

International Conference Call

Randon

3rd Quarter 2016 Earnings Results

November 11, 2016

Operator: Good afternoon everyone and thank you for waiting. Welcome to Randon S/A Implementos e Participações 3Q and 9M16 results conference call. With us here today we have Daniel Raul Randon, VP of Administration; Geraldo Santa Catharina, Financial and Investor Relations Director and Hemerson Fernando de Souza, Planning and Investor Relations Manager.

This event is being recorded and all participants will be in a listen only mode during the presentation. After Randon remarks there will be a questions and answers session. At that time further instructions will be given. Should any participants need assistance during this call please press star zero to reach the operator.

This event is also being broadcast live via webcast and may be accessed through the website ri.randon.com.br where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is included. Those following the presentation via the webcast may pose their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding let me mention that forward-looking statements are based on the beliefs and assumptions of Randon management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that conditions related to microeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now will turn the conference over to Mr. Geraldo Santa Catharina, Financial and Investor Relations Director. You may begin your presentation please Mr. Geraldo you have the floor.

Mr. Geraldo Santa Catharina: Good afternoon everyone and welcome to another results conference call by Randon. So every end of quarter we have this conference call. In the morning we held our Apimec meeting in São Paulo where

we talk about the results of 3Q and talked about the business outlook and we had great interaction from the public.

I would like to remind you that these two events are part of the annual calendar of events sent to the competent authorities and I can tell you that regarding the material fact published yesterday that appeared in the press yesterday we will not make any comments in compliance with CVM legislation.

Everything that can be said is in the content of the material fact and therefore we will not make any projections, future projections about the company's performance or its businesses and we already thank you for your understanding. This will not affect the quality of the conference.

Recently we have seen important changes in the country: the impeachment and removal of President Dilma Rousseff; inflation falling and apparently under control; the first cut in interest rates in four years; a cheaper dollar at least to the end of September; growing consumer confidence over the past six consecutive months and approval of Draft Bill 241 and the lower house.

So from where we stand the business environment is really changing. However fiscal year 2016 will close with significant losses and there is not time to revert back. The changes as mentioned will bear fruit to business much later than and by the looks of it the recovery will be long drawn and these challenges are here to stay. The government has to deliver on the difficult mission of balancing the country's fiscal deficit and the company is part of an industry that took a hard fall in this long crisis, the automotive industry.

3Q 16 reflected this hardship and we are going to approach each of the variables during the presentation. Slide four shows data on the production and sales of trucks, buses, trailers and semi-trailers in 3Q and in the year to September. On the trucks market we sustained a drop of 14% in production and 27% in sales against 3Q 15.

And in the semi-trailer market we faced a drop of 21% in production and 26% in sales against the same quarter. Most indicators also slid back compared to 2Q 16. In addition to the roadblocks of the first half year we faced a much poorer corn harvest in the wake of the drought that hit the country and the halt during the Olympic Games.

Some automakers have also been impacted by the vendors fault to deliver raw materials, which delayed production.

Slide five brings the company key figures in 3Q and the first nine months of the year. Consolidated net revenue amounted to 570 million down by 33% from 3Q 15.

This significant drop is a result of the slump in railcar and semi-trailer sales in the period. In the year to September net revenue amounted to 2 billion BRL down 12% from 2015.

Sales in the foreign markets were totaled 38 million in the quarter, million dollars in the quarter I am sorry, down 14% from 3Q 15. The outlook for exports remains unchanged. Oil prices are still low, neighboring countries continue immersed in their own internal crises and the cheaper dollar undermines the competitiveness of Brazilian companies. Despite the adverse conjuncture the company has a number of ongoing studies on how to overcome these barriers in addition to expanding our portfolio and strengthening relations with our clients we are making better use of sales channels through what we call the field force.

We are also looking at alternatives to try and cover distance and transport of caring a semi-trailer, a huge product of low added value to markets such as Africa and the Middle East. We can mention the mapping out of partners to send CKD products for local assembly.

