

## International Conference Call

Randon

### 3Q17 Earnings Results

November 10, 2017

**Operator:** Good morning ladies and gentlemen and thank you for waiting. Welcome to London S.A. Implementos e Participações to discuss the results of 3Q 17 and 9M 17. We have with us Mr. Daniel Raul Randon, Vice Pres. Director; Mr. Geraldo Santa Catharina, Financial and Investor Relations Director; Mr. Esteban Mario Angeletti, Investor Relations Manager plus Planning and also Randon's investors relationship team. .

This event is being recorded and all participants will be in listen only mode during the company's presentation.

Next we will begin the Q&A session. At that time further instructions will be given to you. Should any participant need assistance during this call please press \* 0 to reach the operator.

This event is also being broadcast live via webcast and may be accessed through Randon's website at [ri.randon.com.br](http://ri.randon.com.br) at, where the presentation is available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded.

We remind you that participants may send 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's 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 affect the future results of Randon and lead to results that will differ materially from the forward-looking statements.

Now I would like to pass the floor to Mr. Esteban Mario Angeletti, Investor relations manager and planning and he will begin the presentation. Mr. Esteban you have the floor.

**Mr. Esteban Mario Angeletti:** good morning and thank you for being with us in this conference call of Randon. As already mentioned we also have Mr. Daniel Randon and Mr. Geraldo Santa Catharina with home I will share presentation, and also the RI team that will give us support. At the end of the presentation we will have space for Q&A session and we invite you all to participate. The slides are available one hour investor relations website.

Today we have the highlights and the general view of the market. Will talk about capital market and financial results and finally perspectives.

Going on to slide number four we have the market numbers for trailers, trucks and buses for 3Q 17 and YTD until September. You can observe that the numbers of 3Q TY when compared to 3Q 16 have growth in production and in sales in all segments.

We begin with semi-trailers and resold in the domestic market 11.7 units more in 3Q 17 than in 3Q 16 and the production had an increase of 5.7% in the same period. The comparison of 9M 17 with 9M 16 still presented drop of 6% because we began this year with volumes that were very low.

Although the scenario is more positive and volumes are growing we understand that it is still necessary to look at this scenario with caution, because many sectors still have difficulties.

Now going onto trucks we observe an expressive growth in production both in the comparison of the quarters and also YTD. We produced 23,000 trucks in 3Q 17, a number 52% superior to 3Q 16 and 59,000 trucks were produced in 9M 17 or 27% more than the same period in 2016.

We know that the reason for this significant growth was the export market for which there were 21,490 trucks until September 2017, which represents 41% more than the nine first months of 2016. In the domestic market 13,909 trucks were sold in 3Q 17 and 35,364 units in 9M 17, an increase of 5% in the quarterly comparison; but with a drop of 9% in YTD compared to last year.

The indicators for the production of buses when we look at the same period of 2016. In sales we had a growth of 1.3% in comparison with 3Q 16 and a drop of 8% in comparison to 9M 16.

Now we would like to go on to slide number five to talk about Randon's results. We can see that 3Q 17 was one of the best quarters in the last years. Although the scenario is still difficult and the volumes and the market are lower than those considered normal the company's indicators are showing growth, although the comparative base is weak.

We know how difficult it is to spend so much time with the business environment under so much pressure, when adjustments were necessary and measures were necessary also for us to really continuing this loan crisis.

In 3Q 17 the company reached 773.7 million BRL in consolidated net revenue, a growth of 35.7% in relation to 3Q 16. Apart from the increase in volumes in the domestic market, which is explained in part by the scenario explained previously and also for our participation and semi-trailers, the increase in net revenue also came due to exports which were 13.9 higher than exports in 3Q 16 and represented 43 million in July - September this year.

In this quarter gross profit totaled 194 million, 72% higher than the gross profit of 3Q 16. The gross margin went from 19.7 in 3Q 16 to 25% in 3Q 17 representing an increase in gross margin of 5.4 p.p. In 3Q 17 the company had a net profit of 22.6 million, which represented 2.9% of consolidated net revenue in the period.

