**International Conference Call**

**Mills - Estruturas e Serviços de Engenharia**

**3Q17 Earnings Results**

**November 9, 2017**

**Operator:** Good afternoon ladies and gentlemen. Welcome to Mills 3Q 17 earnings conference call. At this time all participants are in listen-only mode. After Mills remarks are over there will be a Q&A session. Should any participant need assistance during this conference call please press star zero for an operator.

I would like to remind you that this conference call is being recorded and simultaneously translated into English. Questions can be asked by participants collected from abroad. The recording will be available at the company's website at www.mills.com.br/ir.

This conference call is being broadcast simultaneously over the web with access through the company's website at www.mills.com.br/ir.

Before proceeding let me mention that forward-looking statements that might be made during this conference call relative to the company's business perspective and projections are based on expectations of Mills management relative to the future of the company. Such expectations are subject to macroeconomic conditions, market risks and other factors.

Today we have Mr. Sergio Kariya, CEO of the company; Mr. Gustavo Zeno, CFO and IRO; and Ms. Camila Conrado, Had of Investor Relations.

Now to speak about 3Q 17 results I will turn the conference over to Mr. Sergio Kariya, CEO of the company.

**Mr. Sergio Kariya:** Good afternoon ladies and gentlemen and thank you very much for joining us in this conference call.

The Brazilian economy continues to show consistent signs of improvement as confirmed by recently disclosed macroeconomic data. The construction sector continues to be the most affected with a 6.6% GDP drop in 1H 17. Construction companies continue to suffer greatly, which impacts our rental revenue and brings a delinquency risk. We believe that the confidence of the business community in the economy tends to show consistent improvement, which leads us to have more long-term stability.

Nevertheless, in the short term there might be some turbulence given the 2018 presidential election.

This improved confidence of the business community coupled with lower inflation and interest rates of 7.5% per annum should influence initially consumption companies, which confirms the strategy of our rental business unit to focus efforts on the non-construction sector. We have noticed a trend towards price recovery as of the month of August in this unit.

In the construction business unit the sector's contraction should continue for some time to come in infrastructure, despite the government's efforts to announce new plans for the concessions and privatizations program, we observe some risks or political and technical hurdles which may delay the program.

We continue to work hard on capital discipline and on commercial and operational processes, taking action to preserve cash.

Out to speak more specifically about the quarter results I turn the floor over to Gustavo Zeno, our CFO and IRO.

**Mr. Gustavo Zeno:** good afternoon everyone. I thank you all for joining us. Let us begin with the performance of the company's revenue on slide three. In 3Q total net revenue was up 16% QoQ, mainly due to poor sales of semi new equipment in the rental business unit.

The rental business continues to have the highest share of our net revenue, 59%; followed by heavy construction accounting for 27%; and real estate accounting for 14% of our total net revenue. The growing share of the rental division stems from our strategy to reduce exposure to the construction market, the most impacted industry by the economic downturn.

As we can see the chart showing changes in rental revenue and utilization rate rented volume increased in both business units with a slight negative impact of price and mix. The company's physical utilization rates in the quarter were 38.8% for construction and 57.5% for rental.

In the construction business unit the higher utilization rate resulted from a higher rented volume and a smaller asset base, 110,000 tons in 3Q 16 down to 90,000 tons in 3Q 17.

At the rental business unit we saw increase in rented volume in the non-construction segment, which represented 59% of the revenue in the quarter in keeping with our market strategy.

We continue to suffer pressure on prices in particular in the construction unit. In the rental unit despite of price reduction in the quarter we already noticed the price recovery in new rental contracts, given the demand rebound in the industrial segment and we hope this trend will materialize in the coming quarters.

On the other hand this segment requires smaller equipment with lower tickets, thus altering the mix and causing a negative impact on total revenue.

Please go to slide four where we have a breakdown of our Ebitda for the quarter. CVM Ebitda totaled 5 million BRL in the quarter and YTD -23 million BRL. Net of the result of sales of semi new equipment and nonrecurring items give bit that would be 4.4 million in 3Q and 2.7 million BRL YTD.

On slide five we give you more details on nonrecurring items which are impacting our results, including restructuring expenses and other expenses such as liabilities that we have as a result of Mills industrial services business unit sold in 2013.

