International Conference Call

Mills - Estruturas e Serviços de Engenharia

1st Quarter2015 Earnings Results

May 7, 2015

Operator: Good morning ladies and gentlemen. Welcome to **Mills'** conference call about 1Q 15 results. At this time all participants are connected in listen-only mode and later on we will have a question-and-answer session when further instructions will be given for you to participate. Should you need assistance during the call from an operator please press star zero.

I would like to remind you that this call is being recorded and simultaneously translated into English. Questions may be asked normally by participants connected from abroad. The recording will be available at the company's website: www.mills.com.br/ri. This call is being broadcast simultaneously on the Internet with axes through the company's website as well: www.mills.com.br/ri.

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

Today with us we have Mr. Sergio Kariya, CEO; Mr. Frederico Neves, CFO and Mrs. Alessandra Gadelha, IRO.

First Mr. Sergio Kariya will be making remarks about **Mills'** performance during 1Q 15. Afterwards he will be available to answer questions that you might have. Now I would like to give the floor to Mr. Sergio Kariya. Mr. Sergio Kariya please proceed.

Mr. Sergio Kariya: Good morning ladies and gentlemen and thank you very much for participating in Mills call about 1Q 15. As I mentioned during the last call 2015 is characterized by uncertainties in the economy mainly in the infrastructure and oil and gas sectors. Our results reflect the usual effect of this low phase of the cycle with lower demand; price pressures; higher delinquency and as a consequence lower margins.

In this context we are working hard to minimize damages to our profitability. In the short run we are channeling our endeavors to operational improvement; the search of synergies amongst business units; sales of assets andexpense reduction.

Since the implementation of the operating changes in our infrastructure and real estate business units that was started in 3Q 14 we reduced by 20% the unit maintenance cost and due to deferred maintenance of our equipment the improvement is not perceptible in the short run; but it will be when we normalize our maintenance as of 2H TY.

We posted 30 million BRL revenue with the sale of used equipment in the last 12 months and in relation to expenses we reduced YoY the cost of... Coordination cost by 14% and administrative costs by 6% totaling 18 million BRL savings in the year. We believe that the change in the organization structure will bring more synergies and that will become more businesses, lower costs and more profitability in the medium run.

We must not waste the only good side of the crisis which is creating a need of emergency for the company in order to become more efficient and competitive and thus reinforce our culture and our values. We are committed to facing with resolve and determination this difficult period in order to leave it behind even stronger and with better quality of services to our clients, a better working environment for our people and a better profitability for our shareholders.

On slide 2 we present our financial performance in the quarter. Consolidated revenue was 163.9 million BRL, a 10% reduction QoQ; Ebitda and net income were negatively impacted by the lower utilization rates and the prices in force; Ebitda margin was 28.9% and we posted a loss of 14.5 million BRL. Excluding the credit reclassification of the clients involved in the investigation underway we would have a loss of 4.7 million BRL and Ebitda margin of 35% in the quarter.

On slide 3 we show you the revenue breakdown. The rental business unit delivered the highest net revenue representing 49% of total revenues; infrastructure accounted for 31% and real estate 20%.

In relation to the type of service 81% of **Mills'** revenues came from equipment rental and 11% from sales.

As you can see on slide 4 lower expenses with maintenance and G&A were not enough to offset the lower volumes rented and the prices in force leading to an Ebitda reduction QoQ. We continue to look for additional expenditure reductions in order to improve our profitability.

On slide 5 we show that the expense reduction initiatives by the company have already started to bear fruit: G&A expenses excluding depreciation and ADD went down 9% QoQ equivalent to 14 million BRL in an annualized fashion and the main gains were reduction of third parties, personnel and travel expenses.

On slide 6 you can see the evolution for ADD that reached 12.8% of net revenue in 1Q. At the end of 2014 we adopted a conservative stand vis-à-vis possible consequences of the investigations underway and not due to real payment problems and we downgraded the credit score of our clients and their respective consortia regardless of their majority or minority stake and that are related one way or another with investigations underway.