Finally consolidated Ebitda was 94.7 million in this quarter against 19.9 million in the same period of 2016. In 2016 we had an expressive volume of nonrecurring expenses that affected Ebitda and this did not happen in 2017 at that same rate. Even comparing the Ebitda of 3Q 17 with the adjusted Ebitda of 3Q 16 the growth is of 97.7%. The Ebitda margin of 3Q 17 reached 12.2%, 8.8 p.p. higher than the same period of 2016 and 3.9 p.p. higher than the adjusted margin of 3Q 16.

YTD the indicators also show growth. We obtained consolidated net revenue of 2.1 billion; consolidated Ebitda of 229.9 million BRL and net profit of 43.1 million BRL, local currency.

Closing the presentation of the main numbers let us talk now about each business segment in more detail, which will help to explain the numbers we just gave you.

On slide number six we have a general view of semi-trailers. In 3Q 17 we had... For example we had trailers registered upwards of 3Q 16 by 11.7%. 6524 units were registered in July and September 2017 against 5842 in the same period of last year. This is due to the better economic indicators such as the drop in interest rate Selic and reduction of inflation.

In 3Q 17 Randon sold 3591 trailers in the domestic market and the export market, 56% higher than in the same period of the same year. The renewal of many product lines, the revamping of many product lines and the strong work of our sales team really helped here.

In 3Q 17 we reach the share of 43% in road products and in the same period of 2016 this number was 26.4%. During October Randon participated in Fenatran, the largest transportation fair in Latin America and we presented to the market many

new products that are the results of technological innovations that we did in an intense way and these bring better productivity to our clients. Being closer to our clients, the renewal of our portfolio amongst other measures have brought these significant results.

In the Fenatran transportation fair we announced also the continuation of the plant in Araraquara. We will not affect your there trailers for sugarcane and railway cars, because they are near railways. The beginning of the operation is foreseen for 1H 18. Since the beginning of the construction in 2014 until September this year we invested 83 million BRL in this plant. The forecast for investments in this new plant is 100 million and you can see the investments for this year, the guidance given for 2017.

On slide seven we have the data for railway cars and special vehicles. In the railway cars the market has had volumes that are lower than last years. This reduction is mainly due to the delay in the renewal of railway concessions in the country. Randon sold 118 railway cars in 3Q 17 and in the same period in 2016 it had sold 111.

In the quarter or the variation is not significant; but when we look YTD we see a reduction of 56% in volumes and when we sold 556 units in 9M 17 against 1266 in 9M 16. While this scenario does not change there is no forecast to have significant change in demand in this sector.

Now and special vehicles like especially backhoes the exports continue is an important alternative for the increase in the sales volume. In this quarter we sold 83 units of backhoes representing a growth of 45.6% in the comparison with 3Q 16.

Now going on to slide eight we will talk about the auto parts division. The volumes of auto-parts sold in 3Q 17 registered a growth in relation to the volumes of 3Q 16 in all the segments. We would like to highlight the increase in sales for coupling systems with an increase of 78.5%; axles and suspensions an increase of 186.4% and also hubs and drums an increase of 97.8%. Apart from the increase in the production of trucks coming from the export market the domestic market also gives signs of recovery, contributing for the significant increase in volumes produced by the OEMs.

Apart from domestic sales 3Q 17 was the best quarter for exports in the auto-parts division, especially due to the parts for aftermarket sales. We sold 29.1 million USD in 3Q 17 in comparison with 22.9 million USD in the same period of 2016.

In the domestic market apart from exports the revenue from auto-parts comes from plants installed abroad. In this quarter our controlled company Fras-Le made to

announcements that are in line with the strategy of internationalization of the company: the first the opening of Fras-Le Panamericana, a warehouse in Colombia; and the expansion of Fras-Le Asia in a new plant in Pinghu, China.

The companies of auto-parts and our company also participated in Fenatran transportation fair and launched new products guaranteeing quality and safety for the clients with constant technological innovation.

Two other facts were the 20 years of Suspensys, which began in a joint venture between and Meritor in the US, which is very relevant in the business of Randon companies and the award one by Fras-Le being the best auto industry company has done in the survey by Exame Magazine. This award was one among the 1000 largest Brazilian companies in the included indicators like profitability; wealth generation; liquidity; and sales growth.

