

International Conference Call
Randon S/A Implementos e Participações

4Q18 Earnings Results

March 20, 2019

Operator: Good morning everyone and thank you for waiting. Welcome to Randon S. A. Implementos e Participações 4Q and full year 2018 results conference call. With us here today we have Mr. Daniel Raul Randon, Vice President Director; Mr. Paulo Prignolato, CFO; Mr. Geraldo Santa Catharina, CFO and Investor Relations Director; Mr. Esteban Angeletti, Planning and Investor Relations Manager; Mr. Hemerson Fernando de Souza, Controller and Investor Relations Executive manager and the auto-parts division and the IR team.

We inform 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. At that time further instructions will be given. Should any participant need 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's website at ri.randon.com.br, where you will find the slide presentation. Participants may view the slides in any order they wish. The replay of this event will be available shortly after the event is concluded. Reminding you that participants in 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 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, macroeconomic conditions, industry conditions and other operating factors may affect the future results of Randon and may lead to results that will differ materially from those mentioned.

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

Mr. Daniel Raul Randon: Good morning to all those who are participating in this conference call and also through our investor relations site. We closed the year of

2018 with very positive numbers for Randon companies. Most of the product lines had growth and the recovery of the transportation sector brought consistent recovery for business.

The production volumes showed clearly this scenario. Last year we produced in Brazil 48,000 semi-trailers and 105,000 trucks, numbers that are far superior to those that we had forecasted initially. Company's revenues also reflected this good moment growing 45.1% in the year. Although the growth of the GDP was frustrating growing only 1.1% in 2018, other factors were important and the growth of the volumes of heavy vehicles in Brazil: the aging of the country's fleet during the crisis, the recovery of freight prices and the excellent, positive harvest were fundamental as well as the recovery of the trust index, which allowed the comeback of investments in a stronger way.

The bone pain demand allowed Randon companies to return to help the production volumes equivalent to those before the crisis. This positive moment generated challenges for the company, especially the supply of products and the strong demand for products and this really you have to work to control inflation and attenuate the increases.

Apart from this we continued with our partnerships and acquisitions, which brought us a portfolio that is even more diversified and expanded our presence in different segments and geographies. Also we focused on the efficiency of our production operations and we invested in the launching of new products, which together with other actions carried out by the company, were fundamental for us to return to profitability levels that are closer to historical levels.

This lead to the company having a healthy financial situation. During the year we extended the maturity of our debt and reduced the weighed, average weighted cost of debt. With this we have good reasons to say that we closed 2018 on a positive note and this allows us to go into 2019 full of energy to celebrate the 70th anniversary of Randon. We are very proud of this and we hope to continue strongly, to continue beyond at the age of 70 and to prosper for many other periods together with the growth of our country.

On slide number four we see the guidance for 2018, company's operations in 2018, which grew above the guidance we had projected. We would like to highlight that even with this growth we continued with organic investments as planned, within the plan. Now I would like to pass the floor to Mr. Esteban and he will give a detailed presentation on the results.

Mr. Esteban Angeletti: thank you Daniel good morning. We would like to begin on slide number five where we present the market numbers for the main segments of

Randon. Looking at the production volumes and sales volumes of trucks and semi-trailers we see strong growth in relation to the numbers of 2017. During the year the volumes rose and we had two great factors that help sales, apart from the renewal of the fleet.

The first was the recovery of freight prices after the truck drivers' strike, which strengthened the market after the middle of the year. The second factor was the definition of the elections, which brought greater foreseeability to the segment and gave great stimulus the sales. Apart from this we had also an excellent grain harvest, the second best in history, which helped really give impulse and the purchases in the sector.

The highlight was for the production of semi-trailers, which grew more than 70% in Brazil both in the quarter and in the year. The production of trucks also grew but had lower growth due to the reduction in export levels especially to the Argentinian market. The portfolio of production both OEMs and semi-trailers manufactured remain strong in the whole year. In 4Q the volumes sold were above average, which extended delivery terms to 2H 19.

