VOTORANTIM cimentos

Votorantim Cimentos 3Q23 Earnings Release

BRL million	3Q23	2Q23	3Q22	3Q23 vs. 2Q23	3Q23 vs. 3Q22	9M23	9M22	9M23 vs. 9M22
Cement sales volume (m tons)	**10.3**	**9.5**	**10.2**	**9%**	**1%**	**27.7**	**27.8**	**0%**
Net Revenue	**7.395**	**6,901**	**7,643**	**7%**	**(3%)**	**20,091**	**19,243**	**4%**
CPV	**(5,451)**	**(5,315)**	**(5,887)**	**3%**	**(7%)**	**(15,727)**	**(15,752)**	**0%**
SG&A	**(579)**	**(555)**	**(537)**	**4%**	**8%**	**(1,717)**	**(1,507)**	**14%**
Sales expenses	(229)	(230)	(235)	0%	(3%)	(711)	(639)	11%
General and administrative expenses	(350)	(325)	(302)	7%	16%	(1,007)	(868)	16%
Other Non Operational Results	**76**	**86**	**69**	**(12%)**	**10%**	**205**	**144**	**42%**
Net income	**824**	**470**	**604**	**75%**	**36%**	**1,372**	**654**	**110%**
Depreciation	**(453)**	**(464)**	**(460)**	**(2%)**	**(2%)**	**(1,385)**	**(1,348)**	**3%**
Dividends and non-recurring items	**28**	**7**	**15**	**288%**	**87%**	**52**	**65**	**(20%)**
Adjusted EBITDA	**1,923**	**1,588**	**1,763**	**21%**	**9%**	**4,290**	**3,541**	**21%**
EBITDA margin	**26%**	**23%**	**23%**	**+3p.p**	**+3p.p**	**21%**	**18%**	**+3p.p**

Highlights

- Votorantim Cimentos' net revenue in 3Q23 was BRL 7.4 billion, a 3% drop compared to 3Q22, due to market dynamics and a negative exchange rate impact. On the 2023 year to date basis it increased 4%.
- Adjusted EBITDA added up to BRL 1.9 billion, a 9% increase compared to the same period in 2022, due to better operating results, especially in North America and Spain, as well as adjacencies businesses in Brazil. In 3Q23 there was an increase of 3 p.p. in the EBITDA margin compared to the same period in the previous year.
- The leverage ratio ended the third quarter of 2023 at 1.50x, a reduction of 0.14x and 0.26x compared to the 2Q23 and 3Q22, respectively.
- The credit rating agency Fitch Ratings reaffirmed the investment grade for Votorantim Cimentos as "BBB-" and updated the outlook from "stable" to "positive".

1 Net Revenue

Net Revenue (BRL million)	3Q23	2Q23	3Q22	3Q23 vs. 2Q23	3Q23 vs. 3Q22	9M23	9M22	9M23 vs. 9M22
VCBR	3,482	3,165	3,660	10%	(5%)	9,661	9,500	2%
VCNA	2,321	2,345	2.493	(1%)	(7%)	5,876	5,591	5%
VCEAA	1,185	975	905	22%	31%	3,160	2,443	29%
VCLATAM	239	200	214	19%	11%	633	607	4%
Others[1]	169	215	371	(22%)	(54%)	762	1,101	(31%)
Consolidated	**7,395**	**6,901**	**7,643**	**7%**	**(3%)**	**20,091**	**19,243**	**4%**

Consolidated net revenue was BRL 7.4 billion in 3Q23, a 3% drop when compared to the same period in 2022, mainly due to the market and the negative impact due to currency appreciation. Year-to-date, there was a 4% growth in net revenue.

Brazil's net revenue (VCBR) was BRL 3.5 billion in 3Q23, a 5% drop compared to the same period in the previous year, due to the market dynamics and heavy rains.

In North America (VCNA), net revenue reached BRL 2.3 billion in the third quarter of 2023, a 7% drop compared to 3Q22. The slowdown is due to the decrease in the United States residential sector and the exchange variation. The price increases made in the year partially mitigated the aforementioned factors. North America's net revenue was stable in local currency.

