

International Conference Call
Randon S/A Implementos e Participações

3Q18 Earnings Results

November 9, 2018

Operator: Ladies and gentlemen good morning and thank you for waiting. We would like to welcome you for the conference call of Randon S. A. Implementos e Participações for the earnings concerning 3Q and 9M 18. We have with us today Mr. Daniel Raul Randon, Director Vice President; Mr. Paulo Prignolato, CFO; Mr. Geraldo Santa Catharina, Financial and Investor Relations Director; Mr. Esteban Angeletti, Planning and Investor Relations Manager and the IR team.

We informed that 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 when further instructions will be given. If you need any 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 Randon's website at ri.randon.com.br, where you will find the slide presentation. The slide selection will be controlled by you. The replay of this event will be available right after the conclusion. We remind you that participants may send questions via webcast. They will be answered by the IR team after the conference call.

Before proceeding we would like to mention that any statements are based on 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 general conditions, microeconomic conditions, industry conditions and other factors could affect the future results of Randon and could lead to results that will differ from those expressed in such future considerations.

Now I would like to pass the floor to Mr. Daniel Raul Randon, Dir. VP, who will begin the presentation. Mr. Daniel you have the floor.

Mr. Daniel Raul Randon: Good morning. We would like to welcome all those who are following us. First of all I would like to introduce Mr. Prignolato, who is the new CFO responsible for... And he comes from the market with more than 30 years of

experience, Mr. Paulo Prignolato the CFO. I continue as vice president responsible for purchases and also human resources, banks.

3Q TY began with a positive outlook. The negative effects of the truck drivers' strike are now behind us and the uncertainties due to the elections did not affect the volumes in the market. In reality the opposite effect was seen and the sales of commercial vehicles had solid growth in our orders portfolio is very strong, with good visibility. Even considering that the basis for comparison is small the growth of sales in 3Q TY in comparison with 3Q 17, the growth was almost 19% and semi-trailers, 49% and trucks and 34% in buses and this is surprising.

During the last few months we made a survey among large fleet owners, distribution companies and OEMs and the conclusions show that it is not a bubble; it is true, consistent recovery of the activity. The fleet renovation process on the part of the transportation companies continues to be relevant as we have mentioned in our last quarterly report; but in this quarter. Consolidated itself as the main reason responsible for the growth in trucks and road implements.

Although the phrase prices the government decreed is not being applied in its totality, indirectly it raised the prices afraid in all the regions in Brazil, thus strengthening the position of transportation companies and they are buying new vehicles and semi-trailers.

We would like to remind you that although we had a surprising volume 2018 we are far from the peaks that we had in sales a few years ago, the market still has surplus capacity. On one hand this is good because it does not require investments; on the other hand this boom has made it difficult to recover prices, the short run. So what we have to do? We have a constant search for improvements in products and processes and permanent cost reduction.

In politics the newly elected government we will have a series of challenges, which makes is cautious for next year; but the company is prepared for the different scenarios that may come.

Now with the market conditions and trying to have a better capital structure the company really took loans in 1H with a very comfortable liquidity situation in the short and medium term. This together with cost control and discipline in investments will keep the company strong for the challenges ahead of us.

On slide four you may see our guidance for 2018 and YTD - the first nine months. Now I would like to pass the floor to Mr. Esteban and he will make the presentation concerning the results.

Mr. Esteban Angeletti: thank you Mr. Daniel good morning. Beginning on slide five we would like to show the numbers of the market for the main segments where Randon is present.

Looking at the volumes and production of trucks and semi-trailers we see consistent growth in relation to the same period in 2017. As we already mentioned the volumes continue strong due to the fleet renewal process on the part of transportation companies, were looking for more modern, efficient trucks and also trucks that will give them greater profitability.

Apart from this the truck renewal really gained a boost, an additional boost with the recovery of freight prices after the truck drivers' strike. Although this increase is important for freight prices it already has a positive effect for transportation companies. This scenario that is more positive to the segment of transportation is confirmed by our orders in production, both from OEMs, trucks and also the manufacturers of semi-trailers. The delivery now... These companies are promising deliveries for 2H 19.

Now we would like to go on to slide number six to talk about the company's results. As the numbers in the automotive sector the indicators of Randon companies also had growth in comparison with 2017. In this quarter although we have uncertainties due to the elections we had the best volumes this year.

The production of OEM and auto parts grew giving support to the growth of revenue. The company also benefited by compensating the three days of downtime due to the truck drivers' strike.

