

Y 2011 Earnings Call

Company Participants

- Antonio Sergio Alfano, Chief Financial Officer and Investor Relations Officer
- Fabio Schvartsman, Chief Executive Officer

Other Participants

- Analyst
- Bruno Montanari
- Marcos Assumpção

Presentation

Operator

Good morning, and welcome to Klabin's Audio Conference. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions]. As a reminder, this conference is being recorded.

Before we proceed, I should like to clarify that any statements eventually made during this conference, in connection with Klabin's business outlook, projections, operating and financial targets and potential growth should be understood as merely forecast, based on the expectations of the company management in relation to the future of Klabin.

Such expectations are highly dependent on market conditions on Brazil's overall economic performance and on industry and international market behavior, they are therefore subject to change.

With us today in São Paulo are Mr. Fabio Schvartsman, Chief Executive Officer and Mr. Antonio Sergio Alfano, Chief Financial Officer and Investor Relations Director. Mr. Fabio and Mr. Sergio Alfano will comment on the company's performance during the fourth quarter and the prospective for the year 2012. After that, Mr. Fabio and Mr. Sergio Alfano will answer any questions that you may wish to formulate.

Now, I'll pass the call over to him. Mr. Fabio, please you begin.

Fabio Schvartsman {BIO 2067677 <GO>}

Okay. Good morning to everybody. It's again a pleasure to be here with you and to discuss the 2011 results of Klabin. I think that the good news about the results of Klabin is

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that, they were perfectly aligned with the expectations that we have and right enough to say that, the market had as well. That means that the company planned well in advance what had to be done in the year and delivered appropriately.

Just to remember, Klabin started early in the year, focusing in cost cutting and in review we at Klabin used to negotiate with customers in order to try to sustain or even improve margins. And finally we made a complete alignment among the -- and all the shareholders of the company through a total change in the compensation system of Klabin. In other words, I can announce that as of today for the first time in 113 years of history Klabin now has all its main executives as small shareholders of the company, therefore their alignment is now more present than ever.

Having done that early, Klabin actually work hard towards reducing an improvement in the company and therefore the company start to improve in the same moment where the rest of the market started to deteriorate. That means that that anticipation was fundamental to produce the kind of results that we delivered here.

It culminated in the fourth quarter of 2011 where we had an EBITDA, total EBITDA that was 38% above the EBITDA of the same quarter of 2010. That gives a meaningful improvement and that is basically what we have been looking for with this process.

Now 2011 has passed, let's start to focus in 2012. I know that everybody now is more concern of how 2012 will be.

I can anticipate that markets in the first quarter of the year were weak, but I think that's a very good situation because we anticipate the markets are starting to improve, that means that we'll have probably the first quarter of 2012, will be the worst quarter of the year. And even in this circumstance giving the new standard of cost of Klabin, the new standard of margins of Klabin I think that we can be -- we can expect Klabin to deliver a very good performance even in the first quarter.

Actually, I think the performance in the first quarter will be clearly aligned with the performance of the fourth quarter of last year. That is a very nice situation given the -- in the market. Now the market is starting to improve. Therefore, I think that we are poised to deliver in 2012 a very good evolution in EBITDA terms, in comparison to 2011.

On top of that, as a new thing that I am starting to share with all the investors, Klabin now is prepared and we will very shortly announce a couple of big investments that were till recently not feasible because of the cost level of the company, in this new cost level of ours and with this new margin of ours, we can claim that we can expand the paper production and the recycled paper production and therefore we think that we are going to announce very shortly a new machine for -- of 100,000 tonnes that we'll take advantage of this circles of both that this unit is producing today and we are selling marginal into the market at low price.

And therefore this return I think will improve our profitability and will let us address in this growing market of ours. This machine will be mainly a sub-class machine, because today

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we are completely out of capacity of sacs given the excellent performance of our sacs division. And on top of that we think that we very shortly we are going to announce as well a new recycling machine, recycling paper machine for --. This will be a big one. We are talking about between 250,000 tonnes to 300,000 tonnes. This we allow Klabin to improve it's competitiveness in recycled paper and to bring it to the same standard that we have in virgin fiber paper.

This is a very important movement for Klabin because Klabin is the most important company in this packaging sector in Brazil. And therefore, clearly Klabin needs to be updated technology wise and competitiveness wise regarding all big fibers that Klabin utilizes. Unfortunately in the past, given the fact that Klabin was making big investments for instance for the expansion of our -- That basically put a limitation in the capacity of Klabin to invest in the other areas of the company.

Now, we are changing that and on top of that in as important, and for this purpose the new pulp mill that Klabin will build will be made through a separated company that we are calling Klabin -- This will be a company controlled by Klabin, where Klabin will contribute the excess forest that we -- planted forest that we have that is enough for supplying all the wood that is needed for the project.

And we are seeking investors to complete the equity portion under the Klabin control, that means that Klabin will have between 51% and 55% of this new pulp. But this design was made on purpose as we are anticipating that as we change the competitiveness of Klabin, other investments would be feasible in the existing lines of business of Klabin. And we didn't want to jeopardize that by having a huge investment, taking all the capacity of investments of Klabin out.

