

Y 2020 Earnings Call

Company Participants

- Alexandre Nicolini, Executive Director Pulp Business Unit
- Cristiano Teixeira, Chief Executive Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Paper Business Director
- Marcos Ivo, Chief Financial and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Caio Greiner, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- Gabriel Galvao, Analyst
- George Staphos, Analyst
- Marcio Farid, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning and welcome to Klabin's Conference Call. At this time, all participants are connected in listen-only mode. Later, we will hold a Q&A session when further instructions for you to participate will be given. (Operator Instructions) I would like to remind you that this call is being recorded and broadcast simultaneously on the Internet via webcast. And you may access it at Klabin's Investor Relations website where the presentation is also available for download.

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call in relation to the company's business perspectives, operating and financial targets and projections about its growth potential are based on the management's expectations regarding the future of Klabin.

These expectations are highly dependent on market conditions on the general economic performance of the country of the industry and of international market, and therefore, they are subject to change. Today with us in Sao Paulo, we have Mr. Cristiano Teixeira; Marcos Ivo; and other officers of the company. First, Mr. Teixeira will be making remarks about the company's operating performance in the fourth quarter of 2020, afterwards all officers will be available to answer your questions.

Now, we would like to give the floor to Mr. Teixeira. Mr. Teixeira, you may proceed.

Cristiano Teixeira {BIO 17567319 <GO>}

Hello. Welcome and I would like to welcome you all to the call of Klabin referring to the results of the fourth quarter 2020. I would like to inform that we generated BRL106 million of the operating cash measured by the recurrent EBITDA in the fourth quarter of 2020, a growth of 15% quarter-on-quarter -- year-on-year. With these results, we closed 2020 also on a recurrent base with an EBITDA of BRL4.7 billion, an increase of 27% in relation to 2019 and we improved by 3 percentage points our EBITDA margin in a period in which there is uncertainty in the economy globally in politics and in social conditions aggravated in the last year by the health crisis, being in the right market at the right moment is also a matter of luck.

But in the case of Klabin, our result is fruit from an integrated business model and the long time thinking of our very well known strengths, which are competitive resilience which guarantees a low structural cash cost and the verticalization of the business which optimizes and stabilizes the result in any scenario. Besides the good result in 2020, I would like to mention the acquisition of corrugated boxes of International Paper in Brazil and the evolution of the Puma II works and these two initiatives together represent above all be execution of our strategic vision.

Now I would like to give the floor to Marcos Ivo, who will be talking about the financial details about the fourth quarter of 2020, and then we will come back.

Marcos Ivo {BIO 21106710 <GO>}

Good morning, everybody. Thank you very much for following our call, and Klabin maintain a positive phase in the last quarter of 2020. Among the highlights of the period, I would like to mention three, net revenue of BRL3.3 billion, representing a 22% growth year-on-year. ROIC of 15.7% and this is the best result in the last 10 years and also I would like to mention the inclusion of the company in the Dow Jones Sustainability Index, in the Global and Emerging Markets portfolios and Klabin is the only Brazilian company participating in the global index.

On Page 3 the volume of sales grew 3%, reaching 941,000 tonnes in the quarter and net revenue, as I have already mentioned or has already been mentioned, reached BRL3.3 billion, and this increase is explained mainly by the increase in the sales volume also by the depreciation of the BRL vis-a-vis dollar which has a positive impact on our sales to the export market and the acquisition of the assets of International Paper in Brazil, which were taken over by Klabin October 2020. The increase in the net revenue together with the cost discipline drove the adjusted EBITDA, which net of non-recurrent results reached BRL1.1 billion in the quarter, a growth of 15% on a year-on-year comparison.

