

CMGRP, Inc.

**Moderator: Emma Bocanegra
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9:00 a.m. CT**

Operator: This is conference # 9058189.

Operator: Good morning and welcome to Rassini's Fourth Quarter and Fiscal Year 2017 Earnings Call. At this time, all participants are in a listen only mode. Following speaker 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 for today's conference call is available for download on the company's website at rassini.com.

Alternatively, you can email Rassini at 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 will now turn the call over to Emma Bocanegra, Head of Financial Planning and Investor Relations. Please go ahead.

Emma Bocanegra: Thank you. Good morning, everyone. Thank you for joining us on the call as we discuss our results for the fourth quarter and full year 2017. With me on the call is Juan Pablo Sánchez, our CFO.

I would like to begin by sharing some highlights from the year and the fourth quarter. 2017 was a solid year for us with consolidated full year sales increasing 11 percent year-over-year to MXN 18.1 billion. EBITDA grew 6 percent to MXN 3.4 billion. Net income for the full year of 2017 increased 3 percent year-over-year to MXN 1.5 billion.

Sales for the fourth quarter of 2017 were MXN 4.5 billion, a 4 percent increase compared to the same period of last year. The growth in sales is mainly due to an increased demand for our products, market share gains for brakes and suspension components and the start of production of new contracts awarded in previous years.

EBITDA for the fourth quarter increased 2 percent year-over-year to MXN 836 million, driven by higher sales and enhanced product mix in the NAFTA region and a permanent control over the cost structure.

Net income for the fourth quarter was MXN 272 million, a 35 percent increase compared to the fourth quarter of 2016. We are pleased with these results, and we maintain an optimistic outlook for the growth of our business as we continue to prioritize superior product innovation and best-in-class customer service.

Over the last couple of years, the industry has been increasingly focused on higher efficiency, lowering emissions, electrification, mobility and autonomous vehicles. All these trends have a common denominator, weight reduction. We are happy to say that Rassini's efforts have not lagged behind, and weight-reduced products with hybrid material technology are already in the market.

As noted in our previous call, we are currently developing the next generation of leaf springs, which offer a new line of products with different alternatives of material use steel and composite, with the capacity to offer a reduction in each part from 15 percent to 36 percent of the total weight today and up to 50 percent starting in 2021. The performance meets or exceeds that of today with no need for architectural changes in the vehicle.

As always, it's our priority to continue to deliver top-quality products to our customers and exceed the evolving needs of our dynamic industry. In addition, Rassini remains to be a leader in quality standardization, continuous improvement and innovation of productive processes that are friendly with environment, and occupational health and safety.

During the quarter, Rassini's lean facility received certification in ISO 14001 from ABS Quality Evaluations. The certification reinforces our commitment to environmental sustainability and we are proud and motivated to continue our efforts in these initiatives.

Additionally, Rassini received the Cemefi Social Responsibility Distinction for the fifth consecutive year. This recognition is granted to companies that promote quality of life for their employees, relate positively with society, care for the environment and demonstrate exemplary business ethics in how they manage their operations.

Turning now to our industry outlook on Slide 4. You can see that Rassini continues to benefit from healthy macroeconomic conditions in North America, Rassini's main market. Unemployment continues to drop, fuel costs remain low, and housing starts continue above 1 million houses, all factors that contribute positively to the demand for vehicles.

On Slide 5, the Seasonally Adjusted Annualized Rate, SAAR, of U.S. light vehicle's sales reached 17.8 million units during December 2017, production of light vehicles in North America reached 17.1 million units, and inventories close at a level of 61 days' supply - close to the industry ideal of 60 days' supply.

IHS forecast that total production of light vehicles in North America is estimated to increase 2 percent to 17.4 million units in 2018, and then looking forward, production is expected to stay stable in 2019 and grow 1 percent in 2020, reaching 17.5 million units.

On Slide 6, operating conditions within the Brazilian market improved tremendously during 2017, and we are beginning to see production levels return to historical levels witnessed in 2013 and 2014. Sindipeças forecasts that production will increase 7 percent compared to 2017, and that the Brazilian vehicle production will reach 3.3 million units by 2022.

