CMGRP, INC.

Moderator: Francisco Freyre
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Operator: This is conference # 95902958

Operator: Good morning and welcome to Rassini Earnings Conference Call for the Third Quarter of 2017.

At this time, all participants are in a listen only mode. Following prepared remarks, there will be a question and answer session. As a reminder, this conference is being recorded for replay purposes. Please note that the accompanying presentation to today's conference call is available for download on the company's website at rassini.com. Alternatively, you can e-mail rassini@rassini.com and a member of the Rassini Investor Relations team will send you a copy of the presentation deck as soon as possible.

With that I would now turn the call over to Francisco Freyre, Assistant Vice President of Investor Relations and Finance for Rassini. Please go ahead.

Francisco Freyre: Thank you, Operator. Good morning everyone. Thank you for joining us on the call as we discuss our results for the third quarter and first nine months of 2017. With me on the call today is our CFO, Juan Pablo Sánchez.

Before heading into the business update, we would like to start the call by mentioning that during the quarter we witnessed several natural disasters that affected many regions and some of them severely impacted our continent, especially Hurricanes Irma, Harvey and Maria in addition to the earthquake in Mexico. While we were fortunate enough to report that all of our workers and facilities were not affected by the natural disasters, our thoughts are with those families and businesses that were impacted.

In this regard Rassini has contributed to communities in Puebla, Oaxaca, Chiapas, Mexico City and the state of Texas to assist in the recovery efforts and has sent supplies to the affected communities, including everyday essentials, electric generators, wheelbarrows, shovels, fuel, oil and safety equipment among others and we encourage all the community to continue with the efforts to support our affected communities.

Turning now to other news, the U.S. auto sector presented a stronger performance as we can see in different indicators as the auto sales adjusted by seasonality (SAAR), reached 18.5 million vehicles in September, the strongest in 12 years and the fourth strongest of any month ever, inventories level normalized lower to a healthy 64 days of supply and various macroeconomic factors linked to the industry tracked more positively (the GDP growth unemployment rate, initial jobless claims, consumer confidence etc), and the average share price of the U.S. auto part suppliers has presented a strong performance during the year with 28% gains accumulated versus the Standard & Poor's index with 14%.

Moving on to our results, we are pleased to report a strong first nine months of 2017 with increased demand, market share gains and the start of new contracts driving a 13% increase in net sales compared to the first nine months of 2016. As we approach the end of the extraordinary income that we have mentioned in previous reports, volume during the third quarter slightly decreased from a year ago, but excluding the effects of this extraordinary contract, our net sales would have increased 19% year-over-year.

Net revenue for the first nine months were MXN 13.6 billion with EBITDA of MXN 2.53 billion. Net income reached MXN 1.20 billion or the equivalent to MXN 3.76 per share, a decrease of 2% compared to the same period of last year.

Sales for the third quarter of 2017 were MXN 4.2 billion, an increase of 1% compared to the second quarter of last year or an increase of 9% compared to the last year excluding the effects of that extraordinary contract that we just mentioned. Results were lifted by an increased demand for our products, market share gains for brakes and suspension components and the start of production of new contracts.

EBITDA reached MXN 679 million, partially affected by the increased energy prices. Consolidated net income for the third quarter was MXN 327 million.

We maintain an optimistic outlook for the growth of our business and as Rassini continues to deliver strong financial performance, we remain committed to quality, innovation and to creating superior value for our shareholders.

Next, we would like to comment on our evolving product portfolio. We continue to innovate to meet the ever-changing needs of our industry. Over the last couple of years, as the industry is increasingly focused on hybrid, electric and even autonomous cars, we have seen also a significant demand for weight reduction. Currently, we are developing a full composite new leaf spring which is estimated to be completed by 2021, and it reduces the overall weight of the spring by 50 percent to 60 percent.

To date we have already achieved 30 percent weight reduction and are excited to note that the new leaf springs will be equipped in some of the new next generation series of pickup trucks. It is our priority to continue delivering top-quality products to our customers in years to come.

There's been a lot of discussion about the negotiations of NAFTA as well as what it could mean for the automotive industry. While it would be not prudent to speculate on what changes may or may not occur to NAFTA, what we would like to say is that Rassini, whose products are above 90 percent of regional content, is well-placed to continue trade relationships with North America.