On Page number 4 with growth in all business lines, the volume of sales in 2020 reached 3,558 tonnes, an increase of 7% year-on-year. On the other hand, the net revenue was BRL11.9 billion in the year, growing 16% on a year-on-year comparison. And a year full of

challenges the adjusted EBITDA of Klabin reached the record level BRL4.7 billion on a recurrent basis, representing 27% growth vis-a-vis 2019. I would like to mention that 2020 marked the 11th year in which Klabin had ongoing growth in the EBITDA.

On the next slide, pulp production was 222,000 -- 322,000 tonnes in the quarter, impacted by the scheduled stoppage for maintenance. That was in December. I would like to remind you that the next maintenance stoppage will only happen in 2022 for the pulp unit. The pulp production cash costs including the effects of the stoppage for maintenance was BRL755 per tonne. The same level as the previous quarter. In U.S. dollar, the cash cost in the quarter was \$140 per tonne. In 2020, the pulp production cash cost net of the effects of the maintenance stoppage was BRL723 per tonne, representing a reduction of 1% in relation to the previous year and confirming the projection that I gave you in the last few calls.

Now Page number 6, the Brazilian corrugated box market had a strong demand in the last quarter of 2020 and the sales volume of Klabin in the period was 243,000 tonnes, growing 50% on comparison. And the net revenue of this business reached BRL930 million in the quarter, representing an increase of 61%. I would like to remind you that Klabin took over the assets acquired by -- from IP do Brasil in October 2020 and this was the first quarter in which the benefits coming from this acquisition became part of our results.

On the next slide, by the end of December, Klabin's net debt was of BRL19.8 billion, a reduction of BRL1.3 billion when compared to the prior quarter. This difference is mainly thanks to the Brazilian currency appreciation vis-a-vis the dollar, which affects the dollar debt marking. The leverage measured by the net debt over EBITDA indicator ended the quarter at 4 times within Klabin's financial debt policy and consistent with the current investment cycle.

Turning to Page 8, the company's liquidity remains robust and ended 2020 at BRL9.2 billion. Liquidity consisting BRL6.6 billion in cash and the remainder in a revolving credit line. The average debt maturity between the years of 2021 and 2023 is still the construction period for Puma II is of approximately BRL1 billion a year, a comfortable level for the company. The debt average tenor in December of 2020 was of around 10 year vis-a-vis eight years by the end of 2019. I should also mention that the company has contracted loans, but not yet fully drawn upon an amount over the CapEx to be disbursed to finish Puma II as you can check on our release.

Now turning to Page 9, adjusted free cash flow not considering discretionary events and expansion projects was positive in BRL1.1 billion in the quarter. In addition to the strong EBITDA, the reduction of working capital of BRL926 million also contributed to the result in the year of 2020. The free cash flow was a BRL4.4 billion, representing a free cash flow yield of 18.7%

Now turning to the next slide number 10, the sound operating cash generation combined with capital allocation discipline led the company to its best return on invested capital over the last decade, reaching 15.7% in 2020. This result once again proves Klabin's ability to

consistently generate value to its shareholders under the different economic scenarios, as well as price cycles of its products.

Turning to our last slide, as of January 31, Puma project II first machine already had 78% of the construction works completed and the start-up is planned for July of 2021 since the beginning of this project BRL5.3 billion have been invested, of those BRL1.5 billion on the fourth quarter of 2020. For 2021, our projections point to a disbursement of approximately BRL2.4 billion for Puma II project. Klabin's total CapEx for the year 2021 including disbursements for Puma II we estimate around BRL3.6 billion.

Now, Cristiano, the other officers and myself will be available to the Q&A session.

Questions And Answers

Operator

Now we would like to open for questions. (Operator Instructions) Our first question comes from Caio Greiner from BTG Pactual.

Q - Caio Greiner

Good afternoon, everybody. I have two questions. I would like to have your view about what you expect in terms of supply and demand for pulp in 2021? We have been seeing the prices going up in the last few weeks in the last few months, in fact. And I think it is clear for the market what is going on in terms of the supply and demand recovery from the low levels of last year because of the economy. And the impression that we have is that there is room for further increases in prices, but I believe that the market is still worried about the medium term. Could you share with us your medium-term view on the supply and demand side and how you see the entry of two new capacities by the end of the year and how this will bring an impact on Klabin?

