

International Conference Call

Randon

2Q17 Earnings Results

August 10, 2017

Operator: Good afternoon and thank you for waiting. Welcome to Randon S.A. Implementos e Participações 2Q and 1H 17 results conference call. With us here today we have Mr. Daniel Raul Randon, Vice Pres. Director; Mr. Geraldo Santa Catharina, CFO and Investor Relations Director; Mr. Esteban Mario Angeletti, Investor Relations Manager and Planning; Mr. Hemerson Fernando de Souza, Controllershship and I are Manager from Fras-Le and the 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 the remarks there will be a Q&A session when more instructions will be supplied. If you need any assistance during this call please press asterisk zero to reach the operator.

This event is also being broadcast live via webcast and may be accessed through Randon website er.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.

Those following the presentation via webcast may pose their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding we would like to mention that forward-looking statements are based on beliefs and assumptions of the management of the company. Projections and others are based on beliefs of the company's management as well is based on information currently available to the company. Future considerations are not guarantees of performance. They involve risks and refer to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that general conditions, industry conditions and other factors may affect the results and lead to results that will differ materially for those mentioned in the conference.

Now I would like to pass the floor to Mr. Geraldo Santa Catharina, CFO and Investor Relations Director, he will begin the presentation. You may begin sir.

Mr. Geraldo Santa Catharina: Good morning thank you for participating and I would like to pass the floor to Esteban. I have the flu so Esteban please.

Mr. Esteban Mario Angeletti: thank you Geraldo good morning. I would like to begin thanking you all for your participation in this earnings conference. After the presentation on 2Q and 1H 17 we will answer the questions.

This morning we had a meeting at Apimec where we talked about the main result of the business and our expectations for the next few quarters. The content presented is available on our website.

The agenda covers the highlights of the period and a general overview of the market. After that we will talk about the financial results and capital markets and then finally perspectives for the next few months.

I invite you all to go to slide number four and we would like to talk about the highlights of the period. On this slide we have a comparative of the production of trucks; semi-trailers and buses in 2Q and YTD. As you can observe semi-trailers still presents a drop in comparison to 2016. We produce 6860th units in 2Q 17, which represents a reduction of 8.6% in relation to 2Q 16 and 12,696 units in 1H with the reduction of 11.5% in comparison with 1H 16.

Sales to the domestic market had a similar drop, similar to that of production: 8.9 in the quarter and 13.7% in the semester.

We exported 1837 semi-trailers this year and this represents an increase of 3% in comparison with 1Q 16.

We can highlight as the main factors that influenced these numbers in 2017 the grain harvest and the resolution to increase cargo capacity for sugarcane trucks. The result had the negative effect. Some clients canceled or delayed the purchase of these products and so the government made the resolution - and this happened only and April 2017 for sugarcane trucks.

The harvest happens from December to April and so when the resolution came out the harvest had ended delaying the purchases. In other words also the grain harvest helped in 1Q 17; but not in the quantity we expected. Due to the drop in prices of grains the farmers decided to store most of the harvest hurting the sale of equipment.

Now going on to trucks we had production growing and sales in the domestic market falling in relation to 2016. The growth of 25.9% and 15.3% in the production of trucks in 2Q and 1H 17 is directly linked to the increase of exports, which had an improvement of 45% in 1H 17 compared to last year.

In the domestic market 11,792 trucks were sold in 2Q 17 and 21,457 trucks were sold in 1H 17, a drop of 5.5% when we compare with the quarter and 16.1% in the semester. The reasons for the drop in sales in the domestic market low growth of the GDP; the faculty in obtaining credit; political instability; and other point already mentioned during the last quarters.

Was production indicators are positive in the same periods and sales in the domestic market. This was the only segment that had a growth when compared to 2Q 16, selling practically 5% more in 2Q 17, buses.

Now we would like to go on to slide number five to talk about rentals results. Talking first about 2Q we can say that the with the exception of sales to the export market all the other indicators have grown in comparison with the same period in 2016.

Gross revenue reached 1 billion, 5.1% higher in relation to 2Q 16. This increase in revenue is justified especially due to the increase in volumes sold. Only railway cars had reduction in the period of approximately 40%. This was expected because the orders came in and were defined by the end of 2016.