The company's net result was a loss of 16 million BRL in the quarter and 18 million BRL in the year to September. In addition to a drop in revenues sales as narrower margins typically in trailers and semi-trailers this quarter saw significant number of nonrecurring events as I will detail for you along with Ebitda in the next slide.

Let us now move to the next slide. 3Q Ebitda was 20 million BRL, virtually half of 3Q 15. In addition to the slump in the sales of certain products that I have mentioned we posted 28 million BRL towards nonrecurring expenses this quarter, 7 million were hedge accounting; 7 million was sent to restructuring; 6 million to write off of Randon São Pau reference with the composition with creditors of distributor of Randon Implementos.

The chart shows total nonrecurring expenses in the year to September at 81 million BRL, most of which representing spends on restructuring that is 38 million BRL and hedge accounting 27 million BRL. Adjusted Ebitda in the year to September amounted to 222 million BRL while the Ebitda margin was 11%, low but still a two digit figure.

This was only possible thanks to the dedication of Empresas Randon team which has unremittingly tried to cut spending by reviewing each and every contract, negotiating hard with suppliers; keeping inflation realignment to a minimum; replacing imports vendors whenever possible; and raising the awareness about the need to cut spending - if it is must do their part.

On slide seven we see our adjusted income statement - DRE pre of the nonrecurring events. Net adjusted revenue for 3Q 16 was 577 million BRL with adjusted Cogs at 78% of net revenue resulting in a gross margin of 21.6%. Adjusted operating expenses amounted to 107 million BRL resulting in an adjusted Ebitda of 48 million BRL and an adjusted Ebitda margin of 8.3% this quarter.

Moving on to slide eight we will talk about the business environment. It is a sort of consensus that the truck market in 2016 suffered a hard blow from the political instability and wavering consumers trust. The numbers in the year to September speak from themselves: nearly 39,000 trucks sold in the year to September 2016, a 30% drop from the same period in 2015 that already sustained a 45% decline from 2014 and although consumer confidence has increased month upon month and the political scenario has improved road traffic of heavy-duty vehicles has not moved up.

The path to recovery is long and arduous; at least we can see a light at the end of the tunnel. This is what many economists and large companies and automakers believe.

On the trailer and semi-trailer market we reported 18% drop in licensing of semi-trailers from 2015. The drought adversely affected the corn harvest and the affected improvement in the semi-trailer market on the way of the impeachment was hampered by the crop loss.

From the economic viewpoint we expect to see the results of lower interest rates and controlled inflation, which according to central bank numbers is falling and tends to level off. Additionally government initiatives such as the proposed reforms and the approval of a cut in public spending seem to bring some fresh air into the Brazilian economy.

A returned to infrastructure investment is key for the country to resume growth. Many economists say that 2017 is a year when we will see an about turn in investments and some growth as of 2Q. Let us see if this really materializes.

From slide nine onwards we will present an overview of each business segment starting with trailers and semi-trailers. After a few months of stability semi-trailers sales dropped again particularly in the wake of the crop loss to the tune of 30%. The decline in licensing was 10% from 2Q and the trend is that 4Q will still suffer from the drop in grain freight demand. We must wait.

With lower demand competition becomes fiercer as the market becomes more price sensitive. Price increases are postponed; the costs unfortunately are not adversely affecting sales margins as you can see in our income statement by

segment in the attachment to this presentation and also on the final pages of the release.

The company has focused on developing new processes and products. In 2016 we launched the S line, a more competitive line of semi-trailers similar to those of the competition, there was some more attractive price and we also launched the new dump line that among other business has the markets lowest deadweight, an improved freight loader, greater mechanical and abrasion resistance and application of appropriate body shape.

In addition to the larger portfolio Randon has expanded its presence in services and part sales which on this market reflect fleet renewal and more maintenance services become or relevant.

Randon's market share in trailers and semi-trailers moved from 25.5% in the year to September 2015 to 27.1% in the year to September 2016, so a slight improvement.