So we are doing it in a very careful way and I think that we -- this is just the first step of a number of very interesting investments that Klabin will present in the next, for instance in 2013. You can certainly expect to have further announcements of investments of Klabin.

I think that's a new thing that will allow Klabin, its exciting business to grow, at the same time that Klabin will grow through the pulp mill. Therefore if you look forward to Klabin, Klabin will be a very different company in some years from now.

Well, that's it for now. I thank you for listening to me. Now, I'm going to pass to Sergio that will make more detailed comments on the performance of Klabin in 2011. Thank you.

Antonio Sergio Alfano {BIO 4337533 <GO>}

Good morning everyone, thank you to participate in our conference call. 2011 was marked by the uncertainty across the world economy and the lower growth of the Brazilian markets. International kraftliner prices decreased during the year. The coated boards market was affected by the slowdown of the Brazil economy and the box shipments in Brazil registered only modest growth during the year.

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In this scenario Klabin concentrate it's efforts in it's operational and financial performance, focusing in it's products margins and return on capital employed. In 2011, sales volume, excluding wood totaled 1.7 million tonnes, 1% more than in 2010. Domestic sales accounted for 66% of the company sales mix. Net revenue in 2011, was R\$3.9 billion, up 6% on the previous year. Revenue from the Mexican market were 6% over 2010, accounting for 78% of total net revenues.

Exports totaled R\$872 million, about \$521 million, 7% higher than the previous year, mainly because of the improved product mix. Adjusted EBITDA in the fourth quarter of 2011, excluding the R\$40 million profit from the sales of asset in Rio de Janeiro, totaled R\$319 million or a margin of 32%. Compared with the same period of 2010 EBITDA grew 38% despite a less favorable scenario. In 2011 EBITDA was R\$1.1 billion, the best result over the companies history, up 12% from 2010.

EBITDA margin was 28% in 2011 versus 26% in 2010. -- growth in EBITDA reflected strategy to reach higher margins on product sales and implementation over the cost reduction in variable and fixed costs. Klabin's net income in the fourth quarter was R\$122 million while net income in the year came to R\$183 million. Unit cash cost in fourth quarter 2011 excluding the non-recurring effects was 3% lower than the third quarter 2011 and 5% lower than second quarter 2011. Cost of goods sold in 2011 was R\$2.80 billion, up 3% over the previous year.

Net debt ended December 2011 at R\$2.7 billion, compared to R\$2.1 billion at the end of December 2010 impacted by the disbursement of a positive R\$20 million for the Vale do Corisco acquisition and depreciation for the dollar on foreign exchange debt.

The net debt to EBITDA ratio ended December at 2.5 times and in January 2012 decreased to 2.3 times. In 2011, the company continued its focus on high return investments, in order to reduce its variable cost at the paper plants and to increase the production capacity of its converting unit.

A new power transmission line in Monte Alegre went operational in the fourth quarter with cost reductions during 2012. At Otacílio Costa mill in Santa Catarina in addition to the new biomass boiler that has been operational since January 2011. The bottle-necking of the operation plant was concluded in fourth quarter 2011, which helped to reduce steam generation costs and benefiting also the results in 2012.

With the investment in the production capacity expansion of the corrugated box plants in São Paulo and Northeast of Brazil. And in the production capacity also, in the industrial bags in Santa Catarina plant and in the Northeast of Brazil, Klabin will remain prepared to meet the demand of its customers, offering top quality products and services.

In November, the company acquired 51% of the Florestal Vale do Corisco which owns 107,000 hectares of land in Parana state, of which 63,000 hectares planted forests in these states. With this acquisition, Klabin's planted forest area totaled 243,000 hectares, which can hold the current -- of the company and also new expansion project with 1.5 million tonnes per year capacity.

In 2011 the company had a total of R\$883 million, which includes the R\$420 million paid for --. Despite the heavy investments during the year, the improved cash generation and the better operating working capital management Klabin was able to maintain a comfortable cash flow.

The free cash flow after interest dividends payment generated in the last three years, allowed the reduction of the in depth of the company.

Now Fabio and I are available to take any questions you may have. Thank you.

Questions And Answers

Operator

Ladies and gentlemen we'll now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Mr. Bruno Montanari with Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good morning, gentlemen. First question is about investments, what is Klabin's further rates in terms of return invested capital for both the paper and the pulp projects you are currently thinking about doing?

A - Antonio Sergio Alfano {BIO 4337533 <GO>}

Above 20% per year.

Q - Bruno Montanari {BIO 15389931 <GO>}

Alright, great. And then going through results, Fabio you have mentioned in the Portuguese conference call that we could expect a meaningful increase in EBITDA for the year. My question is, if it's feasible for us to see EBITDA margins for 2012, similar to the fourth quarter of 2011?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Bruno, I'm afraid it doesn't look this way. I'm always, I am putting my hand on the EBITDA itself. And it's not that I don't answer, but I just I don't the answer. And so I just can't tell.

Q - Bruno Montanari {BIO 15389931 <GO>}

Alright. Thank you very much.

Operator

Excuse me, our next question comes from Mr. Marcos Assumpção with Itaú BBA.