Sales to the export market reached 41.5 million, which is 1.2 lower than the revenue in 2Q 16. We would like to say that the increase... We had an increase in exports of special vehicles, also brakes and also decoupling products and also drums and axles. We had to the semi-trailers that were exported to Africa with a drop of 50%.

Gross profit in 2Q 17 was 12% superior to that of 2Q 16 and reached 182 million. Gross margin grew 1.6 p.p. representing 24.9% of consolidated net revenue in 2Q 17.

Like in the 2H... In 2Q 16 company had net profit in the quarter and the profit went from 6.8 million to 19 million with net margin of 2.6%.

Ebitda of 2Q 17 reached 86.5 million with Ebitda margin of approximately 11.9%. In the same period in 2016 Ebitda was 75.3 million and Ebitda margin 10.8%.

In this quarter we had expenses that we call nonrecurring. As an example we joined PRT, which is a text settlement program; but the balance originated by these nonrecurring expenses did not affect significantly Ebitda since some of these impacts are positive and others negative.

And in the results analysis for YTD 17 we see a drop of revenues when compared to 1H 16; but we have the evolution of the other indicators. Some markets are

better and others worse than last year, and the company has adjusted itself to this always trying to give sustainable return to investors.

Quarter after quarter we inform that we are working to surpass this time of crisis. Many initiatives were implemented, not only cost reduction, expenses and investments; but also we have the launching of new products; we have also boosted the sale structure and internationalized the company.

The management and the team are focused on continuous improvement in processes and the profitability, and as the market goes back to normal we understand that we will have more satisfactory returns.

I invite you all to go to slide number six which shows division of each market segment and shows our initiatives.

The market for semi-trailers was worse in production and sales when compared to 2016 as mentioned previously; but Randon had a significant increase in its market share.

In 2016 we launched a new dump semi-trailer and this product has gained a lot of relevance in the company sales. The new equipment is considered the best of the market due to its quality and also light weight, among other benefits. It is more versatile. It can carry grain; sand and also crushed rock and thus clients have preferred it. In a market with low demand for transportation and freight it is an excellent alternative for transporters to diversify the material they transport.

The sales of semi-trailers to the domestic and export market reached 6868 units in 2Q 17 representing a drop of 8.6% in comparison with 2Q 16.

In the domestic market 5887 units and of these Randon had a market share of 40%. The number of competitors has dropped during the last few years. The 171 players we had in 2014 are now only 119 at the end of 1H 17, and some of the most relevant players have very weak operations.

So these times of low volumes are not over. We have no forecast of when there will be a comeback with growth; but we are maintaining our discipline to continue in these times always innovating without losing sight of the future, which has everything to be better.

With this transformation Randon announced in June its first joint venture in the segment of real equipment. Randon Peru is a fruit of a partnership with Epysa, our largest distributor in Chile for more than 35 years, and this is in line with the internationalization plan of the company. Peru is a market with 6000 semi-trailers

on an annual basis distributed in a very pulverized way in which no company has a market share above 10%.

In this scenario Randon and Epysa saw the opportunity to participate together in this market installing a plant in the city of Lima. In this partnership the know-how will be supplied by Randon and the sales experience by Epysa.

Randon will have 51% share with an initial investment of 1.5 million USD which may get to 3 million USD as of the third year. We believe that as the beginning of 2018 the plants will be already in operation.

On slide number seven we have the data about railway cars and special vehicles. The railway market in 2017 will shrink in 2017 in relation to 2016. In the last few years the sector invested a lot and right now concessions or be renewed. As they happen we may expect additional demand.

In 2Q 17 Randon delivered 269 railway cars, 37% less than in the same period of 2016. YTD we built 430th products in comparison with 1155 in 1H 16.

Going on to special vehicles in 2Q and 1H 17 we sold more than the double of products when we compare with the volumes of 2016. The domestic market for backhoe is one fourth what it was in recent years and as alternative we have exports, which are approximately 60% of the current sales of the company in the segment of backhoes.

Now going on to slide number eight we will talk about the auto parts division. Representing 51% of company sales the auto parts segment has seen a recovery of volumes, aligned with the increase of the production of trucks in the country. OEMs are exporting more and the consequence of this is an increase of 26% in the production of trucks in the quarter and 15% increase in production in the semester when compared to 2016.

