

Q1 2010 Earnings Call

Company Participants

- Alex Yambanis, Pulp Business Unit Executive Officer
- Andre Dorf, IR Executive Officer
- Antonio Maciel Neto, CEO
- Bernardo Szpigel, CFO
- Carlos Anibal, Paper Business Unit Executive Officer
- Ernesto Pousada, COO
- Unidentified Company Representative, Unknown

Other Participants

- Alexandre Miguel, Analyst
- Bruno Savaris, Analyst
- Debbie Bobovnikova, Analyst
- Juan Tavaréz, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper First Quarter 2010 Earnings Conference Call. Today, we have a simultaneous webcast with slide presentation on the Internet that can be accessed at the site www.suzano.com.br/ir. There will be a replay facility for this call on the website.

We inform that you all participants will be able to listen to the conference during the company's presentation. After the company's remarks are over, there will be a question and answer section. At that time, further instructions will be given. (Operator Instructions) Today's speaker will be Mr. Antonio Maciel Neto, CEO.

We would also like to inform that statements made during this conference may constitute forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ materially from those set forward in the forward-looking statements. I will now pass the floor to Mr. Antonio Maciel Neto, who will start today's conference. Thank you.

Antonio Maciel Neto {BIO 16703850 <GO>}

Good morning, everyone. Thank you very much for the attendance for this call. It's a pleasure to have this opportunity to talk about our First Quarter results. As usual, I will start with some remarks and we have here all of our senior management team ready to answer the questions just after this brief introduction.

So starting on the slides you have in front of you, I will start with the highlights in the First Quarter, the -- of this First Quarter, starting with the overall view of the market, global market. First talking about pulp, we have seen some restrictions in the global pulp supply in the First Quarter '10.

Different regions. The most important was the earthquake in Chile, however we had also climate problems in the south of the US and port strikes in Finland there as well. So from the side of the demand, this was an unusual quarter with a lot of problems.

From the demand side, the global market's pulp -- from the production side, the global market's pulp production reached 10 million tons. This is 9.5% higher than the First Quarter '09, but 3.5% lower than the First Quarter '09.

If you compare the here [ph] you have with the -- the opportunity to compare the market pulp and the eucalyptus pulp. Compared with the First Quarter of '09, we see here it was good progress as 6.7% for market pulp and 4.4% for eucalyptus pulp. Compared with the Fourth Quarter '09, then we see some reduction, 2.7% in market pulp and 2.4% in eucalyptus.

Inventories is still very, very low, 26 days is the latest data we have. This is far below the historical average of 33 days. Probably in the future, this historical average will be higher than this number, because now we have much more volume going to Asia, especially to China, and those transportation days will be in the future edited for what we call historical average or the average days of inventory.

So with the new reality, with the old reality, this is a very low level. The new reality is still lower than what we have seen before.

Let's see what's going to happen with the coming numbers, about the inventories. But so far, very low inventories. Price increase amounted, for April and May, so this price increase will not be presented here, not reflected in those numbers. However, it is important to underline, saying that this -- we have already achieved on May 1st, US\$890 per ton in this reference priced at CIF in Europe.

From the paper business, we have seen a very strong domestic demand in the first -- as compared to the First Quarter '09. We see good recovery in the markets and you can see here, print and writing, the grades, we have increased about 17.2% in the industry numbers, 17.2%, in paperboard 36.3%. So very strong, the economy's really in good shape, recovering very well.

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If you compare the First Quarter '10 with the First Quarter '09, you are going to see a drop that's more than explained by the seasonality in the period. We have a higher sales volumes in the Fourth Quarter every year. In the First Quarter, normally we see a -- we see lower levels of sales of paper. This is a very normal here in internal markets due to the seasons of -- purchasing of our key buyers.

In the -- however, we have seen, also, the increase of the imports into the domestic markets. The printing and writing grades, we were at 21.7% Fourth Quarter '09 and now we are at 24.6%. This is more than explained, also, due to the exchange rate.

The exchange rate is a very good attraction for the imports. And also due to the development of the domestic economy, as we have this very hot economy, these imports are always present, but now this is increasing -- I think that the exchange rate is really the key explanation for what happened in the First Quarter '10.

The good news is when you look at the global market, here, you have another good news in printing and writing markets. We have seen a good recovery compared with the First Quarter '09. In the US, 7.1% growth. In the Eastern Europe, 2.4%. So overall, the vision of the market is positive for the year, fairly strong demand and a good recovery in the domestic market and good recovery already in the US and in (inaudible).

Page three, now we are going to talk with some highlights of First Quarter '10 -- First Quarter of this year for Suzano. I talked before about the overall market. So production achieved a 653,000 tons. Total sales of 642,000 tons. Net revenue at BRL937.1 million. Total production, cash costs, of BRL425 per ton. (Inaudible), we had an increase in our cash costs, in our cash costs, and we're going to talk a little bit later on this.

