

International Conference Call
Randon S/A Implementos e Participações
2Q18 Earnings Results
August 9, 2018

Operator: Good morning everyone and thank you for waiting. Welcome to Randon S.A. Implementos e Participações 2Q and 1H 18 earnings results conference call. With us today we have Daniel Raul Randon, Vice President Director; Geraldo Santa Catharina, Financial and Investor Relations Director; Esteban Angeletti, Planning and Investor Relations Manager and the IR team.

This event is being recorded and all the participants will be in listen-only mode during the company's presentation. After the company's remarks there will be a Q&A session. At that time further instructions will be given. Should any participant need assistance during this call please press star zero to reach the operator.

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

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

Before proceeding we would like to clarify that forward-looking statements made during this conference call regarding beliefs and assumptions, operational targets and financial targets are beliefs and assumptions of the company'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 also cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Daniel Raul Randon, director VP, that will initiate the presentation. Mr. Randon you have the floor.

Mr. Daniel Raul Randon: Good morning to all participants of this conference call with us through the phone on our IR website. 2Q 18 begin signal lies in that the

expectations regarding economic growth and business recovery were on its way, even with the elections coming up to bring up components of uncertainty.

However, throughout the period the country started to present weaker economic indicators postpone integral momentum that was expected this year., This new reality, which already presented additional challenges for the business environment, got worse at the end of May with the truck drivers' strike and the country coming to a general hold.

More than the shutdown of businesses the strike created an environment of instability from which Brazil was just recovering. As a result not only the GDP of the year was compromised but also the levels of trust resulting in a drop of investment and promoting foreign capital outflow, which affected publicly held companies and mainly those more closely linked to the recovery of the Brazilian economy.

Despite the difficult scenario the automotive sector has presented a performance above the expectation when you consider the current level of economic activity. This is a result of the fleet renewal of large transportation companies in search of greater profitability of their operations. This effect should remain in 3Q best truck and semi-trailer manufacturers remain consistent.

Another point that deserves our attention is the effect of freight transport costs, which can promote the sale of new trucks and semi-trailers; but the same time can have negative effects by increasing logistics costs as well as the loss of competitiveness of the self-employed transporter.

Internally the company continues pursuing more revenue growth, increased margins and increased profitability. Despite the market challenges the inflation of natural and raw material prices in this segment, the actions of our company have generated positive results so far. In the upcoming months the political environment may rush in volatility to the market as there is still little visibility of what may happen in the October elections, and it is difficult to know how it can impact the business. Nevertheless Randon will continue working hard seeking to achieve our goals, regardless of the scenario that lies ahead.

The company's performance can be seen on slide two with the numbers projected for 2018 and that of 1H showing that we are on track to achieve our yearly goals. Now I would like to hand over to Esteban to present the results.

Mr. Esteban Angeletti: thank you Daniel good morning to everyone. We will start on slide four. Here we present the market numbers of Randon's main segments. Looking at the production in sales of trucks and semi-trailers we see consistent growth compared to the same period of 2017.

This is mainly due to the fleet renewal process of large transport companies which started doing LQ 17 and strengthened in 2018. The explanation for this growth is after consecutive years of sharp drop in sales of new vehicles causing the aging of the fleet and the loss of productivity. The fleet renewal has become essential searching for products that are more updated, efficient and that bring greater profitability to the shipment.

For the next few months the bias remains positive as the production portfolio of the OEMs and the leading manufacturers of rolled implements is already known. In addition we are closely following the effects that the new freight rates can have in volumes. First impressions show that large transport companies or companies that have relevant logistics costs may opt for increasing or have a fleet of their own in detriment of hiring freelancers. In the coming months we should have a clear picture of this issue in the transfer market.

We moved to slide five to discuss the company's results. As well as the automotive sector Randon also show growth in the comparison to the same period of 2017; however, this quarter presented an additional challenge which was the interruption of the company's activity at the end of May due to the truck drivers' strike. Part of the production was recovered in June; but the total loss will only be accounted during 3Q 18.

Nevertheless production volumes of both the assembly division and the auto-parts division were positive and supportive the revenue growth of the company's revenue. Net revenue totaled 1 billion during 2Q 18. This is the first time this level of revenue has been attained since 2Q 14.

When analyzing the gross margin we observe a drop of 1 p.p. when compared to the same period of last year. The main factors that cause this indicator to drop were the idleness cost by the shutdown of production lines do the truckers strike in addition to the production mix with less railcars.

