



Operator:

Good Morning. Welcome to Mills Engenharia 1Q11 conference call. Today with us we have Mr. Ramon Vazquez, CEO; Mr. Frederico Átila Silva Neves, CFO; and Ms. Alessandra Gadelha, IRO.

We would like to inform that all participants will be in listen-only mode during the Company's presentation. Afterwards, we will have a Q&A session when further instructions will be given. Should you need assistance during the call, please dial *0 for an operator. The call is being broadcasted simultaneously on the Internet at www.mills.com.br/ir.

Before proceeding, we would like to inform you that this call may include statements that represent expectations on the part of the Company's management about future events or results. All statements, when based on future expectations and not on historic facts, involve risks and uncertainties. Mills cannot guarantee that such forward-looking statements will materialize. These risks and uncertainties include factors related to the Brazilian economy, to the capital markets, to the sector of infrastructure, real estate, oil and gas, among others, and also government regulations that are subject to change without previous notice.

In order to obtain additional information about factors that may give rise to results differing from those estimated by the Company, please consult the report filed with the Brazilian CVM.

Now I would like to give the floor to Mr. Ramon Vazquez who will start the presentation. Please, Mr. Vasquez, you may proceed.

Ramon Vazquez:

Good morning ladies and gentleman, thank you for participating in this call about Mills 1Q11 results. Today we will be presenting the results of the 1Q of the Company, the outlook of our businesses, and lastly our growth plan.

On slide number four, we present the highlights for the quarter. We had net revenues amounting to R\$145 million, a 25.5% growth, period on period. Revenues from the 21 units opened since November 2009 when we started our geographic expansion plan amounted R\$30.7 million, a 21% contribution to our net revenues for the quarter. Our cash generation, measured by the EBITDA, was R\$52.8 million in the quarter, a 23.6% growth year on year. We posted R\$22.2 million as net income, an 18 8% increase year on year.

Our ROIC was 13.8% in the 1Q, net of the effect of the R\$90 million investment for the acquisition of 25% of Rohr ROIC would have been 14.7% vis-à-vis 23.1% in the 1Q10. The drop in the ROIC between these periods is explained by the high level of investments in organic growth in the last 12 months. Also the strong geographic expansion of the Jahu and Rental division, as the new units opened in 2010 are still in maturation, and also due to the slow demand, temporary slow demand from the civil construction sector.

We invested R\$184.6 million in the quarter, being R\$94.6 million in organic growth and R\$90 million with the acquisition of a minority stake at Rohr.

On slide number five, we have the breakdown of our revenues for the quarter. The industrial services division presented the highest net revenue for the quarter, representing 35% of the overall revenue. The other divisions represented similar classification, the revenues: Rentals, 23%; construction 22%; and Jahu 20%. In relation to the type of service, 67% of Mill's revenue in the quarter came from equipment rental; 26% from technical assistance; 4% sales; and 3% others.

On slide number six, we can see that there was a growth, both in the EBITDA and in the EBITDA margin vis-à-vis the previous quarter. EBITDA margin reached 36.4%. The hike in the EBITDA margin was made possible because of cost reduction in all divisions and also the growth in revenues from the new units of the Jahu and Rental divisions, and the cost of the dilutions of operating at administrative expenses of these units. This shows that our geographic expansion strategy is very successful.

We would like to remind you that the time lag expected for the new units to become is from six to twelve months, so we expect to continue to increase the EBITDA margin as we have the ramp up of revenues from these units.

In the EBITDA breakdown per division, the rental division presented the highest contribution with 36% of the Company's EBITDA, followed by the construction division, 29%, Jahu, 23%, and industrial services 12%.

On slide number seven, we have the highlights for the quarter for the construction divisions, among which total revenues R\$31.8 million; Rental revenues R\$25 million, both dropping quarter over quarter because of the continuation of the weak demand from the heavy constructions segment. As you can see, the drop in Rental revenues is explained by the drop in the volume of material rented, partially offset by the effect of the price mix of Rental equipment.

A point to highlight was the extensive increasing EBITDA and EBITDA margin between quarters, the EBITDA margin went from 38.8% in the last quarter of 2010, to 48.9% in this quarter. This significant improvement in the margin was driven by the cost reduction program in the division we started in the 4Q10, and has produced very positive results in this quarter.