Going on to slide number six we would like to talk about the company's results. Similar to the automotive sector the indicators of Randon companies also had growth in comparison with the same period in 2017. Net revenue 1.2 billion, an increase of 42.1% in comparison with 4Q 17. This was the best quarterly net revenue in the company's history.

The auto-parts division had a good percentage and especially due to the inclusion of Fremax results in auto-parts in 4Q 18. This quarter was also the best for exports where we had 55 million USD. We would like to highlight OEMs which practically doubled volumes exported in comparison with the same period in 2017 and the main destination was Chile. In the auto-parts division the exports to the US remained strong and compensated in part the drop in the Argentinian market.

Now going onto Ebitda we will analyze it in two ways: reported Ebitda and adjusted Ebitda as we did during the whole year of 2018. In this quarter the company recorded low impact of nonrecurring expenses, which affected Ebitda by 2.2 million in the quarter. With this we arrived at a consolidated Ebitda of 124.6 million BRL, which corresponds to a margin of 10.3%. Adjusted Ebitda was 126.8 million with a margin of 10.7%.

The auto-parts division had a quarter with margins under pressure especially due to the increase in costs, in inputs. Apart from this at our controlled company Fras-Le we had the impact of the higher expenses with payroll and reduction in the

Reintegra program, which represented 5 million in the quarter. With this the margin of Fras-Le remained at 11.4% or 70.5 million BRL.

The OEMs division maintained its margin at good level during the quarter. Although it was a shorter period in terms of working days the company had good sales volumes for OEMs and together with the recovery of prices reached in the quarter this led to a margin of 8.4% or 46 million BRL Ebitda.

In the full year Ebitda of the company reached 559.8 million BRL which represents an Ebitda margin of 13.1% while the adjusted Ebitda by nonrecurring effects was 546.3 million corresponding to 12.7% margin Ebitda margin.

Company's net result in the year was also positive. In 4Q 18 we reach the profits of 35.4 million BRL and 151.7 million BRL profit in the year, the best net result in the last four years.

I invite you all to go to slide number seven. We would like to begin the general view. Beginning with the segment of semi-trailers we had another positive sector... Quarter. With the definition of the elections we saw an acceleration in the receiving of orders. We sold, we can say that in the month of November we sold two months' worth of production.

The production of semi-trailers remained strong during the quarter and the company reached for manufacturing capacity for rolled equipment. Considering that growth was higher and therefore Randon had the capacity, we saw that the company's market share that was under pressure dropped a little to 36%. The participation in the Brazilian market was also not higher due to the high volume of exports in the quarter close to 1000 units.

On slide number eight we will talk about railway cars and special vehicles. The market for railway cars is still waiting for the renewal of railway concessions. In the meantime sales are under pressure. In this quarter Randon delivered 70 railway cars, all manufactured in the Araraquara plants. Even with the difficulties in the market the company has deliveries scheduled for the next few months.

Concerning special vehicles we sold 95 units in 4Q 18. Although the construction and infrastructure sectors have not recovered totally the company continues working on many fronts to maintain the volumes on healthy levels.

On slide nine in 10 we will talk about the auto-parts division. Beginning with slide number nine we will talk specifically about Fras-Le. Fras-Le had a positive quarter but with some challenges. If on one side the sale of friction materials grew 45.1% in the comparison with 4Q 17 on the other hand the sales volumes in the

Argentinian market had a reduction, a drop due to the economic problems of Argentina.

Apart from this although the integration of Fremax contributed to expand revenue also it brought many adjustments to be made, such as restructuring of some areas and the we organization of production lines, thus penalizing the result of Fras-Le in the short term. We can say the business perspectives remain positive for the company and the integration process of the new operations should bring new synergies for the next year.

Now going on to slide number 10 we present a summary of the other auto-parts companies. We may observe that Suspensys, Master, Jost, Castertech had the growth in the volumes sold in 4Q 18 in comparison with the same period of the previous year. The sales of axles, suspensions and couplings registered expressive growth above 50% due to the moment of this segment of heavy trucks and semi heavy trucks.