With this net revenue in 3Q 18 reached 1.1 billion BRL, truly the best in the last 3 1/2 years. When analyzing gross margin we see a drop of 0.5% in relation to the same period of last year. The main factor for this negative variance was hedge accounting which totaled 24.2 million BRL in the quarter.

Talking about Ebitda as we did in the previous quarter we had the accounting and the adjusted and in this quarter the company recorded a relevant nonrecurring impact, especially in hedge accounting adjustments due to the operations in Argentina.

We would like to talk about this before we go on to the other numbers. Due to the economic situation in Argentina as of this quarter we will report our operations in this country using the accounting more IAS 29 for high inflation economies. This standard requires that we report the operations in Argentina as if the country had hyperinflation after January 1, 2018, which was the period when we identified the existence of some hyperinflation in Argentina.

According to this standard YTD results should suffer adjustments by using the buying power of the local currency, the Peso, and then convert it to Brazil's currency BRL with the exchange rate of the last day of the period. In other words, the closing exchange rate of September 30 for the results of 9M 18.

The adjustments in Ebitda concerning the operations in Argentina and other nonrecurring adjustments are presented on the summary of adjusted Ebitda on page 9 of our release. Now talking about the numbers consolidated Ebitda reached 149.4 million with a margin of 13.5% and the adjusted Ebitda reached 176.4 million with and adjusted margin of 15%. YTD companies Ebitda reached 435.2 million BRL with a margin of 14.3%, while the adjusted Ebitda due to the nonrecurring effects reached 424.1 million and with the margin of 13.6%.

The auto-parts division continues with the numbers we the highlights to the performance of Jost and Suspensys and the recovery of Fras-Le, which allowed us to reach an Ebitda of 96.4 million in 3Q 18 with a margin of 17.5%.

In spite of the challenges in the period the OEM division is really maintaining its performance at a good level with an Ebitda margin in 3Q 18 of 7.6%, better than the performance in 2Q 18 even with a strong impact of nonrecurring effects, which affected the OEM division.

The net result of the company was also positive getting to 41.7 billion BRL in 3Q 18 and 116.3 million YTD nine-month 2018.

I invite you all to go to slide number seven please. We would like to begin the general view of the company. Beginning with semi-trailers apart from the renewal of fleets and the recovery of freight prices, the harvest season is getting close and brings good perspectives for the segment. Apart from this we see in the market some sales related to the internationalization of fleets, which shows us that there is a positive trend for volumes in the next period.

In the export market sales had a growth during the month and recorded the best quarter of the year together with the favorable exchange rates. With this the sales of Randon Implements in 3Q 18 totaled 6188 units, a growth of 72.3% in relation to 3Q 17 and 25% superior to the volumes sold in 2Q TY.

Even with the growth of volumes in the domestic market and a greater volume for exports the company maintained its market share a good level getting to 39.4% in 3Q 18, within the average of the year.

We would like to comment briefly about Randon Linhares announced on October 29. With the two companies in the State of Espirito Santo Randon Implements wants to

work on two fronts: aftermarket parts and the manufacturers of light products, which are buddies on chassis, trailer trucks.

The Stage of Espirito Santo has a privileged geographic position to sell parts and also trailers to the North and South East of Brazil. The proximity to the port of Vitoria and the infrastructure offered by the city had a good role in the choice of the city.

On slide number eight we will talk about railway cars and special vehicles. The market for railway cars continues slow, awaiting the renewal of railway concessions. In the meantime sales are slow. In this quarter Randon delivered 86 railway cars, all of them manufactured in the Araraquara plant. Even with the difficulties in the market the company has orders for railway cars for the next months.

Concerning special vehicles we sold 133 units in 3Q TY. Part of this volume is a lot of backhoes sold to the state of Rio Grande do Sul in the South of the country.

On slide nine we will talk about the auto-parts division. The increase in production of trucks in the country, especially heavy trucks, really helped the auto-parts division. Even with a drop in volumes in Argentina, which was affected due to the exports to that country, the domestic market is more than compensated this reduction and will be fundamental for the growth of production in 2018 for trucks.

The export market we have a good performance in the operations of Frax-Le in the US and China, both with growth in good results.

In this quarter we also had a new acquisition in the auto-parts division, a company called Fremax, a traditional manufacturer of truck brakes with headquarters in Joinville, Santa Catarina. In 2017 the company built 155 million BRL with Ebitda margin of 17%. The closing of the operation happened on October 5 and right now we are in the integration plan looking for synergies with the new company. The results of Fremax will be consolidated in 4Q 18.