Next, we will turn to our industry update in our presentation deck. On slide 4, you can see that macroeconomic conditions continue to be positive in North

America. Unemployment continues to drop; fuel costs remain low and housing starts continue above the 1 million houses.

Turning to slide 5, the seasonally adjusted annualized rate or SAAR of U.S. light vehicle sales was 18.5 million units during September, well exceeding expectations and September inventories closed at a level of 64 days' supply, very close to the industry ideal of 60 days' supply and down from the 74 days of last quarter.

While total NAFTA light vehicle production was down approximately 3% compared to the same period of last year, production of light trucks actually increased 2% year-over-year. We note that hurricane-related replacements likely contributed to the better than expected results in September. However, even excluding those unforeseen events monthly sales would have been above average.

Over the last several months we have received questions from many about the trends we are seeing in the auto industry and where we envision the market going from here. Currently we see that North America light vehicle production keeps shifting due to consumer preference, however the overall volume remains fairly stable. IHS expects auto production in North America to reach 17.4 million units in 2017 and begin to increase again to 18.2 million units by 2020. These factors reinforce our view that U.S. auto sales will remain positive during 2017, at the time that we continue to capture market share, focus on operational excellence and pursue opportunities in all categories, including premium cars and heavy trucks.

Moving on to our financial highlights and results starting on slide 7, we reported a strong financial performance in the first nine months of the year with year-over-year improvements to both sales and EBITDA.

Slide 8 shows our sales and EBITDA by region. Sales in the North American region remain stable and we are also beginning to see the Brazilian market stabilize and show signs of recovery, Sindipeças forecasts that production in Brazil during 2017 will increase 10% compared to 2016 and that we will see signs of recovery and growth of 4% annually for the following years. Our

North American business generated 90% of our sales and 96% of our EBITDA in the first 9 months of 2017 with our Brazilian operations providing the remaining 10% of sales and 4% of EBITDA.

Turning to slide 9, within North America, sales in the Suspension Division rose 9% compared to the first nine months of last year, while sales in the Brake Division rose 14% contributing to an overall 11% sales growth in our North American business compared to last year. The strong results were primarily driven by a favorable product mix, continuing the strength in the automotive industry, as well as increases in new contracts within the Suspension and Brake Divisions.

As shown on slide 10, we reported MXN 1.5 billion of consolidated net income before taxes and minority interest, a 2% increase compared to the MXN 1.46 billion of the first nine months of 2016 and net income in the first nine months of 2017 decreased 2% to MXN 1.2 billion from MXN 1.23 billion in 2016.

Moving on to slide 11, net operating cash flow grew 7% year-over-year to MXN 1.77 billion in the first nine months of 2017 reflecting improvements to the company's sales and EBITDA as well as the adequate management of working capital. Our total cash balance as of September 30 was MXN 1.49 billion or $82 million USD.

Slide 12 highlights that our consolidated net debt balance was decreased to $57 million USD as of the end of the third quarter down from $86 million USD at the end of the same period in 2016.

Turning to our financial ratios on slide 13, our leverage ratio as of September 30, 2017 was at 0.3x net debt to EBITDA with an interest coverage ratio of 11x EBITDA to net interest expense.

In closing, we are pleased with Rassini's performance this quarter. We delivered strong results and saw continued demand for the company's products. We are increasingly seeing how Rassini's commitment to quality, innovation and outstanding customer relations solidifies our relationship within the automotive OEM sector.

We remain optimistic that our business will continue to grow as we start production of new contacts, continue to gain market share and begin to see signs of recovery in Brazil. With September sales coming in above our expectations and a strong demand forecast for the remainder of the year, we are excited to see what the fourth quarter will bring.

With that, Juan Pablo and I would like to open the call for questions. Operator, you may now open the line please.

Operator: Ladies and gentlemen, at this time if you would like to ask a question please press star one on your telephone keypad. Again, that is star one for audio questions and we will pause for just a moment to compile the Q&A roster. And our first question is from the line of (Guillermo Diego).

(Guillermo Diego): Just one question. From the pressure on the EBITDA margin, you mentioned that one factor was the increase in electricity cost. How -- what is the exact amount in basis points or in pesos that we should attribute to that factor? And the second one, in Brazil we saw an improvement now in volumes of around 5 percent, the last quarter was 12 percent.