As a fundamental part for the growth of the business during the quarter we launched new products and we made investments in new processes not only to create more sales but also try to reduce costs, expand capacity and improve quality. For those who would like to get to know these developments for example the centers for comply and also Quinta Roda please look at the QR code in the presentation.

Going on to slide number 11 we would like to talk about the capital market. Our shares RAPT4 close the year of 2018 at 9.26 BRL, a rise of 29.1% in relation to the price of the share in the previous years, which was 7.17 BRL. With this the market cap of the company remained at 2.9 billion in the period. The shareholder base at the end of 4Q 18 was made up of 13,000 investors, 25% foreign, 22% institutional investors and 9% individuals. The controlling position maintained at 41.8%.

Now going on to slide number 12 we begin the financial results. We closed 2018 with gross total debt of 2.8 billion BRL, 79% in Brazilian currency and 21% in foreign currency. During the year of 2018 the company took out loans worth 1.15 billion and extended in more favorable terms the maturity of another 130 million totaling 1.3 billion BRL, which enabled us to extend the average maturity time and reduce the average weighted cost of the debt.

The variation of NCG in 2018 resulted in an increase of 328.7 million in comparison with 4Q 17. The most representative accounts were inventory, clients and taxes to be recovered due to the strong recovery during the year.

Now going on to slide number 13 we will talk about the consolidated net debt. In the graph you may observe that we are maintaining the level of leverage of the company within acceptable levels, with a multiple of debt/Ebitda without Randon bank at 1.51x. The variation of net debt in 2018 is explained mainly due to the increase in working capital and also the disbursement for controlled companies, for example as in the case of the acquisition of Fremax in 4Q 18. Considering the consolidated numbers now with the indicators of Randon bank the leverage was 1.97x Ebitda LTM. Now I will pass the floor to Mr. Daniel to continue the presentation.

Mr. Daniel Randon: on slide 14 we present the guidance for 2019 and the said this to the market on February 20. I would like to highlight that the expansion of the revenue last year, that the expansion of revenue in the year also goes through the expansion in capacity and the controlled companies Capex 220 million and the consolidation of companies acquired in 2018.

We would like to conclude here the presentation but we have the webcast where you will find more complete information with the slides. Now we would like to begin our Q&A session, thank you very much.

Q&A Session

Operator: Ladies and gentlemen we would like to begin the Q&A session. To ask a question please dial asterisk one and to remove your question from the list dial asterisk two.

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

Mr. Lucas Marchiori: good morning thank you for the call. Two questions, the first on the revenue of January, February. When we look at your guidance it brings an expectation of 17%, 18% and when we look at January and February the growth was much higher. I would like to know January and February are above what you expected. The beginning of the year was very strong, that is the first question.

And the second for Daniel. Daniel congratulations for the new position. Could you give us an idea, for example do you have any specific focus as CEO? Will you focus more on a certain area?

Mr. Geraldo Santa Catharina: Lucas good morning, Gerald speaking. In An Objective Way, January and February are very close to our strategic plan. There

is... We have seen an increase since the last year and also due to new businesses at Fras-Le. So generate, February and March will have strong numbers; but this was foreseen in our guidance. So for the time being we do not believe we can be higher based on the first two months. So we observe this, we are being careful; but we are in accordance with what we foresaw for January and February. Mr. Daniel?

Mr. Randon: Lucas thank you for the question and the message. It is important to talk about succession. Also answering your question first it is a continuous governance process that we have had. We began the working 1999 with a consultancy company and together with my father in that period. The first succession was in 2009 with David Randon. The great challenge is this transition from father to son and in the last 10 years our governance has been evolving and a model in the last two years, two COOs and two CFOs, shows that we are pursuing a strategy with the Council.

The succession now I will begin as CEO as of May 8 in the member we will have one member of the family in management, that is another step in governance; and what we see in the management of Randon first I will continue with the same work done by the predecessors, the growth of the companies perpetuating the values of the company, valuing, attaching value to employees and with the constant search to continue being pioneers and delivering quality to clients.