Going on to slide number 10 we show the graph that shows the variation in the daily average volume and the price of our shares RAPT4. The share RAPT4 closed 9M 18 at 6.26 BRL, a drop of 9.5% in relation to the price the same period of last year that was 6.92. The market cap was 1.9 billion in the period. The shareholder base at the end of 3Q 18 was made up of 12,000 investors: 26% foreign, 19% institutional investors and 11% individuals. The position of the Controller continued at 41.8%.

On slide number 11 we would like to begin the financial results. We close 9M 18 with gross debt of 3 billion, 81% in domestic currency and 19% in foreign currency. During the year of 2018 the company took out loans worth 1.15 billion BRL and renegotiated another 130 million BRL totaling 1.3 billion BRL local currency. With this we profile

we lengthened the average maturity rates and reduced the weighted average of the debt.

NCG variance in 9M 18 resulted in an increase of 268 million in relation to 2017, an increase of 268 million. The most representative accounts were inventory and clients, especially due to the strong growth of volumes during the year.

On slide 12 we will talk about consolidated net debt. In this graph we can observe that we are maintaining the degree of leverage of the company within the limits established the financial policy that we have, with a multiple of debt/Ebitda of 1.33x.

The net debt without Randon Bank at the end of September was 666.2 million BRL. The variation of the net debt in 9M 18 is explained mainly by the increase of NCG, the need for working capital, the exchange rate and payment of dividends during the period.

Considering the consolidated numbers with the indicators of Randon Bank the degree of leverage was 1.75x Ebitda LTM.

We would like to close the presentation but we inform that in the webcasting you have the full presentation with slides that you more details about the indicators presented. We are available to make clarifications and comments. I would like to thank you for your attention and now we would like to begin our Q&A session thank you.

Q&A Session

Operator: thank you. Ladies and gentlemen we would like to begin our Q&A session. To ask a question please dial asterisk one and to remove your question from the queue please dial asterisk two. Please wait while we collect the questions.

The first question comes from Mr. Joao Noronha, Santander Bank.

Mr. Joao Noronha: good morning thank you for the question. I would like to explore the competition in the market you said you have a backlog for 2H 19 in implements. With this scenario is it possible to increase prices

Mr. Santa Catharina: good morning Joao what we specified in the release that we have an important backlog in semi-trailers giving us conference for the beginning of 2019. We also mentioned prices. Obviously every time there is inflation in costs we tried to pass these increases on to prices; but we have to be careful. The main factor

is surplus capacity, we call it available capacity and it gives us a strong power for those who are buying.

So for the time being when we have surplus capacity and also our vendors are also asking for increase, especially still. It is difficult to talk about price increases. Based on the cost this is normal and we try to pass increases on to prices. But margin recovery is gradual and it is normally linked to more efficiency for us. We have to be more competitive and not rely on higher prices, that is not very simple.

So we do not see a favorable situation for price increases. Competition we have a great gain, we have maintained our market share at around 40%, which is an important victory for Randon maintaining this market share, because we reorganized the company, we restructured the company especially implements with the issue of Araraquara plant, we transferred railway cars; we changed the mix also restructuring Randon Santa Catarina producing standard product in Caxias.

With all of this turbulence we expanded our market share to 40% and also our main competitor left the market. So this is a good scenario in terms of maintaining our competitiveness. It does not mean that the second, third and for competitors are not strong, they are strong; and there were also tax benefits. So all this situation, the adjustments in the market, Randon made its adjustment and it was able to increase its market share. So it is a good situation, better than we had planned in 2013, 14.

Mr. XXX: to supplement the answer in a scenario where we see a boom in the market and more than expected, we believe that the three main players will maintain their margins. The challenge will be to fight with a small competitors and then we see space for small companies because large companies are accepting deliveries for 2H. So it is very... We will have to fight to maintain our market share.

Mr. Noronha: thank you.

Operator: the next question Marcelo Inoue, Citibank.

Mr. Marcelo Inoue: good morning thank you for the opportunity. I have two questions, the first on demand and outlook for next year; and the second also demand.

The first until recently you were more cautious in terms of volumes; but it seems that now things are more optimistic. Could you comment the new orders that came in 3Q? Did it improve after elections in Brazil? And now with these orders what do you imagine for 2019 in terms of volume?