So, what should be the run-rate that we should be expecting now for the remainder of the year and expectations maybe 2018? I know Brazil is not important, however it is very positive to see this inflection point now in the results.

Juan Pablo Sánchez: Hi (Guillermo), thank you for your questions. With respect to the energy cost, in the past earnings calls we have mentioned that the impact in our results is like 80 basis points to 100 basis points. With respect to Brazil, we are seeing an increase in the volume.

We are expecting during 2017 an increase of -- in the range of 18% to 20% above last year and the expectation for the next year would be based on information provided by (Sindipeças) like 5 percent above the end of 2017.

Operator: We do have another question from Mauricio Serna.

Mauricio Serna: Just a couple of questions; first on the volumes, maybe if you could explain a little bit what could be the outlook maybe for the next three quarters I guess, since the second quarter was the last one with contribution from this extraordinary contract, should we be expecting some volume weakness fourth quarter in the first half of 2018 given that this don't take into account the extraordinary contract?

Also, just following up on the question on the margins, you mentioned 80 basis points or 100 basis points effect from the energy costs, but we saw in North America the margins contracting to 160 basis points, so if you could provide maybe a little bit more details on what were the other factors that affected your margins there?

And finally, just on the cash flow, we looking into the third quarter it seems that in the others line you had around MXN 111 million inflow this quarter, so I just wanted to know if you could give a little bit more detail on that.

Juan Pablo Sánchez: First in the -- we are keeping with guidelines for the rest of the year. As we have mentioned in the past conference call, the volume expected for the Suspensions is between 1% to 2%. When we mention that, we take out the -- we were considering the ending of the extraordinary contract that we have mentioned. With respect to Brakes, we are expecting volume to 5% to 7% for the total year.

In the case of Brazil, we are expecting 15% to 20% above last year. That's the effect. With respect to the question about NAFTA, you mentioned 200 basis points. Yes, we have been including some expenses because we are developing the project about the composite leaf springs that was mentioned in our release information including in our third quarter information and that is affecting some part of the margin in the NAFTA division. Also, we faced exchange rate effects during the third quarter. However, we are seeing the rest of the year more or less stable.

Mauricio Serna: And just finally on the cash flow.

Juan Pablo Sánchez: You are looking the cash flow line other?

Mauricio Serna: Yes. Yes, seems like in the third quarter you had like over MXN 100 million benefit in the third quarter, so I just wanted to know what does that include?

Juan Pablo Sánchez: Sometimes it's -- let's say when we have the results in -- as you know the currency that our information is based is the dollar, OK, the functional currency is the dollar because all our revenues are in dollar terms etc, then when we translate to pesos we have some effects on that. OK?

Mauricio Serna: OK, so it's mostly FX translation…

Juan Pablo Sánchez: Exactly, it's more a kind of translation effect.

Mauricio Serna: And just finally if I may, are you reiterating your margin guidance for the year? Are you keeping -- you mentioned something of around 19% to 19.5% EBITDA margin for the year, I don't know if you're keeping -- on the last call, I don't know if that's still the case?

Juan Pablo Sánchez: Yes, no, Mauricio, we mentioned that was without considering the effect of the energy cost. We mentioned that without that effect that will be the margin. However, because we have been facing higher energy cost compared with the last year, we are expecting our margin to be around 18% to 18.5%.

Mauricio Serna: That is NAFTA or…

Juan Pablo Sánchez: If you consider the -- pardon me?

Mauricio Serna: Just wondering, that is NAFTA or the entire company?

Juan Pablo Sánchez: No, it is the entire company. But my point is we were mentioning 19% to 19.5%. It uses up 100 basis points because of the energy cost you will be having 18% to 18.5%.

Operator: And our next question is from Alejandro Azar of GBM.

Alejandro Azar: I have a few questions regarding the volumes during the third quarter because it seems that the leaf springs tons, when you exclude the impact of the extraordinary contract, they increased during the quarter. Would you give us an estimate from this? And also in the brakes business, could you give us more color regarding the decline of 6%? Do you have an impact from the earthquakes in Puebla etc?

Juan Pablo Sánchez: OK, perfect. Yes, talking about volumes, as we mentioned, if we take out the extraordinary effect, as I mentioned before for the rest of the year if we take out the extraordinary contract, we are expecting the net of Suspension to have a volume above last year in a range of 1% to 2%, OK?