And the second question that I have has to do with Puma, I think about the supply and demand of pulp markets that you have the possibility to reach kraftliner and coated board, I would like you to share your view with us and know how this view will be impacting your decision regarding the second machine in the Klabin, they -- you said it wouldn't be this year. So, do you have any news to share with us?

A - Unidentified Speaker

Thank you very much, Caio. We will be entering then Deganutti.

A - Alexandre Nicolini {BIO 21861040 <GO>}

Good morning. Thank you very much for your question. Caio, we see the business environment has been very positive and quite favorable for the next few months. There are good indicators that show that there is a disruption in terms of supply now, this has to do with the stoppages, maintenance stoppages in the fourth quarter of last year that were very concentrated than a few producers and also maintenance stoppages in the

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fourth quarter of Nordic producers. And these good indicators lead us to believe that the market will still be strong for the first and the second quarters of this year. I cannot tell you anything about the medium or the long run because -- but the indicators show that things will be favorable for the pulp industry as a whole. And the paper producers have been implementing price increases as well.

Two significant price increases in China of CNY500 corresponding to about \$80 per tonne that is to say, overall, \$160 increase in the price of paper. And this offsets the increases that existed in the pulp market in relation to the capacities that will be coming on stream by the end of the year.

Operator

The participant has been disconnected, so could you please wait. Please standby. (technical difficulty) Please standby while we wait for the officer to be reconnected. Please standby while we wait for the connection to be reestablished. Thank you. (technical difficulty)

A - Unidentified Speaker

Let us resume. Flavio, apologizes for the interruption.

A - Alexandre Nicolini {BIO 21861040 <GO>}

Caio, okay, let's return to machine number 28, which is the decision we are about to make between kraftliner and coated board. We continue with very advanced studies in four weeks, I would say, and to submit this to approval and the moment is quite favorable. We believe it's a very good choice. The packaging paper either in kraftliner or coated board, they are very good in terms of supply, in terms of demand and in terms of prices.

This chain is in the United States, for instance, there are about 8% increase in demand December compared to last December. And when the shipment of boxes increased, they favor the markets where we operate. In China, with central element, the vanishing for OCC as of this year, this means that virgin fiber is preferred. Beside the very robust policy regarding single use packaging and both coated board and kraftliner are winners and they have support for additional demand beside the special case of Brazil. Brazil had very accelerated growth in demand in the second half of this year, and the very important case of substitution, so nothing changes. The second half of 2023 the startup of this machine and in a while we will be arriving at this decision.

A - Cristiano Teixeira {BIO 17567319 <GO>}

This is Cristiano back. If you have not fully understood Nicolini's answer, could you please make a remark because Nicolini, he can come back. Should it be necessary, because we are not sure about the time it was disconnected.

Q - Caio Greiner

We only heard Nicolini when he was talking about price increases on the part of paper producers.

A - Alexandre Nicolini {BIO 21861040 <GO>}

Okay, Caio. So, I will be coming back and reinforcing that. We see a very favorable business environment for the next few months. There has been a disruption in terms of supply. And that was quite considerable in the third quarter, not only because of higher sales, but also because of maintenance stoppage that was longer than expected. And this is the reason why we had low levels of inventory, lower than our historical levels for the company. And we were better prepared for the first half in order to tap into the price increases and the expectation is that in the next few months the market will continue at the same pace that we have been seeing in January and February. Regarding the new capacities coming on stream regarding turbulence in 2021. These capacities, they are coming on stream at the end of the fourth quarter and there is a ramp up of the plant, et cetera. So, we do not believe this is going to hinder supply or demand during the year of 2021.

Q - Caio Greiner

Thank you very much.

