International Conference Call

Randon

1st Quarter 2017 Earnings Results

May 11, 2017

Operator: Good morning and thank you for waiting. Welcome to Randon S/A Implementos e Participações earnings call for 1Q 17. With us here today we have Mr. Daniel Raul Randon, VP Director; Mr. Geraldo Santa Catharina, Financial and Investor Relations Director; Hemerson Fernando de Souza, Controlling and Investor Relations Manager at Fras-Le and Randon's investor relations team.

We inform that this event is being recorded and all participants will be in listen only mode during the company's presentation. After we will begin the Q&A session when more instructions will be supplied. If any participant need assistance during this call please press*zero to reach the operator.

This event is also being broadcast via webcast and may be accessed through Randon website at ri.randon.com.br where the presentation will be available. Participants may view the slides in any order they wish. The replay will be available right after this event is concluded.

Participants may really send questions via webcast. They will be answered after the website by the investor relations team.

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

Investors and analysts 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 I will turn the conference over to Mr. Geraldo Santa Catharina, financial and investor relations director. He will begin the presentation. Sir you have the floor.

Mr. Geraldo Santa Catharina: good morning. We would like to thank you for participating in this earnings call. Every quarter we have this event relations with investors and today we will see the earnings for 1Q 17 and as mentioned we have

Mr. Daniel Randon, myself and Hemerson and the investor relations team that may be called to answer questions. It is important to say that our presentation is standard every quarter and we will talk about the results of 1Q, the market and also the behavior of our shares in the stock market, financial results and expectations for the next few months.

We will begin with slide number four. Please turn to slide number four. We will since we have given the results yesterday and some of you have the numbers so we can use this time to explain and give more details and for anything that was not clarified.

Last year when we thought of 2017 it was a consensus in the automotive sector that things would be better in 2017 than 2016, some more optimistic, some more conservative; but everyone talked about growth in volume.

After that came reality and especially generate February were very hard, very difficult. The sales volume of trucks dropped 26% when compared to SQ LY and 17% when compared to 4Q 16.

The sale of semi-trailers had a drop when compared to 1Q 16, almost 19%; but a growth of 4% when compared to LQ 16 and so we have improvement curve.

Sales could be better if it were not for the resolution at the end of December which suggested the expansion of capacity of semi-trailers, so this possibility of increasing the weight transported made sugarcane transporters to delay the process is waiting for the law and by with the new configuration. This regulation was published only on April 11 by Contran hurting the billing of the quarter.

When we look and sales and production of trailers and semi-trailers we see indicators of growth and not of drop; for example trucks production grew 4% when compared to 1Q 16 and 11.7% in relation to 4Q 16. This growth had a strong support due to the increase in exports, 42% more in the first quarters of each year. And with the domestic market very low companies are looking at foreign markets and internationalization projects are being looked that once again.

All this happened also with trucks and buses. The drop in production is smaller than the drop in the domestic market.

Now on slide number five we would like to talk about results. When we began the planning for 2017 we foresaw that the first months would not be strong and this is what happened.

When we compared the revenue of 1Q 17 and 1Q 16 we have a strong drop due to the reduction in the number of railway cars. As you know the average price of railway cars in 2016 is much higher than semi-trailers. One semi-trailer… 4 semi-trailers to 1 railway car. So although the volume of semi-trailers was better than 1Q 16 this increase was not enough to compensate the drop in railway cars.

In 1Q we had a consolidated revenue of 579 million net revenue, lower than 1Q 16. When we compare with 4Q 16 the drop is smaller, 7%. 1Q is normally weaker, as we no Brazil begins really to do business after Carnival. Exports added… Represented US$ 31 million.

If we look at the variations per company in some companies there was growth like Master which is doing very well, Suspensys and the vehicle division and others like Fras-Le and Randon Implements had a drop. There were difficulties for the companies that export to Africa and also an increase for those who export more to America.

The reality of each country, each region, economic, political and also the exchange rate interferes. We know the importance of this market and Randon works ready very hard to reach internationalization. Studies to go into more markets continue and the actions will be communicated as soon as implemented. Some of them we will cover today during this presentation.