In September and October our market share exceeded 30%. In this long shakeout some competitors have fallen along the way. In the closing days of 2015 we were 161 manufacturers; at the close of last September only 142 remained with each passing days the financial situation of the companies in this industry get worse and worse.

The market is lean, we cannot pass on prices to consumers; costs are rising; interests on working capital loans is high. Probably only those who can come up with brilliant alternatives will survive.

On slide 10 we have an overview of railcars and special vehicles. In 3Q 16 111 railcars were delivered against 611 in 3Q 15. Unlike 2015 we closed with higher railcars sales figures in 2016 the opposite happened: we started out with high volumes and we closed the year with fewer cars.

Railcars sell in batches and to a handful of clients. Sales are not atomized like with semi-trailers; the large clients have an investment plan.

This market is shared by two major vendors and we Randon hold around 40% market share. As we had announced the second half year sales were expected to fall shorter than the first half year but due to technical issues already ironed out with the client invoicing of part of the schedule for 3Q 16 had to be postponed to 4Q 16. To deliver volume in 2016 remains unaltered, that is around 1600 units as was previously announced. Negotiations for shipment schedule for 2017 have begun and they are looking good.

Special vehicles share the same difficulties mentioned for 2Q 16. Unless investments in infrastructure are resumed in the country this market tends to remain stagnant and low. It is possible, probable that some positive movement comes with the end of the municipal elections but we do not know yet; prior to that during the transition it simply was not possible to call for new tenders and this happens at every government change or every four years thinking of the municipal government.

On slide 11 we are going to talk about auto parts totally connected to the truck sales. Truck production in 3Q 16 was down by 14% from 3Q 15. Sales slump by 30% this quarter. The only reason why production has not fallen further is that it was supported by exports that dropped by 1%.

Empresas Randon auto parts sold in 3Q 16 fell between 5% and 7% in against 3Q 15, though auto-parts less than the truck production. Despite parts and export markets have grown in relevance in auto parts sales and the results from some of the initiatives started last year can already be felt in sales volumes.

For controlled company Fras-Le the exchange rate plays a key role in its BRL denominated revenue, since nearly half of its sales are directed to the export market. At the September close this year the dollar stood at 3.24 while on the same date in 2015 the dollar was sold for 3.97. The disparity in the exchange rate has an enormous effect on the figures of the company.

In 2017 automakers have signaled their expectations for the truck market and our guess in the segments be bound to grow up to 20%. We have not got data from Randon; these data come from Sindipeças, Fenabrave and Anfavea and some are more conservative. We are working on our strategic planning and when we have any data we are going to establish your guidance for 2017 - well nobody is talking about a market slump anymore; but next year's projections are tied to numerous conditions.

In slide 12 we see the chart that shows fluctuation in the daily average trading volume and price of RAPT4 preferred share, on September 30, 2016 our shares were price that 4.61 BRL/share, up 58% from September 30, 2015 which was 2.91 BRL. The average financial volumes traded daily grew 64% to 7.5 million BRL.

In 2015 and 2016 the company skipped interest and dividend payments owing to its result and the current downturn.

In slide 13 we see gross that breakdown in the year to September 2016 and our consolidated WCR - working capital requirement. We closed the year to September 2016 with a total gross debt of 2.3 billion BRL, 31% of which denominated in

foreign currency that is \$216.5 million. I must say that this dollar-denominated debt is under control as we deal with exports.

The WCR charts of year to September 2016 shows a drop of 417 million BRL when we compare to the year to September 2015. These significant results come from a decline in clients account, 304 million BRL and in inventory 114 million BRL.

In slide 14 we see the chart for the consolidated net debt without Bank Randon's figures. We closed September with net debt of 392 million BRL or 1.5x the adjusted Ebitda. With no Ebitda adjustments the net debt would be 2.6x the Ebitda LTM, therefore a very significant performance perhaps the best news over the past nine months.

During the current quarter we negotiated what we call covenants with two financial institutions which changed the Ebitda from 3 to 3.5x this considering Randon bank. This is an important step towards adapting to the current market.