As the demand continues to be weak in this market we have maintained a low level of investments in this quarter. Investments amounted to R\$8.4 million and they were focused on new technology equipment, such as aluminum shoring vest that will become very competitive in the Brazilian market, replacing the traditional steel shoring as there is a trend towards the search of productivity in the construction sector due to the shortage of labor. ROIC was 14.4% with a growth vis-à-vis the previous quarters, and considering the same tax rate, of 30% for comparison purposes.

On slide number eight, the main highlights for the Jahu division, with a record rental revenue of R\$26 million, a 10.2% growth vis-à-vis the last quarter of 2010. Total revenues were R\$29.2 million, a 10.9% drop quarter over quarter. As there was a significant drop in sales revenues because of the reduction in launches of new projects for the Minha Casa, Minha Vida program, targeted to three minimum wages, which is a major market for our easy-set aluminum framework.

Builders are waiting for the adjustment of the cap value for these units for this segment that should occur in June. So we expect a rebound in sales by the Jahu division, accompanying the pace of new launches of the Minha Casa, Minha Vida for this bracket.

EBITDA reached R\$12.3 million, a 5.5% increase quarter over quarter, due to cost reduction, lower participation of sales in the composition of revenues and a growth in revenues from new units, which made it possible to dilute their respective expenditures.

The EBITDA margin was 42%, ROIC was 15.2%, both impacted by the lower participation of sales in the revenue mix in the quarter, with a positive impact on EBITDA, and a negative impact on the ROIC.

R\$37 million were invested in the 1Q, and a significant part of the investment has to do with the inventory building for the seven units opened in the 4Q10. Revenues from the new branches opened, as of November 2009, contributed 30% of the revenues for this division in the quarter. We plan to open three new units of the Jahu division in 2011.

On slide nine, we present the major highlights for the quarter for the industrial services division. Total revenues amounted to R\$50.2 million, an 11% growth, quarter over quarter. In the 4Q10, there was a preventative maintenance stoppage at Braskem which had a positive impact on the division revenues for that period.

The services carried out in the construction of new plants contributed with 23% of the overall revenues, and maintenance services 77% of the overall revenues. The oil and gas sector continues to be the major source of revenues for this division, 48% of the overall revenues for the 1Q.

EBITDA reached R\$6.1 million, EBITDA margin was 12.2%, both increasing quarter over quarter, mainly due to the payroll cost reductions. We invested R\$2.2 million and we plan to open a new unit located in the north region in 2011. ROIC was 9.6%.

On slide 10, we presented the highlights for the quarter for the Rental division, which were record. Total revenues amounted to R\$33.7 million, 9.5% growth, and record rental revenues, R\$30.8 million growing by 19.6%.

Revenues from the new units opened in 2010 contributed with 48% of the divisions' revenues for this quarter, showing that our geographic expansion strategy is very successful.

EBITDA reached R\$18.9 million and the EBITDA margin was 56%, both going up quarter over quarter, due to cost reductions to the lower participation of sales in the revenues mix, and also the growth of revenues from new units, which made it possible to dilute their respective expenditures.

We invested R\$42.4 million, and we plan to open five new units in 2011. This quarter alone, we have already started the implementation of three new units in São Luis do Maranhão, Itaborai and Resende, both cities in Rio de Janeiro, and they already have some contracts signed. ROIC was 17.3%, growing quarter over quarter, in spite of the lower participation of sales in the revenue mix for the quarter.

Now, we will talk about our business outlook. On slide 12, we have some examples of projects, already with contracts signed for this year. However, these projects, as well as others that have already started, are in a phase that requires not a lot of equipment strong growth.

On slide 13, we show the evolution of revenues in recent projects for heavy constructions already concluded, just as an example of how the initial rental revenues are low. In the first six months, approximately 20% of revenues in a peak month, and as revenues take quite a long time to reach a peak, around 12 months. After reaching the maturation levels, revenues remain constant for a considerable period; 8 months in this example, and after a while this starts to go down, as the company starts to return the equipment.

The same way that the growth in revenues period is long, the drop in revenues is long as well. Based on a typical example of revenues, in heavy construction such as this one, and considering the pipeline of projects already contracted, we expected the volume of equipment pick up and therefore the revenues from the construction divisions will increase in the next few months according to the progress of these projects.

On slide number 14, we present investments estimated to prepare the host cities for the sports events that will occur in Brazil in the next few years, the World Cup in 2014, and the Olympics in 2016, of which we estimate investments of only R\$3 billion, vis-à-vis R\$9 billion in 2012, and R\$12 billion in 2013, when the peak of investments will occur.

