

International Conference Call
Mills - Estruturas e Serviços de Engenharia
2Q20 Earnings Results
August 14, 2020

Operator: Good morning ladies and gentlemen. Welcome to Mills 2Q 20 earnings conference call. At this time all participants are connected in listen-only mode and afterwards we will have a Q&A session. Should you need assistance during the call please press star zero to reach the operator. I would like to remind you that this call is being recorded and translated simultaneously into English. Questions may be asked normally by participants who are connected from abroad and the recording will be available at ir.mills.com.br. This call is being broadcast simultaneously on the Internet with access at ir.mills.com.br as well.

Before proceeding we would like to clarify that forward-looking statements that might be made during this call in relation to business perspectives of Mills and projections, these are only forward-looking statements that are based on the company's management expectations regarding the future of Mills and they are subject to macroeconomic conditions, market risks and other factors.

Today with us we have Mr. Sergio Kariya, CEO; Mr. James Guerreiro, CFO and Investor Relations Officer and Ms. Camila Conrado, Had of Investor Relations and Corporate Governance. In order to open this call I would like to give the floor to Sergio Kariya, CEO of Mills.

Mr. Sergio Kariya: Good morning everybody. We thank you very much for your interest in participating in this call about Mills 2Q 20 earnings. As you all know 2Q was marked by a very strong crisis in Brazil and in the world caused by COVID 19. As you can see on slide number three, since March 2020 the company has been adopting many actions in order to mitigate these impacts, looking after the health and the safety of our employees above all and the continuity of the activities and also the financial health of the company.

In spite of the economic slowdown we had a reduction of 26.4% in the rental net revenue of the rental business unit vis-à-vis 1Q with 56.6% in the adjusted Ebitda and May had the biggest reduction in the rental activity. At the end of June this activity was already 80% of the pre-crisis level, showing the beginning of a recovery of the segment in the quarter itself.

The construction business unit had a bigger resilience in this quarter due to the fact that the equipment and contract have a slower turnover closing 2Q 20 with an increase of



6.1% in the net rental revenue on a QoQ basis. I would like to remind you that the adjusted Ebitda of construction reached 3.2 million in 2Q 20, and although these are not relevant figures they show the attainment of our breakeven target that we had been seeking for some time and this shows that the unit is on the right track in terms of improving its results.

Overall the company reached an adjusted Ebitda of 20.6 million in 2Q 20 generating 45.7 million in adjusted operating cash flow, which was 37.6% higher QoQ as a result of the actions taken for the preservation of our cash in the quarter. Thus we closed 2Q 20 with 289 million BRL in cash and a gross debt of 188 million resulting in net cash of approximately 102 million BRL.

Now to talk about the results of the quarter I would like to give the floor to Guerreiro, our CFO and investor relations officer.

Mr. James Guerreiro: thank you Kariya, good morning everybody. I would like to thank you very much for your presence and considering the relevance for mills the combination of businesses with Solaris and aiming at a better understanding of the figures besides the consolidated figures that reflect the result of Solaris and Mills as of May 2019, when the combination of businesses was carried out, we bring you some analysis about combined information, which means referring to the sum of the Mills and Solaris results for the period, and the combined data may be found on slides 9 and 12 of this presentation and on item 17 of the earnings release.

Now let us go to slide number four. Total consolidated net revenue was 98.3 million in 2Q and the rental business unit contributed 82% of this amount. The rental net revenue in 2Q 20 was 81.1 million BRL, being 26.3% lower QoQ due mainly to the impact caused by COVID 19, which provoked the shutdown of activities of many industrial plants and commercial centers and other venues.

The 26.4% reduction in the rental revenue is in line with the drop of the average volume that was rented in the period, 23.2%, with no relevant changes in prices. On a combined basis the reduction of total rental revenue of rental was 16% YoY. In the construction business unit net revenue was 17.2 million in the quarter and the rental revenue accounted for 83% of this amount. I would like to mention that net rental revenue from construction amounting to 14.2 million was 29% higher than in 1Q 19, in line with what was said by Kariya about the performance of this unit improvement.

On slide five the costs and expenses consolidated excluding depreciation and the effects of IFRS 16 amounted to 77.9 million BRL in 2Q 20 with a reduction of 12.3% on the QoQ comparison, mainly due to the lower consumption of parts for equipment maintenance, the reduction in the rental activity and lower costs for sales, in line with the lower revenue and the reduction of the provision for expected credit losses and a better level of receiving and other actions to reduce expenses aiming at preserving the cash of the company. In



the quarter the reclassification, we did a reclassification from Cogs to SG&A of 3 million BRL and although this is not relevant and does not have an impact on the result, ends up interfering in the variation analysis of these groups. Net of this change we see a reduction of Cogs of 6.2% and SG&A 17.3% QoQ for the reasons we have just referred to.

On slide number six we show the Mills consolidated adjusted Ebitda, 20.6 million BRL in the quarter and 20.9% margin and we present the adjusted operating cash flow, 45.7 million BRL, reflecting the actions for the preservation of cash. It is important to mention that the postponements of payments that benefited our cash in the quarter by approximately 17 million will be honored over 2H 20.

