

International Conference Call
Randon S/A Implementos e Participações

1Q19 Earnings Results

May 10, 2019

Operator: Good morning and thank you for waiting. Welcome to Randon S. A. Implementos e Participações 1Q19 results conference call. With us here today we have Mr. Daniel Raul Randon, Chairman; Mr. Paulo Prignolato, CFO and Investor Relations Director; Mr. Geraldo Santa Catharina, Director; Mr. Esteban Angeletti, Financial Manager and Investor Relations Manager; Hemerson Fernando de Souza, Fras-Le's Investor Relations Director 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 when more information will be supplied. If you need any assistance during this conference call please request the help of an operator dialing asterisk zero.

This event is also being broadcast live via webcast and may be accessed through the address ri.randon.com.br, where the presentation is available. You will control the slide selection. The replay of this event will be available right after the conclusion. Reminding you that webcast participants may send questions to Randon and they will be as answered by the IR team after the conference is finished.

Before proceeding we would like to say declarations made during this conference call concerning the business perspectives of Randon, projections, goals are based on beliefs of the company's board and also based on information currently available. Points about the future are not guarantees of performance. 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, business conditions and other factors may affect the future results of Randon and may lead to results that will differ materially.

Now I would like to turn the floor to Mr. Daniel Raul Randon, Chairman, who will begin the presentation. Sir you may proceed.

Mr. Daniel Raul Randon: Good morning ladies and gentlemen to all those in the conference call and also those were linked by telephone through our website. Differently from what we have normally seen in the first three months of the year during this 1Q demand again very strong. Randon had the growth in revenue in all its segments in comparison with the same quarter in 2018, which resulted in an increase in margins and profitability.

The recovery of the market also allowed price increases in some lines and a better production planning, since the known portfolio allowed us to expand our production capacity. Although we began the year with good numbers we know that the challenges are constant in our business. If on one hand we have the domestic market performing well, on the other hand we have the Argentinian market holding on investments due to the economic crisis, a fact that interfered directly in the production of trucks in Brazil. The production of trucks grew only 1.3% due to the drop in exports.

Also we found in this quarter a drop in demand for products linked to light vehicles, which are responsible for the aftermarket, aftermarket parts. This segment normally is the least affected during crises and normally is very resilient.

Apart from market factors such as production and sales, we had economic financial sectors which affected results. Even in a market environment with greater demand allowing us to readjust prices, we had pressure on costs from suppliers. The freight prices were readjusted beyond the traditional steel prices and all of this together with a political change in the country bringing level of uncertainty that reduces the trust of the business plan holding greater investments.

Until now the balance has been positive and we are celebrating the good results of this quarter. We are adjusting Randon to the market investing in new processes, new business for example like Randon Triel that is being validated by Cade. We are looking for new funds to grow revenue by increasing the portfolio of products and also by selling in new territories with new partnerships and upgrading the sales channels. Nevertheless, we are cautious and we know that the challenges always exist in our business. If the external factors may bring elements that make management difficult, internally we should do our homework and prepare the company to continue both in times when the market is good, and also at times when it is not.

Since the last eighth of May I was elected chairman. We inform this before the general meeting. In this new position I would like to once again confirm my commitment with the company and shareholders. Our history is long and I have been for 20 years in many positions. My goal is to maintain the company on at the

age of 70, always looking for best practices in corporate governance and innovation aiming at growth and perpetuating the company, also cultivating the main principles and values of the company began by our founder Mr. Raul and brilliantly continued by the current chairman David Randon.

Now I invite you all to look at our goals for 2019 on slide number four. For 2019 we are projecting 7 billion in gross revenue and 5 billion in net revenue. Of these we have 300 million USD coming from abroad from exports in our plants installed outside Brazil.

Concerning investments 220 million projected and 36.7 of these in 1Q 19. I reinforce that the investments will be made as the remaining indicators also showed good science. I pass the floor to Mr. Paulo and he will make the detailed presentation of the results.

Mr. Paulo Prignolato: thank you Daniel, good morning. Beginning on slide number five we present the market numbers for the main segments where Randon is present. Beginning with the segment of semi-trailers we produced 15,000 units, 58% more than in 1Q 18. As a consequence of the growth in production we had an increase in trailers sold and registered by 61% in comparison with the period in 2018, which had a 14,000 only.