EBITDA, a record of BRL500 million, margin of 51.9%, due mainly to this non -- due to some non-recurring items. EBITDA, excluding the non-recurring items at the BRL316 million, margin of 32.4%. So here you can see we have improved our margins and this is a good trend compared to what we had in the last quarter. So we are back to the levels of the above 30%, in this case, 32.4%.

A very important highlight of the quarter was the completion of the sale of our forestry assets in Minas Gerais, non-core assets, for BRL334 million. Net income at the end of the quarter was BRL130 million and the net debt to EBITDA ratio of 30 -- 3.4. Also the cash and cash equivalents of BRL2.4 billion on March -- at the end of March.

Here is just a comment on the -- these sales of our assets in Minas Gerais. Those numbers coming from this sale, we have those inside the EBITDA, so this is into the EBITDA. So this improvement in the net debt to EBITDA now we have already counted on, with the sales of the forestry assets.

However, the cash came after the closing of the quarter, so the cash coming from the -- the cash from the sales of our assets in Minas Gerais only came in April. So this is not here in our results.

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Page four, this is the one page to comment our pulp business. Sales of 385,000 tons, First Quarter of '10. This is a 6.6% lower than in the Fourth Quarter and 8.6% -- 8.5% lower than in the First Quarter '09.

Here this reduction in the volumes, the key explanation for that is related to the shutdown that we had and that we announced in the beginning of the year, in January. We communicated to the market that we had lost 42,000 tons due to maintenance needs in our mercury plant. So if we had this volume, we would have sold much more volumes, at least additional 40,000 tons because we have demand for that. So this is going to -- this is what is really happening here.

Average net price that you see here, we have a good improvement compared with the Fourth Quarter last year and, as well, good improvements compared with the First Quarter '09. The First Quarter '09, it comes -- it -- the improvement was about -- we had 23.5% higher prices than the First Quarter '09.

Here it is also important to underline that those numbers here, as we had additional price increases at the beginning of April and beginning of May, this average will be higher as we reported in the Second Quarter of 2010. Net revenue of BRL448 million for our total business, 9.2% higher than Fourth Quarter '09 and 15% higher than the First Quarter '09 in reals.

Destination of our sales and pulp, you guys can see here on the bottom, in the right side of the page, that Asia, Asia, was 38.8% in the Fourth Quarter, in this quarter it was 37.4%, very well aligned with those numbers.

Europe's the same, 35.8% last year and 36.4% in the beginning of this year. The same production. So we have a very, let's say -- I would say, consistent destination for our pulp. Very much aligned with our (inaudible) contracts that we have.

On page five, comments on paper business units. The key point here is to compare the -- our volumes with, in the First Quarter 2010, with the First Quarter 2009. You can see that printing writing grades, the increase of the volume in our sales volume was 11.9%, paperboard, 15.5%.

However, the average price in the domestic markets is still 9.9%, below the average numbers that we have in First Quarter of '09. So we have it -- we have increased our price, but not enough to be at the same level. This average price. Here we have the impact of the exports, where with the exchange rate, made good damage, let's say, in our numbers here, related to the price.

Domestic sales, 53.7% of the total sales. Also, here, you can see what I mentioned before about the exports, average net price in dollars. We have -- compared with the Fourth Quarter last year, we have already increased the dollar -- price in dollars 2.2%, in reals 6%, 6%. However, compared to last year, we -- our prices in reals are still 18.6% below what we had last year. In dollars, you can see that we have increased our price by 4.4%.

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Destinations of our paper that we have produced, destination of our volumes. You can see that in the Fourth Quarter '09, Brazil represented 55.1% and now it was 53.7%. However, in South and Central America, there was 12.6% Fourth Quarter, now it was 16.5%. So the combination of Brazil, South and Central America, we are -- we have -- we are very well aligned. Close them together, we have about 70% of our sales.

In the domestic market, [the core] in South or Central America. North America is around 10.7%, 10.9%. Europe, 12.4%, 12.3%. So that is also very well aligned with those -- both quarters, with regard to the destination of our best [ph], our paper business exports.

Page six, you see here that we had a higher share of pulp in the Suzano's revenue. 46%, now in this First Quarter, compared with 40% in the Fourth Quarter last year. So pulp is increasing the -- its share in our business.

Pulp cash costs at 6.8% higher than Fourth Quarter '09. We have -- we had a higher cost related to the wood that we buy from our suppliers and so this is also because we now, we are using the higher percentage of wood that we buy from our suppliers than -- than compared with our own -- with the number that we had last year.

So the percentage of the wood coming from third parties is increasing. Also we had the soda, the prices that this is a global commodity, which those prices increased during the quarter as well.