Talking about consolidated Ebitda we had an increase of 4% in comparison with 1Q 16 reaching 48 million BRL in comparison with 46 million BRL in 1Q 16. Ebitda margin went from 6.3% in 1Q 16 to 8.3% in 1Q 17, 2 p.p., significant growth and nonrecurring was not expressive with the exception of the hedge account which you know and when added, when we include hedge account we get to 51 million Ebitda.

We see here in our internal jargon that another metaphor to explain what is happening in the sector we say that we are working with the volumes of 15 years ago; prices of five years ago; and current prices. This is a challenge to really increase margins.

The market is very sensitive to prices, it is difficult to increase prices. We have readjusted prices but on a case-by-case and by order, too.

Here 1.6 million… 6 million in relation to 2016 and 45 million BRL you can see here in 4Q 16.

Now let us go on to slide number six. Beginning by semi-trailers we had two highlights in the period. First the negative impact because of the legislation of sugarcane hauling trailers as I mentioned and the positive impact the excellent super harvest of grains that is affecting us in a positive way and is a great driver for our business.

In 1Q 17 we had a reduction in January and February but then we had an increase in the sale of semi-trailers which are used for grains and this really improved our market share, something that is very important. Our market share went from 26.8% in 1Q 16 to 33.8% in 1Q 17. This is one of the most significant pieces of data and shows the efforts we made in the market.

Of course when we compare sales of 1Q 16 to 1Q 17 we have a drop of 15% in volume.

Challenges continue and we have to overcome each one with actions and we would like to give you two pieces of news. First two new distributors, Dipesul and Truckvan, and also a contract for assembly and distribution in Ethiopia. The beginning of this partnership will be June 1 and Dipesul will be a complete distributor in parts and also heavy vehicles services as we have in others.

Now the new distributor Truckvan began in April and has already given us good results in the first month. They have been in the market for 25 years and they are in the metropolitan region in São Paulo. With these two new partnerships we have 26 economic groups covering all the regions of Brazil as distributors, guaranteeing good services the domestic market. It is one of the great assets of Randon our distribution network.

In Ethiopia the new partnership is a company called Mesfin Industry Engineering. They will assemble trailers, semi-trailers in the CKD and SDK, total knocked down for those who do not know, and semi knocked down and we will sell these to Africa. They are leaders in the European market, they have knowhow in equipment for transportation since 1993.

With this contract we reinforce even more our presence in the region. We have a presence in Kenya and Argelia and apart from assembling units we also have distribution and also sales offices.

On slide number seven we reinforce this segment of specialty vehicles in billing; but it is a more seasonal market than semi-trailers and actually railway cars depend on 10 clients. Last year we sold 1000 units of railway cars but the schedule for deliveries been defined still and part of it might be delivered in 2018.

We have other bids in progress but apparently this year the market for railway cars will be smaller around 2500 units. To remember in 2016 the market reached 3900 units, well above what we should see this year.

Now in specialty vehicles we announced the partnership with Wacker Neuson group, which is the leader in the development, manufacturing and distribution of light compact vehicles all over the world; and we manufacture backhoes that will be sold in the network of this company in Latin America.

After the beginning of this partnership we were able to see the increase in the number billed and 24 vehicles were sold in 1Q 17 in comparison with 45 units sold in 1Q 16. So great increase.

In 1Q we began to sell the mini loaders. It is a product that is very versatile and used especially in civil construction.

On slide number eight please let us talk about auto parts. The production of trucks showed positive numbers in 1Q 17 and helped the sale of auto-parts. If we look at the table of physical volumes per segment in comparison with 1Q 16 all items had growth in volume.

Apart from the increase in production on the part of OEMs there is also the increase for aftermarket representing 32% of the sale in auto-parts.

As in OEMs the search for internationalization is also constant in auto-parts. Randon products are present in international exhibitions in order to have a better relationship with clients and also many launches in the 13th Automec Exhibition, which is the international auto-parts and services which happened at the end of April this year. We are betting on innovation to expand the presence of our products in the market.

On slide number nine we have a graph that talks about the average volume and the behavior of the shares, the RAPT4, the preferential. On March 31 RAPT4 reached 4.80, an appraisal of 58% when compared to the price in March 31, 2016.

