

International Conference Call
Randon S/A Implementos e Participações
2Q19 Earnings Results
August 10, 2019

Operator: Good afternoon and thank you for waiting. Welcome to the conference call of Randon S. A. Implementos e Participações to discuss the earnings concerning 2Q19. We have with us today Mr. Daniel Raul Randon, Chairman; Paulo Prignolato, CFO and Director for Investor Relations; Mr. Sergio Carvalho, from the Auto Parts Division; Mr. Esteban Angeletti, Finance Manager and Investor Relations Manager of Randon and the investor relations team.

We inform that this event is being recorded and all participants will be in listen mode only during the presentation made by Randon. Next we will begin the Q&A session when more instructions will be supplied. If you need any assistance during the conference call please request the help of an operator by dialing asterisk zero.

This event is also being transmitted simultaneously by the webcast and can be accessed at the address ri.randon.com.br, where you will find available the slide presentation. The selection of the slides will be controlled by you. The replay of this event will be available right after the end. We remind you that participants in the webcast may ask questions through the website. They will be answered after the end of the conference by our investor relations department.

Before we continue we would like to clarify that any declarations made during this conference call concerning the business perspectives of Randon, also projections, operational, financial goals are based on assumptions and beliefs of the company's management as well as information currently available to the Randon. Considerations about the future are not guarantees of performance; they involve risks, uncertainties because they refer to future events and depend on circumstances that may or may not occur.

Investors and analysts should understand that general market conditions, sector conditions and other operational factors may affect the future results of Randon and may lead to results that may differ materially from those expressed in this conference call.

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

Mr. Daniel Raul Randon: Good afternoon to all those listening to this conference call who are following us by phone or the investor relations website. I would like to begin thanking all those who voted for Randon to be among the first positions in the Latin America Executive Team 2019. We were listed as 11th among 18 with the first place as the best team with the best program for investor relations, among other recognitions. For us we are proud and feel motivated to continue improving in governance, transparency and good practices.

This morning we had in Sao Paulo our Apimec meeting. We received a great number of analysts and investors. I invite you all to access the presentation of Apimec available on our investor relations website giving you more details about the results of the company, the market and the performance of each division.

Now going on to the earnings presentation we can say that we are reaping what we planted in the last years. Since the height of the crisis we reinvented, reviewed all our processes and reduced costs. Also we are permanently searching for innovation having dedicated teams for this. We also found the new companies, meet new partnerships accessing new territories and expanded and diversified our portfolio.

And all of this became a reality as we can see the evolution of revenue. We can say that this is one of the best quarters in the history of Randon. Although the first semester has been very positive when we look outside the company we have a market that is afraid, which was doing very well investing and believing in the recovery of the Brazilian economy; but began to slow down as time went by and the level of uncertainty did not drop, thus inhibiting large investments in our country. The GDP was lower many times as a result of this scenario.

We will continue studying, looking for alternatives through acquisitions or forming new companies, as is the case of Randon Triel in Erechim in the South of the country that we inaugurated on the beginning of August and Suspensys Automotive Systems in Mexico to be inaugurated in November through innovation and investments in technology.

As you know Randon companies our leaders in the segments where they are present. To maintain this leadership we need a top-notch team with qualified and committed employees, who will know how to use the resources to better guarantee the results.

We have invested strongly in our organizational culture through the development of our teams qualifying them for rapid decision-making and investing in innovation in order for our companies to continue as leaders and in a sustainable way.

Now I would like to invite you to hear our guidance for 2019 on slide number four. We have arrived at the middle of the year and in this period we review our goals and we see projections as conditions become a reality. After analyzing the behavior of the market and what we did until now we continue believing in the numbers we reported at the beginning of the year. We already sold 3.5 billion in total gross revenue and 2.4 billion in consolidated net revenue, which is roughly half what the projected for the 12 months.

Although we are validating the guidance we know that reaching these numbers will require an effort on the part of all and will be a challenge. Until June we invested especially in machinery and tooling to expand the capacity and increase productivity. The 93 million invested are also in line with our plans. Now I would like to pass the floor to Paulo call will make a detailed presentation about the results.

Mr. Paulo Prignolato: good afternoon. I would like to confirm the words of Daniel and thank all those who contributed for our investor relations team at Randon to be elected as one of the best in Latin America. This is an excellent feedback for us and we intend to continue improving.