In comparison with 4Q 18 we had lower growth: 4% in production and 9% in sales, reminding you that the beginning of the year also has less workhours due to vacation and Carnival.

Now going on to trucks we see a stable production YoY 1.3% this increase is lower than in the other segments especially due to the reduction in exports of trucks, which had a drop of 65% in comparison with 1Q 18. This fact is explained mainly by the reduction in demand from the Argentinian market. Now sales in the domestic market had a growth of 47.7% in comparison with 1Q 18 and a drop of 7.5% when compared to 4Q 18.

OEMs are saying that they will have 2Q with good demand. The lack of foreseeability begins in 2Q. The market has been cautious with the delays in approving reforms and the drop in trust reduces demand for products related to country's growth. We are following the signs of change with caution.

I invite you now to go to slide number six to talk about the company's results. In 1Q 19 the company had consolidated net revenue of 1.1 billion BRL, a growth of 23% over 1Q 18. There was an increase in revenue in the three segments where Randon is present.

In the OEM division the growth of 18.4% was due to the expansion of sales of semi-trailers: 5135 units were sold in the domestic and the export market, 36.6% higher than the volumes sold in 1Q 18.

In the auto-parts division there was an increase of 27.3% in net revenue especially due to the increase in sales of breaks, 32% more and also in axles and suspensions, more 28%, and various components sold by Fras-Le, 30% more. In 1Q 19 Fras-Le had an increase in revenue from new companies that were acquired, which had revenue of 42 million in the quarter.

In the first three months of the year Randon exported 40.4 million USD, an increase of 9.8% in comparison with the same period in 2018. We may highlight two main points about the sales, export sales: the reduction of exports to Argentina, a drop of 58.8%; and the recovery of sales of semi-trailers to the African continent, another 82% increase.

As you know Argentina is facing one of its greatest economic crises with highest ability and inflationary pressure. In the company's plan we foresaw difficult scenario for this market. Concerning exports to Africa we are celebrating the sale to the new territories such as Ghana and Ivory Coast.

In relation to Ebitda and consolidated net result both had a drop when compared to 1Q 18. This reduction is explained mainly by the fact that in 2018 we had the effect of the advantageous purchase of Jurid with a positive impact on Ebitda by 52 million and the net result by 17 million BRL. Without this event the indicators of 1Q 18 would have had a comparable evolution.

In this quarter the only nonrecurring fact has to do to 18.5 million in hedge accounting. If we are just Ebitda of 134.3 million BRL with margin of 11.8% to these nonrecurring adjustments, the adjusted Ebitda would reach 152.8 million with and adjusted margin of 13.3%.

Another new element that arose in the numbers was the adoption of IFRS 16. In the press release and explanatory notes released by the company you may verify the impact of the adoption of this new accounting standard. I highlight that the change in hosting the rent contracts had a positive impact on Ebitda of 4.7 million and affected in a negative way the net profit, which dropped by 700,000 BRL in the period. The details are in the reports but we are available to make any clarifications that may be necessary.

Now I invite you to go to slide number seven to begin the presentation of the general view of the different segments. The segment of semi-trailers surprised us and had volumes well above those considered normal for this period. 13,949 semi-

trailers were sold and registered, a growth of 61% in relation to 1Q 18. Of this number 4413 were manufactured by Randon which had a market share of 31.6%. The capacity restrictions in our plants really resulted in a temporary loss of market share. Now additionally at the end of last year we began the project to expand our production capacity up to 30%, which will be concluded by the middle of the year. The portfolio is already sold until 3Q 19 and now we hope that the grain harvest such as corn and soybean and new freight prices will increase even more the sales in this segment.

Now going on to slide number eight we have the highlights on railway cars and vehicles, which represented 2.7 and 1.8% in consolidated net revenue. Everyone knows that the railway cars market will not react until the railway concessions are renewed. In this quarter we sold 86 railway cars, 75.8% less than in the same period of last year. The good news is that some positive signs are arising, such as an auction for the North-South railway and also progress in the negotiation in renovating the concessions.

Concerning special vehicles we had the evolution of the volumes in this quarter. We sold 97 products with the growth of 42.6%.