In Europe, Asia and Africa (VCEAA), net revenue increased 31% in 3Q23 compared to 3Q22, reaching BRL 1.2 billion, mainly due to higher volumes and prices in Turkey with the market recovery, and in Spain due to the complete integration of the new plant in Malaga, an acquisition completed in November 2022.

Latin America's net revenue (VCLatam) grew 11% in 3Q23 compared to 3Q22, from BRL 214 million to BRL 239 million. These results were due to better market dynamics in Uruguay and positive demand in Bolivia.

[1] Net revenue from "Others" is mainly resulting from Votorantim Cimentos Trading, more information in note 4.1 of DF 3Q23.

2 Cost of Goods Sold, Selling and Administrative Expenses

The consolidated cost of goods sold and services provided (CPV) dropped 7% in the third quarter of 2023 when compared to the same period in 2022, due to the reduction in fuel, electricity and freight costs, reaching BRL 5.5 billion.

Consolidated selling expenses were BRL 229 million in 3Q23, a 3% drop mainly due to the lower investments in marketing in Brazil mitigating the impact of the consolidation of the recent acquisition on the balance sheet, when compared to 3Q22. Regarding general and administrative expenses, there was an increase of 16% when comparing 3Q23 and 3Q22, adding up to BRL 350 million. The negative impacts are due to the consolidation of new assets on the balance sheet and inflation.

3 Adjusted EBITDA

Adjusted EBITDA (BRL million)	3Q23	2Q23	3Q22	3Q23 vs. 2Q23	3Q23 vs. 3Q22	9M23	9M22	9M23 vs. 9M22
VCBR	805	567	863	42%	(7%)	1,918	1,828	5%
VCNA	753	647	706	16%	7%	1,352	1,104	22%
VCEAA	265	312	177	(15%)	50%	841	477	76%
VCLATAM	47	37	39	29%	21%	112	115	(2%)
Others[2]	53	25	(22)	109%	N.A.	66	16	309%
Consolidated	**1,923**	**1,588**	**1,763**	**21%**	**9%**	**4,290**	**3,541**	**21%**

Consolidated adjusted EBITDA reached BRL 1.9 billion in the third quarter of 2023, 9% higher when compared to the same period in 2022. The consolidated operating result was mainly driven by positive margins and volume dynamics in some regions, combined with lower costs in general, positively impacting the EBITDA margin for the period.

In 3Q23, VCBR had an adjusted EBITDA of BRL 805 million, an operating result that was 7% lower compared to 3Q22, due to the slowdown in the market and challenging price dynamics. Mitigating the aforementioned factors, there was a reduction in costs, mainly petcoke and energy, positively impacting results in the period. Additionally, operating results from adjacencies businesses were 53% higher in 3Q23 vs. 3Q22. Year-to-date, we have a 5% growth in operating results compared to the same period in 2022.

VCNA's adjusted operating result was BRL 753 million in 3Q23 compared to BRL 706 million in the same period last year. The positive margins management in the region in addition to the reduction in energy and fuel costs were sufficient to mitigate the slight drop in the market. The consolidated results in the region were negatively impacted by the depreciation of the dollar during the period, and in the local currency, there was a 13% increase in the operating results.

Adjusted EBITDA in VCEAA grew 50% in 3Q23 compared to 3Q22, adding up to BRL 256 million. This increase in operating results is a consequence of the positive market dynamics in most regions of the cluster, especially in Spain and Turkey, in addition to the synergies captured from the M&As processes. Finally, the impact of the drop in costs is also perceived, mainly for fuel, energy and freight costs.

The result of the adjusted EBITDA at VCLatam grew 21%, from R$39 million in 3Q22 to R$47 million in 3Q23. Uruguay's operation was positively impacted by the improvement in the market, in addition to operational synergies with the industrial activities gathered together in the city of Minas, which are already being captured. In Bolivia, positive demand combined with lower costs was enough to cover challenging price dynamics.