Moving to our financial highlights and results on Slide 8. We reported a

strong financial performance in 2017, continuing a 7-year trend of year-over-year sales and EBITDA improvement. The compound annual growth rate of sales was 14 percent, and that of EBITDA was 23 percent.

As seen on Slide 9, our North American business generated 90 percent of our sales and 95 percent of our EBITDA in 2017, with our Brazilian operations providing the remaining 10 percent of sales and 5 percent of EBITDA.

Moving on to Slide 10, within NAFTA sales in our Suspension division rose 5 percent, while sales in our Brakes Division rose 13 percent, contributing to an overall 8 percent sales growth in our NAFTA business. EBITDA in our NAFTA business grew by 2 percent for the year.

In 2018, we anticipate the NAFTA Suspension division to grow with the market, and the Brakes Division to grow in the range of 5 percent to 6 percent as we start production on new contracts.

As shown on Slide 11, we reported 2017 consolidated net income of MXN 2 billion before taxes and minority interest compared to MXN 1.9 billion from the same period in 2016. Net income in 2017 increased 3 percent to MXN 1.5 billion.

Slide 12 details consolidated cash flow. Net operating cash flow grew 17 percent year-over-year to MXN 2.8 million in 2017, reflecting improvements to the company's sales and EBITDA. As part of our commitment to deliver value to our shareholders, in July, we made a dividend payment of MXN 640 million, and we concluded the year with a cash balance of MXN 2 billion.

Slide 13 highlights that our consolidated net debt balance has decreased to USD 30 million as of the end of December 2017, down from USD 58 at the end of the same period in 2016.

Slide 14 details our financial ratios. Our leverage ratio as of December 31, 2017, showed continued improvement to 0.2 times net debt to EBITDA with an interest coverage ratio of 11.1 times EBITDA to net interest expense.

In closing, I would like to reiterate that we are pleased with what we have accomplished in 2017. We delivered on our strategic objectives and saw continued demand for the company's products.

We remain optimistic about 2018 and believe our business will continue to grow, gain market share and begin to see results that are more favorable from Brazil. With that, our team would be happy to take your questions. Operator, you may now open the line.

Operator: At this time, I would like to remind everyone in order to ask a question, please press star then the number one on your telephone keypad. Star one to ask a question. And your first question comes from the line of Mauricio Serna from UBS.

Mauricio Serna Vega: Hi, good morning. And thanks for taking my questions. Congratulations on the results. First, if you could please tell us a little bit more about your performance in NAFTA. Excluding the effect of the extraordinary contract from last year, how much did the EBITDA in the region grow? And for how long do you expect this effect of the contract to last, if you could remind us for 2018?

And finally, if you could give us maybe some color also on the market share gains that you mentioned. Around how much did you achieve? Or where do you stand now in each of the divisions? And just finally on margins, if you could maybe provide some guidance on how you're looking at margins this year given your FX expectations and energy costs inputs? Thank you.

Juan Pablo Sánchez: OK. Thank you, Mauricio. Regarding your first question, the extraordinary contract during 2017, on that year, we sell around 4,000 tons. That's the last part of this contract, no. And as we mentioned, if we take out that extraordinary contract and compare apples with apples, the growth of the consolidated sales would be 16 percent, 16 percent for the whole year and 8 percent during the fourth quarter, OK?

Second question, you mentioned about the market share. We have been increasing our market share in the Brakes business. Maybe as you remember, in 2013, we had 9 percent to 10 percent market share. 2017, we ended with a market share between 25 percent to 28 percent. Could you repeat your last question, please?

Mauricio Serna Vega: Yes, sure, certainly. If you could maybe provide us some guidance on the margins considering what you're looking at FX and energy cost increases?

Juan Pablo Sánchez: OK. Perfect. For 2018, we are expecting that we will be having the same margins that we reached in 2017. This means around 18 percent to 19 percent. The point that you mentioned related to the exchange rate, that is very difficult to have an expectation of that, Mauricio, because, as you know, we are in the process of negotiating the NAFTA and also we will be facing presidential elections.

We have read that some institutions are expecting, let's say, if everything is OK, whatever that means, maybe the exchange rate will be in an average of MXN 19 to MXN 19.4, something like that.