We had also the lower dilution of the fixed costs due to the lost profit production. So as we stocked the plant and we didn't produce about 42,000 tons in January. So the dilution of fixed costs was in the budget and we had a lower dilution of these numbers. This is the piece of the cost increase that we noticed in the fourth -- in this quarter.

EBITDA margin of 51.9%, as I have mentioned before. Non-recurring items at BRL190 million. So the EBITDA for the operation, let's say, for the normal standard operations was BRL315 million and the margin of 32.4%. So on bottom the page, you see the graphs and you see that we are perhaps very well with regard to EBITDA numbers and margins.

Page seven, just a -- some piece of information about our debt in the leverage. As we finish the quarter, the total debt was BRL6.5 billion. Cash and cash equivalents, about BRL2.4 billion.

So net debt about -- of BRL4.88 billion. This is equivalent to net debt EBITDA of 3.4, to say that we had a good progress compared with the end of '09, with the end of last quarter for this quarter, to the First Quarter, when the net EBITDA was 3.9, 3.9.

Bottom of the page, you see -- you guys can see a graph showing the amortization amount in the period that we will face. So we have cash equivalents of BRL2.4 billion and here we have, you can see that we are in a very good shape to pay our debts and we don't foresee any problems to maintain the very solid financial position that Suzano has and it has maintained for a while.

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On -- just going to the final comments, my last page here, are related to the key message. Just to conclude, (inaudible) proper this presentation and this call this morning. First bullet is related to the market demand recovery in the pulp and paper markets. It's very good. Very high demand on paper in the domestic market, in pulp inventories in the historical, very low levels compared with the historical levels.

And as we have seen some recovery on the production of paper in Europe, and in the US, this reflects directly with the demand of the pulp as well. So very good markets coming for the next months. We don't foresee any big problems.

The recovery that we have seen in the US and in Europe, they are coming from a very low base, but this is a consistent and progressive recovery. So very good. China, very strong. Continuing very -- demanding a lot of new machines of paper coming in on stream in the coming months. So very good for the demand and then to offer equation.

Operational margins recovering, very clear, to the 2.5% now. Good costs, good management on -- from our cost side and also a very good price and improvement in the good volumes from -- in pulp and the paper business as well. So this is good news.

Very solid financial position, as this has been our very strong in positioning and management style. Very strong, we maintained a very adequate debt profile. It's a very, very competitive cost. Now we start to see what we have planned for before the big crisis that this -- the reduction in the levels. So 3.9% in December '09, 3.5% in March '10. This is very good.

Also very good, and on track, growth and strategy being implemented. Very solid. Our project in Maranhao and Piaui, our Greenfield projects are progressing well. Basic engineering in progress, lot of discussion on the new technologies, analyzing alternatives to reduce costs, to improve production and to include productivity as well.

The beginning of industrial licensing process in Maranhao will -- for the forest preparation we have most of the permits and now we are starting working on the industrial side of the Maranhao. And we have launched the forestry partnership program in Piaui. This is a program dedicated to small farmers. A lot of interest.

Many, many people participate in this, in Piaui. We are planning to have between 20% to -- up to 30% of the supply of the plant coming from small farmers in our partners, with this generates a lot of jobs, a lot of opportunities in the region. This has been extremely well accepted in the state and it has been very good for Suzano's reputation as well.

As I mentioned in the beginning, it was an important achievement [the sale] during this quarter, the First Quarter. The sale of these non-strategic in forestry assets in Minas Gerais, this is the good and the manage more of the -- our portfolio, of our assets. This is good for us to invest in the new -- the cycle of growth. We need also to improve our net debt and improve our cash positions, as I mentioned before. So very good.

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Yesterday, I'm sure that you guys have had the opportunity to look at the announcement that we sent out to the market, about the offer that we made to acquire FuturaGene. FuturaGene is a technological biotech oriented company. They have -- they are headquartered in a key office in London. But they have their scientific and technological base in Israel and they have also good operations in China.

This is a forest where they have different projects, different sectors, however, of course, they are key -- the key -- they are key projects are related to forests. At Suzano, we have maintained about 7% of this company for a while and we have projects with them and now we are reaching an agreement with the shareholders for Suzano buy the whole company. We made an offer for 100% of the shareholders to buy the company.

This acquisition is 100% aligned with what we have discussed before in the -- that we are very strong, very firm, related with our long-term vision. You guys know that we have discussed many times with you with our obsession related to forest productivity.

This is one of the key leverages that we have to increase and to enhance the company value. We are a forest-based company. As we increase further our behavior that we manage in the supply of the wood is a key, key element of our competitiveness.

Productivity, in the forest, it's going to be 53 million this quarter. So this is, for now, is -- we only can only mention that both these companies, they have very good projects in the forest, however they have, as well, in other areas, including biofuels and other kinds of plants and along with the experience that Suzano has in this area, we are going to be able to, to really, to move farther and to present a very strong and very good progress and productivity related.

