

International Conference Call
Randon S/A Implementos e Participações

3Q19 Earnings Results

November 14, 2019

Operator: Good afternoon and thank you for waiting. Welcome to Randon SA Implementos e Participações 3Q19 results, welcome to the conference call. With us here today we have Mr. Daniel Raul Randon, President Director; Mr. Paulo Prignolato, CFO and Investor Relations Director; Mr. Hemerson Fernando de Souza, Fras-Le's Investor Relations Director; Mr. Esteban Angeletti, Financial and Investor Relations Manager and our IR team.

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 the website at ri.randon.com.br, where the presentation is available. Participants may view the slides in any order they wish. The replay of this event will be available shortly after the event is concluded.

We remind you that participants in the webcast may ask questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding let me mention that forward-looking statements are based on the 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 dependent circumstances that may or may not occur.

Investors and analysts should understand that conditions related to microeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements. Now I would like to pass the floor to Mr. Daniel Raul Randon, Pres. Dir., who will begin the presentation. Sir you may proceed.

Mr. Daniel Raul Randon: good morning to all those participating in the conference call and those following by phone or our website. I would like to begin our presentation thanking of the two awards from IR Magazine 2019, the two words in

the categories of best investor relations executive and best investors day, which together with the awards received at Latin American Executive Team show the recognition of the capital market to Randon and our investor relations team's work with investors.

Now going on to the presentation results we are seeing a very good year for Randon companies with consistent growth as shown by the evolution of revenue and margins during the period. The uncertainties that we observed in the closing of 2Q caused by consecutive negative reviews of the GDP have changed and now we have a more positive scenario in the current quarter. The country began to generate jobs, interest rates are at their lowest level and a record harvest and 2020 have motivated, given a boost to trust for consumers and transportation companies.

With this the sales of road equipment and truck equipment, which are important for our auto-parts division, are growing again. This positive sign became even more evident during the main exhibition of the transportation and Cargill and Latin America - Fenatran exhibition fair. I would like to talk a lot... A little about the participation of Randon company at this exhibition on October 14 to 18 in Sao Paulo.

More than an institutional event as we had in the last two editions this exhibition became the main event for business in the transportation and cargo area in Brazil. For this edition we expected the great exhibition, which could show market trends for 2020 and this happened. Record public and record sales much higher than our expectations confirm that the sector is a good moment and that the beginning of next year we will have a rhythm similar to that of 2019.

The participation of Randon companies at the exhibition was marked by innovation and we had a very positive return from those visiting. We launched 20 new products, fruit of a joint effort from our different business units and also the Randon technological center. These launches bring more performance, greater availability and cost reduction for our clients with a strong emphasis on safety and sustainability.

I would like to close this initial message saying that apart from the positive performance of our businesses we can see that the innovation fronts that we are concentrating on, as we saw in Fenatran exhibition, are giving us results, are producing results. This is the message we have for the market. We are working in the present but with focus on the future. When we say that Randon wants to be on at the age of 70 it means to not be contented with good and consistent results; but

always leading with innovation and been leaders in the segments where we are present.

Now I would like to invite you all to look at our guidance for 2020 on slide number four. When observing the main indicators informed in our guidance we noticed that we are in line with the expected numbers until now for the year. The orders and portfolio, releases from OEMs, show that we have conditions to reach the guidance in terms of projected revenue for 2019 showing consistency in capacity of our company's to execute the plan.

The revenues from abroad are a little below the projections being affected by a more complex scenario abroad in the main markets where the company is present.

The imports reached the guidance one quarter before the expected quarter. This happened due to road equipment brought from our company Randon Argentina. We use this as an opportunity to solve two problems: reduce surplus capacity in Argentina and also supply the strong demand in Brazil, and this helped the two countries.

The investments are within expectations and during the year we carried out many projects not only to increase production capacity but also in automation and process improvement. Now I would like to pass the floor to Paulo and he will make a detailed presentation of the results.

Mr. Paulo Prignolato: thank you Mr. Daniel. Now going on to slide number five we show the numbers for the main areas where we are present. Beginning with semi-trailers we can observe good sales rhythm continuing especially in the Brazilian market. The registration of new trailer trucks YTD is already at 47,696 units, more than in the whole year of 2018.