Operator

Our next question is from Gabriel Galvao from Credit Suisse. Mr. Gabriel Galvao, you have the floor. Our next question is from Daniel Sasson from Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, everyone. Thank you very much for this call. My first question is about cash cost, in 2021, we are not going to have the maintenance stoppage, right, but you might have some pressure on the dollar denominated costs. And I would like to know more about the performance for the cash costs in 2021.

And my second question is about prices going up very fast at the end in China, but if you can tell us a little bit more about the price gap that you see and how do you expect to close this gap. And in addition to this gap, we also see that there is a gap that is above the normal range on fibers, do you think this will continue or do you see this gap closing for the future or near future. Thank you.

A - Unidentified Speaker

Sasson, thank you very much for your question. But I -- let me tell you, you were very low, you came in very low on your question. So, if we did not understand you well please ask us again. But we understood the first question about cash cost, Marcos will address that. And the second one I understood it has to do with prices on China. And so let's move on, Marcos, please.

A - Marcos Ivo {BIO 21106710 <GO>}

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Sasson, good morning. Klabin's cash cost in 2020 was 1% lower than 2019, in line to what we had been telling you over 2020's calls. Now looking to 2021 and I cannot give you a specific number, but we are following up three variables. We have some pressure on chemicals and fuels considering these items, the prices on the currencies that they are sold on and also considering the Brazilian currency depreciation, this is one thing to take into consideration.

On a positive note, 2021, we won't have a general stoppage in the pulp factory and that brings us benefits because we are going to have a greater production.

Operator

Please hold. I guess, we are having technical problems. (technical difficulty) Ladies and gentlemen, please standby. (technical difficulty)

A - Marcos Ivo {BIO 21106710 <GO>}

Are investors hearing now?

A - Unidentified Speaker

Yes, we are.

A - Marcos Ivo {BIO 21106710 <GO>}

So, is it working now?

Q - Daniel Sasson {BIO 19234542 <GO>}

I can hear you. You were talking about the fixed costs because of the non-stoppage for Puma I.

A - Marcos Ivo {BIO 21106710 <GO>}

Perfect. So, I will repeat the answer, and I apologize having to repeat it. But I just want to make sure that you had the complete answer. I mentioned that in 2020, there was a reduction of 1% vis-a-vis the costs of 2019. Now looking ahead to 2021, I'm talking about three variables we'll be keeping an eye on. The first one, because there is a matter that there is a pressure of fuels and because the currency in which they are sold and also because of the depreciation of the Brazilian currency. On a positive note, this is an year that will not have maintenance stoppage. This will benefit costs because of we will have a greater production volume and that will bring down fixed costs and because we will not have the expenses of the downtime.

The third variable that we are looking at is the energy price considering that this plant has a surplus of energy and it sells this energy to the market. And finally, talking about wood, we had stability in 2021 vis-a-vis 2019 in Klabin. We will also have the long-term view on wood to optimize its results in the long term. And if opportunities over this year come up in terms of purchasing third-party wood, so that we can preserve our forests and if that is

good for the company, we will seize the opportunity. So far, that's what I can tell you about pulp cash costs.

Q - Daniel Sasson {BIO 19234542 <GO>}

Excellent. Thank you very much. I think, my second question was about this gap of prices between regions, China and Europe and also among fibers and what is your understanding for a possible convergence there or closing this gap?

A - Alexandre Nicolini {BIO 21861040 <GO>}

Hello, Daniel. This is Nicolini here. Thank you very much for your question. Daniel, looking at prices in different regions, what I can tell you is that today China both in long fiber as in short fiber is operating at a price level that is above the benchmark price, which is FOEX price. I think, that's very clear. If we check several reports and we have the opinion of different players also. About more mature markets, Europe and the US also including Brazil, which work with the FOEX price, we are increasing prices according to what we have announced. And there is an expectation that the new increase already announced should be fully implemented.