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[2]Adjusted EBITDA from Others is mainly due to dividends received and non-recurring items, more information is available on note 4.1 of DF 3Q23.

4 Net Income

Net Income (Loss) (BRL million)	3Q23	2Q23	3Q22	3Q23 vs. 2Q23	3Q23 vs. 3Q22	9M23	9M22	9M23 vs. 9M22
Adjusted EBITDA	1,923	1,588	1,763	21%	9%	4,290	3,541	21%
Depreciation	(453)	(464)	(460)	(2%)	(2%)	(1,385)	(1,348)	3%
Equity Method	38	(4)	44	N.A.	(14%)	63	81	(22%)
Net Financial Results	(359)	(318)	(402)	13%	(11%)	(859)	(1,130)	24%
Income Tax and Social Contribution	(297)	(326)	(326)	(9%)	(9%)	(685)	(426)	61%
Others	(28)	(7)	(15)	300%	(87%)	(52)	(65)	20%
Net income	**824**	**470**	**604**	**75%**	**36%**	**1,372**	**654**	**110%**

Net income was BRL 824 million in 3Q23 compared to BRL 604 million in the same period last year. Results in 3Q23 are mainly due to the higher operating results. In addition, the improvement in the financial results and the lower income tax and social contribution result also contributed to the increase in net income in the period.

The net financial results added up to BRL 359 million compared to BRL 402 million in 3Q22, a 11% increase, a better result of 11%, due to a higher financial expense in 3Q22, driven by a liability management that did not occur this year.

Income tax and social contribution added up to BRL 297 million in 3Q23, 9% lower than the same period in 2022, mainly due to the improvement in the result for the period and a credit write-off resulting from the taxation of profit from abroad carried out in the same period last year.

5 Free Cash Flow

(BRL million)	3Q23	2Q23	3Q22	3Q23 vs. 2Q23	3Q23 vs. 3Q22	9M23	9M22	9M23 vs. 9M22
Adjusted EBITDA	1,923	1,588	1,764	21%	9%	4,290	3,541	21%
Working Capital/Others	206	(571)	420	N.A.	(51%)	(1,946)	(700)	178%
Taxes	(71)	(71)	226	-	N.A.	(178)	140	N.A.
CAPEX	(519)	(475)	(462)	6%	12%	(1,329)	(1,061)	25%
Operational Cash Flow	**1,536**	**472**	**1,948**	**226%**	**(21%)**	**837**	**1,920**	**(56%)**
Investment / Divestment	(5)	(28)	18	(81%)	N.A.	(66)	111	N.A.
Financial Result	(179)	(261)	(184)	(31%)	(3%)	(620)	(645)	(4%)
Exchange Effect on Cash	59	(85)	14	N.A.	312%	(56)	(185)	69%
Free Cash Flow to Shareholder	**1,414**	**97**	**1,796**	**1,357%**	**(21%)**	**94**	**1,201**	**(100%)**
Dividends for minority shareholders	0	(101)	(18)	N.A.	N.A.	(101)	(135)	(52%)
Dividends for controlling shareholders	(463)	1	(540)	N.A.	(14%)	(939)	(1,075)	(13%)
Free Cash Flow	**951**	**(4)**	**1,238**	**N.A.**	**(23%)**	**(946)**	**(9)**	**N.A.**

In 3Q23, Operating Cash Flow was positive at BRL 1.5 billion, a 21% reduction when compared to the same period in 2022. This result is due to working capital impacts combined with greater investments in Capex focused on increasing competitiveness, partially mitigated by the higher operating result.

The working capital result in 3Q23 was 51% lower than 3T22 mainly due to suppliers and, to a lesser extent, accounts receivable.