That was considering taking out the extraordinary contract. The volume of the Suspension business, as you know because of the market share that we have is moving according with the market and the segment of light trucks is increasing by 4%.

That's why when we present our information in the release of information, we are saying that we take out the extraordinary contract over volume which have been like 5% to 6%, OK? That was the first question. The second question is the part of the earthquake. With respect to the earthquake, we don't suffer any damages where facilities in Puebla or in any region.

And our team, we work -- our people is always -- is OK. They didn't suffer anything. And you ask another question, but unfortunately, I didn't listen very carefully, could you repeat that?

Alejandro Azar: Yes, it was regarding the Brake Division because we have already seen more dynamics from this division than from the Suspension, so I was wondering if you could give us more color on why decrease 6%, 7% during the quarter?

Juan Pablo Sánchez: Yes, in the case of the brakes business, as you know we have -- we supply some platforms related to passenger cars, and as you know, the consumer is shifting from passenger cars to light trucks, no, and that is something that is affecting the volume in the case of our brakes business.

However, we know that in the future, we will be having additional contracts that we will -- compensating this effect. Also in the third quarter, we face some kind of seasonality for some of the OEMs, spend some time for the retooling and maintenance preparing for the launching of the new platforms on new year models.

Alejandro Azar: And again, one if I may. You mentioned higher unexpected energy cost. Would you give us an approximate of when would we expect energy cost to normalize? Would this be at the fiscal of 2018 or at the half 2018?

Juan Pablo Sánchez: Yes, the point is that when we mentioned higher costs, it's compared against last year. Last year, there was a reduction in the price of the energy cost. Right now, we have been facing, for example, the energy Mexican pesos per kilowatt we are having, for example, this third quarter July we have MXN 1.24, August MXN 1.18 and September MXN 1.16. Last year, we have MXN 0.92, MXN 0.95 and MXN 1. We are seeing stable right now in this level of MXN 1.20, MXN 1.18. That is expectation, but we don't know because every Monday the CFE publish the price for the month, then there is nothing extraordinary. We think that we will have this level of cost.

Alejandro Azar: So, if we maintain the energy cost stable, when will we have a similar energy cost on your operations, would that be the first quarter, second quarter of 2018 or more towards the end of 2018?

Juan Pablo Sánchez: We think that, as I mentioned, if we don't have an increase of energy cost by the authorities, we will be having this price stable at the line of MXN 1-point-something like that per kilowatt. The point is, as I mentioned, last year the price of the energy was low, also the price of the energy increased last year within the, let's say, the fourth quarter, they presented MXN 1 and MXN 1.17 per kilowatt.

Alejandro Azar: Very good, Juan Pablo, and thank you again.

Juan Pablo Sánchez: OK, sorry.

Operator: And our next question is from Alejandro Chavelas.

Alejandro Chavelas: Just a quick -- two quick questions, one as a follow-up and I assume particular that the impact in brakes was particularly in USA operations, so should we expect in this sense that the U.S. operations should continue to be impacted? I mean, what I'm trying to say is are the new platforms that you mentioned coming for the Mexican brakes operation or the U.S.-Mexican -- the U.S. brakes operation?

And the second one is related to inventories. I saw -- since the second quarter I saw an important increase in the level of inventory going from MXN 1.1 million to MXN 1.376 million. I don't know if this is related to the rising fuel prices, or is it more related to inventory buildup for you?

Juan Pablo Sánchez: Yes, with respect to brakes, as I mentioned, this third quarter was related to the seasonality, and also because of the shift from the consumer preference from passenger cars to light trucks. We don't see any, let's say, bigger impact in the future.

With respect of -- to the inventories, there is an increase on the balance of inventories, but this is due to that we are facing increase in the raw materials in the steel, for example, the steel suffered an increase of $120 USD per ton and also similar in the case of the scrap that we buy for the brakes, for the production of brakes. We can say that we are reflecting the increase of the price of these raw materials in our inventories, not in related to any issue in the operational site.

Operator: And our next question is from Guillermo Diego with Santander.

Guillermo Diego: Just checking the accounts payable at 60 days, no, adjustment continues to be the same effect that we have already discussed on the second -- on the first and second quarter of Brazil and the suppliers' period switching for that, no?