So this is aligned with our strategy to increase our competitiveness and also very well aligned with our sustainability projects as well. Because the productivity means the lower consumption of water, low utilization of land. So productivity and the technology, biotech in this case for forests, are extremely well aligned. So this is the piece and step forward building -- as we -- to -- as we build our future.

So for now this is what we can tell you. We made the offer. Now we are going to take about some weeks for us to receive the final conclusion of the process and this is going on in autumn and as soon as we have the completion of the transaction, we are going to have the opportunity to talk to you and give you more details and go in-depth with the strategy and how we are going to capture all the benefits of these very good and important acquisitions.

So I'll stop here and we'll return the floor to the coordinator and we'll be very happy answering the questions that you are going to present. Thank you very much.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now initiate the question and answer session. (Operator Instructions) Our first question comes from Theas Corea [ph] of Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi. Hi everyone. Marcelo Aguiar. Thank you for the call. Antonio and Andre, I mean I have a couple of questions, I'm going to make three at this point. Can you elaborate a little bit on -- you wrote in your press release that the price increase of February -- in March, the pulp price increase in February and March, did not have a full impact on the quarter.

So I would like to understand why this happen and what type of impact should -- is left over for the Second Quarter for only those price increases? I mean, February and March?

A - Andre Dorf {BIO 15460232 <GO>}

Hi, Marcelo. This is Andre. Good morning. This is basically the fact that it didn't have a -- the full impact because it happened after the quarter had started. I mean, what we had -- the price increases in February and March, so it -- the quarter results didn't capture in full these two moves.

A - Unidentified Company Representative

For the quarter.

A - Andre Dorf {BIO 15460232 <GO>}

In addition to that, we have other price increases for April and May. So --.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Okay. So -- okay, and that -- so, I apologize for my question. So this is just because of the -- a matter of when it increases, not because it was not fully implemented. Okay.

A - Andre Dorf {BIO 15460232 <GO>}

That's right.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Yes. Continue on the price front, I mean, there's a bunch of announcements of paper price increases in Brazil and abroad. You have -- you guys have several different grades of paper.

Can you just talk for us, run through what you announced for the international market and what this represents when you compare -- I mean, if those prices will remain in full for the quarter? So how does -- what does it represent in the growth in a quarter-over-quarter basis?

A - Carlos Anibal {BIO 19090865 <GO>}

Marcelo. Good morning, this is Carlos speaking. It's true that we made several announcements. We can expect in the export market for the Second Quarter, an increase of around 5%, okay. When we announced the new price.

All the orders will come with the new price. But until we produce the paper, we ship the paper that takes us another one or two or three -- even three months, until we can capture in full the new price. So again, for the Second Quarter, you can consider a growth of around 5% compared to Q1.

A - Unidentified Company Representative

In dollars.

A - Carlos Anibal {BIO 19090865 <GO>}

In dollars. He is right.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Sorry. Was this international market or domestic market, Carlos?

A - Carlos Anibal {BIO 19090865 <GO>}

International markets.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

International markets? Then there's a left over for the Third Quarter of what might lead -- of what's the right amount?

A - Carlos Anibal {BIO 19090865 <GO>}

Then we could extract another 5% to 7% as well. We need to bear in mind that when we announced price in Europe, those prices are in local currency. So whenever we have a currency devaluation there, in us dollars, the price will be the same. But that applies only to Europe. In the other regions, okay, we're going to capture, we can expect to cap into [ph] the new price increases.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, gentlemen. Thank you very much and I have other questions. I'll get back in the queue.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Okay.

Operator

Our next question comes from Debbie Bobovnikova of JPMorgan. Please go ahead.

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Q - Debbie Bobovnikova {BIO 4684018 <GO>}

(Inaudible).

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Debbie, we cannot hear you. Something's wrong. Hello?

Operator

Pardon me, ma'am. Is your line -- she actually has disconnected her line.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Okay.

Operator

Our next question is from Alexandre Miguel of Itau.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Hi. Good morning, everyone. My first question is regarding pulp prices, if you could elaborate on how you're seeing the supply-demand scenario in the short term. We already saw some softwood producers announcing a US\$20 price increase for June and we are wondering here if you think this will be the same case for hardwood, this price increase in June?

A - Antonio Maciel Neto {BIO 16703850 <GO>}

We see supply and demand holding firm, despite some reports from analysts that some traders in China are selling some inventories, especially both softwood and hardwood. This, in our view, is a simple profit taking exercise. So we see supply and demand firm.

We saw the announcement of Soda, US\$20 for the European market and we are analyzing the market to determine what course of action we should take. At this point, we wouldn't like to give you a forward answer regarding our prices.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay. Just another question, regarding the paper market in Brazil. Can you elaborate on how you're seeing the demand growing going forward? How do you see competition, especially, let's say, in the cardboard business or in -- or from imports in the coated business?