Now please slide number five where have the numbers for the markets where we are present. Beginning with semi-trailers we produced around 18,000 units, 52% more than in 2Q 18. The sales to the domestic market went up 56.9% and 70,000 semi-trailers were registered. Year to date the evolution was similar to that of the quarter with a growth of 55% in the production, 32,000 units and 58.7% in sales thus showing that this good rhythm was maintained in the first six months of the year.

In the market for trucks the evolution is not that strong especially due to the reduction in exports to the Argentinian market. In production 22% higher QoQ and 11.8% semester over semester. The registrations went up 41.1% with the sale of 25,000 trucks in 2Q 19 and an evolution of 46% in the semester with the sale of 46,000 units in 1H 19. Heavy trucks are responsible for this growth representing more than half of the trucks sold in the country and the first semester.

Now slide number six to talk about the company's results. In 2Q 19 the company reached 1.3 billion BRL in consolidated net revenue, an increase of 27.8% when we compared with the same period in 2018. Looking at the details per division we see 27% growth in OEMs and 28.9% in auto parts.

In OEMs we can highlight the increase in volume of semi-trailers, which was 40%, 40.5% higher; in auto parts the main factor for the increase in revenue came from the acquisition of Fremax, which brought additional 45 million BRL in 2Q. Apart

from this with the exception of friction materials all the other products sold by this division had an evolution QoQ.

Now going onto exports we had an increase of 11.7% QoQ reaching 45.8 million USD. Now looking at this number by economic block I highlight the sales to the US and Mexico which represented 42% of the total exports this year, and the recovery of sales of semi-trailers to the African continent. Recently we signed a new partnership in the Ivory Coast which will increase sales especially in that region.

Now talking about South America we have a slowdown in the region with economic difficulties in Argentina apart from other factors such as the drop in the price of copper, which affects Chile and Peru and the low price of grains having an impact on believe the and Paraguay. In the short term we do not see an improvement in the exports to these countries.

Consolidated Ebitda represented 203.7 million BRL in 2Q 19 with an increase of 61.3% when compared to 2Q 18. Ebitda margin went from 12.4% in 2Q 18 to 15.6% in 2Q 19. The price recovery and increase in volumes were the main factors that allowed this growth, together of course with all the actions mentioned by Mr. Daniel in the beginning of this conference call.

We also have is an additional factor the positive effect of the IFRS 16: in this quarter 5.6 million and in the semester 10.4 million BRL. In terms of nonrecurring factors we had to expenses to be highlighted: approximately 291,000 BRL negative effect concerning hedge accounting and 5.6 million BRL in the restructuring of Finland. Adding these to expenses to consolidated Ebitda we have an adjusted Ebitda of 208 million BRL with adjusted Ebitda margin of 14.8% in 2Q 19.

And finally we have the net result which was 84.5 million BRL in 2Q 19 representing an increase of 168.9% when compared to the same quarter in the previous year. In this indicator we had a positive impact of around 13 million BRL. This is the adjustment of monetary correction and premium of the controlled companies in Argentina.

I invite you all to go to slide number seven to begin the presentation of the general view of the different segments. During 2Q 19 the demand for semi-trailers remained strong. Of the 17,000 semi-trailers registered in the period 5740 were produced by Randon, which gives us a market share of the 4.1% recovery 2.5 p.p. when we look at the market share in 1Q 19.

For 3Q 19 we have our production sold out and although we have, it is slower in terms of new orders we trust that we will have Fenatran, the trade fair, which will help to sell. We also had Randon Triel-HD which inaugurated in the beginning of

August and will help Randon to sell special products, thus increasing the portfolio of the company.

Now going on to slide number eight we have highlights about railway cars and vehicles. We have... The situation is the same in the market for railway cars. The volume should continue low, we are waiting the renewal of railway concessions and this should happen until next year.

Now concerning special vehicles we had 97 units sold between April and June, 43% less than in the same period of last year. The main reason for the reduction is that in 2018 we delivered 177 units for the government of Rio Grande do Sul concentrating the deliveries in 2Q 18. Randon Veiculos continues participating actively in bids.