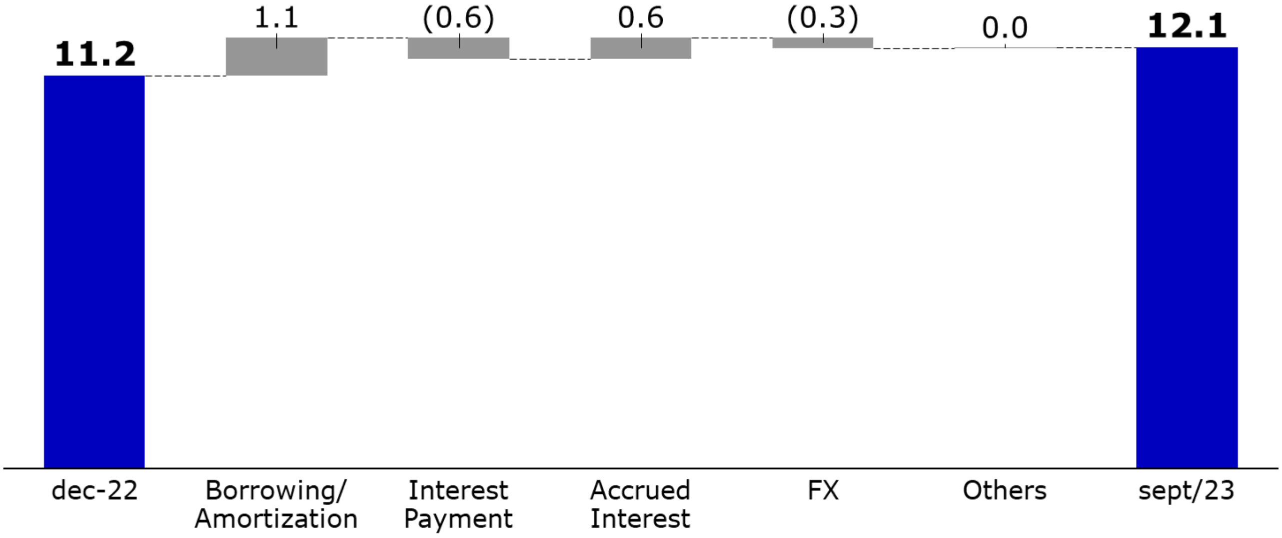
In the third quarter of 2022 we had a positive impact from a tax refund in Canada in the amount of R$252 million, which did not occur in 3Q23.

In 3Q23, dividends were paid in accordance with the Company's financial policy. In 2023, the company made an accumulated payment of R$939 million.

Free Cash Flow was R$950 million, 23% lower than in the same period last year.

6 Debt Level and Liquidity

At the end of 3Q23, gross debt[3] totaled BRL 12.1 billion, a higher debt compared to the end of 2022, mainly due to new loans. On September 30, 2023, the average maturity term was approximately 6.1 years, and 97% of the gross debt was long term (non-current).



Votorantim Cimentos has two revolving credit facilities available. The first credit facility, adds up to USD 300 million, maturing in June 2027, and supports the Company with short-term cash liquidity during the seasonal periods that affect the Northern Hemisphere-based subsidiaries. Thus, the operating credit facility was drawn at USD 66.4 million at the end of the third quarter of 2023. The second revolving credit facility aims to provide liquidity to the Company in scenarios of uncertainty and volatility. This credit facility adds up to USD 250 million, maturing in 2026, and was 100% available at the 3Q23 closing.

In July 2023, the Company concluded a financing agreement for the modernization project of the cement plant located in Salto de Pirapora (SP). The new funding was fully financed by the *International Finance Corporation* (IFC) adding up to USD 150 million which is equivalent to BRL 747 million, and a 10-year term. This facility has a sustainability performance indicator (KPI) associated with a reduction in the net emission of scope 1 greenhouse gas ($KgCO_2$/ ton of cement). If the Company reaches the CO_2 reduction target by December 2026, it will benefit from a reduction in the interest rates of the financing contract, considering the operation as a sustainability-linked loan.

At the end of the third quarter of 2023, Votorantim Cimentos maintained solid liquidity with the amount of cash and financial investments, adding up to BRL 4.9 billion, allowing Votorantim Cimentos to fulfill its financial obligations for the next three years.