On slide 15, we see the residential and commercial construction markets, which continue very active. Eight public companies in the real estate area have published total launches of R\$5.9 billion in the 1Q11, a 42% growth year on year.

Sales from these companies amounted to R\$6.3 billion, an 11% growth year on year as well. The time between the launch and the beginning of construction varies from 6 to 9 months, depending on the success of sales in the last quarter of 2010, a record total launches of R\$10.9 billion, and the construction will start in the next few months.

Slide 16. We have the revised Petrobras investment plan in the pre-salt. Investments expected increased from US\$33 billion in 2010 to 2014, to US\$54 billion between 2011 and 2015. According to the Petrobras business plan, total investments will be US\$224 billion between 2010 and 2014, of which US\$108 billion for the exploration and production in Brazil will be in fact increasing by 50% the daily domestic production.

Critical resources in order to reach this target are 26 drilling probes, 53 production platforms, 465 special support probes. In refinery, US\$73.6 billion will be invested, of which 50% for the increase of the refining area, and the main projects are the Abreu e Lima refinery in Pernambuco; Comperj refinery in Rio de Janeiro, and Premium refinery in Maranhão and the two first ones are already under construction.

We expect the industrial services division to benefit from these investments in oil and gas, once the services of this division are required in the construction of probes, of platforms, boats and shipyards, ports, refineries and petrochemical plants.

And lastly, we present the progress in our growth plan. As presented on slide 18, in the 1Q, we paid R\$90 million for the acquisition 25% of Rohr. Net operating revenue of Rohr amounted to R\$180 million in 2010, growing by 10.4% year in year. Net income reached R\$20 million, EBITDA R\$48 million and EBITDA margin was 27%, all dropping year on year due to the weak demand from the heavy construction market, which is the major market for this division.

During the Rohr's shareholders meeting, the remuneration for shareholders amounted to R\$11.1 million were approved and they will be paid out by the end of June as interest on capital and dividends, of which R\$2.8 million will be paid to Mills, because in our acquisition contract we included the right to receive the lost or unpaid shareholder remunerations referring to past fiscal periods, and we appointed a representative in the fiscals council of Rohr as well.

On slide number 19, Mills investments amounted to R\$94.6 million in the 1Q11, equivalent to 28% of the amount posted for 2011. The Jahu and Rental divisions received most of the investments realized, 45% and 39% respectively, in order to support the geographic expansion plan, and a strong demand by their markets.

On slide number 20, we present the results from our debenture issuance, and the net proceeds will be used to finance our investment plan. The total amount of the offering was R\$270 million, with interest equivalent to 112.5% of the CDI, and a five-year term. Moody's, the credit rating agency, gave a Aa3 rating to the corporate credit of Mills and Brazilian currency as well as our debenture.

This debenture issuance will allow us to reduce our average cost of debt, besides stretching the average term as we can see on the chart. After issuing the debenture, Mills debt became 82% long term and we will have the divestment with the amortization of the principal only as of 2014.

Thank you very much, and we are available to you to answer any questions that you might have.

Eduardo Couto, Goldman Sachs:

Good morning Ramon, Alessandra, Frederico. I have a few questions. The first one has to do with the recovery of margin that you showed for the 1Q11. I would like to understand how much comes from cost reduction in your margin recovery, and how much comes from the different mix in your sales and rentals area. So, could you give us an idea of how much of this growth in the margin, of almost 7% quarter over quarter, how much came from cost reduction and how much came from the mix, whether it would be a higher participation of rentals? This is the first question.

Frederico Átila Silva Neves:

What we can say is that the bulk is concentrated in heavy construction, in terms of cost reductions. As you can see we left an EBITDA margin of 39% in the 4Q, and we reached 49% during this quarter, and 46% in the 1Q10. So you can see that there is

a very positive impact of measures that we took in our maintenance area, our equipment maintenance area, and the bulk of our cost reduction program is concentrated in these areas.

And regarding the revenue mix that you mentioned, we also have the issue of SG&A, because last quarter, SG&A had a major participation, it had been increasing over last year, and starting this quarter, it starts to have a lower growth rate, as we have already made our biggest move, in terms of structuring the Company.

Eduardo Couto:

Frederico, I would like to know if I really understand. So, would it be reasonable to say that this margin gain in heavy construction came from cost reduction, and in Jahu from the rentals and sales mix?

Frederico Átila Silva Neves:

Yes, exactly.