Now going on slide number nine we have a graph that shows the variation of the daily average volume of our shares, our RAPT4. In 9M 17 the daily average volumes negotiated of our shares reached 8.2 million BRL, a growth of 8.4% in relation to the same period of 2016. In September 30, 2017 the price of the shares was 6.92 BRL, representing a growth of 50.1% in comparison with the price on September 30, 2016. At the end of September the market cap of the company reached 2.2 billion BRL.

Another important information, 41.8% of the shares belongs to the controller; 30.4% of the shares belong of foreign investors; and 17.82 institutional funds.

During the month of July we announced the payment of dividends with the investment reserve account and working capital.

Now going on to slide number 10 we begin the presentation of financial results. At the end of September total gross debt of the company represented 2.1 billion BRL, the composition of which was 77.4% in BRL, local currency, and 22.6% in foreign currency, mostly USD. The payment of most of this debt is concentrated between 2018 in 2019.

As already announced by the company we have approval by the management Council to be sure fifth number of debentures worth 300 million with maturity of five years after the issuance date. Net resources received by issuing debentures will be used to reinforce our working capital.

The NCG at the end of September was 870 million BRL, an increase of 57.7 million in comparison to the NCG at the end of 2016. This increase is due especially to inventory, which is higher due to the increase of volumes.

On slide 11 we have the consolidated net debt without Randon Bank at the end of September 2017. The availabilities added... Resulted in 1.6 billion and gross debt to 1.9 billion; thus we have a net consolidated debt of 333 million. Dividing this debt by Ebitda without considering the bank LTM we have a multiple of 1.51x. The increase in cash generation has allowed the company to reduce even more this money and currently we have a covenant of 3x to 3.5x debt/Ebitda.

Now we would like to pass the floor to Mr. Daniel Raul Randon to continue the presentation.

**Mr. Daniel Raul Randon:** good morning and thank you for being with us. We are now heading towards the end of one more year and we can see that this one was a little less bitter than the previous ones. We can now see the country growing and we are seeing more positive indicators and better profitability.

The central bank issued a report forecasting the growth of the GDP at .73% in 2017 and 2.5% for 2018. We see ahead of us a 2018 that will be better; but we are cautious. Election-year is always more complex enterprise elements in a fragile market may affect negatively the business environment.

The central bank also reported that inflation should be 3.8% until the end of 2017 and that the Selic interest rate will be 7% per annum and both interfere in business and their control guarantees more stability in trust for the clients. Apart from these the increase in employment and income is fundamental for consumption and the market.

Today agribusiness is responsible for 56.4% of our sales of trailers and the good news is that the forecast of Conab for the next harvest of grains will be between 224 and 228,000,000 tons.

We have a good to monitor for 4Q 17, our participation in the Fenatran transportation fair. The environment was very optimistic and with many business deals, very different from the Fenatran transportation fair in 2015. The main OEMs were there and they said that apart from the increase in exports the domestic market is also giving signs of recovery. The Fenatran transportation fair, which was considered an institutional fair, this year was an excellent place for business deals.

9M 17 were very intense for the company. Projects were carried out such as Randon Peru; also the continuation of the Araraquara plant; the expansion of Fras-Le in Asia, in China; the creation of Fras-Le Panamericana; and the new business model for suspensions at Suspensys.

We also had many alternatives to be closer to the clients and to reinforce our brands to have a better recall, to be first in our clients' minds and this led to express a recovery market share reaching 45.2% in September 2017.

This shows that during the long prices we did not cross our arms or just survived; we went after the new and today we are a new Randon. We cannot say that the difficult times are over; but we can say that now we are stronger after this period and the better prepared for new challenges.

Plans and projects continue to be studied and our innovation does not stop here.

Going on to slide 13 we have the numbers of projections for 2017 and the numbers we had until September in our guidance.

We would like to conclude the presentation; but I remind you that in the webcast you have available the full presentation with slides showing in much more detail the indicators showed. We are available for any clarification or comments.

### **Q&A Session**

**Operator:** ladies and gentlemen we would like to begin the Q&A session. To ask a question please dial \* 1 and to remove the question from the list please dial \* 2.

Our first question comes from Mr. Lucas Marchiori from Safra Bank.

**Mr. Lucas Marchiori:** good morning thank you for the call, two quick questions. The first could you talk about your expected projected capacity in the new plant in Araraquara, railway cars and other products? How much do you expect to produce in 2018 to have an idea of the impact? That is a first question.