The company's auto-parts companies have boosted their participation in international exhibitions being closer to the clients.

In 1H 17 the companies Master, Castertech and Suspenys had significant growth in their exports.

Apart from this we have studied projects focusing on new technologies both for production as well as for sales channels. As an example of this we mentioned the entrance of Fras-Le in the database called Tec Doc in South America. Tec Doc has a global database with more than 138,000 vehicles and more than 5 million parts in the database.

The online platform is integrated with the best manufacturers for aftermarket and it has been done products and vehicles. Our App, Fras-Le App allows quick access to information about products launches and news about the company.

Talking about internationalization Fras-Le signed a partnership recently with Gear Rail to supply railway brake linings in the African continent and has already closed its first sale. Africa has good opportunities for the railway market in the future.

Now I invite you all to go to slide number nine where we will talk about the capital market. On the graph we see the variation of the average volume negotiated daily and the price of the preferential shares RAPT4. We can see here on June 30, 2017 RAPT4 reached the price of 4.60 BRL, an appraisal of 41% when compared with the price on June 30, 2016 with the price was 3.25 BRL.

The average daily financial volumes had an increase of 100% reaching 8 million.

In relation to the distribution of dividends this happened after the closing of the quarter on July 25. We paid approximately 15,000,000 BRL to shareholders. This distribution will be in the next quarter report.

Now going on to slide number 10 we have the composition of gross debt and the need for consolidated cash at the end of 1H 17. Gross debt of Randon is 2.2 billion BRL, 73% in BRL and the rest in foreign currency, especially USD.

Around 85% of this debt will mature until 2019 and this is a comfortable situation and can be expanded.

The need for working capital at the end of June was 835 million and this represents an increase of 22.2 million increase in comparison with the position at the end of 2016.

On slide 11 we have consolidated net debt without Randon Bank at the end of June 2016. The availabilities reached 1.7 billion in gross debt 2 billion; thus we have a consolidated net debt of 316 million.

When we divide this debt by the consolidated Ebitda LTM we have a multiple leverage of 2.17x. On the graph we can observe the evolution of this indicator, which at the end of 2015 was almost 7x the Ebitda of the company.

The increase in cash generation has a lot of the company to reduce even more this number in accordance with the covenants, 3x and 3.5x net debt/Ebitda.

Now I would like to pass the floor to Mr. Daniel to continue our presentation.

Mr. Daniel Randon: Good morning and thank you very much for being with us in this earnings call. We cannot talk about Randon business without mentioning the GDP; the economy; politics; and investment in infrastructure. In these topics the situation has changed very little in the last quarters. The forecast for GDP from the central bank shows growth of 0.34% in 2017 and 2% for 2018 - but constantly these numbers have been reviewed and are dropping.

We still have a serious political situation with interference in the economy, thus retarding the recovery of the country and the companies. Customers trust and entrepreneurs trust inhibits investments and consumption, making it difficult to generate jobs. With this we have less transportation and the renewal of the fleet is constantly postponed.

Although the harvest is record and still we have a forecast of historical record in the next cycle, we have seen that the price of the grain interferes in transportation because it can be stored, like we saw in the last harvest with less transportation.

Although the interest rates have dropped delinquency puts restrictions of credit. The companies are heavily indebted and the demand for credit is smaller.

We cannot be hostages of this scenario nor can we expect a solution in the short term. So we have to act according to our responsibility making the machine turn. We closed the spouts avoiding waste and we will continue this way from now on; but apart from this we are trying to innovate, we are looking for new revenues and improving the ones we have.

We are reinforcing the sales structure; improving distribution channels; internationalizing the company's; and opening of markets. Competition is fierce and the challenge, too - but it is working.

As well said by Esteban when presenting the numbers even with more drops in the sales of trucks and semi-trailers in the country we were able to have profited generate cash. For 2H OEMs have announced a positive situation in the production of trucks and we can observe this in the news. Frequently we see companies working once again five days per week and hiring people. This is very good for the auto-parts market in Brazil.

Semi-trailers are not as strong; but the company has one market share and has had growth in volumes year after year with small recovery in prices. We continue maintaining the guidance announced in March this year with the numbers projected for 2017.

Going on to slide number 13 we have the numbers, the projections and real numbers. The numbers reached until now and expectations for 2H show that the guidance should be maintained without any change.