And also to maintain the growth that the company wants in operations in OEMs, auto parts and services, apart from improving our profitability and also consolidation of the new partnerships and also innovation in all the areas of the company. You know that this is a challenge, especially auto parts is becoming more and more global and so we should be looking at the world and we cannot only look at Brazil as a market; but we should have, should be competitive with other countries.

This is our role, we want to continue. I count on two COOs, one for OEMs, one for auto parts with the support of the CFO Paulo Prignolato, who joined us and the strong team of Randon with a mature process to develop our leaderships and this is the challenge that the family has. The most important thing is to show that governance has evolved step-by-step, it is not a short-term action. We have been talking about this for 20 years, we want to have the family in the strategic role, more and more in the strategic role as a coach, maintaining the values the company had since its beginning. We want to grow with sustainability. Thank you Lucas for the question.

Mr. Marchiori: thank you.

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

Mr. Victor Mizusaki: good morning, congratulations for the result, congratulations they will. I have two questions, the first road implements. When we look at market data, the performance of Randon, strong growth, a price recovery, margin recovery and the backlog of six months. My question does it make sense to expect more investments in this segment not only to increase capacity through productivity but other types of expansion? Can we expect that?

The second question when we look at Capex of 20 million BRL versus what Randon invested organically in 2017 and 18 we are talking about level of 130, 140 million BRL. I would like to understand in this number what can we expect? M&As in auto parts? Other acquisitions?

Mr. Santa Catharina: Victor initially I will comment on the road implements. This area is cyclic but this year it is represented 53% of revenue, which shows the strength of this segment, road equipment. It is Brazil. Brazil has a lot of transportation by truck and Randon has shown how we are moving in Brazil, the actions. For example we have a plant in Araraquara and also headquarters in Caxias do Sul and we have a base in Peru. Argentina continues to be important.

Now apart from this there are studies, there are speculations; but in terms of getting to a conclusion in terms of expanding more this is a little premature. We do not have anything this year in terms of studies. Now the relevance of this segment is very strong and Randon is the leader and wants to be the leader and one of the largest in the world, and Brazil with road transportation in the next 30 years. So it is an excellent segment, generates good results in margins so this is what we have. So the second question Esteban can answer.

Mr. Angeletti: thank you. Concerning the guidance of investments, Capex 220 million and would have to bear in mind that our investments and maintenance also went up. We carry depreciation of the units acquired between 140, 150 million BRL and we can see the rest is for expansion, technological evolution.

Mr. Mizusaki: thank you.

Operator: our next question comes from Mr. Marcelo Mota from J.P. Morgan.

Mr. Marcelo Mota: good afternoon, two questions. Could you comment on the market share in road equipment? We believe it dropped a little, maybe it was part of the company's strategy to improve profitability, to improve prices. Can you talk about the average price? We want to know if what we see in terms of higher prices is due to mix.

In terms of Capex and going back to the previous question we understand these 220, 140, 150 are for maintenance; but there is something left for expansion. It is there a bottleneck? Is this concentrated in one segment of the company?

Mr. Angeletti: okay Marcelo thank you for participating. So in fact these questions are related to market share and we see our portfolio delivery terms are long now due to the market recovering in a more intense way than we expected. So with this we and other competitors were caught by surprise in terms of delivery capacity. So 4Q you saw 6% increase and also even with price increases we are working at full capacity and we see this demand going to other competitors, smaller manufacturers. So we have... It was difficult to maintain 40% share we had for most of the last year.

We are working on Capex. Yes it is there to expand capacity. In the case of road equipment, semi-trailers we want to manufacture and deliver and part of the Capex is to increase production to 130 products/day by June. So part of the Capex will be for maintenance and depreciation and the rest to increase the capacity to get to 130/day. In auto parts we continue investing to increase capacity.

Mr. Mota: thank you.

Operator: our next question comes from Mr. Thiago Kassebi, Credit Suisse.

