

**International Conference Call**  
**Randon S/A Implementos e Participações**  
**1Q18 Earnings Results**

**May 11, 2018**

**Operator:** Good morning and thank you for waiting. Welcome to Randon S.A. Implementos e Participações 1Q18 results conference call. With us here we have Mr. Daniel Raul Randon, Vice President Director; Mr. Geraldo Santa Catharina, CFO and Investor Relations Director; Mr. Esteban Angeletti, Planning and Investor Relations Manager and also our investor relations team.

We inform that this event is being recorded and all the participants will be in listen-only mode during the company's presentation. Next we will begin the Q&A session when further instructions will be given. Should any participant need assistance during the call please dial asterisk zero 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) where you have the presentation available. Participants may view the slides in any order they wish. The replay of this event will be available shortly after the event is concluded. We remind you that the participants via webcast may send questions through the website. They will be answered after the conference.

Before proceeding we would like to clarify that any forward-looking statements and 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.

Future considerations are not guarantee of performance. They involve risks, uncertainties and refer to future events and therefore depend on circumstances that may or may not happen. Analysts should understand that general conditions, sector conditions and other operational factors may affect the future results of Randon and may result in results that differ materially from those expressed in such forward-looking statements.

Now I would like to pass the conference over to Mr. Esteban Angeletti, planning and investor relations manager. He will begin the presentation. Sir you have the floor.

**Mr. Esteban Angeletti:** Good morning to all the participants, thank you for participating. I have with me here Mr. Daniel Randon, VP of administration and finance; Mr. Geraldo Santa Catharina, with whom I will make the presentation. The investor relations team is also here giving as support.

At the end of the presentation we will answer questions. The presentation may also be accompanied on our website. Today we will see the highlights of the period and the general view of the market in the business environment apart from commenting on the capital of the capital markets. We will finalize with the presentation of the financial indicators and company's perspectives for the next few months.

Beginning on slide number four here we have market numbers in the main segments where Randon is present, especially semi-trailers and trucks. The improvement in the business environment and economic scenario in the last few months contributed for a recovery of consumption and investment, which had the direct benefit on the transportation sector. With the greater volume of merchandising in the Brazilian roads, the large transportation companies are renewing their fleets and searching for greater efficiency and productivity.

Another factor that contributed in a positive way is that many financing and mainly loans taken out by the transportation companies before the crisis were paid in 2017 now allowing them to make new investments.

The numbers show a more positive scenario. We began 2018 with an expressive growth in volumes especially in comparison with the same period in 2017. The sale of semi-trailers reached 8670 units in 1Q 18, a growth of 76.8% when compared to 1Q 17 and 14.1 in comparison with 4Q 17.

The truck market also had growth with the production of 24,434 units in 1Q 18, an increase of 55.1% in relation to the same period of last year. When we compare 4Q 17 production grew 2.4% supported by a good volume of exports, since in the domestic market there was a drop of 12.3% in sales. That was already expected by OEMs. The market volumes expected for the next few months are positive since the portfolio production of the OEMs and many manufacturers of implements is already known.

Now slide number five let us talk about the company's results. As similar to the numbers of the automotive sector the indicators of Randon companies also have growth in comparison with the same period in 2017. The increase in volumes produced both by the OEM division and also auto-parts were fundamental to reach net revenue of 921.6 million in 1Q 18, an increase of 59% in comparison with 1Q 17. In comparison with 4Q 17 growth was 8%.

The gross margin had an increase of 3.1 p.p. in comparison with the previous year as a result of the operational leverage in our business. In comparison with 4Q there was a drop of 0.2 p.p. due especially to the hedge accounting effects on revenue, which reached 7.2 million in the quarter. Eliminating these effects gross margin would be approximately 24.1%, an increase of 0.5 p.p.

The increase in production and reduction in surplus capacity allowed us to have a better dilution of fixed costs inferencing in a positive way our CPV. In 1Q 18 the cost represented 76.4% of net revenue while in 1Q 17 they were 79.6%, in other words an improvement of 3.2 p.p..