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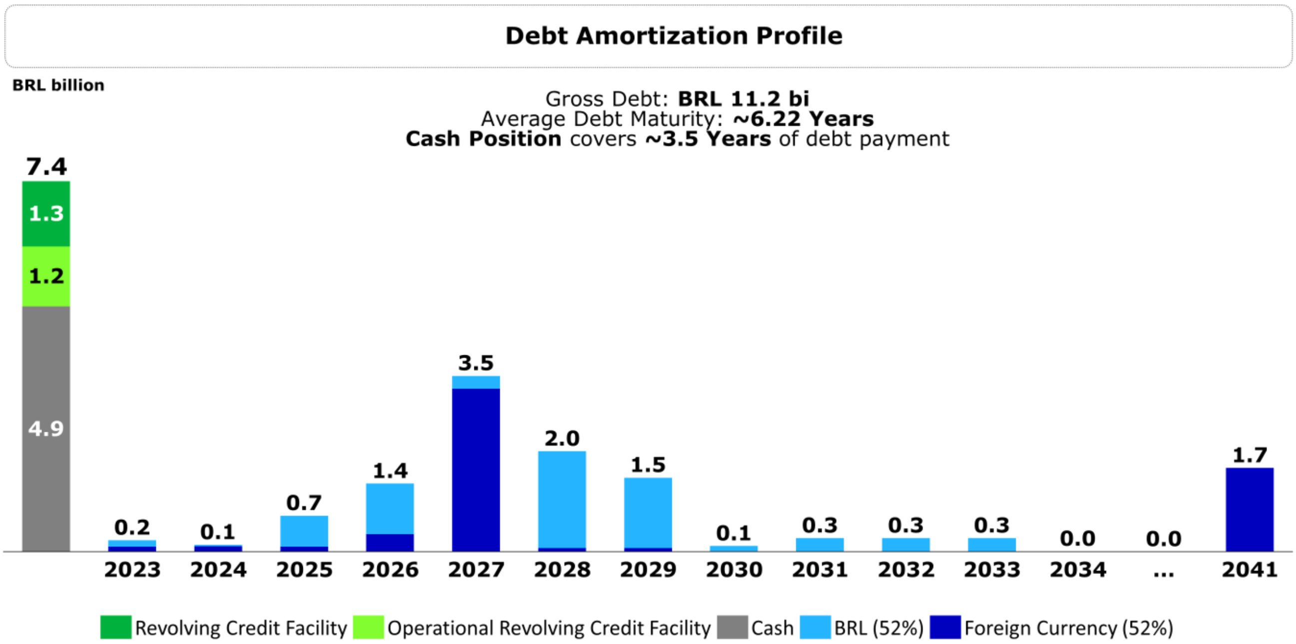
[3]Does not include effects of IFRS 16

In September 2023, the Company had a net debt per adjusted EBITDA (leverage ratio) of 1.50x, a reduction of 0.14x and 0.26x compared to 2Q23 and 3Q22, respectively; already below of the 2022 closing ratio. This metric is decreasing, in line with the improved operating results and cash generation in the period.

The chart below shows the debt[4] amortization profile as of September 30, 2023:



7 Investments and Divestments

At the end of 3Q23, Votorantim Cimentos' investments (*Capex*) added up to BRL 519 million, 12% higher than 3Q22 and 25% higher than the consolidated period in the year, compared to the same period in 2022. This increase is mainly due to the global strategy for investments in modernization and competitiveness, such as the project at Salto de Pirapora plant, in São Paulo, and also projects linked to our decarbonization commitments. Non-expansion projects represented 92% of the total CAPEX.

Expansion projects account for 8% of the total expansion capital invested in 3Q23. The main investments are related to adjacencies businesses growth projects in Brazil, such as the increase the production capacity of Viter and Verdera at Paraná, and debottleneck the cement production capacity in North America.

[4]The debt amortization profile does not include IFRS 16.

8 Business Highlights

i. Rating Update

In September 2023, Votorantim Cimentos received the credit rating update from Fitch Ratings, which reaffirmed the Company's global credit rating as investment grade at "BBB-" and updated the outlook from stable to positive.