The company has been highlighting restructuring expenses since 2015. This is a result of our strategy to focus on the market where we have a better competitive differential and to better remunerate the invested capital.

To clarify, by restructuring expenses we mean expenses with closing and demobilization of branches; sale of scrap of equipment focused on the lights real estate market; and organizational changes.

In 2016 Mills closed five branches, three branches of the construction unit, Manaus, Goiania and Cuiaba; and the two of the rental units, Guarulhos and Sorocaba.

In 2017 we closed the rental branch in Maceio and are now finalizing the closing of five construction branches: Curitiba, Belo Horizonte, Campinas, Ribeirao Preto, Vitoria, Fortaleza and Belem.

In the next quarter we will have some expenses related to freights to move equipment of contracts prior to the closing of the construction branches; also freight for relocation and repair works to return leased property of the rental branch in Curitiba, which will move to Sao Jose dos Pinhais in Parana; also freight transport for the move and repair works to returned the leased property in Porto Alegre; write-offs of improvements of Curitiba and Porto Alegre branches and some other less representative expenses.

With that we believe that nonrecurring values will have less of an impact in the coming quarters.

In 2016 we sold 5.7 thousand tons ending 2017 YTD we have sold 11,000 tons of construction equipment as scrap. For the coming quarters this amount should be lower given that most of the sales have already taken place.

On the slide we can see also these expenses since 2015, as well as the track record of nonrecurring expenses.

On slide six we see devolution of our ADD and delinquency. In this quarter ADD balance and total past-due payments showed a decline positively impacting the percentages of total past-due receivables over total gross receivables; and ADD balance over total gross receivables.

The efforts to reduce the balance of accounts receivable has allowed us to post a continuous reduction in the percentage of 1 to 60 days past due payments.

On slide seven we present the reconciliation of CVM Ebitda that with operating cash flow adjusted for a net monetary variation of assets and liabilities, investments and rental equipment and interests paid.

In order to consider Ebitda as a good proxy off the company's operating cash flow we have to exclude some provisions in write-offs which total relevant amounts. The gray bars show variations between quarters. In this quarter we invested 5.9 million BRL in rental assets. Of this amount 1.2 million had no cash effect as we can see the item 'acquisition of rental equipment' highlighted in the graph.

This non-cash impact results from to contracts to change the mix of aerial work platforms. We sold less demand models in order to buy smaller aerial platforms to better serve the non-construction market.

Please go to slide eight. Here we detail rental equipment divestment. We are working simultaneously on four contracts, for sales contracts in line with our strategy to adjust our fleet mix. As announced in the past quarters in 1Q 17 we signed the contract for the sale of 170 telescopic handlers, Amy to reduce the operation of this kind of asset that requires high maintenance cost and has also high idleness. In 3Q 17 we signed a contract to sell 60 aerial platforms that had been in use for over seven years and that had low utilization rate. Such older equipment entails higher maintenance cost.

The agreed value was 1.4 million USD; however the overall amount can reach up to 2.3 million USD with the possibility of an international auction taking place to sell these machines. In this case Mills will receive the difference minus commission and logistics costs. The plan scheduled to deliver all equipment extends until December 2017. We will take this commercial selling opportunity to rebalance our fleet according to the current size of our market.

Regarding the strategy to adjust our fleet mix to increase our exposure to the non-construction market we announced in 2Q that we had signed two contracts to sell 108 semi new aerial work platforms aiming to replace some larger models that post a lower utilization rate with smaller, electric models.

So far we have sold 80 out of the 108 machines included in the contract and we have purchased 18 nine machines of a total of 135 that we expect to buy of different models.

We will continue to make this movement of the mix changes until the end of the year, when we expect to close the last sale agreement.

The equipment involved in the contracts that I mentioned has already been classified as assets available for sale. Other details on these sales can be found in our explanatory note number seven in 3Q 17 financial statements.

On slide nine we can see the company's operating cash flow. This quarter we were positively impacted by the higher volume of sales of semi new equipment by the receipt of the last payment for the industrial services unit sold in 2013… Sold in 2013, which was paid in July and amounted to 23.9 million BRL.

