International Conference Call

Mills - Estruturas e Serviços de Engenharia

1st Quarter 2017 Earnings Results

May 11, 2017

Operator: Good morning ladies and gentlemen. Welcome to Mills conference call during which we will be discussing the results of 1Q17. At this moment all participants are in listen only mode. Afterwards we will have a question-and-answer session when further instructions for you to participate will be given.

Should you need assistance during the call please press star zero. I would like to remind you that this call is being recorded and translated simultaneously into English. Questions may be asked normally by participants connected from abroad. The recording of the presentation will be available at the company's website www.mills.com.br/ri. This call is being broadcast simultaneously on the Internet and can also be accessed at www.mills.com.br/ri.

Before proceeding we would like to clarify that forward-looking statements that might be made during the call related to the business perspectives of the company as well as projections are assumptions based on the Management expectations regarding the future of the company. These expectations are subject to microeconomic conditions, market conditions and other factors.

Today with us we have Mr. Sergio Kariya, CEO; Mr. Gustavo Zeno, CFO and Investor Relations officer and Mrs. Camila Conrado, Head of Investor Relations.

In order to open this call about the results of 2017 Mr. Sergio Kariya will take the floor. You may proceed Mr. Kariya.

Mr. Sergio Kariya: Good morning everyone and thank you for participating in this call. As expected we would face very big challenges in the infrastructure segment in 2017. Although we already see some concessions coming back in the auctions we still have a gap up to the moment that the works start and therefore the use of our equipment.

On the other hand at rental we have had some regions with improvement in demand. In this 1Q we were able to raise rental prices in some locations and the effect was still marginal by the regions suffering volume and prices pressure. The initiatives to increase in construction market activities started to have effects and we have been working night and day to tap into all opportunities in this market continuing intensifying our presence in the nonconstruction market.

We know that the market is still challenging. We have been working with alternatives to track these opportunities mainly with the use of technology and commercial intelligence. As we said before this moment of market low is the time for us to invest internally and prepare ourselves and qualify ourselves to be ready to have a difference when we have a change in the current market scenario.

Now in order to talk about the results of the quarter Gustavo Zeno, our CFO and IR, will take the floor.

Mr. Gustavo Zeno: Good morning everyone. I would like to start the presentation with slide number three. Since 2014 the company has been highlighting the nonrecurring items. The part of the nonrecurring items are the restructuring expenses. In order to clarify we are calling restructuring the expenses with demobilization of branches, result of the sale of scrapped equipment for light real estate and organization structure and demobilization of some branches of construction, in line with our strategy of focusing the market where we have the higher competitive advantage and remunerated the capital invested.

In 2016 we closed three branches and we started to demobilize another two. In 2017 we close the rental unit in Maceio and we will end the demobilization process started in 2016 besides discontinuing five construction branches.

Aiming at recovering invested capital return and together with the strategy of the company we are selling part of the assets for light real estate. In 2016 we sold 5.7 thousand tons and in 1Q 17 9.1 thousand tons. For the next quarters this amount should be lower because most of the sale has already been made.

On this slide we can see also these expenses since 2015 as well as the evolution in the number of branches.

On slide number four we show when brought lines the results of the quarter in comparison with 4Q16 and also 1Q 16. The revenue drop that you can see between quarters was due to the construction business unit. Due to the end of some projects and the lower prices we do not see an improvement in revenues in the short run as mentioned before by Sergio Kariya.

Between quarters there was a reduction both in costs and expenses positively affected by the ADD and negatively affected by the higher restructuring expenses, which you can see on the chart under SG&A.

Ebitda in the quarter was 16.2 million negative. If we were to exclude the nonrecurring items and the sale of semi-new equipment the Ebitda would have been 5.4 million positive.

This quarter we posted 2.9 million in provisions for the impairment of assets referring to the contract for the sale of 170 handlers. The revenue will be recognized upon the delivery of the same, which should occur from April to December 2017.