During this quarter accounting Ebitda of the company was strongly impacted by nonrecurring events and therefore let us divide the explanation of this indicator in two parts: accounting Ebitda and adjusted Ebitda. Accounting Ebitda, consolidated accounting Ebitda reached 169.5 million, a growth 230.7% in relation to the value obtained in the same quarter in 2017 which was 48.2 million BRL. In the same period the Ebitda margin went from 8.3% in 1Q 17 to 17.3% now, an increase of nine p.p.

This increase is explained especially by the recording of the excellent purchase of JURID of Brasil at an advantage, a new joint venture of Fras-Le, controlled company which had positive impact on Ebitda of 52.5 million. On the other hand we had hedge accounting with 7.1 million and provisions accruals for 3 million which had the negative effect on Ebitda. Thus the balance of nonrecurring effects totaled 42.2 million BRL in the quarter.

Adjusting Ebitda to these nonrecurring effects we get to the adjusted Ebitda of 117.3 million in the quarter, which resulted in a margin of 12.6%. We remind you that revenue should also be adjusted because of hedge accounting.

As in the remaining indicators net profit also had the growth. In 1Q 18 the company recorded net profit of 43.2 million with net margin of 4.7% in relation to 1.6 million and net margin of 0.3% in the same quarter in 2017. The effect of nonrecurring, of JURID on net profit reached 17 million due to the participation of minority investors... Shareholders and also the tax impact on the operation.

I invite you now to go to slide number six. Beginning with semi-trailers we bring some important facts in 1Q. The inauguration of the new plants Randon Araraquara and Randon Peru which were already mentioned in the previous conference. Randon Araraquara is already producing semi-trailers for sugarcane and can also continue to manufacture railway cars and other families of products of the company; Randon Peru is already in operation producing semi-trailers and also

platform trucks and also dump trucks, apart from selling other segments, in other segments products that are exported from Brazil.

The sales of Randon Implements in 1Q 18 totaled 3759 units, a growth of 55.1% in relation to 1Q 17. When we compare the warnings of semi-trailers sold this quarter with those in 4Q 17 we see a reduction or drop of 7%. This drop is due to internal factors: a change in the production line of semi-trailers for sugarcane from Caxias do Sul in the South to Araraquara in São Paulo, which had an impact on volumes in the segment; and also the hiring of new employees which had to learn; now so problems with higher resistance deal used on trucks.

The company's market share reached 36.6%, below the 40% in the closing of 2017. Apart from the factors mentioned we would like to mention the rapid growth of the market and low inventory of ready products. This contributed for the dilution of our market share and absorption of volumes by the competition; but the expectations for 2Q 18 are of recovery since the production rhythm is already normalized. Market share in April closed the 45% confirmation this perspective.

Now let us go on to slide number seven and let us talk about railway cars and also other products. Beginning with railway cars with deliberate 355 units in 1Q 18, a growth of 110% in comparison with 1Q 17 and the growth of 8% in relation to 4Q 17. The good volume of this 1Q is due to the sales made in 2017.

For 2018 the concessionaires for railways reduced their investment and this is affecting the sales of railway cars in Brazilian market. The renewal of the concessions of railways is fundamental for this sector to invest once again.

Concerning special vehicles in 1Q 18 we sold 68 units, a drop of 19% in comparison with 1Q 17. The domestic market suffered a reduction due to less exports in 1Q. The expectation for the next few months is our recovery of volumes especially due to the confirmation of sale of 177 units of backhoes to the government of the State of Rio Grande do Sul in the South of the country. They will be delivered in the next few months.

Now slide number eight to talk about auto parts. With a net revenue of 480 million in 1Q 18 this segment responded for 52% of companies sales period of this amount approximately half were due to sale of friction materials followed by axles in suspensions and braking systems.