The average financial volumes also had an increase of 162% with the day the liquidity of 7.7 million BRL, a number that I consider significant, expressive because the value of the shares in relation to five years ago was lower; but we are reaching 2 million USDs/day. This level is very important significant for liquidity.

On slide number 10 the composition of gross debt which is very relevant, 1Q 17 and some comments on working capital. There were 2.3 billion in gross debt, 25% in foreign currency, basically USD; and 75% in local currency BRL. And it matures between 2017 and 2019 and will require some extension later on.

Now in terms of the need for working capital at the end of March we can see. The number and we can see stability here. We would like to highlight that the effort made last year, effort on working capital and we were not able to do this permanently. There is a limit for working capital and we still have some gains to be had - but we did most of our homework last year.

Now talking about consolidated net debt without Randon Bank on slide 11 at the end of March 353 million net debt, leverage of 1.68x consolidated Ebitda, adjusted consolidated Ebitda.

Although we have worked in 2016 to reduce the debt this will be a priority during all of the year. We are always monitoring this leverage and also the known covenants that are in the bank contracts. For and Ebitda goes back to its historical levels the level of debt measured by this consolidated indicator LTM versus Ebitda it may drop even more.

Now I would like to pass the floor to Daniel and he will continue the presentation.

Mr. Daniel Randon: Good morning thank you for being with us in another earnings call of Randon. Based on what we saw in the first three months we can see that things are better than in the last two years. The forecast for GDP is growth for 2017 and 2018, almost 0.5% this year and 2.5% next year.

Some indicators are already positive, for example the trust index, the confidence index and inflation under control. We can see here annual reduction in the interest rate, a forecast of 8.5% for Selic at the end of 2017.

Apart from this the government has given attention to label law reform, which is very important also Social Security. They have looked for alternatives to increase consumption, for example a lot people to withdraw money from FGTS accounts.

One of the most important things is the harvest. Business were already better in March and April and May will benefit from the hacker harvest in grains. So we can see that there is an increase in this 1Q.

Sales of implements represented 57% of total sales. OEMs have also celebrated the increase in exports and this has direct effect on our business.

For 2017 we will continue reducing expenses, controlling debt and investing. We understand that we must find new sources of revenue. During the presentation Geraldo mentioned some of the actions: launching new products, new partnerships for sales and participation in exhibitions. This increases our visibility in the market and this is how the company will continue.

The domestic market has not reacted and we should create alternatives to overcome this. We have such a weak comparative basis and we believe that growth is the most probable scenario; but we are not waiting only for outer actions to help us.

The challenges will always exist. Even when the market was strong there was lack of capacity; now it is surplus capacity that is the problem. So we are always adapting ourselves to the situation. Those who are better prepared and see opportunities and challenges will grow.

We can always improve and looking at the actions of the last few years I can say with confidence that we are after this excellence. We changed management processes, we consolidated RP, the shared services and corporate actions. We have our feet on the ground and we know that this year we will not have a strong recovery in revenue and our guidance shows this; but we continue optimistic and we see positive environment in the next cycles.

This is our presentation but I would like to remind you that in the webcast you have available the full presentation with slides that give more details about the indicators we show.

We are available for any clarifications and comments. Thank you and now we would like to begin our Q&A session, thank you.

Q&A Session

Operator: Ladies and gentlemen we will begin now the Q&A session. To ask a question please dial asterisk one and to remove your question from the queue dial asterisk two.

Our first question comes from Lucas Marchiori from Safra Bank.

Mr. Lucas Marchiori: good morning. I have two questions, the first please an update concerning the effort to increase prices in implements. You have said this since last year and how are the efforts? Do the clients accept… whether the record harvest can help increasing prices for implements?

The second when reading the results special vehicles this segment last year had a production of 50, 40 per quarter and in this quarter you had the strong increase to 84. Do you have a special contract, a bid to justify this increase? Thank you.

Mr. Santa Catharina: thank you Lucas for the question, Geraldo speaking. We are permanently engaged, dedicated to really increase prices. The way the market has been in the last three, four years is not fair; so historically every time we have inflation we tried to increase prices.

There is an effort yes, there is a team on the street working strongly with top management and sales trying to talk to all clients, distributors showing that we must recover our profitability in order to be there. This begins from our vendors to us, to the final client and the price of freight.