Mauricio Serna Vega: OK, thanks. And just very quickly on the very first question, you mentioned the recurring sales growth. Do you have any idea about the recurring EBITDA growth?

Juan Pablo Sánchez: I would say that with this information, you can factorize this in your financial model. I will give you some guidance about the volume. We are expecting for 2018 an increase of volume around 2 percent in the NAFTA Suspension business and for the Brakes business, we are expecting between 5 percent to 7 percent increased sales.

And for the Brazilian operations, based on information provided by Sindipeças, the Brazilian Auto Parts Association, we are expecting to have an increasing volume between 10 percent to maybe 15 percent and we expect that margin that I already mentioned, you will factorize and reach a number on

that.

Mauricio Serna Vega: OK, thanks. These volumes that you provided are excluding the effect of the contract, right?

Juan Pablo Sánchez: No, no. It's including the effect.

Mauricio Serna Vega: OK, thanks.

Juan Pablo Sánchez: OK, let me put in this way. If you take the extraordinary contract in 2017, then NAFTA Suspension business will grow around 4 percent to 5 percent.

Mauricio Serna Vega: OK, thank you.

Operator: Once again, star one to ask a question. Star one to ask a question. And next question is from the line of Valentin Mendoza from Banorte.

Valentin III Mendoza Balderas: Hello. Good morning, Juan Pablo and Emma. Thank you very much for taking my question. It is regarding the margin. You're expecting it to be stabilized around 18 percent to 19 percent given that the volume is growing in all of your 3 businesses.

I was wondering what is it that you're seeing in order to provide this guidance of stability in the margins? Do you see any pressure coming from somewhere? Or is it just the effect of the extraordinary contract?

Juan Pablo Sánchez: We are assuming in these margins that we have a stable scenario similar to 2017. That's why we are expecting this.

Valentin III Mendoza Balderas: OK. And can you also give us some color on your CapEx expectation for 2018?

Juan Pablo Sánchez: Yes, yes, Valentin. We are expecting to have a CapEx of around \$60 million. \$30 million of that CapEx would be maintenance CapEx. We are investing in composite line, and the investment is around \$15 million, 1-5.

And also, we are expecting some investment related to development of new materials and activity improvements around 15 million. All these investments are related to innovation because, as you know, the name of the game follows in the auto market is the weight reduction in our products. And most of this CapEx is aimed to reach these requirements imposed by our customers.

Valentin III Mendoza Balderas: Thank you very much, Juan Pablo. Just one final question, and this is regarding your R&D investments, especially in the light weighting solutions for the NAFTA customers. Are you actually seeing a ramp-up in the demand for, let's say, light – lighter components of your business?

Because with the regulation of CAFE being analyzed, let's say, in America with the new administration, other competitors who are focused specifically in light-weighting solutions are seeing decline in their demand or they're expecting it to be stabilized. What is it that you are seeing different here?

Juan Pablo Sánchez: Yes. In this – as we mentioned, normally, our R&D expense is around 5 percent to 7 percent to sales. It's the normal expense related to this, no? And as soon as we have some development or technology innovation, we start to develop the process and the product.

That is the case of the composite line that maybe you remember that last year, we have at the end of the last quarter some expenses related to the R&D, and that expenses were related to the development of this analysis of the composite line, no? And sometimes, the technological improvements take more than 4, 5 years to put in place in the production facilities.

Valentin III Mendoza Balderas: OK, thank you very much, Juan Pablo.

Juan Pablo Sánchez: OK.

Operator: Next question from Jose Vasquez from GBM.

Jose Vasquez: Hi. Good morning, Juan Pablo and Emma. Just two – quick two questions. The first one is, if you could remind me how's the breakdown between lightweight vehicles and – light vehicles and small trucks? And the second

one is, what are you looking to do with your current strong balance sheet? What could we expect going forward maybe, I don't know, some M&A activity, higher dividends or something related to that? Thank you.

Juan Pablo Sánchez: OK. First question, our sales breakdown is light trucks is like 60 percent to 65 percent of our sales. Heavy trucks is 10 percent and passenger cars is between 25 percent to 30 percent.

Second question, as we have mentioned in the past, talking about M&A, our main goal is launching the new platforms that are in the pipeline with the quality and service required by our customers. Rassini is making some capital expenditures oriented to innovation and technology.