In the truck market production grew a little less with the reduction of exports to Argentina; but sales in the domestic market have been positive especially due to the heavy trucks segment.

Now we would like to go on to slide number six and talk about the results of the company. In 3Q 19 the company reached 1.4 billion BRL in consolidated net revenue, an increase of 23.6% when compared with the same period in 2018.

In the OEM division growth was 21.5% resulting from a good sales volume in semi-trailers. In the auto-parts division growth reached 26.1% due to the increase in brake systems in the export market and also growth in Fremax, sales in Fremax.

Now going on to exports we had a drop of 17.6% in comparison with the previous quarter. The main drop was in the OEM division where many markets like Chile

and Argentina are having political and economical difficulties in this has affected sales in these markets.

Consolidated Ebitda reached 192.1 million BRL in 3Q with a margin of 14%. YTD 9M Ebitda reached 530.1 million with margin of 13.9%. The growth of volumes registered during the year together with price increases and a better product mix have contributed to maintain margins at healthy levels.

We also have as an additional fact the positive effects of IFRS 16, which in YTD 9M reached 16.5 million BRL. In this quarter we also had nonrecurring expenses totaling 17.5 million BRL, the main expense being 17.3 million referring to hedge accounting in the OEM division.

Adjusting the consolidated Ebitda to these expenses we have an adjusted Ebitda of 209.6 million BRL with Ebitda margin, adjusted Ebitda margin of 15.1%. YTD adjusted consolidated Ebitda reached 572.7 million with adjusted Ebitda margin of 14.9%.

Finally we have the net result, 78.5 million in the quarter representing an increase of 88.6 million in comparison with the same period of the previous year. In 9M 19 the company had a net profit of 194.7 million BRL and net margin of 5.1%.

I invite you all to go to slide number seven where we will talk about the different segments beginning with OEMs. In this quarter we saw the demand for semi-trailers remaining strong and we highlight the recovery of company's market share getting to 36.3% showing that the added capacity in 1H was fundamental to improve our share in sales.

When considering total sales in the quarter once again we are close to 7000 units, which helped us reach the good volume of 19,016 units and we believe we will close 2019 as the second-best year in history for a volume of semi-trailers produced by the company.

Although the export market is more complex for the next few months the sales for the Brazilian market should continue with good rhythm, especially with sales made during Fenatran exhibition and also giving us really a good position for 1Q 20.

Now on slide eight we have the highlights on railway cars and special vehicles. The delay in renewal of railway concessions is the main reason for the weak performance of this during the year. Randon sold 74 railway cars in the quarter due to a negotiation and this should not repeat itself in 4Q. The bright side is that the clients of this segment are saying that in 2020 we will have a better year with higher volumes than the volumes of this year.

Concerning special vehicles we sold 113 units, 15% below 3Q 18 but with a sales mix that is more consistent and with a greater number of off-road vehicles that bring a better revenue and margins.

On slide number 9 and 10 we will talk about the auto-parts division beginning with Fras-Le on slide number nine. We divided Fras-Le's products into two groups: friction materials and other. The first had a drop of 6.8% in volumes in comparison with the previous quarter due to the fierce competition, complex competition and seasonality both in Brazil and abroad. Now other products had a growth of 15.2% at Fras-Le especially due to the inclusion of volumes sold by Fremax, an acquisition and also mostly due to disk brakes.

In the operations outside Brazil we have different scenarios in each country. The closing of the tax year in the US, we had the closing of the tax year in the US and some clients delayed their purchases to reduce inventory. We hope to have normal sales in the next quarter. In Argentina there is economic stagnation without any perspective of recovery in the short term. In China we continue to search for to grow market share in the local market and in India there is a growth plan for revenue in the region.

Now talking about the Brazilian market sales to OEMs are presenting good performance, especially due to the growth in volumes in heavy vehicles such as trucks and road equipment. Now in light vehicles the demand has been more weak during the whole year and this intensified competition, there is fierce competition requiring, demanding from Fras-Le many actions to attenuate this negative moment of the market. For more information about Fras-Le please read the quarterly release as of November 12 available on the website.