Mr. Thiago Kassebi: good morning thank you for the opportunity. Expectations on Ebitda margin in auto parts we see that it was at a high level until 3Q and 4Q it was under pressure, for example increases in raw material and also higher payroll costs. What kind of level of profitability can we expect for auto parts from now one?

Mr. Hemerson de Souza: thank you for the question. We have had, we have made good effort in auto parts in the last year. I understand that 4Q has nonrecurring effects especially looking at the impact of higher payroll taxes and Reintegra program. For example the impact on payroll 12 million BRL and Reintegra 3 to 4 million BRL. We trust that we can compensate this with gains in operation or exports with the good exchange rate that we have now.

But 4Q we had the integration of Fremax, the acquisition and they reached 15 million BRL. This is adequate. We reorganized the company, we had long-term representatives, we did also internal restructuring. For example there was a line of brake pads that we discontinued. So we also have higher inventory and we adjusted the guidance of Fremax, the acquisition. We are... So many of these issues are solved, are aligned in order to receive the synergies and grow at Fremax and we are making 20 million BRL in investments to expand the capacity of Fremax. And supplementing the other answers in previous questions sold 20

million BRL were spent in Fremax. We believe a lot, we have demand for their business. It is very promising not only in the domestic market but also exports. So the result... We believe that performance will improve.

Mr. Kassebi: thank you.

Mr. XXX: we have some questions we received via webcast. I will read the question from Marcelo Afonso, thank you. How is the usage of capacity for OEMs?

Similar to Marcelo Mota's question we are now at full capacity. We are working to expand our capacity in order to have better delivery terms. In auto parts we have a different situation. We have Fras-Le working at full capacity in most of the production lines. So we will have in March 70%, 75% capacity and there is some space for expansion without investments. And another question from Vagner.

Operator: the next question comes from Vagner Salaverry from Quantitas.

Mr. Vagner Salaverry: good afternoon. My question is in line with your expectations of Ebitda margin for the year 2019 and 2020. In the company's history we had times when margins improved and there were productivity gains. Considering the more recent scenario the company is more lean, expenses were reduced. My question how much do you mentioned that there is space to have productivity gains, especially semi-trailers and auto parts? What is your expectation concerning growth? Are working within your objectives or do you have more to do to increase productivity? For example production growth from 100 to 130 units per day will this help?

Mr. Santa Catharina: I will begin to answer. We talk about the installed capacity and it is relative. We know that previously we already produced much more than 130 semi-trailers. So we have a new structure, manufacturing structure in Sao Paulo, Santa Catarina and Caxias do Sul. So we are reorganizing. We have more people involved in production, we worked a lot on the process, on the equipment and not necessarily on new buildings.

This issue of capacity is relative. The more we work on process the more we can produce more, of course a greater quantity, our fixed costs are more diluted and we have an expectation especially on the level of investments in processes. So this year how much we will gain in margin due to greater productivity that is another comment. If you look at the last 15 years we had an Ebitda of 14%, 17%; but this was due to the extraordinary effects in the business and the development of the business. So we cannot tell you that we will have higher or lower Ebitda margin because of volume because we are becoming more lean. So this is what we see. There is space to improve; but today it is more difficult to reduce costs. We are

continuing to develop the processes, we are working on processes and products in order to get better results.

Mr. Randon: thank you for the question. As Geraldo said in terms of plant we continue working strongly on innovation to improve processes, to switch materials. During the crisis we reorganized the company structure, also management, administration. So fixed costs would not go up. So for example now we have a share of services structured, human resources, other areas that we brought here helping for the units to grow and to keep the fixed costs and lower. So this has helped to improve SG&A and this is important for us.

The company's challenge continues to be in innovation in implements, road equipment and also auto parts innovation and these to offset inflation in raw material and labor. These are the challenges and we are always trying to improve to offset rises and have products with more added value to our client.

These are the important points, this is our challenge. To grow growing the margins going back to historical levels margins and the guidance we have is robust: 7 billion gross or 5 billion net, and this is a record numbers that we can reach this year 2019 and with a lean structure to have a better margin than we had historically.