Please go to slide 10. Here we show you data about our indebtedness. According to what was agreed during our general the venture holders meeting held in March part of our cash is in escrow accounts and the balance is made off of 50% of the outstanding debentures balance. With that we ended the quarter with 60 million BRL in cash and 150 million BRL in escrow accounts.

The company's net debt at the end of the quarter was 90.4 million BRL down from 123.3 million in the end of 2Q 17.

In August we ended the first series of the second issue of the debentures with a total payment of 85.1 million BRL, 80.5 million being the principal.

As illustrated in the graph our debt amortization schedule does not include any substantial payment this year. Next year we will amortize 106.2 million BRL.

The company’s debt consists of 42% short-term and 58% long-term with a weighted average maturity of 2.3 years at the cost of CDI +1.99% per annum. Our debt indicators are within the expected range; however we remain cautious reducing our expenses and preserving cash.

Uncertainty remains regarding the extension and duration of the cycle of low construction activities in the country and its impact on the company.

Two in my comments on performance on slide 12 we show you our historical data since 2010 as well as LTM and that in 3Q 17.

The next slides show more information about the performance of each one of the business units.

To conclude I would like to emphasize that we continue to invest in improving the company's operating management. In the construction business unit our focus is to continue to reduce costs; and in the rental business unit our focus is to increase prices and equipment availability to prepare for the recovery of the non-construction sector.

And now we are ready for the question-and-answer session.

## Q&A Session

**Operator:** ladies and gentlemen we will now begin the question-and-answer session. If you have a question please press star one and if it anytime you would like to remove yourself from the queue please press star two. As a reminder if you would like to ask a question please press star one.

Our first question comes from Tomas Awad, BR3 Investimentos.

**Mr. Tomas Awad:** hello good morning. You talk about in the end of the call that you want to increase prices. I would like to hear from you more specifically about this dynamic. You did not give any detail on that; but you said that in September you would start thinking about that because utilization rates started showing signs of improvement.

Could you give us some color on that? Has anything happened? Has implementation happened or not? What is your expectation for 4Q and 1Q… For QT why and 1Q next year? And in what segments can you see some price movement?

**Mr. Kariya:** Tomas to answer your question we have to break it down by two business units. In the construction sector as I mentioned we still feel pressure in terms of volume, given the whole scenario, the whole civil construction scenario either for heavy construction or real estate.

So the strategy here is nothing regarding prices; we still feel some pressure in terms of volumes and so we are trying to keep the prices stable and flat, but feeling some volume pressure.

At the rental business unit it is a slightly different situation. You saw some slight volume increase in the prior quarter, in this quarter; and in 4Q 17 we have an expectation of seeing increase in volumes. Given that our efforts are two words increasing prices. This is the strategy for the last quarter of 2017 in the rental business unit.

**Mr. Awad:** I am sorry to go back to this; but so we are now in November. So have you tried to increase prices? Have you tried to implement any price increase? Can you tell us a little bit more about that?

**Mr. Kariya:** yes I can tell you little bit more Tomas. Yes we have increased the prices and that happened in August. We already see an impact of that in September and October. Obviously price increase is on turnover and we can perceive that the market is already absorbing, albeit marginally, some price increases in the new rental contracts.

So yes and this is not an intent anymore; it is an action. We have implemented almost 2 1/2 months ago and we are monitoring volume versus market reaction in terms of the market absorbing this pricing phrase.

**Mr. Awad:** in terms of volume, in terms of physical utilization rates visit continue to show a trend of recovery? Do we continue to see this trend of recovery in 4Q you think?

**Mr. Kariya:** indeed it continues. Utilization rate continues to improve. It is a little better than this amount of 57 and we are working to improve our availability at the different locations. So this is both an effective volume improvement; better physical utilization rate; and a certain improvement in the margin given the price increase.

**Mr. Awad:** I am just trying to understand this a little better, so if I may ask another question what is the mix? You said you were replacing some machines with electric machines and you are looking now for industrial clients. This beginning of recovery in the rental unit does this come from this new type of machines or old clients that were no longer using these machines are coming back and using again these machines?

Could you give us some color? I just wanted to understand how sustainable this movement is for you. I want to understand whether this will extend into 2Q of next year?

**Mr. Kariya:** Tomas I understand there are a number of factors involved here. Number one we have been leveraging the non-construction segment and have been telling you about this in the recent quarters, and we are now reaping the fruit of that.