A - Carlos Anibal {BIO 19090865 <GO>}

Okay. Good morning. This is Carlos. Regarding demand, we are quite positive. On the top of the demand, organic growth, this is with the good momentum that we have in our economy. But also there are some special events, like World Cup, elections and also the

Brazilian book program, which will help us to increase or to improve even more the demands you see here.

Regarding the imports, we -- when we look at what took place in the First Quarter, tonnage wise, okay the numbers were pretty much the same that we had in the Fourth Quarter, which means that we didn't have a big growth in the volume.

For most of imports that we had in the First Quarter, the orders were placed there with the buyers -- with the sellers outside. At the end later 2009, when the price and the demand scenario, and the supply scenario, was quite different of the one that we have today.

Today we have a much more limited supply, prices are moving up and therefore we know that together we believe that on a percentage basis, we're going to see a drop of imports now in the Second Quarter. Better priced to coated paper and also to offset paper.

Regarding the competition in the carton markets, I think that Suzano has a unique position in terms of we having a more complete scope of products. We have since the most simple one like the duplex, until their SBS [ph] to triplex where our market share is over 80%.

We announced a price increase last year. Our priority was to implement this price increase. We were successful. Prices moved up almost 5%. We believe that we have a different and more complete scope of supply. We have a good quality. We have a good application.

We have a good scope of service, which allows us to work with the price in a different way. So in the First Quarter, it's true that we lost some market share, but we are working to compensate for that in the Second Quarter.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay. Thank you, Carlos.

Operator

Our next question is from Thiago Lofiego of Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Hi. Good morning, gentlemen. So my first question is about your pulp cash costs per ton. If you could provide any color on why you increased third-party wood purchases? And also if you are feeling any additional cost pressures in the other raw material front going forward. That would be my first question, please.

A - Andre Dorf {BIO 15460232 <GO>}

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Hi, Thiago. This is Andrea. Regarding the costs, you're right, we had a 6.8% increase compared to Fourth Quarter last year. And this is mainly related to an increase in the wood that we bought from third parties.

This is because we adopted the strategy of reducing those purchases last year, due to the crisis environment and now we are coming back to the 20% level of wood -- third-parties' wood supply in our supply matrix. Just to give you the right numbers, we jumped from 8% in the last quarter to 17% in the First Quarter of this year.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Yes and here's the last -- regarding the other raw materials, we don't see any major change in the prices and the costs of the other raw materials.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. So just going forward, it should be this level of cash costs that we can expect for this year? Or are you planning on increasing additional wood -- third-party wood purchases?

A - Andre Dorf {BIO 15460232 <GO>}

Yes. We believe that we can improve it incrementally, due to more stability in the plants. Because in the First Quarter, we had that shutdown, that plant shutdown, and that caused some disruptions to our costs. So we would expect it, over time, to go a little lower.

A - Ernesto Pousada {BIO 15951890 <GO>}

Regarding the third-party wood supply, it should be the same going forward.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. Just -- I mean, the BRL425 per ton, that's already adjusted for the operating problems, right? So I mean, I guess, my question is the BRL425 sustainable or should we expect it to come a little bit lower or higher?

A - Andre Dorf {BIO 15460232 <GO>}

Thiago, this is what Ernesto just mentioned, that although we had those costs related to the unstocked -- the maintenance down time, unscheduled down time, off of this number, there were also some instabilities that affected the costs during January, specifically. So we should be able to improve a little bit this number going forward.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. That's clear, now. Thank you. So -- and my second question is regarding pulp demand. Do you expect any kind of pull-backs in the coming months as we enter the summer months in the Northern Hemisphere? Or do you think the increased demand from Europe and North America should offset that seasonal traditional pullback?

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A - Alex Yambanis

Yes, Thiago, this is Alex Yambanis. Well we will likely see the seasonal traditional pull back because simply this is a seasonal factor affecting paper demand in the Northern Hemisphere, especially in Europe. So -- but we have, if you wish, we have considered that seasonal pull-back in our pricing scenario. So we see a fairly balanced market in terms of supply-and-demand and if ever a tightness to continue.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. Thank you, guys.

Operator

(Operator Instructions) Our next question comes from Debbie Bobovnikova of JPMorgan. Please go ahead, ma'am.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. I'll try it again. Can you hear me now?

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Yes.

A - Unidentified Company Representative

Yes.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Sorry about that. I actually, not to -- I am going to ask the same question that you've heard, but maybe in a slightly different fashion. But about the pulp increase, the pulp price increase that we saw from Sodra Cell, I mean if you look at the previous pulp price hikes, it's been a pretty good pattern where one producer comes out with a hike and then within a couple of days, we see other producers following.