On slide number nine in 10 we will talk about the auto-parts division. Beginning on slide number nine we will talk about Fras-Le. In 1Q the volumes sold by Fras-Le had an evolution in most of the product lines sold when we compare with the volumes of 1Q 18. Nevertheless most of this growth is due to the volumes of the new companies acquired by Fras-Le, such as Fremax, ASK Fras-Le and Jurid.

Most of the sales of Fras-Le come from the aftermarket, approximately 86%, and total revenue half comes from the foreign market. In these environments 1Q had challenges. Talking about the export market there was a drop in sales to Argentina due to the reduction in the economic activity in the country and a long winter in the US, which delayed the maintenance of trucks.

Now in aftermarket parts in the domestic market the sales volumes of light vehicles had the greatest drop.

Now the sales of axles and suspensions we had a growth of 28% in comparison with 1Q 18. Suspensys has constantly tried to innovate their processes and products. In 1Q the branch launched a new suspension, the TAS - Trailer Air Suspension. It was developed to have more durability, more flexibility and more safety. Thus it adapts itself to the needs of the user in the different configurations.

Concerning the braking system sold by Master, an acquisition, the evolution of the volumes sold was 32.2% in the quarterly comparison. Also looking at the

opportunities the company began to offer a new line of products aimed at the aftermarket with the brand Master Flex.

The increase in sales of coupling systems was 11.5%. The products sold by Jost are directly linked to the segment of trucks. At Jost the highlight was the automation of shipping, the confirmation of collection, checking, also preparation of invoices and billing will be done through mobile devices improving the productivity and the integration of the services.

Finally we have the volumes also of breaking drums with a growth of 5.5%. With reaching full capacity Castertech invested in two new ovens to expand their capacity in 4Q 18 and expand the production. Now in 1Q we had the ramp up of these furnaces increasing production capacity.

Now we would like to go to slide number 11 and we will talk about the capital markets. Our shares RAPT4 close that 9.70 BRL at the end of March 2019, an increase of 12.4 in the price of shares when we look at 2018; market cap 3.1 billion in the period; the average negotiated volume of shares, preferred shares was 21.6 million in 1Q 19 in comparison with 17.1 million in the same period of 2018.

On April 30 in the company's general meeting we approved the distribution of dividends to be paid on May 15. We will distribute 30.1 million or 0.0879/share.

Now going on to slide number 12 we will begin the presentation of the financial results. We closed 1Q with total gross debt of 2.6 billion, 80% in domestic currency and 20% in foreign currency.

The variation of NCG resulted in an increase of 146.2 million BRL in the first three months of the year. The most representative accounts were inventory and clients, especially due to the new level of volumes billed.

Now going on to slide 13 we will talk about the net debt, consolidated net debt. At the end of 1Q 19 consolidated net debt without Randon bank was 880.9 million with and operational leverage of 1.7x of the consolidated Ebitda without the bank. The increase in net debt is directly linked to the increase in working capital as we saw previously. Considering the consolidated numbers with the indicators of Randon bank the degree of leverage was 2.25x Ebitda in the last 12 months and net debt is 1.2 billion BRL.

During 1Q the company announced its seventh issuance of debentures on April 10. We obtained 400 million BRL to be paid in seven years. With this operation we were able to lengthen our debt and reduced the average cost, average weighted cost. The changes in the payment schedule will be noticed in 2Q 19.

I would like to conclude the presentation but I remind you that in the webcasting you have available the full presentation with slides that give more details about the indicators presented. We are available for clarifications and comments. I would like to thank you all for your presence and now we would like to begin the Q&A session thank you.

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 the question from the list dial asterisk two.

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

Mr. Lucas Marchiori: good morning thank you for the call. I have two questions, the first you mentioned in the presentation about working at full capacity, capacity restrictions and this explains many points. How is this looking at 2Q? Will you have more industrial capacity? Have you recovered? We saw that the volumes are strong; are you; how will things be in 2Q?

Second could you comment on investments in production capacity? Please talk about the strategy you have with the acquisition of Triel and also Librelato's movement, who announced a production capacity increase for next year, thank you.