With the increase in the production of trucks in the country, especially have a trucks, our auto-parts division expended its sales volumes. The sale of coupling systems by Jost represented a growth of 93% in comparison with the previous year. At hubs and drums Castertech grew 86% in the same period.

The billing of axles in suspensions had the drop in comparison with 4Q. This happened due to vacation of the main client that buys these products, impacting the volumes during the month of January; but they are normalized in February and March.

In the export market the units acquired recently by Fras-Le are having a good performance as is the case of Armetal, Farloc in Argentina and Fanacif Uruguay. And ASK Fras-Le in India began its operational phase recently and now is in a ramp up phase, stabilizing operations and sales.

In the domestic market JURID do Brasil is going through a restructuring process in its operations aiming at using better its production capacity.

On slide nine we have a graph showing the average daily prices of our shares RAPT4. On March 31, 2018 RAPT4 reached the value of 8.63 BRL, an increase of almost 80% in relation to the price of March 31, 2017 which was 4.8 BRL. Market cap went from 1.5 billion to 2.8 billion in this period.

The average volumes, average daily volumes negotiated of RAPT4 reached 17.1 million, a growth of 121.2% in relation to the same period in 2017. The shareholder base at the end of 1Q 18 was made up of 11,000 investors: 31% foreign; 17% institutional investors; 8% individuals. The controller's position maintained itself at 41.8%.

Concerning the compensation for shareholders in the last meeting on April 27, 2018 we approved the payment of dividends of 15,747,101.82 corresponding to approximately 0.045 cents per ordinary and preferential shares. The dividends will be made available to shareholders as of May 15, 2018.

Going on to slide number 10 we would like to begin the financial results closing 1Q 18 with a total gross debt of 2 billion, 81% in the domestic currency and 19% in foreign currency.

During the month of April the company issued a material fact approving the second issuance of promissory notes, commercial promissory notes and liquidation during the month. The amount raised was 350 million which will be used for working capital with a maturity of five years. In 1Q 18 all the covenants concerning the financing were taken care of. More details about this are available in the explanatory notes and accounting reports.

Concerning the need for working capital we closed the quarter with an increase of 148 million. The accounts that better represented this increase were inventory, clients and taxes to be recovered. This increase is directly linked to the growth in volumes and the companies bought.

In the graph you can see that we are maintaining our degree of leverage at a good level with a multiple of debt/Ebitda without Randon bank of 1.38x.

The net debt without Banco Randon at the end of March was 561.1 million. The variation of net debt in 1Q 18 was explained mainly by the increase in NCG which we mentioned shortly and also due to the payment of the companies acquired and controlled by Fras-Le.

Considering the consolidated numbers with Bank Randon average was 1.81x Ebitda LTM.

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

**Mr. Geraldo Santa Catharina:** for those who accompany us I would like to mention also those following us abroad. We have an expressive amount, 31% our investors from abroad, so good morning to all.

I would like to say that 2018 begin with optimism, different from the previous years when there were many uncertainties and little visibility about the future. When economic policies began to have a positive effect and the country grew once again the business environment reacted and in LQ 17 the number of orders showed that we would have a good year in 2018, both for OEMs and auto-parts.

This allowed us to see a more positive 2018 with a better level of production than we had in the last three years of crisis and with numbers in 1Q that we had not seen for three years, a growth in 1Q that we had not seen in three years.

And this due to the implementation of many things we did in the last quarters and this allowed us to begin 2018 concentrating our efforts on expanding revenue, increase in margins and going back to profitability to reach our objective is in the medium and long-term.

Apart from this this beginning of 2018 also had the addition of new businesses, companies that were acquired expanding our portfolio of products and the presence of the company in important markets. In the OEMs we inaugurated Randon Araraquara plant and Randon Peru, and also in auto-parts the regulating agency approved the joint venture with JURID do Brasil. Also ASK Fras-Le in India began its operational phase and also the performance of other companies like Armetal, Farloc and Fanacif are within our expectations.