On slide number nine and 10 we will talk about the auto-parts division beginning with slide nine, we will talk about Finland. We divide the products of Finland in two large groups: friction materials and miscellaneous or other products. The first had a drop of 10.2% in volumes in this quarter. Some clients anticipated orders in 1Q and the reduction of business in some countries were the main factors for this drop. The miscellaneous or other products had an increase of 26.3% especially due to the inclusion of the volumes sold by Fremax.

In the export market we have different scenarios on each country. The sales to the USA will probably have a drop in the next few months; Argentina stagnated with no hope of recovery in the short term; the units in China and India are gradually becoming more important; in Brazil the sales to OEMs are doing well due to the high demand for heavy trucks. Light trucks are experiencing a drop in demand. We continue focusing on adapting ourselves to the market and even in a difficult scenario tried to maintain our margins.

I invite you all to participate in our meeting at Apimec on August 23 in Sao Paulo. You may register yourself with our investor relations team.

In the sales of axles and suspensions we had an increase of 29.1% in comparison with 2Q 18. The main highlight is the creation of Suspensys in Mexico. This unit will have manufacturing, assembly and sale of suspensions, axles and components for commercial vehicles, trains, buses, trailers and semi-trailers. It is the first unit of Suspensys outside our country. We consider this great progress. It is in one of the largest markets for trucks in Latin America.

In our controlled company Master we had an increase of 36% in volumes sold and 44% increase in revenue in comparison with 2Q 18. Sales represented 10% of consolidated net revenue in 2Q 19.

In our other company Jost the growth was 19% in volumes and 32% in revenue and the revenue represented 4% of consolidated net revenue. The volumes of hubs had an increase of 21.5% and we sold 129,000 units in 2Q 19.

Recently our controlled company Castertech, which also has the brand Suspensys WE, was not approved as a supplier of hubs and wheels for Mercedes-Benz.

Now we will talk about the capital markets on slide 11. At the end of June our share RAPT4 was worth 9.40 BRL, an increase of 46.5% in relation to June 2018. The market cap of the company was 3 billion at the end of the period. The average volume of negotiation of preferential shares was 19.5 million BRL in 1H 19 in comparison with 17.9 million BRL in the same period in 2018.

Now concerning distribution of dividends in May we distributed dividends for 2018 and now in August on the ninth we paid interest on own capital after a long period during which we did not do this. We paid 34.8 million or 0.10 BRL/share.

Now going on to slide 12 we begin the presentation of the financial situation of the company. At the end of 1H the company had a gross debt, total gross debt 2.7 billion BRL, 19% in foreign currency and 81% in local currency with an average maturity of 3.5 years. The average cost is 7.6%/year and in foreign currency 5.3%/year.

Now going on to NCG - working capital we see an increase of 122 million BRL. The main variation is in the purchase of inventory due to the new sales volume.

Now going on to slide 13 let us talk about consolidated net debt. At the end of 1H 19 consolidated net debt without the bank was 869.8 million BRL with an operational leverage of 1.46x consolidated Ebitda (also without Randon bank). The increase in net debt is directly linked to the increase of working capital.

Considering the consolidated numbers with indicators of Randon bank the degree of leverage was 1.9x Ebitda LTM and net debt 1.2 billion.

We would like to conclude the presentation here but I remind you that in the webcast you have available the full presentation with slides that cover in more detail the indicators presented. We are available to clarify and to receive comments. I thank you all for your presence and now we would like to begin our 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 your question dial asterisk two.

Our first question comes from Mr. Lucas Barbosa, Morgan Stanley.

Mr. Lucas Barbosa: good morning thank you for the opportunity, congratulations for the results. I would like to understand about implements. What are the perspectives to increase prices in 2H since the backlog is a little slower for the time being? Could you also comment on the products including implements?

Mr. Esteban Angeletti: Lucas, Esteban speaking, thank you for the question. Now concerning prices what we have noticed is that there is a stabilization of prices in part due to the drop in orders. Not that we are concerned with the guidance, no, or the deliveries; but we are seeing pressure on prices, not discounts but prices have stabilized.

Also since 2Q we are delivering a larger production capacity. We know that some competitors also increased their capacity and so this puts pressure on prices growth. Our vision is of price stability. If possible we will also increase prices to repass the increase in raw material prices. We are also working to increase efficiency in our plans. We are looking for also efficiency in negotiations with raw materials to offer a good price and add good results.

Mr. Barbosa: thank you Esteban.