Speaking of the Ebitda we will approach it in two fronts: accounting and adjusted. During 2Q consolidated Ebitda totaled 126.3 million BRL with a margin of 12.4% and adjusted Ebitda was 134 million BRL with adjusted margin of 12.8%.

The main the nonrecurring items of the period were the impact of the truck drivers' strike in addition to a number of provisions and the hedge account. The auto-parts division keeps registering good numbers with positive highlight on the performance of Master and Jost and the recovery of Suspensys, which allowed and Ebitda of 74.5 million BRL with the margin of 14.8%.

Despite the challenges of the period the assemblers division is managing to maintain its performance even with a halt of operations during the strike and the difficulties to transferring prices. Ebitda margin in 2Q TY was 7.2%, above the 3.6% of the same quarter of 2017.

Company's net income was also positive reaching 31.4 million BRL during 2Q 18 and 74.6 million during 1H TY.

Please move to slide seven to begin the presentation of the outlook of the different segments. Starting with the semi-trailers segment we would like to highlight the effect of the fleet renovation as the main business driver throughout 2018.

In addition, the trade war between the United States and China helped raise the price of Brazilian soybean premium and increased the volume of transportation grain to be exported. As a result the sale of trucks and rolled implements for this year also registered growth.

In the foreign market sales are a good pace after a slow start to the year and the good news of the quarter is that the African market has begun to show signs of recovery after a long period of difficulties. As a result sales of Randon Implementos during 2Q 18 total 4952 units, 61.7% in comparison to 2Q 17 and 31.7% higher than the volumes sold in 1Q TY.

The company's market share stood at 41.1%, above the 36.1% registered during 1Q 18. The expansion in market share has components of challenge since the increase of sales in Brazil during this quarter required a large reaction capacity from the industrial area and the supply chain.

Now we are going to slide eight to talk about the railcars and specialty vehicles market. The railcars market is suffering from the effects of the delay to renew railway concessions since a large volume of investments in the sector will only take place if the process is approved. Meanwhile railcars sales remain under pressure. During this quarter Randon delivered 128 units. Even with the market difficulties the company has scheduled railcar deliveries for the coming months, which will be manufactured in the new Araraquara plant.

As for specialty vehicles 2Q 18 showed a reaction with the sale of 172 units reflecting the delivery of a large part of a batch of 177 backhoes sold to the state governments of Rio Grande do Sul.

Let us move on to slide nine to talk about the auto-parts division. The increase of the truck production in the country and mainly that of heavy trucks benefited the auto-parts companies that are more closely linked to the OEM production, even with the halt caused by the truck drivers' strike.

The only exception was Castertech that registered a small reduction in production as it was already operating at full capacity since the beginning of the year and the days last in May have not been fully offset during the quarter.

In the foreign market the highlight is the performance of Fras-Le operations in the United States and China, both registering growth and delivering good results.

Turning to slide 10 we will present a chart that shows the variation of the average daily trading volume in the RAPT4 preferred share price. The RAPT4 preferred share price close the semester at 6.71 BRL, 34.1% increase over the closing price of 1H 17 that was 4.40 BRL.

The market stood at 1.9 billion during the period. The shareholders base at the end of 2Q 18 had 12,000 investors, 25% foreigners; 20% institutional investors; and 10% individuals; the position of the controlling share remained at 41.8%.

Moving to slide 11 we begin the presentation of financial results. We ended 1H 18 with total gross debt of 2.5 billion BRL with 80% on national currency and 20% foreign currency. During the month of July the company disclosed the material fact approve its sixth issuance of debentures maturing in up to five years. The settlement occurred on the same month. The amount raised was 600 million BRL and has is the main objective to roll over the debt of the company.

We would like to highlight that in 218 the company has already raised 950 million BRL and negotiated 130 million totaling 1.1 billion BRL. With this new profile the company extended its average term of maturity and reduced the weighted average cost of the debt.

The NCG variation during 1H resulted in an increase of 162 million BRL vis-à-vis 2017. The most representative account were inventories impacted by the prepurchase of raw material by product and intermediate stock and due to the need of supply in auto-parts warehouses.

Now turning to slide 12 let us talk about our consolidated net debt. In the chart it is possible to observe that we are maintaining the company's degree of leverage at a good level with the multiple of debt/Ebitda without Banco Randon at 1.34x. The net debt excluding Randon Bank at the end of June was 597.6 million BRL.

The variation in net debt during 1H 18 is mainly explained by the increase of the necessity of working capital and by the exchange variation in the period. Considering the consolidated figures with Randon Bank indicators the leverage ratio was 1.77x Ebitda LTM.

