a result of the takeover bid for Nutresa shares, the company disbursed COP 432 billion, for which no additional debt was required. This will be reflected in a lower cash position next quarter.

Sustainability

To conclude, we would like to share a sustainability milestone that fills us with pride as a business group.

The United States Department of Energy made public the list of high-impact projects in CO2 emissions reduction with initiatives totaling over USD 20 billion as a commitment to finding new technologies in industries to combat climate change. Summit Materials was chosen for one of these projects with a "grant" (non-reimbursable government contribution) totaling USD 215.6 million for the construction of up to four calcined clay facilities in the United States. This project was initially conceived by Cementos Argos's innovation teams in Colombia, where the first calcined clay plant was established in 2016.

JUAN ESTEBAN MEJÍA (Q&A)

I remind everyone that you can ask your questions in the Q&A section enabled on the Zoom platform.