Besides some companies filed for bankruptcy protection this quarter and as a consequence we provisioned 100% of their net values in our Accounts Receivable.

Coming from these factors we provisioned 9.8 million BRL QoQ and excluding the effects of the investigations underway ADD would have been 6.8% of the net revenue, still high vis-à-vis the historical 2.3% average. Our forecast is that the level of ADD will remain higher than the historical levels due to the fiscal adjustment of the government; the deceleration of the economy; the filing for bankruptcy protection by some companies among other factors.

On slide 7 we can see that the company generated 70 million BRL positive net cash flow in 1Q totaling 200 million LTM. Our Capex budget for 2015 amounts to 33.6 million BRL focused on equipment mix replacement and improvements in maintenance process and facilities of our branches. We invested 6.4 million in 1Q of which 2.6 million revamping our facilities in our branches; 1.7 million in IT and 1.2 million BRL replacing the equipment mix - the rental equipment mix. Due to the nature of our equipment the company can keep a low level of investment for some years should this be necessary without reducing its operating capacity and being a cash generator this way.

Besides we continue our endeavors to sell semi new equipment mainly from rental and from real estate. Payments related to the sale of used equipment and indemnification due to damages to our equipment during the rental period had a positive impact (27.5 million BRL) our cash generation in 1Q.

On slide 8 you can see the positive impact of free cash flow generation on our net debt which closed the quarter at 498 million BRL. We reduced our gross debt with payment of amortizations amounting to 41 million in the quarter without needing to roll it over. Our debt amortization schedule includes payment of 206 million BRL in principal and interest in 2015. In April we finalized the amount of amortization provided for the year paying 90 million BRL also without rolling this debt over.

Our debt indicators are at comfortable levels as you can see on slide 9. We closed 1Q with a 1.8x leverage measured by the net debt/Ebitda ratio. Excluding extraordinary items in the last 12 months our leverage would be 1.6x and due to the great uncertainty regarding the expansion and duration of the low cycle of the construction activity in the country we are cautious reducing expenses and preserving our cash. Thus we stopped to buy back shares at the end of January and we will keep this stand regardless of the value of our shares while we still have uncertainties in the horizon. Even or in spite of a negative scenario the company does not see any risk of liquidity and is capable to honor its financial obligations.

On slide 10 we show the results of the rental business unit: revenue was 79.6 million BRL in 1Q; Ebitda margin 43.3% and ROIC 8.8%. Excluding the effect of the downgrading of the credit score of the clients involved in the investigations underway Ebitda margin in the quarter would have been 48.6%. In relation to 4Q there was a 20% reduction in Cogs and 8% in G&A. We sold used equipment amounting to 3.9 million BRL in the quarter and as semi new machines have to be delivered ready for rental the realization of sales will occur as we execute the necessary maintenance to deliver them.

In relation to rental revenues we have been negatively impacted by the deceleration of the oil and gas sector which contributed to a reduction in the utilization rate QoQ as you can see on slide 11 and since December we have been receiving back machines from Petrobras refinery projects and shipyards both under construction and existing ones that depend on Petrobras' investment program. The average utilization rate LTM ended in March 31, 2015 was 61%. The lower volumes rented accounted for 3 million in the reduction of the rental revenue between quarters.

On slide 12 you can see that the construction sector was the main user of **Mills'** motorized access. Our goal is to reduce our reliance on the construction sector and look for a higher penetration in the industry in recurring maintenance services which are less subject to economic cycles.

I would like to take the opportunity to communicate the change in the management of rental: Marcelo Yamame was technical and operations Superintendent of Rental and is now the head of the rental division replacing Gabriel Esteves who left the company to face a new profession and personal challenge abroad. Marcelo Yamame has 15 years of experience in many different management positions in companies that have global operations and joined Mills in 2010.