On slide five we illustrate our net revenue per type. The physical utilization rate and the variation of the rental revenue and the rental revenue between quarters was lower by 6 million BRL. The drop in rented volume represented a drop of 2.8 million BRL and the change in the product rented contributed to a reduction of 3.4 million BRL.

The physical utilization rate of the company was in the quarter 36.8% in construction and 52.1% in rental. QoQ we had an increase in the number of machines rented by the rental division due to the increase in the participation of the nonconstruction market that currently represent 48% of invoices issued in this period.

On slide 6, you can see the representation of nonrecurring items in our result. Just as a reference in 4Q 16 our Ebitda and net of nonrecurring and the results of sales of semi-new was negative in 4.2 million.

Slide seven the evolution of our ADD. In this quarter we had 60 million in this line item and 18 million in reversals. Of this amount 7 million BRL had cash effect; in the other amount reverted were due to agreements xxx made and that has not yet impacted our cash.

As we believe that the Ebitda is not the best metric to see the operating cash flow of the company, on slide eight we see the reconciliation of Ebitda with the adjusted operating cash flow by the monetary variations, both negative and positive, net investments in rental assets and interests paid.

In order to consider that the Ebitda is a good proxy of the operating cash flow of the company we need to exclude some provisions and asset write-offs that are relevant amounts. The bars that you see in gray show variations between quarters.

This quarter we invested 9 million BRL and only 1.8 million in rental assets. The other investments were mainly in the improvement made in Cotia, the new Sao Paulo branch that will replace the Osasco branch, and also the annual SAP license. As we believe that 2017 will continue to see low demand we will not see great investments in rental assets, only in construction equipment and adaptation of the rental fleet. The total to be invested by the company should stay around 32, 35 million BRL.

On slide nine we can see that we had adjusted cash flow generation for the company of 1 million in the quarter.

On the next slide we show the data about our indebtedness. We closed the quarter with 339 million in cash and net debt of 118 million. The company debt is made up by 36% short term and 64% long-term with an average weighted… Term of 2.3 years and the cost of CDI + 0.85%.

At the end of March at the headquarters we had a debenture holders' meeting during which… This meeting we changed the financial… to earlier maturity. This was needed because Ebitda is very far from the operating cash flow of the company and now with this metric… It will be the operating cash flow adjusted by the net positive and negative monetary variation and investments in rental assets and interests paid.

Besides being easily trackable in the financial statement this measure is much closer to the real capacity of Mills of honoring its obligations with creditors.

Besides this change the main changes… were that the company will establish escrow accounts with the deposit of 50% of the debt balance and the change in the remuneration rate. The series maturing in August went from CDI + 0.88% to CDI + 1.20%. The series with longer maturity which is tagged to the IPCA before it was IPCA + 5.5% and now it is IPCA + 7%. And the third issuance that before remunerated 108.8% of the CDI now remunerates 116% of the CDI.

On the next slide we will show you our new covenants.

And in order to finish this part about the performance of the company on slide number 12 we show you our historical data since 2010 as well as LTM ended in 1Q 17 and then we have the performance per business unit.

Now I would like to give the floor back to Sergio Kariya for his closing remarks.

Mr. Kariya: I would like to reinforce that the results presented illustrates the economic scenario that the company lives in and the use of mechanized access in the industries assertive. The Brazilian market has a huge potential to increase the utilization of this type of equipment and we will continue to enforce our work to increase the culture for the use of aerial platforms in the most different sectors.

Our result as Zeno said reflects the restructuring that the company is carrying out. This restructuring is necessary in order for us to be even more efficient and better remunerate the capital.

Thank you very much and now we are available to answer your questions.

Q&A Session

Operator: Ladies and gentlemen now we will start the Q&A session. In order to ask a question please press star one and in order to remove your question from the queue please press star two.

Our first question comes from Mr. Samuel Alves from BTG Pactual.