9 Global Macroeconomic Scenario

Brazil

The recent drops in Brazil's basic interest rate (Selic) have not yet been sufficient to leverage cement consumption, which directly impacts the number of real estate financing contracts for construction. In addition, the slow recovery of the population´s income and high household indebtedness continue to impact the slowdown in cement sales during the period. In addition, there was a strong rainfall period in September, mainly in the southern region of the country, which strongly compromised the sector's sales performance.

According to SNIC, the expectation in the sector is for an improvement during the last months of 2023, driven by the recent real estate cycle, with the reinforcement of the Minha Casa, Minha Vida Program for housing and resumption of construction and infrastructure projects. In addition to housing programs, the projected macroeconomic scenario brings a positive outlook for the coming months, with the expected drop in interest rates, reduced inflation and a higher-than-expected GDP for 2023 and 2024.

The cement market ended the third quarter of 2023 with a 1.4% drop and a year-to-date reduction of 2%, compared to the same period of the previous year, according to the country's National Cement Industry Union (SNIC). SNIC continues to keep up a cement market projection of -1% for 2023.

U.S. and Canada

In the US, cement demand had a slight slowdown in the third quarter with a more challenging market in Canada. The fear of an economic recession has diminished, but the increase in interest rates and inflation impacts still generates caution regarding the economy and monetary policy for both countries.

For 2023, the Portland Cement Association (PCA) predicts in its latest report that demand is expected to drop 2.9% in 2023, but the utilization rate is expected to remain at high levels, despite the drop in demand.

Private construction activity tends to drop due to the context with higher interest rates, tight credit conditions, and a weakened U.S. economy. On the other hand, the U.S. government's infrastructure plan is expected to materialize regarding cement demand significantly in 2024 and 2025. According to the PCA, the two points mentioned above will be the main factors for demand in the coming years.

Spain

Cement consumption in the nine-month period of 2023 dropped 1.6% compared to the same period in 2022, according to the country's cement association, Oficemen (*Agrupación de fabricaciones de cemento de España*). According to the association, there are several reasons for the market slowdown in recent months, such as an unstable macroeconomic environment, inflation and political uncertainties due to the recent elections; these factors have a direct impact on private construction projects, due to the degree of uncertainty in the business environment and the public construction projects.

The cement association in Spain continues to forecast a cement demand between stable and a 3% drop for 2023, compared to 2022.

Morocco

According to the local cement association, *L'Association Professionnelle des Cimentiers (*APC), in 9M23 cement sales dropped 2.1% compared to the same period in 2022, with a growth of 3.6% in the third quarter of 2023. The infrastructure segment, despite the strong demand, was not enough to offset the drop in the other segments, in addition to the impact of the earthquake that hit the country in September.

Turkey

The country's cement market grew 19% from January to July compared to the first six months of 2022, due to positive market dynamics and the need for investments in infrastructure. Following the elections and announcements by the government's economic team, the Central Bank of Turkey implemented measures to raise interest rates seeking to further curb inflation, rebuild foreign currency reserves, and reduce the current account deficit.

Tunisia

Cement consumption in the 3Q23 dropped 9.8 % compared to the same period in the previsou year, according to the local association, *Chambre Nationale des Producteurs de Ciment* (CNPC). The country's political and economic challenges are persistent and bring high volatility to the market. In addition, social tensions have been recurring due to the measures that the IMF[5] wants to implement to approve the relief package.

[5]IMF International Monetary Fund

Bolivia

According to the latest data released by INE (National Statistics Institute), during the first five months of 2023 there was a 4.6% growth in cement demand compared to the same period in 2022. The IMF[6] April/23 report forecasts growth for the country of 1.8% for 2023.

Uruguay

After a more challenging market in the first half due to seasonality, the cement market in the country has been more resilient and stable. The country's economic outlook is positive. The IMF[6] April/23 report forecasts growth for the country of 2.0% for 2023.

Argentina

Cement market dynamics were challenging, with cement consumption down 1.8% in 9M23 compared to the same period in 2022, according to the local association, *Associación de Fabricantes de Cemento Portland* (AFCP). Despite being negatively impacted, the local building materials sector remains resilient to macroeconomic fluctuations.

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