Juan Pablo Sánchez: Yes, that's correct, Diego. It's the same situation and that will be normalized during the fourth quarter. If we compare with the fourth quarter 2016, we will see kind of normalizing the situation, but you are right.

Operator: And our next question is from Jose Vasquez with GBM.

Jose Vasquez: First one that we've been seeing the company's debt going down nowadays, kind of just $57 million from the front end of the net debt. What would be the plans going forward for Rassini with this small leverage that we -- where will you use that cash or excess cash that you have right now? Is it on maybe M&A activity, I don't know, you tell us about that.

Juan Pablo Sánchez: Yes, we will keep payment of our loans according with the amortization established in the agreement, we will follow that. And respect to the cash balance, we will be investing in composite plant, and we will be using part of our cashing balance to fund that needs. That's -- at this point in time is -- let's say it's what we are thinking that we are going to use the -- part of the cash balance that we have already on hand.

Jose Vasquez: OK, how much is the CapEx for this composite plant?

Juan Pablo Sánchez: This composite plant, we will be spending between maybe MXN 20 million to MXN 30 million in the next two years.

Jose Vasquez: OK, and is there specific level that you feel that that is not maybe competitive for Rassini that to be like -- I don't know, between the debt cost and the capital cost that Rassini would consider it not helpful to be that on their leverage?

Juan Pablo Sánchez: Yes, here let's say the position of the company to be 2x -- below 2x EBITDA to gross debt, we are meeting that. That will be depending on the, let's say, future CapEx etc, etc, as we mentioned, but we think that we will be maybe keeping our ratio (inaudible), something like that, gross debt to EBITDA.

Operator: And our next question is from Nicolas Prado.

Nicolas Prado: My question was more concerning the M&A. It was partially answered. I was just wondering more specifically about Europe if just in terms of targets or assets that you're looking to buy, any changes in your view concerning regions, has Brazil become more attractive, and will be looking more at Brazil, or if I remember -- or in the past you had talked more about looking at European assets or companies, is that still the case?

Juan Pablo Sánchez: Yes, OK. We have mentioned in the past that Rassini's main goal is to launch the platforms that are in the pipeline, meeting the quality and service requirement by the cost (inaudible). In that -- following that matter, we are looking for the investment in capital expenditure oriented to meet or improve that kind of aspects, no?

For example, the case of the composite leaf spring that we mentioned before and we included in our release, we are focused right now to develop that plant. That plant, the composite that is a technology innovation for us will be reducing the weight of our total by 30 percent, and we have a second step that we will meet a reduction of 60 percent in the weight of our products.

These technological improvements will open the door to enter in other kind of vehicles, for example, let's say small light trucks or passenger cars that they carry 20 percent to 30 percent, that will be opening the door to enter in that market and then expand operations to other sector, no?

Respect to potential acquisitions, we mentioned in the past that we are open to see in an opportunistic basis if there is something that make sense with the line of products and the sector we are involved. But at this point in time we don't have any specific target or a specific transaction.

Operator: Once again, ladies and gentlemen, it’s star then the number one on your telephone keypad to ask a question. Our next question is from Mauricio Serna with UBS.

Mauricio Serna: Sorry, just want to follow up on that comment on Brazil. Definitely we're seeing a recovery, just wanted to know assuming that the recovery does continue this year and the next, what would be like the stable margins that you would be targeting in this region? Would -- could we expect them to actually eventually catch up to NAFTA or what is like the margins at a run-rate that you're expecting for this division?

Juan Pablo Sánchez: Yes, Mauricio, the margins in Brazil are different to the NAFTA. In the past we have reached margins between 12% to 13, and that's it, that expectation is if the market is stable and recovery is taking place, and we are using our assets at full capacity as it was in the past, we in the future will be reaching that 12% to 13%.

Operator: Once again, ladies and gentlemen, it’s star then the number one on your telephone keypad to ask a question. And there are no questions.

Francisco Freyre: OK. Thank you, Operator. And thank you again for joining us on the call today. If you have any outstanding questions, please don't hesitate to reach out to the team. We look forward to speaking to you all again on the next earnings call, and we wish you a nice day.

Operator: And this concludes today's conference call. You may now disconnect.

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