Now talking about the macroeconomic environment we know that the economy is growing once again and the expectation of the central bank for the Brazilian GDP will be 2.7% in 2018, very different from the negative GDP numbers in the past and

as we see this will be the highest expansion, the highest growth of the GDP in Brazil since 2013.

Inflation continues under control, a forecast of 3.49% until the end of 2018 and the interest rate, which for the time being through Selic is 3.25% a year and it might drop even more the interest rate; and this helps us in business because we depend on loans. And also there is a forecast for grain harvest of 229 million tons, the second largest harvest in history in the grains, very close to last year's record and thus reinforcing Brazil's position as a powerhouse in agribusiness - and this will need transportation.

Even with the positive indicators we still have our feet on the ground and a cautious look at elections at the end of the year because we have very little visibility of what can happen in the elections in October, and it is difficult to know the impact that elections can have on business. That is why we are monitoring the behavior of the market; but we understand that the uncertainties we have seen in 1Q that Brazil is on a positive trend to grow - although moderate, still 2%, 3% - and with this perspective we at Randon Group are working and looking at the future.

It is important to say this because during 2 1/2, three years of this very strong crisis we did our homework and right now we have tighten our belts in terms of investments; but we are looking forward. This is our obligation: always looking forward.

And now going on to slide 13 we have the numbers projected for 2018, our guidance in comparison with 1Q. Consolidated net revenue 921.6 million in the quarter and 3.6 billion for the year. In an arithmetic way we believe we are on the right track to reach this guidance at least until now. This is the number we are working with.

So in terms of strategy we know that we will have elections in October and we know that the effects will be felt more in 2H due to elections. I would like to conclude our presentation by informing you that in our webcast you have available the full presentation with slides that give more details about the indicators presented.

We are available for clarifications and comments and once again I say that we decided to have a condensed presentation to allow time for questions and I thank you all for your attention and we will now begin the Q&A session.

### **Q&A Session**

**Operator:** ladies and gentlemen we will begin now the Q&A session. To ask a question please dial star one and to remove your question please dial star two.

Our first question comes from Thiago Cassebi, Credit Suisse.

**Mr. Thiago Cassebi:** good morning, thank you for the opportunity. I would like to ask about the Ebitda margin in auto-parts, especially when we remove the results from Fras-Le. We see a higher margin ex-Fras-Le; this this due to operational leverage was it something extraordinary?

**Mr. Santa Catharina:** thank you Thiago. Esteban?

**Mr. Angeletti:** Thiago thank you for being with us. Answering your question it is operational leverage yes. We know that they depend on volume and the volumes were stronger in 1Q and according to our initial projections basically this is supporting the better Ebitda margin.

**Mr. Cassebi:** thank you.

**Operator:** our next question comes from Lucas Marchiori, Safra Bank.

**Mr. Lucas Marchiori:** good morning thank you. Three questions in implements. I would like to know your portfolio of orders, the backlog, the capacity usage in Caxias do Sul and Araraquara for implements and also are you being able to pass on the increase in the price of steel?

**Mr. Santa Catharina:** we are working with a number that we consider appropriate, 60, 90 days; not that short and during the crisis it was 20 days and also not as long as in other times when we had good sales due to the lack of capacity to deliver. Right now we have a capacity in implements 65%, 70% depending on how you measure, factory capacity or number of employees. We have a good operational leverage as shown.

The increase in the price of steel we already reported previously that there is a natural increase in imports this year. With the problems we had during the crisis we were able to maintain our costs well below the official inflation numbers. We believe that by the end of the year steel, other inputs too and some imported materials linked to the exchange variation we believe we will be within our projections.

So considering all of this this includes the potential increases in steel and also energy. Energy whether it be fuel and also electricity the increases when they

come they are very high; but the way we operate we are managing these costs around 3.5%.