Mr. Esteban Angeletti: Lucas thank you for the questions. In fact in 1Q we had an impact on our availability, we are expanding the capacity. We had to revamp some parts and it is difficult to work and also revamp. Also in the end this had an effect. This expansion or the impacts of this expansion should have finished by the middle of March and so in 2Q we should begin the ramp up of this expansion taking our production to 130 products per day.

Concerning investments in expansion part of these investments are related to capacity increase. 35 to 40 million BRL were invested to take our production to 130 products per day. We have seen the competitors work as a mentioned, the competitors' announcements. This will happen because there is a boom in the market. The market is booming and especially the demand for 2H. This additional capacity of the main players may put pressure on price.

But we have to remember that in this booming market many competitors are winning share. These are small competitors that have more flexible capacity, competitors for example that also work with repair. So this should change in 2H as we and the other players have higher capacity.

Mr. Marchiori: Now I would also like to talk about Triel, the new company. Please talk about Triel.

Mr. Angeletti: I had forgotten this point thank you. Reminding you that Triel is still being approved by Cade and we do not have much to say. The rationale, the reasoning we mentioned in previous years we concentrated on the production of standard parts to win scale, and we left aside an important part of the market, which is customized products, which are tailor-made with higher ticket; but this requires flexibility in the plant. So we decided to leave this aside for some time.

With Triel, this joint venture with Triel, Randon Triel will once again, back to this market niche and this will supplement our products to increase margin and top line.

Mr. Marchiori: thank you.

Operator: our next question comes from Mr. Wagner Salaverry with Quantitas.

Mr. Wagner Salaverry: good morning. I have two questions, the first I would like to know your vision. You are expanding production capacity, the competitors too. How do you see this market in terms of price, discounts? Maintaining your full plant to have more efficiency? The current portfolio, the workers can begin and market share? How will the company work on this during the year with all these variables? Will you concentrate on market, we will try to maintain market share? So what can you tell us about the rest of the year?

Mr. XXX: thank you for the question. What we have noticed of course we interact with our main partners and clients. In fact in 1Q we saw an important growth in the volume of new orders and now in April we noticed a certain stabilization in terms of new orders from OEMs.

Today our portfolio has a horizon of five months, always reinforcing that this portfolio to continue on these levels will depend a lot on the political, economical of the country. So we saw in this period an important gain in price, an important progress in price, especially OEMs. So after 2H, in our case five months, 2Q, 3Q, after this we will have to see the pension reform, all the reforms to be made by the government.

Mr. Salaverry: the second question is from Mr. Daniel. I would like to understand considering the last few years we had strong recession, a period when you had

important changes in the market. Mr. David consolidated the company and bringing the company to this date as a mature company and now you are the chairman.

What can we expect? Can we expect more balance in auto parts, we do look at other opportunities outside Brazil? What can we expect with the new chairman of the group?

Mr. Randon: good morning thank you. Well, first this you said David, our chairman, took the company through many crises, I was there with him. I was here, Randon companies in the last crisis. We did our homework and now we have a more lean structure and the units have more productivity. Randon went from a market share of 26 to 40% - answering the previous question.

But the challenge is historically Randon has grown more in auto parts. Auto parts R 51% of our revenue while we are talking about OEMs 45%. So auto-parts has grown and Fras-Le had a strong role and M&A with acquisitions.

We want to continue growing the company, especially going after balance, sustainable growth. I believe it is worthwhile saying what Randon has done. The joint venture with Triel, which is being analyzed by Cade. So this is an opportunity to continue growing looking for more partners, trying to invest to have the best return on capital - but maintaining the important work like increase in capacity and investing strongly in productivity.

Looking forward we have a challenge. We are looking more and more to innovation. First we look at the new divisions in the automotive sector, commercial vehicles; also electrification. We are studying this for the medium and long-term to be ready with electric vehicles and also organization and services.

We have looked at opportunities through digitalization and startups. Randon has given support in the region to the development of a strong ecosystem of startups to bring cost reduction and opportunities for new businesses and being closer to the clients.

So we are working on governance. We did the succession and this is much shorter; we have been working for more than 20 years and I work with David, so we can continue this work and I believe the crisis have us to go back to the market with good profitability - but there are opportunities to grow. Paulo said well. We are expecting the government to really help the country to grow and with reforms, concessions and privatizations Randon is prepared for this growth thank you.