The second I have a doubt. The margin for auto-parts is very good; but there was a drop between 2Q in 3Q. Was there any effect, exchange rate since the volumes were good to understand the small drop in auto-parts profitability?

**Mr. XXX:** Lucas answering your first question about the capacity of the Araraquara plant we have to consider that we will have a ramp up and then it will stabilize the production. We can consider 12 to 15 products per day. Could you please repeat the second question?

**Mr. Marchiori:** the issue of the small drop in the margin of auto-parts between 2Q and 3Q. The volume is good; why did the margin dropped? Was it an exchange rate problem?

**Mr. XXX:** in terms of margin for auto-parts we had two issues: a nonrecurring effect of Fras-Le and headcount that impacted in September.

**Mr. Marchiori:** thank you.

**Operator:** our next question comes from Lucas Barbosa from UBS.

**Mr. Lucas Barbosa:** good morning and thank you for the opportunity. The pricing of road products are you being able to increase price? How is the demand? Thank you

**Mr. Geraldo Santa Catharina:** Lucas good morning, Geraldo. We discussed this on a daily basis and it is linked to the performance of the competition our work internally. We have had control of inflation inside the company that is very important, below the rates; but there is pressure in price increase especially Iran and steel products.

So I do not want to believe that the behavior of our industry will be different from the others; but there is price pressure we have to recover prices raising prices.

When we talk about the effect of competition we have 30, 40 players that left the market in the last two years and of course this helps in gaining market share and trying to maintain our prices and margins.

This strategy that you mentioned to try to hold prices to get more market share it depends on each case, each product because right now we worked a lot with the sales team to conquer the space left by the competition that left the market.

And right now we do not see that price is being decisive to sell more or less. So the market demand that is too low but it is growing during the year in the domestic market and the increase in cost, which is the determining factor. There is no way we can work without raising prices when the cost goes up. We will continue this way.

**Mr. Barbosa:** thank you.

**Mr. Santa Catharina:** our next question comes from Mr. Murilo Freiburger from Bank of America.

**Mr. Murilo Freiburger:** good morning thank you for the opportunity. Actually I have two questions. The adjustments that the company has made reducing personnel the way the company is today, what is the level of capacity you are using?

And concerning operational margin you have a 12% margin Ebitda. In the history in other times the Ebitda margin was around 14% at auto-parts and trailers high double-digit. When do you believe we will see this type of profitability back?

**Mr. Santa Catharina:** Murilo thank you for the questions. We have an occupation that is different in each unit. We have to look at the number of people and the plants. Fras-Le is using all than 80% capacity; auto-parts are different, Master for example can do 1 million sets of breaks per year or 600,000 - but the number of people, the number of employees is adequate.

Castertech for example at full capacity; Randon Implementos we had gradual evolution. At the beginning of the year concerning trailers, semi-trailers we were working with 45% compensated by the manufacturing of railway cars.

We flew look at the current situation of Randon Implementos in the number of employees they are working at 70% capacity due to the demand we had in the last 90 days. So I would say that we have 70% occupation in the pipeline.

The historical margin for many years I would say this industry works with a 14% - 17% Ebitda margin because that was the historical margin. This year we made a very great effort to get to these numbers 11% after all the adjustments that were made.

So we do not make projections for Ebitda; we make projections internally but not for guidance. What we expect is that next year we will be able to use this space with some growth in the market in Brazil, because OEMs are saying that their expectations are good for next year both for trucks and also we believe semi-trailers, and this can result in an improvement in margin - highlighting that the cost increase must be offset.

It is not an easy task and in spite of the competitors that left the market we still have surplus capacity, which is higher than our demand. So talking about recovery of margins is difficult. We have to try to maintain what we conquered and preserve market share and above all work on costs.

We cannot tell you there will be improvement in margin more that we will go back to historical levels.

**Mr. Freiburger:** thank you.

**Operator:** our next question comes from Mrs. Fernanda Chamma, Athena Capital.

**Mrs. Fernanda Chamma:** good morning. I would like to understand Randon Bank's strategy. Credit has dropped; what are the perspectives from now on at Randon Bank? Do you expect to give more credit?