This time, it's been about a week now and we are yet to see any other announcements and this announcement seems to be the only one out there. It's much lower magnitude than we've seen in previous announcements. It's only for one region, Europe. I'm just wondering, what you're -- I know you're not going to give us a very concrete outlook, but I mean, it seems like at least the impetus to hike pulp prices is kind of slowing down.

So is that kind of your view that overall maybe pulp prices don't roll over, but at the same time, it's hard to argue for much higher pricing? Or do you think that there's still such a tight supply-demand scenario that we can see pulp prices significantly higher, given the outlook for fundamentals for paper demand as well as for pulp supply?

A - Alex Yambanis

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Yes, Debbie, hi. This is Alex again. Well I would preface my answer by saying that the sky is not the limit. So and that -- when it comes to pulp prices. Pulp prices already have reached a level that are -- I would call them very comfortable. In tandem with that, I would like to say that inventories are still very tight.

Inventories of -- concerning not only the 20 reporting nations, but we have inside information that tells us -- or privileged information, if you wish, that we receive from agents and so forth, telling us that inventories, on a broad sense, are tighter than otherwise.

So -- but this being said, I guess the -- I don't have an answer for the week delay for any other producer to react other than to say that I imagine, and this is just my imagination, that people are taking some time to think about it and think what kind of move would be appropriate.

But overall, I would emphasize that the market continues tight, not only from a supply standpoint, from a demand as well, and well, this being said, we are reaching levels where I believe people would like to think before jumping.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Got it. Got it. Very clear. Can you give us any color on what you're seeing in China right now? Because obviously the statistics that we see in terms of the demand from the PPPC, I mean, that shows the roll over, very strong roll over, versus the year ago.

But that was a very strong comp. I am just trying to get a sense from you, given that you have some kind of forward view on your customers' demand, how strong has China's demand been in the past few months for you and kind of how far forward can you see that demand?

And also, if you can give us any more color, which sectors is it coming from? Is it more the tissue manufacturers, the printing and writing, the packaging guys or is that -- is some of it going to the traders? Just any color you can give us?

A - Alex Yambanis

Sure. Well Chinese demand has been robust. I would like to say that the slower import into China in the First Quarter were mainly and chiefly due to the exceptional events we experienced, namely the earthquake in Chile, the strike in Scandinavia, the rains in North America and so forth. So Chinese demand, to the best of our knowledge, continues to be robust.

Well with some caveats. We have -- you have read as well, some analysts reporting that some traders have been selling pulp at a discounted price to the list price. This is fairly normal at this point of the cycle, as I mentioned before, prices are pretty high on a historical level, therefore it is normal to have traders realizing profits.

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At this stage, they won't wait until the last moment of the peak to start doing it, so they started doing it already. This is not affecting none of our customers when it comes from demand from Suzano. We're getting all of our orders at the announced prices.

So -- and to finish, your last question was going forward, if I could give some color on the Chinese demand, well, as I mentioned earlier in the Portuguese version of the call, we have compounded anywhere from 3 to 4.5 million tons of new paper capacity and this is a mixture between printing and writing, board and tissue. For the next 20 months. To come on stream in the next 20 months.

Even if you consider that some smaller paper mills might shut down because of competition with these newcomers, which are, of course, starting up with very modern and performance paper machines, even though you see that the demands -- the pent-up demand in China will be more than sufficient to accommodate the April start-up and to accommodate all the optimizations and small de-bottleneckings that we'll see around the world.

So we're very confident, in the months going forward, that the demand in China will continue to be healthy.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

But in terms of what you see from your own customers, is that in line? Are you seeing kind of the same strength in demand from your own customers in China in the next few months? Or is there -- has there been a change?

A - Alex Yambanis

Well no, we are -- what we see for our own customers, we could easily extrapolate to the market overall. I don't believe that our customers are cancelling tonnages from our competitors and centralizing their purchases on Suzano. I don't believe this is the case, so I believe that this is a market, the market overall, is still healthy.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Got it. Perfect. If I can just ask quickly, one last -- just one boring question, but there are a number of one-offs in the quarter and I just wanted to understand a little bit better of where they came from and what to expect in the coming quarters?

But there's that inventory loss provision of about BRL40 million. You also took a charge for your SG&A for doubtful accounts. There was some losses on your pulp swaps as well as your interest rate swaps. Can you give us a little bit more color on each of those three and what to expect in the coming quarters?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Hi, Debbie. This is Bernardo. On these three topics, first on the -- we had some BRL41.7 million charge for our -- in our costs and they are based -- related to mainly two things. One of them is tax provision.

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Taxes in Brazil, some of our VAT tax, which is [fiscal things], has a legislation that is changing. It's unusual legislation, recently changing, and it is subject to revision from time to time, given what is either the tax authorities or the (inaudible).

