Q3 2011 Earnings Call

Company Participants

- Alvaro Penteado de Castro, Investor Relations Manager

Other Participants

- Augusto Ensiki
- Lucas Ferreira
- Luis Vallarino
- Thiago Lofiego

Presentation

Operator

Good morning ladies and gentlemen, and welcome to Duratex Audio Conference Call. Thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions to participate will be given at that time. [Operator Instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Alvaro Penteado de Castro, Investor Relations Manager. Please sir, go ahead.

Alvaro Penteado de Castro {BIO 5537843 <GO>}

Good morning. It's a pleasure to be conducting our Conference Call about the Third Quarter Results 2011. I would like to start here on slide number three, which brings the history of Duratex. Just to remind you this year we are celebrating 60 years of existence. As a reminder Duratex was established in the '50s, in that time as a panel maker. It grew via the corporation and acquisition of a series of companies. The first one in '72 incorporation with Deca, given this current configuration of Duratex with panel making, metals and ceramic.

Later on in the '80s and '90s we acquired companies in the ceramic segment named Louçasul. We enter NDP by acquiring a unit in Itapetininga and Agudos. And later on, more in the '90s we entered Argentina by acquiring Piazza Hermanos. In '97 we established the first MDF facility in the Brazil which was a great success as we see it today.

Between 2001 and 2008 more growth, 2002 established a new MDF, HDF, SDF line in Botucatu. 2005 a great advancement in that time in corporate governance, we answered the level one of Piazza of BM&F Bovespa Corporate Governance. 2008 we acquired two companies in the ceramic segment, growing in a great deal.

2009 we associated ourselves with Satipel establishing the biggest company in the Southern hemisphere in panel making. We entered because of that the Novo Mercado which is the highest in terms of corporate governance standards requirements. We also expanded MDP in Taquari. 2010 we acquired land with forest on it already thinking in the future advancement in terms of our organic growth in panel making. And we started the operations of resin making and integration, a further integration in the panel segment. So today we manufactured 65% of the revenues in through our panel making segment.

2011, a number of accomplishments, we acquired Elizabeth in February this year. We announced the two new plans of MDF to be viewed between 2012 and 2015. The first one will be established in Itapetininga, the effected capacity will be 520,000 cubic meters, and the stock option should happen in the beginning of '13, 2013. The second line, we are still to announce the location of it, but as far as it would be about 680,000 cubic meters to start in '15. We also granted our shareholders a stock dividend of 20% in August this year.

Following to that slide number four, because of the 60 years of existence, we developed a series of actions to celebrate such an accomplishment. We supported concerts in all cities where the company has facilities in the line of improving our leading support to the cultural actions that we believe contribute to build a better society. We expect to do 12 concerts with maestro João Carlos Martins in the Bachiana Filarmônica in the municipalities where the Company holds facilities, of which nine have been accomplished already. More than 25,000 people attended such concerts, and the entrance fees is full, there are items that are given are away to share it.

Another action, very important and interesting, we supported the Rino Mania, the Rino Parade, something like the cult parade that you know about, it is sculptural project comprised by 75 sculptures, painted by artist that were disposed in the 15 series where we hold operations. So 15 rinos were displayed in these 15 cities and 60 rinos what displayed in the compound of --. After almost two months of exhibit we auctioned all of these rinos and the proceedings were around R$564,000 that was given away as charity or to charity entities.

Slide number six, with regard to corporate governance, controllers hold about 58% stake in the company, Itaúsa is almost 40% and Ligna, the former controllers is near 18%. During this period the stocks suffered a lot, we engaged in the purchasing of treasury stock, we have already 1.2 million shares, the pre free float is comprise by 42%, and the controllers, they have an agreement not to increase their participation above the 60% level. So minimum free float will be 40%.

With regards to some, I think the differentiator effect, we have 100% common share, so one share one, we are part of the owner -- as I said before. We have said along the rise of 100% for our shareholders, a dividend policy with a minimal of 30% payout ratio with a minimal of 30% payout ratio over net income. We have five committees that assist the Boards, three of which the Audits and Risk Management Community, Personal Governance and Nominating Community, and Sustainability Community, all of these committees are composed by Board members and presided by Independent Board members.

Just to remind you, out of the nine Board members three are independent. With, a form a highlight. Fabio Schvartsman, which is the current yield of --, Álvaro de Souzaa, a former -- of Citibank Brazil, and -- a former minister of the -- and former CEO of --.We have also a new committee that was establish in October, the committee is for evaluation of transactions and a good related party. This committee is -- is composed only by independent members as we believe it should be to grant 100% transparency in the ruling. We have also Disclosure and Negotiating committee led by The IR Officer.