Mr. Vagner: thank you.

Operator: our next question comes from Mr. Pedro Ruppenthal from Benjamin Ruppenthal Investment Club.

Mr. Pedro Ruppenthal: thank you, congratulations to the Randon team. I would like to understand the prices. In 2017 you said that prices had not been raised for a long period. When will you update prices? Will the market allow it to improve prices because we have an increase in the sales?

Concerning the revenue of January since Fras-Le increased by 50% and the number of new semi-trailers went up 80%. Is this due to a lower price of steel in relation to the end of last year? And the effect of market share from what I saw can you comment on these points?

Mr. Santa Catharina: thank you. Okay we are a little cautious to talk about price increases. In the previous question we said that there was a drop in prices during the crisis and this was for all the markets, and the costs did not drop that much. We negotiate costs but they drop less. Now we have an expansion in the economy and in the sector.

Yes, we had the truck drivers' strike last year and then new prices for freight. This facilitated, this made it easier for the cargo system; but it is not easy because we

have a lot of competition especially in semi-trailers. Even we have three strong companies it is not easy to increase prices for something that is a commodity.

We have a price list which has our cost, our efficiency and our capacity to buy raw materials and then we have our prices and we try to negotiate in each case. Those who buy a great number of semi-trailers will pay less than those who buy a few. So for example in reality these renewals include the price increases we had. But for example last year we had more than 20,000 semi-trailers sold in Brazil and abroad. So this is what I have to say and so we are observing the market.

Mr. Angeletti: now concerning the prices we cannot look only at one sector in an isolated way, we have to look at the average price. Now concerning the second part of the question, revenue in January and February, when we look at Fras-Le 50% increase, this takes into consideration the revenue from Fremax, the acquisition, which was not there in 2017. So this is responsible for the growth of 50% at Fras-Le, the acquisition. I believe they answered your question?

Mr. Ruppenthal: what I say the revenue includes Fras-Le. So we see 50% more revenue and I thought this due to the number of trucks sold being higher. There was a 2% increase in the number of trucks sold, so the market is growing a lot. It is a trend and we still have lower numbers than in 2013 for trucks. I thought the scenario would be more positive in January. Maybe the market share was responsible and maybe due to the delivery terms. There was a reaction I see in February and also the lower price of steel, thus this did not a lower revenue to go up very much. We have contracts with Gerdau, the producer of steel, and when you pay less for steel you also charge less from the clients. Steel represents maybe 60% of your costs and so I wanted to understand the revenue of January, which could have been a little higher.

Mr. Angeletti: I understood Pedro. The first point the revenue in January grows less than the market due to the delivery terms. We are working at full capacity and so we cannot absorb all the growth in the market. That is why the revenue growth was affected by our delivery capacity. Now concerning steel you must remember that the deliveries in January and February were negotiated last year, the deliveries of steel and so we do not have a drop in cost yet.

Mr. Santa Catharina: just to supplement January normally has a lot of vacation. The companies stop their activities for vacation and so there is this component, vacation, in many companies. We may give you more details. Please call us, we can give you more details by telephone.

Mr. Ruppenthal: okay. I sent an e-mail in my e-mail included these points. Thank you, if you can clarify about the plant in São Paulo, how is the plant working in São Paulo.

Mr. Angeletti: certainly.

Operator: We would like to conclude the Q&A session. I would like to pass the floor to Mr. Daniel Raul Randon for his final comments. So you may proceed.

Mr. Randon: Once again I would like to thank you all for participating in our conference call and I would like to thank Geraldo and investor relations team for the excellent work done through 2018 and also this conference call. We know the effort, the challenge to deliver all the information. So we would like to recognize their efforts with more transparency and governance.

Once again we are available to clarify further points. Please get in touch directly with the investor relations team for clarifications. Thank you and we wish you a good day.

Operator: The conference call of Randon is concluded. We thank you for your participation and wish you a good afternoon.