Mr. Samuel Alves: good morning Kariya, Zeno, good morning everyone. My question

has to do with the company's strategy in the nonconstruction channel in the rental segment, besides decelerating 48% of your rental revenues for this division.

Do you believe that this level will continue going up relatively in this segment? And it would be interesting to know if you could share with us how important is the opportunity for equipment rental in some industrial sectors thank you.

Mr. Kariya: Samuel I would like to reinforce our position to maintain our focus of most of our commercial team looking for opportunities in nonconstruction and there you have made different applications since the cleaning of glass windows; maintenance; stoppage of plants; inventories and other sectors of the industry and of services in general.

So we expect to continue growing this percentage, which is more and more relevant in the rental unit. Yes we are going to maintain this strategy and yes we do intend to continue growing.

Operator: I would like to remind you that in order to ask a question you should press star one. Ladies and gentlemen in order to ask a question please press star one.

Mr. Rodrigo Fonseca, Vertra Capital.

Mr. Rodrigo Fonseca: good morning everyone. As far as I understand you are going to favor the exports, machines about 30% discount, lower than the accounting value. I would like to understand this because considering the replacement value it might be higher and so maybe the discount might be 60%.

Could you tell us if it is the same client that was by machinery from you before? And could you talk about what you received against Accounts Receivable, what kind of profile does it have and what is the speed you intend to realize it? Thank you.

Mr. Kariya: Rodrigo first of the sale that we announced is a client that had already bought from the company but in much lower amount and we had the sale specifically of one line of product, the telescopic handlers or telehandlers. This product, although we believe in the potential of this product, the moment that the country is living ever since we brought this concept way better than it has not reached a balance.

So this is why we have a strategy of strongly decrease in the exposure of Mills with this kind of equipment… Or to this kind of equipment.

Yes, we are selling to the international market, we are exporting it and when you go to the world marketplace and mainly with the appreciation of the BRL vis-à-vis the USD there was a negative impact, yes, our balance sheet. So the write off of these assets… Plus the inland freight expenses exceed the value of the sale. So yes we do have an accounting loss.

Regarding your second question yes we received from a client, it was a very long negotiation in fact and that ended in 1Q with some equipment given against the debt and these properties are still being built, these properties coming from this client as payment. So we have to wait for them to be totally constructed in order to check the perspective.

So I cannot tell you about the timeframe for that. We believe it will be accelerated but yes, we have received property in exchange for payment.

Mr. Fonseca: another question please. What is the trend for invoicing in 2Q? I understand April was slightly weak; so how do you see the evolution of rental and construction?

Mr. Kariya: Rodrigo what I can tell you is that overall the infrastructure sector has a lag in from the moment the concessions are launched, that is to say there are many concessions that happened, highways and transmission, etc. and even airports; up to the moment in which we start to generate value for the company. So there is a gap there. 2017 for the infrastructure sector will still be undergoing pressure in our volumes.

And when we look at the infrastructure sector in a way we close many point-of-sale mainly because these locations gave us a negative contribution margin, and we have therefore less exposure in this sector; but the sector is still undergoing pressure mainly because… There are many centralized launches and returns are higher than sales and so we have to keep our focus on maintaining positive contribution margins for the company.

Rental, what we expect for rental is the following: the effect that we talked about regarding nonconstruction we intend to offset this pressure with nonconstruction. There are some locations, some regions in the country where the volume pressure and price pressure continue and so the expectation, our expectation, is to have a more flattish year for rental 4Q 17 and LQ 16 as well.

Operator: Ladies and gentlemen please press star one and if you wish to ask a question.

The question-and-answer session is closed. We would like to give the floor back to Mr. Sergio Kariya for his closing remarks. Mr. Kariya you may proceed.

Mr. Kariya: I would like to thank you for participating in our call about the results of 1Q 17. The investor relations team is available to you to clarify any additional doubts thank you very much.

Operator: Mills conference call is closed. We thank you for participating and wish you a good day, thank you.