Highlights here, is the of presentation foreign investors in the shareholding structure as of September 2011. They sold about 26% of our shares which represents something like 70% of the free floats. That foreigners do not buy 1,000 shares. So whenever we have a change in macro-environment we tend to serve first more volatility given the entrance or existing of purchase shareholders. Locals represent 13.5%, and pension funds 2.2%.

Turning to debt and slide number eight, we have the reconciliation of total assets and equity. We started to -- a transition to the IFRS in 2010 and we decided to keep disclosing the numbers before the adjustments via IFRS and after the adjustments of IFRS, just to give more light to you, investors and analyst, and major changes that there are debt support.

We highlighted here three of these major differences between in accounting standards. So when we talk about total assets, the difference between before and after the IFRS adjustment is R$1.1 billion, of which R$733 million are paired to the business combination due to the incorporation of other association of Duratex and Satipel and also the acquisition of Elizabeth more recently.

We also have to mark-to-market our forestry asset. So these are under the biological assets and represents something like R$327 million. In employee benefit, this is basically the surplus that we have on our pension fund, and this surplus is recognized on our present value, R$77 million. All of these events also impact the equity by R$837 million, business combination represent in R$550 million where biological assets R$216 an employee benefits R$51 million. So the adoption of IFRS, although is that that accounting not cash advance, they are increasing our equity and of course bringing down some of the performance measures after tax, for example ROE and when we talked about assets, ROA.

Slide number nine, brings the reconciliation of net income. Here we have some important information to give you. Third quarter '11 before IFRS adjustments, net income accounted for R$117 million, representing an ROE of 17%, after taking into account the business combination, biological assets, employee benefits effects, we have, the IFRS adjusted a net income worth R$118 million of which or in which we have some extraordinary events add to the revenues or the sales of our assets, in this case, three quarter '11, the old plant of hard board is from --.

The effect of this on the results were R$50 million, so the recorded net income was R$102 million representing an ROE of 11%. When we analyze all these numbers with regard to for example third quarter of 2010 we have take into account that in 2010 we had a positive contribution of the biological assets worth R$28 million on the bottom-line. Remember that in our kit with these regards, biological assets for the purpose of the cultivation of EBITDA, because this is a non-cash advance, so we take that off from the calculation, but because of this is part of the dividend calculation we cannot do it for net income purpose. So third quarter 2010 the results were increased by R$28 million because of this biological assets effect. Also 2011 is turning lower on depreciation as we will see in the bottom in this green table.

Depreciation increased year-on-year speaking of three quarters by R$57.4 million. So in total when we consider the effects of depreciation, plus the effect of business combination year-on-year we have our total impact negative of three quarter '11 of R$35 million. So if we add that back to results you will see that the bottom-line stayed pretty much in line of what we posted a year ago, third quarter 2010.

When we analyze the accumulative data, January through September 2011 against 2010, this is also pretty visible. You can see that biological assets contributed R$32 million for the 2010 results. So after IFRS adjustments we had a net income of R$295 million against R$323 million, this regarding the effects of this -- in ROI we have a R$270 million recurrent bottom line as opposed to R$390 million in 2010. In the end ROE was 10.2% in 2011 cumulative data.

On the bottom we have some graphs showing how these resulted in ROE result during the years. Then I highlight here is of course debt transition between 2009 and 2011. Remembering that since we are talking about IFRS -- years do not consider the operation of such sales. So when we have that back, we have this great evolution of results that we see which is in 2009 and 2010. And also 2011 again 2009, so the company is playing on a differentiated operating level presently.

Another, it seems that impact of the results that we will comment further on this presentation, when I talk about the performance of the divisions. There's some impact related to cost, as we all know the view Brazil is experiencing some inflationary pressure, the government has to act in the turn of the year 2010 and 2011, increase in interest rate, reducing the availability of credit by increasing rates on financial operations and also compulsory deposits in banking deposits.

All of that caused a squeeze on credit and try to turn more expensive. So because of that inflationary pressures, we also are experiencing pressure in labor and some other inputs that we use in our production processes, but I'll comment that a little further in this presentation.

In slide number 10, these revenues on top left hand side, we have cumulative that January to September. So we can see that year-on-year revenues increased by almost 9% reaching R$2.2 billion with a gross margin of almost 35% and when we analyze 2011 against 2009, decrease on revenues was 68%.

On the right hand side we have the comparison, the quarterly comparison year-on-year and quarter-on-quarter. Three quarter against second quarter '11 we can see the stabilization of gross margin and the increase of revenues by 5%. So a marginal increase of costs contributed not to increase the margins here -- skill or the dilution of fixed cost. In this aspect I will highlight specifically the cost of revenue in the wood division that I will comment a little further in this presentation.