I close our presentation here but I remind everybody that in our webcast you have the complete presentation available with slides that more fully cover the indicators presented. We are at your disposal for clarifications and comments. I thank you for your attention and now we will have our Q&A session thank you very much.

Q&A Session

Operator: Ladies and gentlemen we will initiate our Q&A session. To pose a question please press star one and to withdraw your question from the list please press star two.

Our first question from Wagner Salaverry from Quantitas.

Mr. Wagner Salaverry: good morning to everyone congratulations for your results. I would like to understand in your policy after the truck drivers' strike and the new cost. Do you believe that this will contribute in the short term favorably because we believe some companies will acquire there will fleet, if there is a negative impact in this policy of freight costs in the short, medium term.

In the competitive environment all these yourselves vis-à-vis the competitors, if the market share that is very strong this year above 40% if you believe that is sustainable or if the competitors in some way are going to try to recover their position. Do they have enough strength to become more competitive?

Mr. Geraldo Santa Catharina: we will start talking about the freight costs and then we will talk about the competitive environment.

Mr. Angeletti: thank you for your question and participation. Regarding the impact of freight costs I believe we can divide this in two moments as a mentioned: the short term and medium/long-term. In the short term well it is still complicated to know what is going to happen because the impact of the freight cost table has not been completely established.

What we obviously see is pressure over costs of our inbound freight and some roots for example we can see a readjustment of prices; on the other hand we have received requests from cargo generators, producers of grains, cargo processors or shippers that had outsourced logistics and because of these freight costs they want their own fleet.

For the medium and long-term any interference, any price... When you pose price this can disrupt the economy. Yes we believe that a new bubble of offer of

influence and trucks has been created and once the prices regularize and we have a free market I believe that we will have a super supply products. So this is how we see the impact of the freight cost and verbally that Geraldo will talk about competitiveness.

Mr. Santa Catharina: and I would like to... We have another question on the webcast about this subject. So I believe that we have to wait for some time to mature this matter and so we really understand what the consequences could be. So we believe that the question that is on our webcast has already been answered.

Now regarding the competitive environment I believe we are talking about semi-trailers. Well of course semi-trailers surprises us in terms of results during 1H and our perspective is visible for the upcoming months because we have a very comfortable portfolio. But we still have not observed a practical effect in terms of performance, nothing connected to the environment of elections.

Anything can happen; but until the moment we are very positive. We have had surprising results when we compare to what we expected and we see that the three or four main manufacturers in Brazil there is strong competition, it is not simple and in some cases it has become stronger during the same period that we increased our market share to 40%.

So Randon worked internally in order to maintain our leading position with new products, new technologies, absolutely controlling our cost structures so that we could have a better price policy because otherwise it would not be possible.

So we are not changing significant changes. Well you know for the three, four main players are. There was one player that emerged in the market with a very great demand this year; but this player was within a segment that received a great deal of demand during the beginning of the year.

And we have to take into account that our positioning with the new structural outline products portfolio I believe with all of this we can maintain our level of competitiveness. And this is one of our targets. We have a solid position but we are not alone in the market and it is not easy to maintain your position here because we have a very competitive market and we have to consider that there is still space, space for other manufacturers, although some have left the market.

So we have a very good possibility of maintaining our market share and margin and prices depend more on the internal efforts.

Mr. Salaverry: okay thank you.

Operator: our next question from Rafael Frankel, Bradesco.

Mr. Rafael Frankel: thank you for taking my question. One has already been answered. What about your backlog for the next quarters? I just wanted to know this, your backlog situation.

Mr. XXX: Rafael thank you for your participation. The backlog continues strong for the next quarters. The information that we have is that some orders will be delivered in January and February next year.

Operator: we would like to remind you that to pose questions please press star one. In order to pose questions please press star one.

Our Q&A session has come to an end. Now I would like to hand over to Mr. Daniel Raul Randon for his final remarks.

Mr. Randon: once again I would like to thank all of you for your participation and I would like to make... We had a meeting with analysts of market, shareholders and we spoke about the relevant fact that was announced yesterday of the acquisition of Fremax, Jofund and we are waiting as of now the positioning of our antitrust agency to acquire the company.

We are at your disposal. For further questions please contact our IR Department for further clarification. Thank you very much and see you in the next conference call.

Operator: The Randon conference call has come to an end. We would like to thank all of you for your participation, have a very good afternoon and thank you for using Chorus Call.