Mr. Salaverry: thank you.

Operator: reminding you, to ask questions please dial asterisk one.

Our next question comes from Thiago Casseb, Credit Suisse.

Mr. Thiago Casseb: good morning Daniel, Paulo, Esteban, thank you for the opportunity. Two questions, the first the environment for price increases in semi-trailers. You talked about a possible impact in 2H. Right now are you having difficulty increasing prices due to increases from vendors due to competitors?

Auto parts we saw that the margins suffered an impact; but in consolidated the margin is strong, above 14% especially in Master and Caster. Do you see this level of profitability has sustainable in Fras-Le for the next semesters?

Mr. Angeletti: Thiago thank you it is Esteban. Concerning the price were meant it is important to remind you that during the crisis we had to drop prices, to reduce prices. So we are recovering prices. We have not reached the same levels before the crisis, although we were meant is favorable.

From now on the price dynamics will depend a lot on the installed capacity and also the result fight with competitors for the share and also the result of this on margin due to cost controls, especially raw materials. The economy is recovering. Our suppliers also want to recover prices, so this will depend a lot on the demand, our production capacity and inflationary pressure.

Concerning auto-parts we have a good volume at Fras-Le, with this we have dilution of fixed costs, which enabled this more interesting margin, Ebitda margin. Once again from now one our concern is in costs. Raw material represents most of the costs and our ability to have successful negotiations or work internally on efficiency gains in the processes, thus we will see if we can maintain this margin during the year.

Mr. Casseb: thank you.

Mr. Prignolato: if you allow me - thank you for the presentation - I would like to mention two aspects: first we have a supplies area, corporate supplies area that is very strong, which looks at the volumes for the whole group. So it has been an area doing excellent work, especially inside trying to anticipate some strategic movements to preserve our costs.

Is specifically on Fras-Le, your question, you have to remember 1Q 19 concerning 1Q 18 had some important impacts. We cannot forget for example new taxes for the government on payroll and also the Argentinian crisis, which were stronger in 1Q if compared with the previous period. Just supplementing Esteban's answer.

Mr. Casseb: thank you Paulo.

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

Our next question comes from Mr. Mizusaki, Bradesco BBI.

Mr. Victor Mizusaki: good morning, a follow-up question concerning Fras-Le. Please comment how we should see the evolution of margin during the year due to the situation in 1Q?

Mr. Hemerson de Souza: good morning, Hemerson will answer your question, thank you. Well, we had a complex 1Q at Fras-Le especially due to cost increase in raw materials at the end of last year. We did not have time to recover in productivity, processes and also prices. I remember that an important part of feelings costs are linked to foreign currency, the USD. We are an exporting company, we have challenges to recover prices there.

We have taken many measures since January, even before finishing the month and we noticed a gradual evolution of the indicators at Fras-Le. Also at the closing of 2Q and April we are comfortable with Fras-Le's situation. Operationally we are going back to better levels as you know. So we are sure that there is work to be done, we are doing a lot of things. We have some nonrecurring expenses that contaminate the result but we are working.

On the financial side we have difficulties, especially hyperinflation problems in Argentina. Also these things affect the performance of the local units. So we are working to find some fast solutions and try to minimize the impacts of this problem in Argentina. We would like to say that in spite of the financial situation and exchange rate, operations in Argentina with lower sales they are very robust, and including the units acquired. Fras-Le Argentina, more than 20 years old, we are satisfied with the operations. Unfortunately the results have problems due to the situation.

Mr. Mizusaki: just one question. You mentioned monthly evolution in 1Q and then you mentioned quickly about April. So looking, thinking of margin YoY is it normalized or do we have to wait until the end of the year? With the exception of Argentina.

Mr. de Souza: I will talk about 1Q. March was very close to normal amounts, to the normal levels of the company.

Mr. Mizusaki: thank you.

Operator: We would like to conclude the Q&A session. Now I would like to pass the floor to Mr. Daniel for his final comments.

Mr. Randon: Once again I would like to thank you all for participating. We are available if you need any clarification, please get into directly with our investor relations department for the clarifications. Thank you and we will meet again in the next conference.

Operator: The audio conference of Randon is concluded. Thank you, have a good day and thank you for using Chorus Call.