A - Unidentified Company Representative

(Inaudible).

A - Bernardo Szpigel {BIO 2080745 <GO>}

Or the quartz system, what is the exact interpretation that should apply. So we review this on a continuous basis and from time to time, we make adjustments. This time around, we reviewed it again and we decided to increase provisions for that purpose. This represents about one-third of the BRL41.7 million, goes for that.

The -- then we also, we have also conducted a thorough review of our -- all of our inventories and in particular, in the case of our forestry and wood inventories, this was the result of that. We decided to increase our provision, our -- we -- to reduce our inventories and put a charge on this. This represents something like another one-third of the BRL42 million.

So two-thirds, one of them is tax and the other one is forestry inventories. The other third is all other general inventories in several different regions. This is -- these are non-recurring assets and we don't expect these to occur again.

On the bad debt, this is mainly one specific case. It's not something that, in fact happened as recently. Something that we were working on a restructuring that would allow us to recover all of the -- and restructure the debtor.

And -- but in the end we concluded that that would not be possible, so we decided to take it to bad debt in the quarter. So again, this is a non-recurring -- it's a large one, but it's a non-recurring and very specific aspect. Then there was another one. Glen [ph], what was the -- ah.

A - Unidentified Company Representative

Swap hedges.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Hedging. This is going to happen normally. This is -- depending on the exchange rates' position and you know that there is volatility in reals, we take some provision in non-deliverable forwards, looking at our exports.

We have explained this in our -- in other occasions. It stays on the fluctuation of our position in NBS, non-deliverable forwards, against the volatility of the real against the dollar. So in this quarter, it moved on the negative side. In previous quarters, it has moved on the positive side. So it's a fluctuation that will occur as the exchange rate changes.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Bernardo, I was asking in particular about the pulp swaps. Because I think that's what was referenced in the earnings release, if I read it correctly? So not your currency hedges, but your pulp price hedges.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Also, to a limited amount. It's not -- the market for pulp subs is very limited, unfortunately. It has not developed. But we do take positions regularly, looking at what's available in the market in our view of prices. So we take positions to reduce the volatility of our pulp prices. So it depends -- depending on how prices move, relative to our market positions, this may reflect a loss.

Since pulp prices have moved up continuously because of factors that were not foreseen at the time, like the Chilean and the very tight supply and demand balance that we have, for some of these other contracts, we had some losses.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Where are you positioned today versus the end of the quarter and versus, let's say, a quarter ago in your pulp hedges?

A - Bernardo Szpigel {BIO 2080745 <GO>}

It's about the same. It's -- we didn't -- this quarter around, we didn't do increase our position significantly. It was -- we did some, I don't recall exactly, something like 10,000 tons for a period of 12 months. It's a limited amount.

A - Unidentified Company Representative

Yes. For derivatives, as a whole, we have US\$284 million in exposure.

In the derivatives, yes.

As a whole.

As a whole. Yes.

A - Alex Yambanis

Yes. This is Alex. On our pulp swaps, it's -- the market is very shallow and all we do is minor tonnage. It's just too -- first of all, contribute because we think that if -- as it becomes less shallow and more broadly traded, it would benefit the industry and, in particular, Suzano. But it's really a very tiny portion of our pulp sales.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Right. On the -- on those losses for SG&A, on the bad debt accounts, is that related to the -- let's say, Fourth Quarter of '08? Is that the economic downturn? Or when would that

problem -- when did that problem begin?

A - Bernardo Szpigel {BIO 2080745 <GO>}

I don't know. It's not -- it's not related to the downturn. It's something that is prior to the crisis and it was taking another direction in terms of restructuring the better. But it's not a recent event.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. Thank you very much.

Operator

Our next question is from Juan Tavaréz of Citi.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi. Thank you. Just -- the first question is regarding the acquisition you did in FuturaGene. Obviously that should improve a lot of your yield for those new projects that you have. Could you give us a sense of where are your yields today? And specifically, for those two regions in Maranhão and Piauí, what type of yields do you see in those regions?

A - André Dorf {BIO 15460232 <GO>}

Hi, Juan. This is André. Regarding the yields, we have an average for the company of between 44 and 45 cubic meters per hectare, per year. This is the average for the company and we have envisioned the yields in the northeast regions, specifically in Maranhão and Piauí, of around 40 cubic meters. So it's still above the Brazilian average, but a little bit below of our average.

In respect to the acquisition of FuturaGene, as Maciel mentioned, we won't disclose anything as of now because the deal is ongoing. We still need the approval from their shareholders and the UK court. So we will wait for that, until we disclose more info about that.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay. Thanks. On pulp demand, obviously the euro is having a huge impact on the cost structures in Europe. Are you seeing any resistance for this May implementation? Or I guess another way to put it, has it been implemented? Have you seen yourselves having to negotiate, I guess, a larger discount to the Europeans?