**Mr. Randon:** Fernanda good morning thank you for being with us. Randon Bank has had higher demand this year than last year, even higher than our projection. We have more credit, more loans, at least 30% more in the demand for new financing.

Randon Bank finances during the year 1.2 billion, an expressive number for the product Finame and also discounted receivables, working capital.

So this has been a strong support for Randon, the activities of the bank for working capital. We do not have... Randon Bank is not very leveraged; it has 82 million, plus subordinated 160 million, 150, 160 million and credit assets 400.

So the leverage is still low at the bank. There is space to grow leverage too, there are plans to grow much more; but for the time being nothing that would compromise the evolution we had in the last years.

Last year due to the fact that we had consolidated debt which was the focus of our cost reduction, 2015, 2016; we had to reduce by 100 million credit activities.

Now there is more demand and we noticed that there is... There were difficulties in the bank system with Finame from the government and Randon Bank has this product, it is a good product but we do not have plans to remove from our projections, it is a support for part of our financing.

It is a means, it has been excellent for credit; but to grow much more in this service sector we would need more capital and only time will tell us if Randon will dedicate more capital to the bank. Right now it will not.

**Operator:** our next question Mr. Leandro Fontanele, Bradesco BBI.

**Mr. Leandro Fontanele:** good morning, a question of the operation in Peru. When will we see it in the results and also the margin of the operation in Brazil?

**Mr. Santa Catharina:** Leandro thank you for the question. I will ask Daniel to comment about the operation. Daniel could you explain?

**Mr. Randon:** thank you Leandro for the participation. Peru is a joint venture with the partners of our distributor at Epysa. It is a small operation in the beginning in

terms of volumes and margins and we are not commenting yet; but it will contribute to our competitiveness in the region.

Randon is already competitive, we already have more than 50% market share in Chile but we want to grow in Peru and Colombia. We have a unit in Peru where part is assembly and part is purchase of local components. It facilitates logistics.

It is a small operation and as soon as we have more time and investments and more growth we can give you more information about the market.

**Mr. Fontanele:** thank you.

**Operator:** our next question comes from Mrs. Daniele Papine, Banco do Brasil.

**Mrs. Daniele Papine:** good morning thank you for the opportunity. Please comment on the leverage in the road implements. We see that in 3Q 17 there was a substantial improvement in gross margin and in Ebitda, too; but in leverage it has the group's debt.

So could you comment on the leverage, projections for 2018, if you have a projection to decrease the leverage being influenced also by the authorization for the debentures, the new debentures of 500 million?

**Mr. Santa Catharina:** Daniele thank you for the question. The leverage we are very comfortable with the leverage right now, with the work done and it is below 1.5x, consolidated it is comparable. There is a greater concentration in the controlling company and it has been our focus at the financial management, which is not separate from our operational performance.

The gradual recovery has been very good in the controlling company. The possibility of cash generation this year, next year, positive cash to help to work on the debt.

Other units have had permanent capacity and good capacity to pay dividends and this gives us mathematical comfort that the debt service is okay in the case of Implements, road products. We have the objective in the medium term to reduce the debt, the relative and absolute numbers, to be part of the debt.

And this issue has been comfortable, honestly comparable. We have a recognition that is very good from the banks. We have offers of credit above our current usage and so there is a concentration at the controlling company; but it is adapt that has a lower leverage every month, every period, and the result control of liquidity due to the availability of financing.

We do not see any problem in terms of managing this debt during the next years and we are taking care - but in a comfortable position.

**Mrs. Papine:** thank you.

**Operator:** save it ladies and gentlemen reminding you to ask questions please dial \* 1.

Our next question comes from Mr. Pedro Ruttenthal, individual.

**Mr. Pedro Ruttenthal:** first of all I would like to congratulate you for increasing the market share and I would like to ask can you foresee the results concerning gross revenue and net revenue for October?

**Mr. Santa Catharina:** Pedro thank you for participating, for the question. Of course it is not possible to anticipate because this would be against the rules of our local SCC, the CVM. We are in silence period due to the debentures. I apologize.

**Operator:** 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 you all for your participation and we are available if you need any further clarifications. Please get in touch with our investor relations team. Thank you very much and have a good day.

**Operator:** The conference call is concluded. We thank you for your participation, please disconnect the lines. Thank you for using Chorus Call.

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