On slide number seven we have data about our indebtedness. We closed the quarter with a consolidated net debt of 188 million BRL and free cash of 289.9 million BRL with net cash of 101.9 million BRL. The average term for the payment of our total debt on June 30, 2020 is 1.5 year with an average cost of CDI +4.07% a year. On June 30 Mills complied once again the original covenants of the debentures with a net debt/adjusted Ebitda ratio of 0.08 and adjusted Ebitda financial result ratio of 16.3. I would like to mention that in April we extended for one year the Solaris debentures, 22 million BRL, that now matures in 1Q 22.

On slide number eight some consolidated data of the last few years.

On slide number nine some combined data for Mills and Solaris.

And on the next few slides more information about the performance of each one of the business units. With that we end our presentation and now you would like to open for questions.

Q&A Session

Operator: ladies and gentlemen now we will start the Q&A session. In order to ask a question please press star one. In case your question has already been answered please press star two. Please stand by while we wait for questions.

Pedro Gonzaga from Pacifico.

Andres Calderon, Consilium.

Mr. Andres Calderon: good morning and thank you. What about the trend for demand in this quarter and how do you see the remainder of this year? Was there any improvement in this quarter and what does that mean for the remainder of the year? Thank you.



Mr. Kariya: good morning Andres, thank you very much for your question. I would say that we are bullish for 2H TY. We noticed that apparently we had a point of inflection in June, we had a turning point in July more specifically, start to see an improvement especially in rental and construction as we have already referred to; but there are still some uncertainties in terms of the degree of resilience of this economic recovery for 2H TY - but we are bullish about the results for 2H TY, both for rental and for construction.

Mr. Calderon: what about the impact of the crisis on the competition, mainly the smaller competitors? Have they become weaker because of the crisis?

Mr. Kariya: Andres this is very difficult because they are not public companies and so it is very difficult for us to clear, to have visibility in terms of being able to compare the performances; but with that talks that we have been having with the sector we see that they have suffered more, let us say, than we have - but once again I repeat that as they are not public companies so they do not have their figures disclosed.

Mr. Calderon: would you consider the possibility of making another acquisition, let us say for a company that is facing more difficulties?

Mr. Kariya: Andres we are always looking at our radar screen and the positive fact of the company was the fact that we had a very good beginning of the year in terms of balance sheet; our cash we had already done our homework and we are still doing our homework and our company is resilient enough in order to tap into possible opportunities. So our radar is always on and we are always paying attention to that and considering strategic moves for the company.

Mr. Calderon: thank you.

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Pedro Gonzaga via webcast. He asks: with the company generating cash in the company and the economy improvement, what about your capital allocation? Are you going back to the plans of capture of synergy with Solaris or looking for new M&As and accelerate the amortization of more expensive debt or even going into a buyback activity?

Mr. Guerreiro: Pedro this is Guerreiro, thank you for the question. Pedro we are paying attention to the allocation of our resources. We have already talked about that and we were very strong when the crisis hit and we continue to generate cash and we have a net cash that is even stronger on June 30 and we expect to have the same situation in the next few quarters. So this is very important and we have to allocate our cash in good opportunities.



And the tapping into the synergies that you mentioned as well yes, we intend to accelerate the capture of synergies with Solaris; but there was a small stumbling block in terms of integration of the branches; and you are asking about demobilization of our fleet and we have an optimal point to make these investments and there is an optimal point for the decision for these investments, and this will be based on the speed of recovery of the economy - but undoubtedly the idea is to have the fleet available.

And Kariya talked about new opportunities, M&A and regarding the prepayment of debt no, this is not in our agenda; and before the crisis we considered the possibility of prepaying these 20 million referring to Solaris; but as the market brought about new opportunities for us we have the opportunity to allocate resources and so the prepayment of debt would not be in our agenda now.

Operator: Pedro Gonzaga continues the question by webcast: do you believe that the construction sector will go back to be a very good lever?

Mr. Kariya: this is Kariya, Pedro. With everything that we have been seeing during this pandemic and all the efforts made by the Ministry, I think this could generate yes the opportunity to drive growth in the country, and of course this will mean benefits for the construction business and for the rental business as well. So undoubtedly there are some very interesting expectations about the development of the infrastructure sector for the country.

Operator: and Pedro continues the question: how quickly will you be able to go back to the rental rate after the devaluation of the BRL?

Mr. Kariya: well this is a tough question, Pedro. You have the exchange rate factor, and the depreciation of the BRL vis-à-vis the USD was very fast and so we have to look for the economic financial balance vis-à-vis the prices because of that, and the crisis did not really hit in terms of a drop and we said that in the last webcast as well; but on the other hand we did not have the opportunity to recover prices either and so we maintained our prices in BRL, we kept them stable and with a more favorable scenario in terms of demand then I believe that we will be able to look for this recovery.

And in the last webcast we talked about this as well. We said that the sector as a whole did not have big sacrifices in terms of with this drop in the BRL and the cost of acquisition of new equipment as well, as replacement parts, all of that suffering an impact because of the depreciation of the BRL vis-à-vis the USD. So with the recovery of the economy we will continue to find balance all that.

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As there are no more questions the Q&A session has come to an end and we would like to give the floor back to Mr. Sergio Kariya for his closing remarks. Mr. Kariya you may proceed.

Mr. Kariya: We would like to thank you very much for your participation in our call about the results of Mills in 2Q 20. Our investor relations team is available to clarify any doubts that you might still have, thank you very much.

Operator: Mills' conference call has come to an end and the audio will be available for replay and the slide presentation will also be available at ri.mills.com.br. Thank you very much for your participation and have a good day, thank you.