If I well understood your question, you wanted to know about the difference between the dynamics on the short wood -- no, short fiber and long fiber. This movement that we saw in Shanghai in the foreign exchange, it increased the long fiber prices at record prices and that was accelerated because of paper producers. The long fiber chain, it depends a lot on containers and we have seen that this availability was decreased in the last months. And therefore, there was a disruption in supply. And we do not have any perspective of improvement in this container chain not at least this year. We should also mention that depreciation of euro vis-a-vis the dollar also pressured the Nordic producers of long fiber. That's why we ended up seen an acceleration that was faster in the prices of long fiber when we compare to the prices of the short fiber. There is also a difference between fluff and short fiber. But this gap is starting to come down starting now actually and we see that producers that have the capacity of doing that swing will go back to produce more fluff in the next few months.

Q - Daniel Sasson {BIO 19234542 <GO>}

Excellent. Thank you very much, Nicolini.

Operator

Thiago Lofiego from Bradesco.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, everybody. I have a couple of questions. In your pulp production, do you see any impact on the short run because of the Puma II, is there an intersection between the two sites or a connection that could cause some problem with production? And the second question, on the kraftliner and corrugated boxes side in Brazil, what about inventories in the chain, how do you see this, do you believe there will be a further acceleration of demand because of more normal inventories and price increases, in kraft

and boxes? And in kraft globally speaking now, how do you see the market dynamics and we believe there is still room for price increases over the year. Thank you.

A - Unidentified Speaker

Thank you, Lofiego. Regarding the pulp production, no, there is no interruption of production because of Puma II. Flavio will be talking about paper. Talking about Brazil first, we have very high consumption in boxes and also in the other businesses that we have in Brazil beside integration inventories are low and we have stoppages in some important machines during the third quarter, during the first half, and of course with price increases above inflation. This is our view for at least coming months, afterwards we will have the start up of the capacity in June. This will be a very important moment in terms of supply and demand to bring balance to that.

For the world, the situation is similar to Brazil. In some places, this is quite similar the second, the third quarter and till the end of the year. Because of the very small exports from the US and the relevant that China has in virgin fiber because of that we had important increase of \$250 by the end of year, and this was announced by many players and Klabin sold many dollars during the first half of the year. As of the second half, this is the situation until the end of this year, we believe.

Operator

Our next question is in English from Carlos De Alba from Morgan Stanley.

Q - Carlos De Alba {BIO 15072819 <GO>}

Yeah. Hello, everyone. Thank you for the conference call. So, just a couple of questions, maybe just follow on the last question, can you remind us if the company has announced any price increases for the first quarter or the first month of the quarter in the paper products and packaging paper. And then any outlook or comments that you may have on the outlook for Tetra Pak in 2021?

And then the second question is related to CapEx and leverage trends, how do you see the CapEx evolving beyond 2021, when do you see the peak of this CapEx cycle, and how do you expect your leverage in terms of net debt to EBITDA to move forward? I understand there is a lot of variables, the BRL and the prices, et cetera, but in the company's model at least without the specifics if you cannot comment, how do you see on broad terms the leverage trending? Thank you very much.

A - Unidentified Speaker

Thank you for your questions, Carlos. Flavio Deganutti will answer about the price announcements for paper areas, a little bit about Tetra Pak as much as we can tell you. And then we will come back and talk about our CapEx cycle.

A - Flavio Deganutti

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Okay. Klabin has an important position in packaging paper, it is a growing position, starting with its new capacities. And it is very much in line to what I mentioned in the prior questions, a price movement at the end of 2020 of around \$50 and an additional movement that was announced for the first quarter of 2021, exactly in the figures that I mentioned a short while ago.

Another topic is that the large contracts for coated board and kraftliner now using our machine number 27 they were already signed, we have contracts that go from one to two years. These contracts were signed and they are supported by this good moment that we have, and of course, we are rebuilding prices over the inflation in the period for our domestic market and one or other position abroad, but these contracts have been signed.