We would like to believe that this will adjust itself and this is natural in a segment we always had the capacity to maintain prices and margins; and we have noticed in the last five, six years a loss of gross margin around 25% or 20%, which might be in this situation, a new reality would have to navigate and we must have return on our assets.

We would like to highlight something that Daniel says a lot: we cannot work only with price; the plants must be better adjusted, more efficient with better technologies, better options in terms of vendors in order to be competitive internally and not all increasing price. The market has a finite capacity according to the performance of the economy and the amount of cargo transported and the price of freight, transportation.

Concerning special vehicles we made the comment during the presentation there was an increase in sales of backhoes and 36 backhoes in the domestic market; 42 backhoes in the export market totaling, I am looking at the numbers here, YTD 84 units.

So this in backhoes we work with Wacker Neuson, which as I said brought an increase in the sales in the period.

Ms. Caroline XXX: Geraldo Caroline speaking. Last year in the export market we sold 24 units and in 1Q 42 units. So you can see the impact of this new partnership, so practically twice as much in the export market in 1Q in comparison with 2016.

Mr. Marchiori: Thank you Geraldo, thank you Carol.

Operator: next question Bradesco BBI.

Mr. Victor Mizusaki: good morning, regulations for the results. I have two questions the first concerning vendors. We saw growth suppliers. Could you give us more details what happened in 1Q?

The second looking at the results as a whole we see on the line others, this was mentioned the reversal of accruals provisions that had a positive impact. So is that one off? What can we expect in the future?

Mr. Santa Catharina: Victor thank you for the question. First I would like Daniel to talk about the behavior we have had with vendors, suppliers and the rest the can comment.

Mr. Randon: Victor thank you for the question. We have worked with vendors. We are reinforcing the partnerships especially in times of crisis. The company has look for alternatives to offset costs with new proposals together with engineering and also alternatives from outside the country.

We have worked with vendors showing the need to equalize working capital, and especially with larger vendors we have looked for alternatives to improve payment terms and thus it becomes more coherent looking at Accounts Receivable, Accounts Payable of the company to have a better balance.

So we have been working strongly on this in the last two years to increase the number of days in accounts payable.

Mr. Santa Catharina: concerning others I have avoided to talk about nonrecurring although it is used in the market, Victor, because whether you wanted are not every year since I have been in the industry there are facts that happen, tax, legal, that affect operations.

And the one-offs, nonrecurring has been used only in the last three, four years. We called these nonoperational results. This year in this release although you have all the information we did not include because it is under 10 million between positive and negative.

I would not call it nonrecurring because we have hedge accounts; I would call it nonoperational and nothing guarantees that in the other nine months that we might not have other events. But in fact we have not identified anything that may distort the operational results.

Mr. Mizusaki: a last question please concerning auto parts. We saw a change in mix, an important change in mix in 1Q. Can we expect more or was it the market situation and we should expect to go back to the historical mix with a better margin?

Mr. Santa Catharina: Victor I will ask Hemerson, he is even more specialized in auto-parts and he is the controller for auto-parts. He has worked a lot on these topics.

Mr. Hemerson Souza: good morning thank you for the question. In general we notice yes an expansion in the volume in the domestic market. We have seen

OEMs buying more items, although this is not very clear in the reduction in sale of trucks.

We have seen the difference in sales this year and exports that have compensated the loss inside the country. This has changed the mix. We had a 1Q that was weaker in exports, especially aftermarket, friction in Fras-Le, which presented this distortion.

I understand that we have both things in a positive scenario. So now we have exports from Fras-Le and normally 2Q and 3Q are better, and also a more positive situation in auto-parts for the other items, coupling, suspension and other items.

So the two are positive and in 1Q… 1Q is not an example for the rest of the year, they change.

Mr. Mizusaki: thank you.

Operator: the next question Lucas Barbosa, UBS.

Mr. Lucas Barbosa: good morning thank you for the opportunity. My question is on operational expenses. They dropped a lot and I would like to understand if there is a nonrecurring and what level of operational expenses can we expect for the rest of the year?

Mr. Santa Catharina: last year we worked on this to adapt our structure and we tried to come to a realistic level in the structure, especially in direct, fixed and we obtained a good result. I believe that what happened in this quarter should be a trend for the rest of the year. We do not have any increase in structure more changes as a result of market movements.