Going on to the next slide we will talk more about auto-parts. The sales of axles and suspensions and couplings systems remained positive, in line with the volumes of the previous quarter and with the performance of the market. Nevertheless, in comparison with 3Q 18 there was no growth. The explanation is that last year the company compensated part of the days the production stopped during the truck drivers' strike during 3Q and that is why we had more days production and it became more difficult to compare with this year.

Now concerning hubs and drums we see growth of 7.5% due to a better product mix to the main client. The highlight during the quarter was for brake systems sold by our company Master, acquisition, with sales 20.7% higher than strong growth of exports to the US market.

Since we are talking about road equipment and auto-parts we will dedicate slides 11 and 12 to talk about the Fenatran Exhibition or Fair. As Mr. Daniel mentioned in

the beginning of our transmission we launched 20 new products during the fair or exhibition. As a basis for all the launches we have three fundamental pillars: weight reduction in products, increase in availability and the reduction in total cost of ownership. These are the three pillars of innovations and continuing with the fundamental concepts of 60 and sustainability. For Randon innovation is always linked to the environment trying to reduce the impact on our environment and giving benefits to the whole chain: suppliers, clients and society.

Within the most relevant launches that have this concern we can mentioned the e-Sys, auxiliary electrical axle to be used as road equipment. It can reduce fuel consumption by 25% in trucks with also a reduction in CO2 emissions. Apart from this innovation we also presented semi-trailers that are lighter than auto-parts with 35% more lifecycle than the equivalent in the market, thus decrease in the generation of waste.

Going on to the next slide we prepared special material with the 20 products launched by Randon at the Fenatran exhibition. The medias can be seen by QR code or in social medias with the name Empresas Randon. Please watch these videos.

On slide number 13 we will talk about the shares in the stock market, RAPT4. At the end of September RAPT4 share closed at 9.59 BRL, an increase, a rise of 53.2% in comparison with the end of September 2018. Company's market cap was 3.1 billion BRL at the end of the period; average negotiation of volume of preferential shares was 20.8 million BRL in 9M 19 in comparison with 16.1 million in the same period of 2018.

Now concerning the distribution of dividends and JCP on August 9 the company paid interest on capital after five years without paying JCP worth 34.9 million or 0.10/share.

Now going on to slide 14 we would like to show the company's financial situation. At the end of 9M TY the company had as gross debt 2.9 billion BRL, 18% in foreign currency and 82% in local currency with maturity of 2.9 years the average cost of the debt is 7.2%/year in BRL and 4.9% in foreign currency. The reduction in the cost is due to the lower interest rates, both in Brazil and abroad.

During this quarter we highlight the improvement in NCG - working capital. The company was successful with some actions in the quarter to reduce the inventory counts and clients and this has had a positive effect on leverage.

To talk more about leverage and about the consolidated net debt I invite you to go to slide number 15. At the end of 9M TY consolidated net debt without the bank

was 779.9 million BRL. The improvement in the working capital account mentioned in the previous slide helped reduce net debt, which is supported by a robust cash generation of the company reduced operational leverage without the bank to 1.22x consolidated Ebitda, in other words in June 2019 it was 1.46x consolidated Ebitda.

Considering the consolidated numbers with the indicators of Banco Randon leverage was 1.66x the Ebitda LTM and the net debt is 1.1 billion BRL. We have as an objective to maintain our leverage under control through a robust financial discipline. I would like to close the presentation but I remind you that in the webcast you have available the full presentation with the slides that explain in more detail the indicators mentioned. We are available for any clarifications. I thank you all for your attention and 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 queue asterisk two.

The first question Thiago Kasseb, Credit Suisse.

Mr. Thiago Kasseb: good morning, thank you for the opportunity. Two questions, first the improvement in orders portfolio since the end of 4Q is it due to agriculture or do you see more consistent demand from OEMs and industry? Thank you.