Mr. Angeletti: just to supplement Lucas concerning our portfolio and our sales for sector remind you that our greatest concentration is in agribusiness. You asked about the mix for 2H and agribusiness continues to be responsible for many sales of implements, then industry, then mining and civil construction.

Mr. Barbosa: thank you.

Operator: our next question comes from the webcast.

Mr. Angeletti: I will read the question, Marcelo Afonso from Fundamentos: could you evaluate the impact of the possible end of fixed-freight price list on semi-trailers?

I would like to comment on our vision considering the government's price list for freight. In our vision part of the market is motivated due to the minimum-freight price list. Some companies adopted this and this generated positive consequences in the volumes that we see in the market this year; but we commented this is not a general trend and also whether this could be a bubble in terms of transportation. This has not happened yet in our vision.

Also concerning the freight price list issued by the government our client is being able to charge a fair price for transportation; thus they will be motivated to bind of trucks, new semi-trailers, increase their fleets and generate positive gain for the economy. So with or without the government price list for freight the market should adjust itself to give good conditions for our clients to be able to operate.

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

Mr. Wagner Salaverry: good afternoon. My question you had a 2Q with strong delivery of trailers, semi-trailers. As you said there is a trend to have less orders at least until now. You had good margins in implements and I ask you what is your estimate in terms of production for 2H considering that we have less new orders but we have the Trade Fair Fenatran in October, the trade show, the trade fair? So what is your expectation in terms of the trade fair and a more positive situation in 2H in the economy?

Mr. Angeletti: thank you Wagner, Esteban. I will begin answering your question. In fact we observe the drop in new orders; but I would like to say that we do not believe this will affect our guidance. We trust that it will be possible to deliver the numbers, the guidance in terms of net revenue.

2H for the time being we are seeing this very similar to 1H. Our production is already sold until November, we have the next few months to reveal 10 orders for the second part of November and December. In December we have vacation, company vacation not only due to organization but also the need to stop the plant and do maintenance and thus begin the next year at full speed. It is normal to see a slowdown of revenue in December as we always have but nothing that was not foreseen.

The trade fair Fenatran and also the Social Security reform of the government may be good news for 2H; but in our vision this will have a greater effect on volumes next year. The fair, the trade fair, the trade show sometimes is not delivered in the same year, the sales made in the trade fair. So we believe we will have more volume next year as a result of the trade fair.

Mr. Salaverry: now concerning Capex what can we expect for 2H TY? Anything different from 1H or the same?

Mr. Angeletti: today - thank you for the question - today as a mentioned in Apimec and in our material we are confirming our projections. So Capex as a whole was a little below the half. So we had 93.2 million BRL in 1H and this morning we confirmed our guidance of investments of close to 220 million BRL in investments, 220 million.

Mr. Salaverry: thank you.

Operator: the next question comes from Matheus Jerke from Solidus.

Mr. Matheus Jerke: good morning thank you. I would like to understand in the long-term we know that we only cars the sales are slow; but we saw Rumo winning the bid for the north-south railway. How do you see the railway market in one or two years from now?

Mr. Angeletti: Matheus thank you for the question. In fact the market for railway cars has been the worst in the last few years. Since we went into this market we never saw such low volumes. This year probably there will be 1000 units, maybe 700. We all know that this is linked to the renewal of the railway concessions.

The main clients are waiting to review the concessions and then invest in renewing their fleet for expanding their fleets of railway cars. In the next few years what we know, what is public, the two main players in the market have investment plans to renewal... Depending on renewal, which could generate a demand of 2 or 3000 railway cars/year for the next five years. This is very favorable, reminding you of all the results of implements this year are based on semi-trailers and railway cars could add additional volume and additional margin. We know that railway cars, due to the production and negotiation, have operational margins that are better than those of semi-trailers.

The other good music and comment about the railway car market if this year is that we have perspectives for next year. In Araraquara we have a plant that was designed and built to be more efficient in railway cars. Once we have orders we can handle at least 1200 or 1300 units/year and this new plant, and as mentioned it was designed and prepared to be more efficient in railway cars. So we have good possibilities in the future for railway cars.

Mr. Jerke: thank you.

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.

Mr. Randon: Once again I would like to thank you all for your participation. We are available for clarifications. Please get in touch directly with our investor relations team for clarifications. Thank you and we wish you a good day.

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