On the Wood segment we can see in the bottom we have a table showing the breakdown of revenues, how much was generated by the Wood division, and how much was generated by the Deca division. So we can see that roughly saying 63% to 64% of revenues are generated by the Wood division, and the remaining portion of course by Deca.

With regards to the geographical diversification of -- the geographical distribution of sales. The domestic market is still the most relevant, representing 95.6% worth of revenues. And of course if we analyze the characteristics overview, we will find out that we'll find out that around 80% of the revenues are generated in the South and Southeast parts of Brazil. Although we see some strength in the firm being developed in the Northeast region of Brazil and this region gaining more volume in recent times.

When we analyze a break down per product segment, we can see that the valuations of the MDF, medium density fiberboard, high density fiberboard, super density fiberboard and also laminated flooring which is made of each year in the case, represents 34%, I mean more than a third of the consolidated revenues. MDP comes in second with 21% followed by -- or ceramics, both almost in the same levels.

Turning to debt we have the reconciliation of EBITDA, in this case before the adjustments to IFRS. So we can see here till the EBITDA three quarter '11 we start with the operating profit before financial results and we have that depreciation and yet we've had that EBITDA for that period which represents an EBITDA margin of 32.9%, but we have to -- in this regard the extraordinary advance back to the sales of the plant of Jundiaí. So the recurring EBITDA is R$234 million with an EBITDA margin close to 30% which is not bad at all for the current momentum we have full of uncertainties.

When we analyze on a year, commodity January to September '11 against them. We can see that the recurrent EBITDA totaled R$641 million against R$660 million. So pretty much in line, taking into account all this cost pressure that we are experiencing 2011 against 2010, as well as -- doing a very good job in keeping margins as high as we thought to move in current times. EBITDA margin so close to 29% and last year closer to 32%.

Wood represents roughly same, two thirds, a little more than two thirds of EBITDA three quarter '11 and Deca represents the remaining portion. One highlight here is the increase quarter-on-quarter on EBITDA. R$234 against R$217 million, and here we will see that both divisions had a pretty good result.

Following to that on slide 12, we have the reconciliation under IFRS, so here starting on the profit before financial results of what happened at financial --. We added back the depreciation, amortization, and depletion related to cost, so we added back R$72, we took out the fair value of biological assets worth R$37 million, and added back the R$36 million related to the depletion of the occurred portion of the biological assets, the present value of the biological assets.

We also took out of this circulation R$7.3 million worth of employee benefits all of these non-cash events. So, EBITDA R$242 million, with an EBITDA margin of almost 21%, this regarding -- we have R$260 million with an EBITDA margin of 27%, a little down from the 28% second quarter time basically because of cost pressure.

When we analyse on a yearly basis, the EBITDA margin were close to 28% when compared to the 31% January to September 2010. Also here on the bottom of this graph, we can see that on a quarterly basis, EBITDA increased on a quarter-on-quarter base by 2%

Slide number 13, we have the debt structure of Duratex still pretty balanced. We have a total debt worth R$1.9 billion. Cash, we have R$710 million, so net debt R$1.2 billion. If we analyse the evolution of investments on the company, net debt -- net debt over EBITDA less 12 months, we can see that we still have a pretty balanced financial situation with net debt over EBITDA around 1.3 times, and overhead which is around a third. So, pretty comfortable debt standards.

When we take into account the currency -- for this debt 94% was taken in domestic currency. And only 6% in foreign denominated currency and one highlight this year is that this portion of debt is fully swapped to CDI. So, we have no exposure whatsoever to the effects under these financial investments.

When we take into account, the amortization schedule also we have a pretty comfortable situation. For the fourth quarter, we have R$211 million to maturing part of it will stay and the other part we will review, with somewhat lines that we have accessed.

For next year we have maturing R$643 million, but when we compared that to be the cash amount and possibilities we have since we are going through a CapEx problem and we have the benefit of, and the possibility of raising more debt with MDF and also -- we feel pretty comfortable with the future prospects with regards to the debt level.

And also with regards, to the cost of this debt which is in total around 95% of the Inter Bank rates. So, it's pretty inexpensive for Brazilian standards.

Following to that, we have the CapEx, base CapEx 2008, 2009, 2010 and the review CapEx for 2011. In the beginning of the year, we thought we had in our mind that the capacity would be more close to R$800 million, today is more close to R$600 million. Nothing was changed, only the momentums were a bit different.

Some of the payments that were expected to happen in 2011 will be done in 2012. CapEx for next year probably will be around the same amount, we are still working the numbers. But what I can say so far is that, all these estimates being converted in DECA.