Mr. Esteban Angeletti: thank you. Concerning your question on orders we have noticed even during the exhibition Fenatran a robust number of orders. In July, August we had a drop; but before the exhibition in December we saw robust number of new orders coming. Most of these orders are due to agribusiness due to the good harvest and a record harvest next year that is expected. The industry is recovering and civil construction has not recovered yet. We are waiting for civil construction to place new orders when infrastructure becomes stronger in the economy in the future.

Mr. Kasseb: thank you. Second question on competition. You recovered a lot of market share this quarter with prices that seem healthy. How do you see this in new orders? Do you see competitors with more aggressive prices in the future or know? Thank you.

Mr. Angeletti: yes looking at the year during 1Q we mentioned our limited production capacity. With this some small competitors won some orders because they could deliver the product and our market share dropped to 31%; and as we expanded our production capacity we will recover this market share in 2Q and now in 3Q we have 36% capacity... 36% market share.

But we noticed other competitors also expanded production capacity and thus we have a more limited capacity to raise prices. In 2Q we talked about stabilization of prices, stable prices. Our competitors have followed the same prices. We did not see larger discounts in any of them and our expectation at least in the future is to have stable prices as we see in 3Q.

Operator: the next question comes from Lucas Marchiori, BTG Pactual bank.

Mr. Lucas Marchiori: good morning Danielle, Paulo, Esteban, the IR team, thank you for the call. First there was a lot of noise about the exhibition Fenatran. I would like to understand prices charged during the exhibition. I know there were launches, competitors. I know that you sold two months of production at the fair, at the exhibition; these orders had a good price? Prices were good?

The second question some technical indicators. First I like the disclaimer about the evolution of orders during the quarter. It began week and then it is recover. How is the situation per day to day, orders coming in per day? What is the situation and the production today? You invested in surplus capacity to produce almost 130 implements/day; so how was production today? How do you see production? Thank you.

Mr. Angeletti: thank you Lucas, thank you for the question. Concerning the prices during the exhibition Fenatran we did not change or price list, it was the same we had before the exhibition Fenatran and our price list continues stable, at the same level as during the exhibition. We decided not to be more aggressive or give discounts during the exhibition. We maintained the same price list we had in the market.

Now concerning orders per day on the new orders per day we saw better peak during the exhibition, a period of one week before the exhibition and a couple of weeks after because of some sales begin at the exhibition Fenatran and they are concluded later. We noticed that during this quarter, during the last weeks is in excess of 100 units/day. With the current production we have capacity of 130 units/day and this capacity depends a lot on the mix being produced. So depending on what we are manufacturing at the production line this can go down to 120 or even 100. Right now we are producing 100, 105 units/day.

Mr. Marchiori: thank you.

Mr. Prignolato: Lucas it is important your question about margin. Esteban mentioned that prices are stable. We are comfortable because raw materials, due to the good management we are been able to maintain raw material prices under control. That is why the line price versus labor and supplies shows stability in the margin.

Mr. Marchiori: thank you Paulo. Now the orders in the exhibition you have a backlog until when? Do you have a backlog until next year?

Mr. XXX: our objective at the exhibition and by the end of the year is to close all the orders for production in 1Q. We are very close to having orders for 1Q next year. We want to close the year with 1Q 20 sold out.

Mr. Marchiori: thank you.

Operator: the next question is from Victor Mizusaki from Bradesco.

Mr. Victor Mizusaki: good morning. Two questions, the first concerning Ferrari. How should this impact Master, the company Master, the acquisition? Are you looking at other acquisitions? First question.

And second on slide 16 you mentioned a positive outlook for 4Q. At the same time you talked about vacation for the company. So what can we expect in terms of trailer trucks? A drop because of these things or do you see production and sales growing?

Mr. XXX: thank you for participating. Hemerson will answer. He was closer to the project.

Mr. de Souza: good morning, good morning to all. Ferrari, acquisition that we concluded on Monday the purchase of the company. It is a small transaction and the company that has a small billing, 10, 12 million BRL per year with good results, an excellent return for us. More than this if we look at this we are talking about 3% more revenue; but the integration of the chain with aluminum is important for Master to get new businesses.