We are increasing our penetration in the non-construction market and increasing our exposure in the industrial market not only breaking down paradigms placing machines where clients did not used to rent them; but also seeing some improvement in the industrial sector..

The moment that we see slightly higher demand in retail and in consumption companies start to need to do maintenance, preventive maintenance, and that also requires equipment.

So I think there is a set of factors accounting for that and it is the result of our change in strategy and our change in mix. We are kind of removing those bigger machines for heavy construction and we are replacing those with machines that have industrial focus, for example electric machines. So there is also a mix change.

That is why you do not see 100% the price effect because there is also a change in the mix of machines during that period.

So yes we need more in terms of quantity, it requires a certain mix change; but that is driven by a number of factors, our work to increase our exposure in non-construction segment but also higher demand in that sector.

**Mr. Awad:** thank you.

**Operator:** as a reminder if you would like to ask a question please press star one.

Our next question comes from Tomas Awad, 3BR Investimentos.

**Mr. Tomas Awad:** Sergio I am sorry I am back. In construction could you give us more detail in terms of what is happening in your daily work? Are there bidding processes? There is a construction that got two highways that were auctioned, there obviously a lag until they start renting. There are also the airports that have been auctioned.

So could you give us more detail? Because you tried to sell some material as scrap; but I think you have a lot of equipment left that you could not really get rid of. But I know that this is all cyclical. Perhaps eventually client you use a little more equipment. I do not know if I am being silly saying this.

I would like to know whether in heavy construction you envision anything for next year, because next year was supposed to be similar to this one. Do you envision 2018 similar to 2017 or do you see a light in the end of the tunnel?

**Mr. Kariya:** Tomas we have to separate the two construction sectors: heavy construction and real estate, because I understand they have totally different drivers.

Real estate has the three major drivers influencing the sector: interest rates, inflation rate and unemployment rate. When two of them are improving… Well, unemployment remains still high, 14 million unemployed people; but the confidence of consumers in terms of buying a property is not there yet, we still have a long way to go.

So we have consumption of the properties that the construction companies… they have to sell those first until they start building again. So there are still a relatively long curve there, and of course that depends on improvement in the unemployment rate.

Now for heavy construction historically most investments in the sector, around 60%, coming from public investment or PPP - public private partnerships and 40% only come from private investment.

Given the whole fiscal pressure that the government is feeling we see these public projects being somewhat locked up, and that is what the government is trying to drive privatizations and concessions. And as for privatizations we do envision some technical hurdles in terms of preparing the project, the executive project, all of the social, environmental impact. All of this needs to be sorted out before they release the bid.

The government this week announced a reduction in the value invested in infrastructure in heavy construction and it is because of that. It is difficult for the government to unlock the process, and this has an impact on us.

There were some bits of the four airports we do not fuel out of impact from that. I have little penetration and relevance in this type of project; but still we see a lot of room there. This reflects in smaller backlogs and smaller pipelines.

That is why we see a longer curve in the heavy construction sector. We do not see a rally in the short term and that is why we are continuously working. We will continue with the same actions we implemented in 2017 and we will continue with those actions in 2018 trying to have austerity, to reduce costs and so on and so forth.

This is a longer curve in heavy construction. There are a number of hurdles like I said and also as we mentioned four 2018 we have a complicated scenario given the presidential elections in 2H of the year and that is why we see a longer curve in the construction sector.

**Mr. Awad:** so perhaps thinking about quarters in 1Q or 2Q 18 you do not see improvements in this scenario and it should be business as it is?

**Mr. Kariya:** yes, with a little more pressure on volumes, and what we are trying to do is to maintain the prices; but given our lower backlog we will have someone pressure.

**Mr. Awad:** okay thank you.

**Operator:** This concludes today's question-and-answer session. I would like to invite Mr. Kariya to proceed with his closing statements. Please go answer.

**Mr. Kariya:** Ladies and gentlemen I would like to thank you for participating in this conference call to discuss Mills results for 3Q 17. The company's IR team remains available to answer any further questions you might have or to provide further clarifications: thank you.

**Operator:** That does conclude the Mills conference call for today. The audio of this conference call for replay in the slide presentation we will be available at the company's website at www.mills.com.br/ir. Thank you very much for your participation.