Q - Marcos Assumpção

Good morning, Fabio; good morning Sergio. First question is related to G&A. If you -- if Fabio if you see any room for reduction on G&A expenses in 2012, given the lower consulting expenses? And then my second question is related to your pricing strategy. In 2011, definitely you have a very positive performance on selecting clients and prioritizing profitably, mainly on the -- and also on corrugated boxes units or segments. Can we expect a similar trend coming from the potential price negotiation with cardboard large clients in 2012 as well?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well, I think the answer is yes. I think that all the prices across the board are improving and that include cardboard clients. And coming back to your G&A or SG&A question. We have an increase in SG&A last year, but the good news is that the -- we are either related to more sales like transportation costs or they were related for more bonus for the executives, given the profit of the -- the EBITDA of the company.

On performance, the expectation we had to adjust our provision to pay more bonus to executives. So far I think that's a good increase in SG&A that we'll like to see -- several years in a row. This kind of expense I am not planning to reduce, but the fixed part of it; yes, I am planning to reduce and we are -- we are entertaining now a big effort towards cost reduction, including all of the other units of Klabin than Monte Alegre that started the effort last year.

I think that the main benefit we will be seeing in the forestry area -- the reduction will be very meaningful in comparison to the size of the forestry area. But, there will be cost reductions and meaningful one in comparison to G&A as well in the company. So I think that this kind, this change is for good. We are going to change forever the way that Klabin look towards, look for -- towards cost and we are going to maintain a process of cost cutting across the board during the years.

Q - Analyst

Okay. My last one Fabio. Do you have any news regarding the NDS strategy as a whole for Klabin? They are probably are quite happy with the share performance recently. I don't know if you have any news, if there could be -- if there is any risk of them reducing position as they did in the recent past?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well, we don't tell anything about this, the only information we can share is that they are not selling for a long time. And I don't see any signs that they are going to sell, much on the contrary. They are negotiating with us a stake in the Klabin -- project.

They want to have, not only they want to participate in the will of the financing, but they want as well a stake in direct equity of the company. Therefore it will be kind of awkward if at the same time they are discussing to investment capital in Klabin that they sell shares of Klabin in the market. That wouldn't make a lot of sense for me, but nevertheless I can not grantee anything, that depends solely on their intention.

Q - Analyst

Perfect, that was very clear. Thank you very much, Fabio.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you.

Operator

[Operator Instructions]. Our next question comes from Mr. Bruno Montanari with Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Hi. Thanks for taking my question again. Looking at the paper business in Brazil, how has imports behaved in the first quarter of the year?

A - Fabio Schvartsman {BIO 2067677 <GO>}

I didn't quite get it. Can you please repeat the question, Bruno?

Q - Bruno Montanari {BIO 15389931 <GO>}

I was just wondering what was the behavior of paper, packaging paper inputs into Brazil in the first quarter of the year and more recently with the strengthening of the currency, if you have seen more competition and how should we look at this for the next few quarters?

A - Antonio Sergio Alfano {BIO 4337533 <GO>}

I don't know, Brazil is a very obvious target for any paper producer in the world, because the markets elsewhere are weak and the Brazilian market is growing. Therefore it's quite natural that this people will focus to sell in Brazil. Nevertheless usually the substitution comes more from our ready packaged goods that cause the main problem. But a good news that as the change rates was more volatile lately it adds a degree of uncertainty that doesn't allow the people that are negotiating packaged goods to increase the -- therefore I don't see an increase in the level of package goods.

Of course, there are always several trials for entering in Brazil, with paper itself. Unfortunately, it is causing some harm from some of our competitors, not for Klabin at this moment, because the cost position and the quality position of Klabin, given the machinery that we have is such that it's very hard to substitute Klabin's product.

Nevertheless, it's not good for the market and it's not good for Klabin on the long range. If that start to happen, and we are helping as much as we can our through our -- to defend this sector against let's say some product that are sold in Brazil at a lower price then they are sold in the local markets. So that's all I can tell you for the moment.

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Q - Bruno Montanari {BIO 15389931 <GO>}

Great. That was very helpful. Thank you very much.

Operator

Ladies and gentleman, there are being no further questions, I would like to pass the floor to Mr. Fabio for final consideration. Please go ahead, sir.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well as a final consideration, I'd like to emphasize the fact that now that I have more than one year in Klabin, I can claim that I know Klabin a little better. And I had a very good thing to share -- I have a very good thing to share with you. The fact that I can see that Klabin is a company where the executives are of very good quality and they are responding quite well of all the -- to all the changes and to all the changes and to all the demands of changes that are taking place.

Actually they are getting more and more motivated for all this process. And I think that we have the right group of people to and the right position in the market to take advantage of the growth in the Brazilian economy. Therefore, starting new investments as I've just commented in this call. So, I hope that by the end of this quarter, I'll be back with you and hope that I will be able to confirm the performance of Klabin was more or less like it was anticipated.

So for the time being, thank you all and have a nice day. Bye, bye.

Operator

This is the end of the teleconference promoted by Klabin SA. Thank you very much for your participation and have a nice day.

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