**Mr. Marchiori:** just a follow-up question. You mentioned 65%, 70% capacity; is that the same in the plant in Caxias and Araraquara?

**Mr. Santa Catharina:** in the case of Araraquara we are working with sugarcane semi-trailers. In Araraquara we are not at full capacity. This unit can have many more employees and we are beginning operations, we are in a ramp-up phase. This year we cannot expect full capacity like in Caxias do Sul. Obviously we will be increasing this production.

**Mr. Marchiori:** thank you.

**Operator:** our next question comes from Anderson, Bradesco.

**Mr. Leandro Fontanesi:** good morning thank you for the call. Could you please comment on the guidance? If we look at the results of 1Q and if we look at the full year it would be even higher. Do not you believe the guidance is conservative?

Please comment on the exchange effect in the company and the if you have this expectation, 300 million USD in revenue from abroad. How positive can this be?

And the competitive environment, competition, your market share and you continue to see healthy competition scenario? Thank you.

**Mr. Santa Catharina:** I will comment on the exchange rate and competition. Concerning the exchange rate - competition I would like to invite Mr. Daniel Randon - and in the case of exchange rate we do a daily and weekly follow-up. Right now we have an active exposure, more receivables and payables. This is normally stable 30 million USD and if it goes up we try to accelerate ACCs and also contracts in dollars.

Looking at the loans in the last three years 300 million USD and today it is 120 million our loans in US currency and this allows us in the future if necessary to access this market again for loans.

This exchange rate was already 2 or 4, so it is under control. So now we have a permanent management of the situation.

Now I would like to pass the floor to Mr. Daniel.

**Mr. Randon:** thank you. Anderson thank you for your question. Concerning the guidance for 2018 we have a growth of 20% over the previous year. Initially we worked with the guidance for the end of the year, a forecast for trucks and semi-

trailers a little below the forecast; but still we see the market strong in 1Q but we do not have a clear scenario because of elections in 3Q, 4Q.

So 1Q the demand was much greater than we had forecasted and we mentioned the margins in auto-parts, everything is the result of what we did during the crisis improving our fixed costs, improving variable costs, more competitiveness and stronger volumes in 1Q and the margins were also above our expectations.

I would like to say that it is important to have revenue in the volume above our expectations but we are still cautious. We do not know clearly what will happen in 2H due to political issues and the global economy.

In terms of competition in the case of implements for us it is very clear that the increase in sales contributes to reduce the surplus capacity in implements in Brazil and also in auto-parts. This is very important for us and created a scenario that is more competitive and allowed us to improve margins.

The company continues to work to maintain its high market share that it acquired from 26 to around 40% in implements in maintain our leadership in auto-parts. We believe that now with this increase in demand especially in implements for trucks this gives us the opportunity to maintain a high market share and attractive margins.

**Mr. Fontanesi:** thank you.

**Operator:** our next question comes from Vinicius Almeida, Austro Capital.

**Mr. Vinicius Almeida:** thank you, congratulations for the results. The consolidated margin for the next quarters I saw that railway cars in 1Q was strong; and according to the presentation the volumes will decrease in the next quarters.

I would like to understand what is the consolidated margin that you expect from now on and how much do railway cars represent in this margin?

**Mr. XXX:** well Vinicius thank you for the question, thank you for your participation. We do not make projections of Ebitda margin. I can see that yes in 1Q railway cars had important volume in our revenue and helped to build this better margin that we are presenting in 1Q.

As you can see from 2Q and words orders are not that favorable for railway cars; but what we see is that semi-trailers should compensate this billing. This is what we can see from now on.

**Mr. Almeida:** thank you.

**Operator:** our next question comes from Wagner Salaverry, Quantitas.

**Mr. Wagner Salaverry:** good morning, congratulations for the results. My question has to do with the elections that you mentioned, which makes you cautious. I would like to understand if we have a more positive scenario, pro-market candidate, we believe demand will be better. What is your reaction capacity and that of competitors if we have a positive scenario in the elections? Is it possible to deliver more? Do you intend to have inventory of those products that are easy to sell or would you need to hire more employees? Thank you.