The second question in implements the situation for next year and whether there is a sector that is responsible for the increase. Is it agribusiness, construction, industry? Where did the increase come from? Thank you.

Mr. XXX: okay we will answer your question. Concerning 2019 we are preparing our plants. We do not have a number yet. Now the perception we have as a mentioned yesterday and today it tends to be an even more positive year than 2018 due to what we have seen and because we had 10 months of the year with a very strong business. Our board visited the main clients, distributors, a follow-up with all the players in the industry, especially the transportation companies and OEMs and there is optimism in all the chain.

This makes is believe that next year we should have a better year, better yes and with growth. I always mention the difficulties. Difficulties we have a new government and we do not know exactly what will happen; and also the GDP although it is not as we would like we have a positive GDP as we had this year, this for industry and transportation.

And agriculture is impressive. We have 240 million tons of grain and the trend is of growth and this demands our products. So the grains are transported in semi-trailers and the road transportation is 65% of transportation in Brazil. Well we believe everything will be better than this year. We believe it is going to be positive growth. Now the percentage of growth we do not know yet; but being positive 2018 was very good, we are very satisfied. It would not be prudent to say that it would grow the same as this year. We had a recovery.

Mr. XXX: Now concerning which sector was responsible for the growth. But we can say agribusiness as Mr. Geraldo said is very relevant. What may help is that we have soybean exports rising to China due to the situation with the US, and also road and also freight until Santos and prices went up as we mentioned to the ports.

So these factors will truly help agribusiness; but we also observed that with the GDP growing next year, with a more stable situation other sectors should recover and this will also help to sell implements or dump trucks for example that were aimed at grain and can also be used on trucks for construction; and also the light line will benefit transportation inside cities. So that is why we see a positive year ahead of us.

Mr. Inoue: thank you.

Operator: the next question Lucas Marchiori, Safra Bank.

Mr. Lucas Marchiori: good morning, congratulations for the results. Before the questions I would like to welcome Paulo and wish him good luck. Now two questions, first this new project, the new plant in Espirito Santo. Could you mention your plans

in terms of volume in the new plant in Espirito Santo? The sector had some trauma with excess capacity, surplus capacity; so what is the capacity versus volume for this plant, these two new plants in the State of Espirito Santo?

The second question you mentioned a lot that there is fleet renewal. As of the current fleet what percentage of the fleet in Brazil is being renovated, renewed? And how much will be renewed next year? Thank you.

Mr. Santa Catharina: Lucas thank you. I will answer the first here and my colleagues the other two. The plant in Espirito Santo what we announced in the material fact is what we can say about this topic. It is a distribution strategy for the company, it is not an expansion in capacity because we are aware - and the said this in the release - there is available capacity.

What Randon is doing for some time is a reorganization of this distribution to have more efficient logistics and distribution, like the case in Santa Catarina, Araraquara, with railway cars and Espirito Santo is distribution, it does not involve significant investments and what is calling our attention the creation of the company and in the future we could have assembly there. It is something that is in preparation for the future if we need local production.

But nowadays we have nothing that is defined to be produced there. So it is an entity and if we have the need in the future, if it makes sense to manufacture there, so it is more of a distribution center. Now more objective information of billing, investments, we cannot release now. We already released the information in the material fact.

Mr. Angeletti: now talking about the renewal of fleets they have an important role. We do not have official data percentages of renewal of the Brazilian truck fleet, also we had a period during 2013 and 14 with excess capacity and during that period we had excess capacity of 100,000 semi-trailers. According to our estimates boom in the economy, with good results this year I believe that all these... Have already been sold.

So we estimate - it is not official - 25, 26,000 semi-trailers this year for fleet renewal and we begin to see the fleet expanding, the total market growing. Next year same thing.

Mr. Marchiori: Esteban what is the size of the semi-trailer fleet in Brazil, total semi-trailer fleet?

Mr. Angeletti: 150,000.

Mr. Marchiori: okay thank you.

Operator: the next question comes from Guilherme Mendes, J.P. Morgan.

Mr. Guilherme Mendes: good morning. Two points, the first operations outside Brazil. You mentioned initiatives of internationalization of the company. Please talk about the projects, what can we expect in the medium term in terms of operations outside Brazil?

And the second part the margin per segment. We saw consolidated Ebitda margin. How do you see the segment of auto parts and trailer trucks, semi-trailers? Can we have more growth, more improvement?

Mr. Santa Catharina: good morning. Daniel continues on the line? Mr. Daniel please comment on the first part of the question, operations outside Brazil.