Eduardo Couto:

And in the Mills Rental?

Frederico Átila Silva Neves:

Well, I would like to remind you that we also have the issue of increase in revenues with our geographic expansion that dilutes expenses.

Eduardo Couto:

Thank you. I have two more questions. One has to do with heavy construction. I would like to know if you already see a rebound in demand, you mentioned some projects, some contracts that you have already signed, but I would like to know if we can see some speeding up in the 2Q, and with this pipeline of projects that you mentioned, would you be reasonable to assume that 50 to 100 of the overall value of the project that goes to engineering services in this list, would these be the right figures for revenues generated from these project.

Ramon Vazquez:

Because of the evolution of the construction division, what we see, and that we have been stating is that we estimate that there will be a sound rebound in revenues as of the 2H of this year, but we can already say that there are some large projects that we have already signed the contracts for, and that they will evolve over the years, in terms of use of equipments for rental, and because of that our revenue will grow over the year.

But what we say in one of our charts is very important, which is the evolution of heavy construction, because it has a very slow beginning. I do not know whether you have noticed this or not, because we said that about the first six months of the execution of a large heavy construction project, the revenues obtained will present only 20% of the peak revenues.

So, what we see is that over the next few months revenues go up gradually and slowly. Slowly, but surely, and they reach a peak and because of that we believe that in the 2Q the revenues from the construction division will be more substantial than in the 1Q.

Eduardo Couto:

And what about the revenues that you can have from these projects? Do you believe that 50 b.p. is reasonable?

Ramon Vazquez:

Well, it does vary what we can achieve from each project. It varies from 0.5 to 2% in a heavy construction project. In some, we have a lower participation, compared to, for instance, a project that has a very high volume of investment in equipments. So, our contribution will be lower, and in other projects, such as the construction of stadiums, the contributions to the overall revenues of the Company are bigger, vis-à-vis the total investments made.

Eduardo Couto:

OK. It is s clear now. And one last question. Regarding Rohr, you said that the results were impacted by heavy construction, so when we compare what Mills delivered in heavy constructions last year, vis-à-vis 2009, it was more or less flat, and because of that there was a drop in Rohr, in EBITDA, so maybe it has to do with the loss of market share or is there any other factor involved? Could you justify this drop of EBITDA at Rohr?

And just concluding my question about Rohr, they have a major position in heavy construction, and because of that could we expect some rebound for the 2H of this year, or the 2Q?

Frederico Átila Silva Neves:

The major driver for Rohr is heavy construction, and our heavy construction division was affective last year in its growth, as you know, and Rohr was also affected in the same way, because we had a more substantial backlog of projects that stayed with us during the year, and because of that we did not feel such a profound impact, but anyway, what we can say is that with the growth of heavy construction in Brazil, Rohr will certainly have a positive impact of that over this year.

We estimate that for the 2H, we will see a growth in our heavy construction division and as well for Rohr there will be a rebound in margins and revenues, driven by the growth in the heavy construction market in the 2H of the year.

Eduardo Couto:

Thank you very much, and congratulations for your results. Thank you.

Sara Delfin, Merrill Lynch:

My question has to do with costs. That was a very positive surprise, the reduction in your costs, and going against the trend that we have seen in most other companies. Could you get into details about the cost reductions, if it is sustainable, was it seasonable? Because I think it was one of the biggest surprises that we have had regarding your results, so maybe you could read on that.

Frederico Átila Silva Neves:

Here we have some effects. We have the variable cost, which fluctuates together with the Company's revenues, and on the other hand, there were many measures, important measures taken by the Company in relation to payroll, both our people in equipment maintenance and in our warehouses, storage, mainly in heavy construction, where the demand is weaker because of the delay in the projects.

So, we did have some personnel cost, and we were also able to have a tighter control on overtime in areas where this control is very important, and I would say that it was a very interesting move, mainly in heavy construction, because we took advantage of this period of a weaker demand, and we did a very good management job.

Our expectation is that this will produce positive results from now on as well, which is not something like a one-shot measure or anything like that, we expect the results to continue with a positive impact. So, this was the major focus that we had for cost reductions, which was exactly on personnel expenses both in our storage, and maintenance and what we call our project execution as well.

Sara Delfin:

OK. Thank you very much.

João Carlos dos Santos, BTG Pactual:

Good morning. My question has to do with rental revenues. Could you give us a qualitative idea of the use of capacity, or the usage of your equipment, based on your asset base? What is the rental rate that you have? I do not know if there is any change regarding your price of the rental of your equipment.