So the percentages you see this quarter should be the percentages we will have during the year and I will not make projections because it is not part of our guidance, it would not be good in terms of our SEC; but we have our budget here which shows this.

Mr. Barbosa: thank you.

Mr. Santa Catharina: we have via webcast…

Operator: next question Daniel Magalhães, Credit Suisse.

Mr. Felipe Vinagre: good morning thank you for the opportunity, a question on your expectations for 2Q. Do you see any backlog concerning the good corn and harvest in 2Q in Mato Grosso, in the State of Mato Grosso?

Mr. Santa Catharina: good morning thank you for the question. We are working, last year we worked always looking at the short term. We had a portfolio of 30, 40 days with a composition, some products… There were distortions; some products we had orders for six months and others we did not have for five days.

In March we had a very good performance in terms of volume and this is due to the harvest. This began in March and should go until April, May and this is a great driver of the year, the harvest. So we are always encouraged on this indicator at the beginning of the process, including inside the GDP. The weight of the agricultural sector is very strong.

And for Randon it is the main segment. So with this excellent harvest we are expecting with the growth of almost 17%, 20% in the quarter harvest and also in cattle raising we know that this happened last year, should repeat itself this year, Rio Grande do Sul at the South of the country had this super corn harvest. This will require equipment for agriculture, our equipment and so we are very satisfied with these news.

Mr. Vinagre: thank you.

Operator: next question via webcast Mr. Frederico Vontel from XXX: Daniel, Geraldo, Hemerson congratulations, thank you for the presentation. It was very good to have more market share, 38.4% in relation to 26.4 in semi-trailers. This will be very good when the market comes back. What are the reasons that explain this increase in market share?

Mr. Santa Catharina: thank you Frederico, good to hear you here. I will ask David, David XXX from the investor relations team to explain this, the change in market share.

Mr. David XXX: good morning thank you for the question. We are in a market that is dropping especially the end of last year at low volumes; but in the company we are making efforts to compensate the lower volume in the market and to sell some products to compensate and to have better volume.

So among them we have a new dump truck that we launched last year, cargo capacity 800 kg more than we had in the market and it is helping to really increase the volume in semi-trailers. This product was one of the factors that contributed in a positive way.

Another positive point we were able during this period to have better negotiations. As Geraldo said our sales force went to the market and we were able to increase the sale of products.

And the harvest we already showed this in the presentation. We had an increase in the primary sector and this affected our sales. We know that there is a lot of surplus equipment in the market. These are some of our main products, grain, trailers. So even in the year of crisis we are increasing our efforts in sales and have had this effect.

Also there is competition and last year was very difficult for all the competitors in this area and they have difficulty now; they have not been able to really take care of the market and that is why we are increasing our market share and also some others who are a little stronger.

Operator: next question Daniel Magalhães, Credit Suisse.

Mr. Vinagre: I have a second question, the new plans in Araraquara. Have you begun operations in the new plant in Araraquara? What can we expect in terms of lower costs when it begins to operate in the short term?

Mr. Randon: Daniel thank you… Felipe sorry thank you. Araraquara is a project that we began two years ago, a plant to give us more competitiveness especially in railway cars due to its location. The project was interrupted because of the crisis and to give us time to reduce leverage and go back to profitability.

Looking forward we begin to see a 2018 that will be very promising. 2H should also be better in volume and thus the company will continue the actions in order to have the company ready for 2018. That is the vision.

And costs we will offset and even if the company does not grow we have to increase productivity and I believe we should be growing in the next semesters and this plant will contribute for us to grow more competitive and as a consequence with better profitability.

Mr. Vinagre: thank you.

Operator: Once again we reminded to ask questions please dial asterisk one.

We would like to conclude the Q&A session. I would like to pass the floor to Mr. Daniel Raul Randon for his final comments. Mr. Daniel you may proceed.

Mr. Randon: Once again I would like to thank the participation of all and we are available if you have any questions or need clarifications. Please get in touch with our investor relations team thank you and we wish you a good day.

Operator: The audio conference of Randon is concluded. Thank you, thank you for using Chorus Call.