Mr. Randon: good morning thank you for the question. We mentioned in the last call we are stronger in the main segments, auto parts and OEMs. In auto parts we see a strategy to continue to be a global supplier. The OEMs want this, especially for trucks and passenger cars. We have participated through our joint venture with Meritor in Master and also in Germany and also Fras-Le has made joint ventures, the last one was a joint venture in India.

So this shows the company's willingness to grow to supply to the OEMs and also aftermarket, this on a global level. We have made investments in distribution centers to be closer to the clients and thus helping the partners. In OEMs we have worked with implements focusing on Latin America and Africa. We have a joint venture in Peru, which is a partnership, and this market is more regional.

So this is the vision of our companies. We want to continue step-by-step to internationalize and especially through joint ventures, partners and we continue thus to grow. We have looked at opportunities in Brazil, and in implements too we have seen a growth in the portfolio.

Mr. Santa Catharina: thank you Mr. Daniel. So the second question has to do with margins. There is a part that depends on the market; we talk about volumes and costs. Supposing that we have with volumes next year 2019 and if we can manage the cost pressure we are having from our vendors, it is possible that we may have a similar performance.

Now our internal issue in OEMs as you know we depend on the leverage and volume. In this quarter we had a combination of volume and costs that were favorable to us, together with larger number of days worked. So we had double-digit results.

In auto parts once again we have some companies with high Ebitda margin, you see Jost, Master doing very well. Now we may have some space to improve with Suspensys and Castertech improving their margins, remembering that they were affected very strongly during the crisis, they had to review their business model and so these two companies still have potential to improve margins.

Mr. Mendes: okay thank you.

Operator: the next question comes from Thiago Casseb, Credit Suisse.

Mr. Thiago Casseb: good morning, thank you for the question. What is your estimate for a normalized market in implements? We see that there was a positive surprise, about 40,000 units. So what is your expectation in the long-term?

Mr. Santa Catharina: good morning Flavio. We are very happy to say that we were able to maintain a coherent presence. When we said that 70,000 was outside the curve due to incentives in the end it was right; when we had 24, 25,000 semi-trailers we said that could not continue for more than two years. And since the Brazilian market is dependent on road transportation our number we work between 55,000 semi-trailers, maybe getting to 60,000 this can be considered normal.

Now 42, 43,000 this year can grow and you must remember that we have an average age of semi-trailers that is now 11 years old, let us say 12 years old. So just to renew this fleet we need 30, 40,000/year semi-trailers. And with the recovery and positive GDP and with these improvements 55,000 can be absorbed by the market and the industry has this capacity available.

So good information, we will have better information with our plans for next year. I would say that into the next five years 50, 55,000 units there is not any risk in terms of absorption.

Mr. Casseb: thank you.

Operator: the next question comes from the web.

Mr. XXX: Sebastian: good morning. First congratulations for the results. The indebtedness of Fras-Le, the debt, does it make sense to keep most of the debt in foreign currency?

Sebastian thank you for the question. It is an important question to clarify that first of all the variation in the last 90 days at Fras-Le had to do with the Argentinian Peso in relation to activities in Argentina. So we are working on this, especially with Paulo arriving, evaluating all the units and not only Argentina, to see if we must make

changes in terms of hedging protection. So Argentina is and also Fras-Le Brazil, Fras-Le Argentina. So it had nothing to do with the debt in USD.

Concerning debt in USD we understand that be the opposite the idea. Fras-Le is the company that has the greatest net exports, close to 70, 80 million USD/year available to use as collateral in getting interesting loans. Now what they have their reports is not more than 30 million that were taken out as loans for this, seven years to pay him below 3% or close to 3% plus exchange variation.

We understand that these are operations that are underused; we could more of these loans because we have exports and we have this exposure and Fras-Le now with the acquisition of Fremax they had net cash that was very comfortable. Now they used it for the purchase of Fremax, the acquisition of Fremax.

So this could even be increased the exposure in US currency because there are exports. So if we need more loans we can capture more US currency. So it is the level of 30 million. We are always examining, checking to see if we have to make improvements because it is growing rapidly and not only in Argentina, but in Paraguay, China, India, the US, Colombia. So each one of these locations has different currencies with different treatment.

Operator: Ladies and gentlemen reminding you to ask questions please dial asterisk one.

Ladies and gentlemen 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 all for the participation. We are always available if you need further clarification; please get in touch directly with our investor relations department. Thank you very much and a good day.

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