We would like to end the presentation; but our remind you that in the webcast you have available the full presentation with slides giving more details about the indicators mentioned.

We are available for clarifications and comments. I would like to thank you for your attention and we would like to begin the 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 the question from the queue please dial asterisk two.

Our first question comes from Mr. Lucas Barbosa from UBS.

Mr. Lucas Barbosa: good morning Mr. Daniel, Esteban. My first question has to do with the equipment market. You have two competitors. We have seen the losing market share in the segment and I would like to know for example the price increases in this segment. Have you been able to increase prices? Thank you.

Mr. Santa Catharina: Lucas, Geraldo thank you for the question. I will answer. As we said during our presentation at Apimec this morning we try not to increase prices; only the costs that went up and we have an installed capacity with surplus capacity. This does not allow us to increase prices as we would like. We are working on our cost structure and constantly we are winning market share.

And also other activities: improving assistance, reducing costs with new technologies and processes and thus maintaining competitiveness. It is not very prudent to say that we are going to have real price increases in terms of the cost.

Of course inflation we are able to pass on in the prices. We had this in November, February when we increased prices due to price increases, and this happens according to the product, there is no fixed rule. It is very difficult; the market does not allow us to increase, to have real price increases even with the situation with the competition because at the end of the process there is a great surplus capacity and so the power today is in the hands of the buyer.

Mr. Barbosa: thank you Geraldo good afternoon.

Operator: our next question comes from Mr. Victor Mizusaki from Bradesco.

Mr. Victor Mizusaki: good afternoon. Two questions, the first in trailers and semi-trailers. We see an expressive gain in market share in the part of Randon. Could you comment on your expectations, if this situation is sustainable or if you can win even more market share in this segment?

And please comment in the segment of auto-parts how you see the situation of M&A - mergers and acquisitions.

Mr. Santa Catharina: I will talk about semi-trailers market share and then I will invite Daniel to talk about the next point.

In terms of market share we have been fighting to have more market share. We have been doing this for a long time, even in the periods of high demand. These periods of high demand... In these periods when it is artificial we cannot increase market share. So month after month we had an evolution, of course the difficult situation of our main competitors allows us to grow.

But also there is a lot of internal work being done in the company as mentioned before in restructuring all the sales area and distribution channels, too. There was modernization, repositioning both in Brazil and abroad. All this work with greater focus on a small market, 25,000 units, has allowed us to really grow without any adventures in price, because when you lower prices do not increase demand.

Our expectation in the long-term was to have lower market share than what we have now. But the impressions of our sales area talking to Alexandre this morning and talking to Mr. David, the chairman and talking to the management and the director of sales they believe that yes, there is the possibility of maintaining and even bettering market share in 2H due to the fact that we know what happened in terms of orders in June, July and August.

So we are very happy. There is a great joy to see that some lots of products with high-volume four semi-trailers, some large orders are coming in and this has happened constantly in the last 20, 30 years; in times of crisis we are benefited by large lots, large clients that do not wait five years to buy again.

So if we have these lines available to by large lots until December we can have an even higher market share till December and concerning auto parts Mr. Daniel.

Mr. Randon: thank you for the participation. You asked about M&A in auto-parts. As you know last year we made an increase in capital in Randon and Fras-Le.

Fras-Le increased its capital and so the company has an attractive cash position and we have worked on growth in the friction market around the world, and look especially in Latin America with greater focus on components for brakes as was the case in Controil and especially those that are strong in the aftermarket.

In 2014 Fras-Le tried to increase its capital with secondary; but due to the drop in the market it was impossible. This time it worked and this helps the company's plans to grow and M&A. We have many projects in progress; others are awaiting the approval by Cade. We have also others we are working on and at the right time we will make announcements.

Mr. Mizusaki: thank you.

Operator: ladies and gentlemen reminding you that to ask a question 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. Randon: Once again I would like to thank you all. This morning we had a meeting at Apimec with many participants, many investors, analysts and shareholders and also partners of Randon companies and so this probably decreased the number of questions.

So I would like to thank you all for participating and I would like to say that we are available. For future clarifications please get in touch with our investor relations department. Thank you and good afternoon.

Operator: The earnings call is concluded now. We thank you all for your participation, we wish you a good afternoon and thank you for using Chorus Call.