We must go back to manufacturing break chambers and we have a business volume projected for sale, especially in the export market, that is pretty large. We cannot give you details because we are still in negotiations. So although the transaction is small it has adequate returns, good returns; but it can help us to leverage exports and also sales in the domestic market and after sales with good returns.

Mr. Mizusaki: Hemerson thinking of this acquisition, the verticalization, can we understand that for Master we will have faster growth?

Mr. de Souza: yes. Master has good businesses and also perspectives to expand its business, partnerships with our partner Meritor and margins the integration of the chain, increase our competitiveness in price. So we have to recover part of this market; but it is a very positive effect for us.

Just to supplement your first question we have an agenda and we have, we are analyzing M&A opportunities. This is constant, there is nothing to announce; but opportunities are being analyzed and may generate new businesses in the future and when this happens we will really inform the market.

Mr. XXX: Victor I would like to answer your question about 4Q. Well, in 4Q we have traditionally the vacation period. This year we will have vacation and the reason is because we need this period to do preventive maintenance and avoid stopping during the rest of the year. And most of our clients and suppliers also have a vacation period. We would have logistics problems if we did not have vacation.

When we look at the whole year we have seasonality in 1Q and 4Q because of vacation and 2Q and 3Q are stronger. We believe this year we will repeat this trend. When we compare the numbers of 3Q 19 it is natural to see a lower top line and consequently compressed margins due to fixed costs; but nothing outside the tradition at Randon.

Mr. Mizusaki: thank you.

Operator: the next question is from Gabriel Rezende from Bradesco BBI.

Mr. Gabriel Rezende: good morning, thank you for the question, two quick questions. Auto parts you said more competition in aftermarket sales; and the margins, the will they continue on healthy levels? How do you see this trend? We will OEMs offset competition in aftermarket?

And concerning the 36% market share of trailers I would like to understand with the capacity you have today do you believe strong sales will continue? Thank you.

Mr. Angeletti: now concerning auto parts margins we mentioned in our call Fras-Le has had a more difficult year, lower margins than they traditionally have due to the aftermarket being more complex this year.

The other auto-parts have compensated part of this drop in Fras-Le due to volume than price. So there is space to dilute the fixed costs and we work to improve

internal productivity. We will work on this with greater gains in productivity. Our vision for the time being we have opportunity to have gains in efficiency internally and defend the margins and maybe stability in volumes, too.

Now concerning the market share of equipment our sales area has the mission to get to 40% market share. Today it becomes more possible because we have the capacity for this. We got to 40% in 2018 and we did not maintain; today we believe we can handle the additional demand in the market with the effort of our sales department. We have to manage the effect of the competition; but this is a possibility. If we do not get to 40% we will get close to this.

Mr. Rezende: thank you Esteban.

Mr. Angeletti: thank you.

Operator: the next question is from Lucas Barbosa from Morgan Stanley.

Mr. Lucas Barbosa: good morning Daniel, Esteban. My question is about the dynamics of the equipment area for 2020. We have seen stable, we see trends that show it will be stable or small growth. You said that some competitors increased capacity and other players should also increase capacity at the beginning of next year. So what can you tell us about prices next year?

Mr. Angeletti: Lucas thank you for the question. For the time being in terms of volume next year as you mentioned each line has stable volumes and we hope to close this way in 2019. In 2020 in terms of competition we believe there will be concentration in the main players. With the market performing well in 2019 and these three players having limited capacity we see other smaller manufacturers increasing their share and we see this in 3Q; and the three main players are working and as the three increase capacity the others decrease their participation.

With stability and with inflation under control we do not see space to increase prices; but we do not see aggressive competition either. In our minds for 2020 we will have volumes very close to the ones we had in 2019 and our mission will be to consolidate margins and price stability.

With this we must mention the issue of railway cars. Railway cars we had a bad year, demand was the worst since we began producing railway cars and it depends on the renewal of the concessions. We hope that next year the railway car market will have better results and will give incremental revenue to Randon. We believe we could have a volume of 2000 railway cars and we believe we could get to 30%, 40% market share in railway cars next year.

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 we would like to thank you all for participating. We are available for any clarifications. Please get in touch with our investor relations area for clarifications. Thank you very much and we will meet again in the next one.

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