A - Alex Yambanis

Yes, no, Juan, we have fully implemented our May prices in Europe without any resistance from the customers. The weakening of the euro has, if you wish, a compensating effect because it favors European paper makers' exports. So one -- between one and the other, prices have gone through without any resistance.

Q - Juan Tavaréz {BIO 15083199 <GO>}

So I guess would that then be a threat to your domestic market in paper, in terms of seeing some of those imports coming to Brazil, now that we're seeing paper prices increase domestically as well? You see that as a risk?

A - Alex Yambanis

Well I will pass the word to my colleague, Carlos, on imports paper in Brazil. But I would like to say that the -- I don't -- the imports are not as significant as they are in the United States, for example, for North America and other markets.

A - Carlos Anibal {BIO 19090865 <GO>}

So coming from Europe, when we have mainly coated paper, okay? At the same time that we have a weaker euro, we have prices in Euros moving up for coated paper. So we don't believe that you're going to see this impacting the domestic markets.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay. Also just one point that you stated in your press release about the spread between softwood and hardwood expanding. We have seen that pretty large for some time, but you noted that you've seen some substitution. Is there really more room for substitution there between hardwood and softwood?

A - Unidentified Company Representative

Oh, definitely. If you consider that this company produces a sheet of printing or writing paper out of 100% eucalyptus, there is definitely more room for substitution. Substitution, of course, and excluding the very special paper grades, which demand, NBSK for example, for extra strength.

But you can -- substitution, in my opinion, has still a long way to go and in all categories. Even in tissue products, substitution is -- has a long way to go, as I said. The potential is huge.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay. Great. That was helpful. Thank you.

A - Unidentified Company Representative

Thank you.

Operator

Our next question is from Bruno Savaris with Credit Suisse.

Q - Bruno Savaris {BIO 17252151 <GO>}

Hello, everyone. It's just a simple question on the pulp market. Recently there was some news about a couple of larger paper producers in Europe announcing an agreement to jointly work on pulp procurement.

If this is the case, in your view, what could be the implications for the pulp market? Perhaps an increase in contract discounts or should it just be punctual development? That's it. Thank you.

A - Alex Yambanis

Yes. In the first place, I know you're referring to that tissue and that coated paper producer that announced that intention to purchase jointly. This is very premature, to start with.

We, from a legal standpoint, that would represent quite some obstacles for us to deliver to such an entity, unless it was the full-blown JV, which is not the case for the time being. So -- but again, we haven't seen enough data and details about that. So it's very difficult for us to make -- to express any comments.

Q - Bruno Savaris {BIO 17252151 <GO>}

Okay. Thank you very much.

Operator

Our next question is from Alexandre Miguel of Itau. Please go ahead.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. Good morning, everyone. It's actually Marco Assumpcao. My first question is to Pousada. I'm sorry if you already answered this one, I just got onto the call. Can you comment a little bit on the operating performance of Mercury, in April and also in May? After the maintenance that was done in the beginning of the year.

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay. I think I mentioned it before, but actually we had the problems in the First Quarter, in the beginning of the First Quarter. After that, already in the First Quarter, in March, we reached the new record of production in line two of Mercury. So -- and we reached it again, very good and stable conditions of production in the Mercury mill.

A - Unidentified Company Representative

(Inaudible).

A - Ernesto Pousada {BIO 15951890 <GO>}

Yes, so, yes, April and May, so continues to be stable.

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A - Alex Yambanis

Okay?

Operator

This concludes our question and answer session for today. At this time, I'd like to turn the floor back to Mr. Antonio Maciel Neto for any closing remarks.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Okay. Thank you very much for the participation today. If you guys have still other questions to our team, we will be very happy on answering. Everybody will be available here. Andre, Andre and the whole team. Please direct your questions to them to -- we'll be pleased to answer.

My key message, just to repeat what we said before, we are very comfortable with the market's conditions. As we mentioned before, the markets are very strong in the paper. International markets recovering for pulp.

Very strong, still, the demand in China where you guys know that Suzano is very well connected. We have a very good contract. In fact, Malichande [ph] and myself, in a few weeks, will be spending some time in Asia visiting our customers and talk about the future.

So it's a -- I think that we are, from the demand side, we are very strong and very good in our operations. More stable, as we speak right now, so this is going to reflect on the costs as well, as we're moving forward. So this will give us a continuous support in our financial positions and will also support our growth strategy.

We are very happy with this possible acquisition of Futuragene, to move forward on the product side of our forest business and so as soon as we have this deal completed, we will disclose our perceptions about the future of the company and how we get organized to capture all the benefits of this acquisition in the future. So the -- this is what we had for today and I would like to thank you, everybody, for the participation.

Operator

Thank you. This concludes today's conference. Thank you for joining. You may now disconnect.

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