A - Unidentified Speaker

Now, Carlos, about the investment cycle for the company, talking about the Puma II cycle up to 2023, the year where we will have the largest disbursement, it was 2020 when Klabin had intense CapEx for Puma II and this year as I comment in -- commented in my initial remarks, the disbursement for Puma II and Klabin as a whole will be lower. For 2021, total CapEx for Klabin should be BRL3.6 billion, out of that BRL2.4 billion will be for Puma II.

As a consequence, there is less pressure on the cash flow of the company because of the CapEx. And now we are seeing a positive moment on the prices of our main products you are following up and you know that we have depreciated prices for pulp and also kraft and now these markets are at a positive moment. And that helps our operating cash generation in the company. These two factors combined allow us to say that we will go through this investment cycle within our financial indebtedness policy.

About further details regarding 2022 or 2023, when the company's decision is communicated to the market on the second machine, if we confirm that this is going to be for kraft or is going to be changed for coated and that opportunity will then go into the details about the disbursement flow for 2023.

Q - Carlos De Alba {BIO 15072819 <GO>}

All right. Excellent. Thank you very much. Good luck.

Operator

Marcio Farid, J.P. Morgan.

Q - Marcio Farid {BIO 21017394 <GO>}

Thank you very much. Good morning and thank you for the question. I have two questions. The first one, with forest formation, are you pleased with what you have so far for Puma II, is there any evidence that you will have a further expansion for Puma II, is it too early to talk about. And what about the prices regarding forest?

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And Nicolini about pulp, we saw prices going up aggressively and you said that too many factors came into play on the way up. And are you -- do you believe that prices might go down cheaply, or are you pleased or comfortable with the levels of supply and demand up to the end of this year. And could you talk about the commercial strategy because inventories dropped quite a lot. What about the availability now at the beginning of 2021 your inventories and what about your sales for the current year? Thank you.

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A - Unidentified Speaker

Farid, about forests, things are going as programmed at Klabin. We had a projection of acquisition of forestry assets over seven years. And so everything is according our plan in terms of the future. And the cycle of forest is very long. We are already assessing and carry out executions regarding acquisitions in Santa Catarina, which is another place where we have a relevant presence. And this has to do with our long-term planning. And we published a notice to the market at the end of January. And regarding funding for the expansion Santa Catarina and in Parana as planned, according to plan, and long term in Santa Catarina. Thank you.

Good morning. Thank you for the question. The Shanghai exchanges explains the changes in the prices of long fiber or softwood. But there are other component that sustain our view that the prices of softwood should remain high for the next few months. Softwood is highly dependent on containers. So, there is that disruption in the availability of containers, which has an impact on supply for some geographies and the cost of freight \$70 per tonne.

Regarding Asia and the Middle East, at the high-cost producers, they have to maintain their high price levels not only to offset the price increase in logistics, but also to offset the devaluation of the Chinese currency vis-a-vis the dollar. So, we believe that softwood will be maintained. And for hardwood, we believe that there is still room, the difference about BRL200 per tonne. So, we expect hardwood to have further increases in the next few months.

Q - Marcio Farid {BIO 21017394 <GO>}

Thank you very much.

A - Unidentified Speaker

Regarding our inventory, we got into the fourth quarter with very low inventory levels and we are contracted for the year, we have supply contracts that go beyond one year. And our objectives is to meet the needs of our clients with adequate service levels.

Operator

Our next question is in English from George Staphos from Bank of America.

Q - George Staphos {BIO 1495442 <GO>}

Good morning, everybody. Thank you for taking my question. My questions are around packaging, the first question, we have seen in North America and elsewhere globally and Brazil as well, much of the growth in corrugated and container board has come because of e-commerce. However, because of the supply chain issues that are created by e-commerce, it tends to inflate, it tends to increase the price of OCC which in turn causes corrugated producers and containerboard producers to raise pricing as well. So, at what point would you worry about pricing increases beginning to destroy demand in containerboard and corrugated. It's a wonderful outlook right now globally from what we see, but do you worry at all about the level of pricing increases that's occurring and what that might mean to demand, much of this coming from e-commerce.