Now I will pass the floor to Mr. Daniel Randon for his remarks thank you very much.

Mr. Daniel Randon: Good afternoon to all of you who are with us in this results conference call. After some Focus newsletters showed an upward trend in GDP the newsletter published in November brought lower numbers than those announced earlier this year. November 4 the GDP of -3.31% was announced for 2016 and a positive 1.20% for 2017. Four weeks prior to that the figure had been a positive 1.30%.

After such a long recession having a positive growth projection for the following year is exciting. There is no way to reclaim those businesses other than by growing the country; but the feet striking a balance here between inflation, interest rate in employment and absence of credit does not happen overnight.

We have made progress over recent months with greater political stability and some government measures to cut interest and tame inflation. Now the focus is on approving the government spending cap In Senate. It is interesting to see that with all that is going on under the Car Wash operation and the crisis that hit everybody politics and the economy are no longer topics for a select elite or business sectors only.

The population is attentive and are demanding more from their politicians. This is great for the country. It shows a change of heart because politicians are aware that they will be held accountable and their actions may very quickly leak to the Internet and social networks.

Now in the last cycle we have had a crop loss of 30%. This drop translates into a few months of last semi-trailers since if there is no grain there is no need to carry it. Now for the 2016/2017 crop year the latest projection published by Conab anticipates an estimate of production between 210 and 250 million tons of grain, up by 15% or 15% from the previous crop year.

As the year began we made a commitment to cut our debt and our working capital requirement. We closed 3Q with a much lower net debt figure, a drop from 1 billion BRL in late 2015 to 392,000,000 BRL at the end of September and our VCR shrank virtually 418 million BRL LTM.

4Q continues to feel challenging and there is the month of December with year-end celebrations and possibly blank vacations still pending a decision. So we remain committed to cutting our leverage and working capital requirements seeking to do better and go further.

We are sorting out our current issues but at the same time we are preparing the company for the future pursuing improvement and new opportunities, new revenue streams, excellence in processes and practices boosting transparency and ethics in the company.

This year we have implemented our integrity program, ID Randon, a step ahead Randon's corporate governance process. I invite all of you to check out our website and visit our new ethics channel.

Since we get off and off I would like to dwell further into the trailer and semi-trailer division. Falling demand and strong competition have slowed down and made more complex the recovery of margins. We have got competitors burdened with important financial problems and by large the entire industry is more vulnerable.

Our strategy is to create demand and revenue by driving force our railcar line that has given signs of great acceptance. The fact remains that we managed to minimize the impacts of volume reductions and continue to operate in both lines of products. We have had a few bumps and railcars in the quarter but it should be dealt with in this quarter.

Anyway this division results are far from our historic figures; but we want to bounce back. We have made countless moves to seek greater profitability in the coming quarters to lining up our structure, cutting spends; shutting down production capacity; streamlining the location of working capital requirements and restructuring of our sales network.

These initiatives have caused countless nonrecurring expenses over the past 15 to 18 months. We have been reporting on these and remain confident that we are preparing the company to be more competitive and farewell in the market.

Our presentation ends here. In the webcast you have a complete presentation available with slides that deal into further details about the financial and operating indicators. We remain at your disposal for any clarifications or comments about all indicators. I would like to thank you all for your attention and open up for our Q&A session where Geraldo, Hemerson and myself will be at your disposal.

Q&A Session

Operator: Ladies and gentlemen we will now begin the question-and-answer session. If you have a question please press star one and to remove yourself from the questioning queue press star two. Again to ask a question please press star one. If you would like to ask a question please press star one.

This concludes today's question-and-answer session. I would like to invite Mr. Daniel Randon to proceed with his closing remarks. Please Mr. Daniel you have the floor.

Mr. Randon: Once again I would like to thank you all for participating. Again I would like to place ourselves at your disposal. If you have questions later please get in touch with our IR area for any clarifications. Thank you very much and see you next time.

Operator: Randon's audio conference has been concluded. Thank you very much for participating see you next time.