**Mr. Santa Catharina:** I would like to pass the floor to Mr. Daniel.

**Mr. Randon:** well Wagner thank you for participating. What the company has seen strategically as I mentioned before, in spite of the crisis in cost reduction we are working a lot and productivity. We continue investing in the company and not only in productivity but as mentioned to the new plant in Araraquara that we inaugurated in March and also the joint venture in Peru and the acquisitions in Fras-Le. This increases also capacity and also with JURID and also the units in Argentina in friction.

This gives us greater capacity of production. We reduced the size of the company during the crisis closing the plant in Guarulhos; but we believe Brazil will grow and also due to the increase in market share due to the weakness of some competitors, and today we see a comeback.

Looking at the macroeconomic scenario if the next candidate has a good dialogue with the market and an economic vision, if they do the tax adjustments, this will contribute for the growth of the GDP and thus bring into Randon even stronger growth in the truck market and the semi-trailers market. So we are looking at this scenario aiming at growth. We will have capacity to hire without strong investments. We are already increasing capacity in our plants as we mentioned.

Even if there is an increase in demand for 2018 and 19 the company hiring some employees can take care of the market for auto-parts and also semi-trailers and railway cars. I would like to highlight that the company also has been working strongly with its vendors, suppliers both domestically and imports. We have been working with them and if we need to add capacity the company has this capacity to deliver more.

We have been conservative. In comparison with last year for example the number of trucks, now 95 to 100,000 trucks this year, a strong growth in comparison with the 60,000 that we had two years ago. So if necessary we are prepared to deliver more.

**Mr. Salaverry:** I would like to understand the order portfolio in implements, a portfolio that is full until the end of August or are there orders after August?

In auto-parts since Brazil exports trucks do you see something different in implements, greater demand?

**Mr. Santa Catharina:** when I talked about portfolio it was on average. We have lines of products that we take six months to deliver and other products we deliver in 30 days. But the portfolio is for 90 days. We would like to say that this speed at which we receive new orders in April and May is very good, very good; and this is the result of difficulties our competitors are having and this is... We have reorganized our sales area.

So we are celebrating very cautiously. We went through a difficult period but we have a healthy portfolio, very healthy portfolio of orders and we are working on this.

In terms of the exchange rate normally this interval is not such a radical change to change the appetite of the country to buy or not to buy. Traditionally change in the exchange rate will not affect the sales in many countries like in Africa for example. So in reality we are looking at Argentina. For the time being we are looking at the local behavior, the volume between auto-parts and implements. We have 8% to 10% of our flow of sales in Argentina and we do not believe this will change.

Now concerning other countries, China, Peru, these locations, there are no changes in plans. So we look at... We already mentioned here the exchange rate, no radical changes in our expectations due to the exchange rate.

**Mr. Salaverry:** okay thank you.

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

**Mr. Lucas Barbosa:** congratulations for the results. Some subsidiaries we see a strong growth in suspensions, Castertech, increase in production of trucks in Brazil, gains in market share. Was there any effect due to weakness of competitors? Thank you.

**Mr. XXX:** thank you for participating and your question. This progress, this growth in the revenue coming from these areas are linked to direct demand from our clients. They are replenishing their inventory. Most of our clients had reduced their inventory; they used to work with 60 days and now they were working with 30 days and now we are in a recovery, they are increasing their inventory. Since they have demand they are replenishing their inventory and this provoked this additional demand for these auto-parts.

**Mr. Barbosa:** thank you.

**Operator:** Reminding you to ask a question please dial asterisk one, star 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:** Well once again I would like to thank you all for your presence and we are available. If you need any clarification please get in touch directly with our investor relations department. Thank you very much.

**Operator:** The audio conference is concluded. We thank you all, which you a good afternoon and thank you for using Chorus Call.

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