My second question is around the coated board markets, could you comment on what you are seeing in terms of demand and pricing trends in your key regions, how the market is evolving early in 2021? That would be helpful. Thank you. Good luck in the quarter.

A - Unidentified Speaker

George, thank you very much for your questions. These are very good questions, I should say. And I think we could have a whole conference call just on your first question, you brought an interesting subject. Douglas is here and he is going to help me talk about this demand of corrugated boxes in the e-commerce. And in fact, yes, this has been increasing the prices for OCCs and we have to all understand these return rate for the OCCs for recycling. But any way, there is an increase in the fiber consumption.

But above it all and that's why I say it would deserve a full conference, there is a mismatch and unbalance of fiber in the world, we have to consider that the large fiber consumers have changed their import policies. So, both the behavior of the price fiber because of the shipment of local corrugated boxes and that has reflected in the price increase for OCCs as well as boxes and at certain moment that should be a threat for materials.

So, in fact, this is an interesting debate in terms of the balance of fibers, but so that this doesn't turn into a very long answer, and I think we should -- you have some time just to talk about that. But I will turn to Douglas, so that he can talk about the dynamics of the boxes shipment in Brazil and the dynamics on the OCCs and the pressure that we have seen and what we already have seen in terms of price pressure and price transfer. I will turn the floor to Douglas and after him Deganutti will mention the containerboard situation.

A - Douglas Dalmasi

Good morning, George. And thank you for your question. We have seen since the beginning of the pandemic a relevant change in the behavior of people in retailing and purchases with a large percentage of e-commerce to share, it really changed the e-commerce level and the whole structure for (inaudible) funding specifically because the pandemic has also been affected. But the people were not out in the street, and things ended up piling up. We started seeing the prices for OCC is going relevantly and that was even stronger in the fourth quarter, and we still see that effect.

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There is a change here in Brazil because of the e-commerce. There is an increased demand and it's still strong in this first quarter and the corrugated boxes market. So, on a monthly basis, we have a record consumption of boxes since last year and we have more boxes, but in the next month the number is even higher, and we have availability of OCCs for this growth on a monthly basis.

Therefore, very old machines were reconnected, so that they could take in this increased demand. And therefore, the price of the OCC has been maintained. As a consequence, the market that has a high level of recycling in boxes manufacturing has the cost price and that price is transferred for the boxes in the purchasing. And so this has been the cycle since last year and it still is in the beginning of the year.

A - Flavio Deganutti

Hello, George, let me see if I well understood your questions. The main benefit, the main agent benefiting here will be the coated board, we have stable demand for the liquid packaging board, there is -- there was a peak of demand when people started stocking that at their homes. So, increased demand in to a percent [ph], but it is now stable if we compare that to current levels. But the coated board, in general, they have increased significantly above to what we had seen before, and it is sustained now in 2021.

The numbers of Brazil had a growth of 6.5% and I haven't seen that in the last 10 years. And this is visible all over Klabin in this same environment of a 6.5% growth has increased, it has grown 15% because it is present in the essential items and foodstuff as well. So, I should also highlight within this products, the coated boards used for beer packaging cans or bottles and that has increased 15%. Here Brazil expresses a lot of what we see in other places in the world. Therefore, this is clearly a resilient demand.

On the side of the supply, once again, here on coated boards, we have -- we don't have much of the boards kraft based and we have that 100% brown paper, but in the next two years, a little has changed in terms of supply and the operation rates of the American market are over 95%. We still have the coated boards that are associated to some kind of barriers weather, water, water vapor or fat and also they grow at a rate higher than two digits. This is the context of supply and demand, of course, here supporting the recent price movements.