Ramon Vazquez:

I will talk about each one of these divisions. Construction divisions first, the idle capacity is higher than normal right now, for this division, as we have already mentioned, and we expect to see a rebound over the next few months.

In Jahu, although we are making major investments on a monthly basis in this division, we are even having logistics problem in order to comply with some contracts, because the market is extremely active, and because of that we had a very strong geographic expansion as you know, and this market is booming in fact, and the levels of idle capacity for equipments in this division is normal for this kind of situation and for the geographic presence that we have today. So, we expect a strong growth over the next few months.

Industrial services, now, there will be a recovery over the year, especially for new accounts, which will be increased in work for the Petrobras refinery in Pernambuco for instance, which will already start the electro-mechanical assembly, industrial services are required, and because of that we are already growing our revenues in this segment, and over the year it should grow even further, especially in the area of new plants, or new projects, because of Rnest in Pernambuco, and Comperj in Rio de Janeiro, which are new projects.

Our rental division is working at full steam, we are opening new branches, we are having the equipment that we acquired last year that will arrive still within this year, and we are placing the equipment, and we see no change in the scenario for the next few months.

João Carlos dos Santos:

Great. Thank you very much.

Marcelo Magalhães, JGP:

Good morning. Congratulations for your margins. I would like to understand the following: in the spite of the fact that the margins have rebounded, ROIC had an expressive drop, I would like to know what was the reason for that, is the equipment more expensive, does it have to do with pricing?

Frederico Átila Silva Neves:

Good morning, Marcelo. About ROIC, what happened is that as we saw, the ROIC for heavy constructions was 14.4%, and a heavy construction has a very big weight on the ROIC. We know that there is weak demand for this division, so this generated a drop in ROIC, and on the other hand, the two divisions, mainly rentals, which is a division where we have a very high EBITDA margin, this is a division that has a very interesting ROIC as you can see, but its characteristic is to have a ROIC around this bracket, between 15% and 20%, when in construction, historically it was higher than 20%, and the expectation for the long run is around that.

So, construction now has this weak demand, and the results right now, from rentals, based on its business model where ROIC is lower than heavy constructions, this is why it has an impact on the overall ROIC for the company.

Marcelo Magalhães:

And what about Jahu?

Frederico Átila Silva Neves:

At Jahu, differently from rentals, the maturation plan for the new branches is longer. First of all, you have the effect of dilutions on expenses, but this will only materialize and will be reflected on ROIC afterwards, and when we make a comparison, quarter over quarter, that fact that we had lower sales in this quarter, because sales are revenues without an asset base in growth income, so this also had a negative impact on the ROIC for this quarter.



Marcelo Magalhães:

Do you see an expressive drop in yields?

Frederico Átila Silva Neves:

The yields have a normal condition, both for Rental, for Jahu, and construction as well. Normal levels I would say. Construction has a higher effect, because of the temporary idleness.

Marcelo Magalhães:

Thank you very much and congratulations for your results.

Mario, JBI Investimentos (question from the Internet)

In the second year the investment was lower in heavy constructions. Are you going to revise this level of investments during 2011, in case demand is higher than expected, or do you believe that the rebound will be only in 2012 or after that?

Frederico Átila Silva Neves:

Over the last few years we have been making very heavy investments in construction infrastructure. We understand that today we already have the necessary equipment in order to make the moves for the next part. Of course, investments will be made over this year, and also over the next year, but this year more specifically, our major objective is to invest in aluminum equipment, aluminum shoring, which is a new technology, and because of that this will reduce the use of labor in projects in general.

Because of that, our focus for this year is not on increasing our inventories, it is on introducing this new technology, and over the next few months, and over the year we will be evaluating our position vis-à-vis the outlook, or the pipeline for projects, and our projections.

Besides the long-term projects, of course we fine tune regarding our investments, so we estimate that for 2011 our focus will be in investing equipment with this differentiated technology.

Operator:

Thank you very much. As there are no more questions, I would like to give the floor back to Mr. Vazquez for his final remarks. Mr. Vazquez, you may proceed.

Ramon Vazquez:

Once again, I would like to thank you very much for participating in our conference call, and our IR team is at your disposal for any additional clarifications that you might need. Thank you very much.



Conference Call Transcript
1Q11 Results
Mills (MILS3 BZ)
May 13th, 2011

Operator:

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

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