Due to over-target issues, we incorporate them into all of our processes to ensure quality standards, excellence and requirements from our customers. That is the case of the composite line, where we are looking or we are reaching substantial weight reductions.

The other part that you mentioned is dividends. Our policy is to pay a dividend of 30 percent considering the net income of the last fiscal year. However, in the past 2 years, the Board of Directors and the stockholders, they can make a different decision considering the liquidity and the prospects of the company.

In the two following months, we will have the Board of Directors meeting, and they will make a decision about the amount of the dividend that we probably would be making in this year.

Jose Vasquez: OK, perfect. Thank you very much and congratulations on the results.

Juan Pablo Sánchez: Thank you.

Operator: Next question, (Mr. Alejandro) from GBM.

(Mr. Alejandro): Hi, everyone. Thank you for taking my questions. I'm sorry. If you could remind – I couldn't quite hear the CapEx expectations, that's my first one. The second one is, if you can comment on General Motors' quarterly report. They

mentioned a headwind on the volume of trucks because of a changeover in the technology.

I don't know if you can comment on this. Are you seeing lower volumes coming from – is this on your 2 percent growth guidance on the Suspension division? And the other one is regarding the steel tariffs. I understand that all your contracts have the steel pass-through, but if you can comment on strong movements on the prices that you could have, given the possibility of tariffs?

Juan Pablo Sánchez: OK. Regarding your first question, it was related to CapEx, is that correct?

(Mr. Alejandro): Yes.

Juan Pablo Sánchez: OK. CapEx, as we mentioned, for 2018, is in an amount around \$60 million. \$30 million out of that \$60 million would be maintenance. \$15 million, would be the composite line that I already explained. And another 15 million will be related to new materials and productivity improvements. Talking about General Motors, we don't see really an issue there.

Let's say, a shift between the kind of light trucks, no? Sometimes you can sell more Silverado or more on the other, but we are supplier of both, let's say, platforms, no? And what was your last question, sorry?

(Mr. Alejandro): Regarding the steel tariffs because we have seen strong movements in the prices of steel, maybe regarding this uncertainty. I don't know what can you comment on that?

Juan Pablo Sánchez: Yes. Regarding that, our customers are always give us support in any change of the price of the steel. We have been having that for several years, and we don't see at this point in time any issue on that. If there is an increase in the price of the steel, the customer automatically make a change in the price. Or if there is a reduction in the price of the steel, the same part, the customer make a reduction in the selling price. That is by system and is in the contracts.

(Mr. Alejandro): OK. So despite – or taking into consideration your main risk going forward or at least for 2018 would be in terms of energy, FX and elections and NAFTA, right?

Juan Pablo Sánchez: Yes.

(Mr. Alejandro): OK. Thank you, and congratulations on the results.

Juan Pablo Sánchez: You're welcome.

Operator: Next question, Jim Bruni from BBVA.

Jim Bruni: Hola, Emma and Juan Pablo, and thanks for taking my question. Most of my questions actually have been answered. Maybe I just have one left out, which if I remember well, in the third quarter, we had some worries known in the energy cost side that we're going up quite strongly.

Just would like to know if you can share your view on what happened in the fourth quarter? And what you will be expecting for next year just for the energy cost? Thank you very much.

Juan Pablo Sánchez: Yes. Jim, during the fourth quarter of 2017, there was some changes in the price of the energy. There was a lot of noise because the authority is changing the way of establishing the price. There are changes in the law, and they are following that. Based on conversation that we have had, at least for the first quarter 2017, we don't see a dramatic change in the cost of the energy.

However, we need to be following the rest of the year in order to see the additional changes, no? As you can see, in December, there was a huge increase in the cost. However, in January, there was a decrease. And we are expecting for this first quarter to have an un-stabilized price. And for the rest of the year, we will have to follow.

Jim Bruni: Thank you. Thank you very much, and congratulations for the results.

Juan Pablo Sánchez: OK.

Operator: And there are no further questions. At this time, I will turn the call over to the panelist for further remarks.

Emma Bocanegra: Thank you, again, to everyone who joined us today. If you have any additional questions, please don't hesitate to reach out. We look forward to updating you again with the results of the first quarter 2018. Thank you.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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