Q - George Staphos {BIO 1495442 <GO>}

Thank you very much.

Operator

Gabriel Galvao Credit Suisse.

Q - Gabriel Galvao

Good morning, everybody. Congratulations for the results, and thank you for accepting my question. Klabin expands consistently and sustainably, and this is part of your DNA. I would like to know your opinion about capital allocation after the conclusion of Puma II in

Santa Catarina by means of partnerships you already have, I believe that you already have some plan along these lines. And what about your strategy regarding corrugated boxes, acquisitions, consolidation of the market, now that the market is very bullish. I know that the prices are very high, probably. Thank you.

A - Unidentified Speaker

Thank you for the questions. Okay. Our total focus now among a lot of difficulties in the scenario and that everybody is aware of, we have the construction of Puma II.

And from the physical viewpoint, our technology and engineering officer has been saying that the critical phase for the large equipment et cetera is already water under the bridge and we are going towards the end of the work and we only have details regarding assembly et cetera. And from the operating side, because [ph] building our dream there and we will try to deliver the best possible in our integrated model, verticalized model and that avoids volatility on a platform of sustainability. And with all the investments that we have been making and our investments and we keep on building our dream while we deliver results, and you are very well aware of this DNA of the company.

At the beginning of your question, your first question, I believe, you were talking about Klabin as a company, we have been building our history for 120 years aggressively on one hand, and on the other hand with our feet firmly planted on the ground and with our eyes focused on the long term and this will continue. And this is bigger than anything else, it hasn't -- it doesn't have anything with any executive that might be here at certain point in time because Klabin has been in existence for 120 years. And it is a privilege for us to belong to a company to work for a company that has this tradition and focusing on the growth of -- with our concerns and what we do in terms of protecting the environment and not to contribute to the global warming, for instance. And we are very pleased with the actions that we are taking and we are very proud to be participating in all that. And the company is higher and bigger than any executive that might be working for the company at a certain point in time. We all recognize that and the dream exists and that continues and we are preparing ourselves for Puma II. Of course, everything depends on the Board of Directors. But we do have a long-term view, this is what I can share with you.

And the steps are being followed as we discuss this with the Board. Regarding M&A and corrugated boxes, we have always been repeating that Klabin has a vertical -- integrated vertical model. And together with all the other attributes of the company, this is what makes the company be so brilliant not only because of the past or everything that has been happening until today, but also because of everything that we are going to deliver from now on. In the case of containerboard which is the investment that start in June, July. We focus on verticalization of corrugated boxes and the acquisition of International Paper has to do with that the assets that we acquired here in Brazil.

And we continue with this view, I think, this is the only way I can express this. We would like to increase our level of verticalization. This is what I can say. We do not have any specific M&A possibility being debated right now in the area of corrugated boxes. But, of course, we continue to be open to consider this.

Q - Gabriel Galvao

Thank you very much. Very clear.

Operator

We now end the Q&A session. I would like to turn the floor to Mr. Cristiano Teixeira for his final remarks.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you very much. Thank you all for being with us. So, let me tell you a little bit about our perception on the first quarter of 2021. I think, we talked a lot already, but we like to repeat it because this is banner. This is our model. Our operating model is flexible and right now we combine this flexible operating model, the good moment of the markets. This certainly will allow us to optimize our results once again.

And despite of Monte Alegre general stoppage, we will be delivering a cash generation growth pace measured by EBITDA and the first quarter of 2021. This is going to be similar to the growth pace that we already delivered in the fourth Q of 2020 vis-a-vis the fourth Q of 2019. So, I would like to assure you that this is our vision that Klabin continues to be relentless in its growth and cash generation vision for the long term focusing on people, sustainability as well as on innovation.

Thank you all for being with us. And I hope to see you again in Klabin's next earnings call. Thank you.

Operator

The conference call of Klabin has ended. Thank you very much for your participation and have a nice day. Thank you.

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