On slide 13 we show you the infrastructure results and the revenue was 51 million BRL in 1Q; Ebitda margin 25%; ROIC 7%. Excluding the effect of the downgrading of credit score of clients involved in the investigations underway the Ebitda margin in the quarter would have been 35%.

Excluding the cost of sales and the assets write-down respectively related to higher sales revenues and indemnifications Cogs had a 23% reduction QoQ vis-à-vis a 16% drop in the rental revenues. G&A was stable QoQ.

As you can see on slide 14 the utilization rate had a drop in 1Q and the average LTM was 65%. QoQ the increase in the sales and indemnification revenues did not offset the reduction in the rental revenues resulting from the lower utilization rate and worse price and mix. Up to now the Petrobras corruption investigations have not brought about significant changes in the projects we are contracted for; however many of these projects are growing at a slow pace and there is still uncertainties regarding changes in the concession model and the funding of future concessions and the postponement of these definitions my affect demand for our services and products in a more significant fashion as of mid-2016 as the projects currently in our portfolio come to an end.

On slide 15 we show you the infrastructure revenue breakdown for sector: infrastructure works represented 51% of revenues including urban mobility, highways and railways and industry 40%. For origin of the resources the works at the private sector represented 52% of our revenues.

On slide 16 we show the real estate results were revenue was 33 million BRL in 1Q; Ebitda margin zero and negative ROIC of 3%. QoQ the lower cost of freight and materials were offset by the increase in the personnel cost resulting from the in sourcing of the loading of trucks and the expenses responsibility of the clients. As we continue to work on the deferred maintenance of our equipment that should come to normality in the second half.

G&A went down 15% resulting mainly from the organizational change carried out at the end of 2014. Real estate continues with the steady drop in utilization rate since 4Q 13 as you can see on slide 17 reaching 55% average LTM. QoQ the rental revenue went down by 22% due to the lower volumes rented and the negative effects of price and mix. Besides there was a 50% drop in the revenue coming from sales of new equipment and we will continue our efforts to sell semi new equipment to minimize the effects of this cycle on our results.

On slide 18 we show you the real estate revenue breakdown: residential represented 53% of revenues and commercial 35%. Real estate companies represented 14% of the rental revenues in the quarter.

According to the chart on slide 19 there was a 61% drop in total launchers by the real estate companies, the listed ones in 1Q 15 in relation to the same period last year while sales dropped by 21% at the same period. The recovery of this market will depend on the recovery of the economy and a reduction of the existing inventories.

And to finalize I would like to emphasize that we are cautious but above all we are confident. The challenges are big but the opportunities for improvement are big as well. We have over 60 years of experience in the infrastructure market; a leadership position in all our markets; sound financials and an excellent team of engaged and very skilled people who were and will continue to be the essence of our success.

Thank you very much and now we will answer your questions.

Q&A Session

Operator: Ladies and gentlemen we will start our Q&A session now. 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 Renata Stuhlberger from Goldman Sachs.

Mr. Marcio Prado: Good morning everyone, this is Marcio Prado. I would like to ask the question, I have two questions, first about the companies involved on the Car Wash Operation. You have a conservative stand in this regard and you are already increasing our provisions for that and you show that at the first page of your release.

But cash generation continues to be strong and it seems to us that you are receiving what is due. So maybe you could give us some details about this difference between the cash in the short run and provisions in the short run and when and if you expect more difficulty arising from these companies that are involved in this investigation. Could this have an impact on your effective cash generation? This is my first question.

Mr. Kariya: Regarding receivables from the companies involved in the Car Wash Operation we do not see any significant changes in the terms... Or in the payment terms for these companies. In the pre-Car Wash and the post-Car Wash we continue to have the same percentage in terms of our receivables from the companies involved in this investigation.

We have been adopting a more conservative stand vis-à-vis our receivables and talking about the future and about what or how the market will behave it is very difficult and this is the reason my we changed this credit scoring and this is why you can see this increase in our ADD in the last quarter and this 1Q 15.

Mr. Prado: Thank you.

Ms. Renata Stuhlberger: This is Renata. I would like to ask a second question: looking ahead to the heavy construction sector we see that your revenue from this division was flat YoY - that is good - and you keep operations in large infrastructure projects.

Do you think that could be a problem in the future in the infrastructure program in the future and increase your participation in this sector?

And we see that you are seeking to increase the number of contract in other kinds of sectors like industrial, maintenance, etc. among others. So how do you see the pipeline for 2016 and on? Could we expect some growth in your revenues?

Mr. Kariya: Renata what they have been feeling and seeing is that due to the fiscal adjustments carried out by the government we are not really sure about the launch of the concession program from now on and this brings concern to us for the 2H because our backlog is still stable, we have had no cancellation of any contract in our backlog and all the projects where we are working had no cancellation, no postponement; the only thing is that they are going slowly undoubtedly but what generates some concern to us is the non-launching of the new projects and this could impact 2H TY as well as 2016 and this will all depend on what happens from now on in terms of concessions and the new bidding processes for infrastructure projects.

Ms. Stuhlberger: are you increasing the number of contracts in the last cyclical sectors?

Mr. Kariya: yes. We have been participating in some industrial… We are present in some industrial projects and we are increasing our participation in the industry; but this does not offset the volume that has dropped from the concession side.

Ms. Stuhlberger: Thank you.

Operator: Felipe Borges from ABC Brasil. Mr. Borges you may proceed.

Mr. Felipe Borges: Good morning. I would like to know about the ADD that reached 112 million in March 15; which were the clients that impacted this and do you have an amount that you believe you will be receiving from these provisions?

Mr. Kariya: Felipe for confidentiality reasons we cannot tell you which clients are included in our ADD okay?

Mr. Borges: But do you have any idea of how much of these provisions you will be able to get back this year?

Mr. Kariya: No. As I said in my answer to the previous question asked by Renata since the pre-Car Wash or the post Car Wash we have not seen a significant change in the volume of payments made by these companies. So we cannot tell you how much we will be receiving from our ADD.

Mr. Borges: Thank you.

Operator: Victor Santos from Prisma Investimentos.

Mr. Victor Santos: Good morning. I would like to know about the utilization rate in the last two months, March and April, and each one of the business units.

Mr. Kariya: In our presentation we published the average and this is what we disclose as utilization rate for each business unit. So if you go to our website you will see for each one of them.

Mr. Santos: But can you tell me about April? Have you seen any change vis-à-vis 1Q?

Mr. Kariya: No. We do not give guidance for the future utilization rate; we only disclose the average LTM that you can see on the website.

Mr. Santos: What about the projection for new rental units? Are you planning for 2015 any new units?

Mr. Kariya: Our speed will be more conservative; but we do have plans to open a few branches still before the end of 2015 - but not at the same speed as we did in the last few years because we do not want to burden our fixed costs.

Mr. Santos: And regarding your free cash flow I see that there was a change in address as well as geographic expansion. Can you give us some details about that?

Mr. Kariya: Are you asking about Capex? We made some Capex investments in order to improve the addresses where we are present.

Mr. Santos: What about PP&E? On page 20 of your release you have the gross costs of your PP&E and on page 41 of the same document you mention on the lower part of the assets and I do not really understand what they are because they are not on the other page, the PP&E page so could you explain this please?

Mr. Frederico Neves: This is Frederico good morning. Under other assets you have all the other assets that are not part of the PP&E and the most important one is the accounts receivable in this line item.

Mr. Santos: Okay thank you.

Operator: I would like to remind you that in order to ask the question you should press star one.

The question-and-answer session is closed and now we give the floor back to Mr. Sergio Kariya for his closing remarks.

Mr. Kariya: Ladies and gentlemen I would like to thank you very much for participating in our call about the results of 1Q 15 and the investor relations team is available to you to clarify any doubts that you might have. Thank you very much.

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