Expansion in Queimados, Rio de Janeiro, it is going through and we are studying a new CapEx to expand further the Ceramic segment, independent of area, have planned that recently received a new --and we believe that the market is and will continue strong in that to receive further investments that are currently understood.

On the Wood Division, which you guys are more interested in my view. We are keeping the investments so far and two lines which are the two most important investments that we announced recently. Again, the first line to be commissioned at Uberaba and Itapetininga line. Probably these lines view, we will finish the assembling of the equipment about the end of 2012. And probably, their ramp-up will start around end of first quarter, beginning of second quarter '13.

The second line that is to be located in a region that we have not disclosed yet. We haven't till the end of next year to decide on the time frame of it's entrance. You know that we have some flexibility in the this type of line, given that it takes around two years to build a new line.

So, till the end of next year, we should have a better view on the market and the movement of this plant. But as we know so far and we believe this type of line should enter the market by the end of '14 and start ramping up around beginning of '15. So, this is the information we have so far.

The other investments in the Wood Division, most of that were accomplished already. Speaking of new approaching lines, a little fresh approaching line, that is running already. A new infrastructure in line that is also due and a new laminate line, that is running already. All of these investments hopefully will contribute to enrich the sales mix in the near future, contributing to the improvement of the margins as we grow volumes.

In the Timberland area, most of the investments from now onwards are being directed to--and minor acquisition of harvesting equipment. Nothing more related to land. We believe that the land holdings of ours is good to support these new plants that are coming to the market. But of course is something that is why some good opportunity appears. And you slightly will stop and take a look at we are an integrated player and this market is growing on a sustainable rate in our belief.

Following to then slide 15, green picture of the Wood Division, in which we have six plants. One MDP plant Itapetininga. And by '13 onwards, you have new MDF line investment facility. In Agudos, we have two MDF lines, a laminate flooring line and a resin plant. This is currently the most important industrial site of ours. And an important characteristic, this site is located inside a forest. So currently, this is the most inexpensive or the most efficient site to work in terms of cost. The greatest in terms of scale and integration we're doing at Timberland.

We have also a plant MDF in Botucatu along with a hardboard line. Minas Gerais, a plant that came for--, a brand new MDF line and also a new MDP line. And Rio Grande do Sul, Taquari, a new MDP line. Just one comment, this MDP line currently, it is not running at its possible capacity. This plant still has some bottlenecks, minor bottlenecks that we're investing to bring the capacity to increase the affected capacity of it.

In terms of land, we have around 230,000 acres, 62% of which is in São paulo, 34 in Minas and 4% in Rio Grande do Sul.

With regards to plant set areas, currently we have about 140,000 hectares of land--of forest, sorry.

This geographical location of the plant is something that is worth while to mention. It contributes to a better logistics to attained the consuming market, since we have plant distributed all over the most important regions in terms of panel consumption in Brazil.

Following to that, we have the performance of the Wood Division. On the left hand side chart, we have the occupancy rate as of the quarter '11. These occupancy rates were calculated over the available capacity. So the difference here between nominal, effective and available is like this, nominal is the capacity granted by the manufacturer of the equipment. So, if the equipment runs for a certain time with the fixed mix, this is what it will manufacture and this is the capacity that new brand, their performance start tools of the equipment, mean that the equipment is ready and works well, handled and is ready to run on a commercial basis.

The effective capacity is a capacity measure after taking into account a plant stoppages or maintenance in these productions, change of product mix. So, this is the capacity that we can run the equipment very close to a 100% of efficiency. And the available capacity is measured when you take into account some bottlenecks, into a bottlenecks that require some minor investments to bring the operation to the effective capacity.

So we still have some thing to be done in our MDF facility and MDP facilities to bring the capacity to the effective. But when we analyze the occupancy rates, we can see that during the third quarter, which normally and seasonally speaking, tends to be the best, we ran very close to 90%. And hardboards, we reoccupied plantly a 100% of the capacity.

With regards to the sales channels, furniture directly absorbed 53% of our revenues. Retail accounts for 26% and most of the revenues of retail, absorbed for furniture making. Small time--interest expense of volume retail manufacture furniture. So directly and indirectly, the furniture range is presents something close to 80% worth of revenues.

When we analyzed shipments on the top right hand side, one important improvement, when we analyzed quarterly the performance of the company, third quarter '11 against second quarter '11, we had an increase of 5% in volume shipped, and a year-on-year, by close to 4%. Revenues increased by almost 5% on a quarterly basis and 6% year-on-year.

One comment here is that the performance could have been better if we had a better credit scenario, because of the result of depreciation of those land, support that inflation pressures, means there are more restrictive actions towards credit loan.

Today, the credit to acquire furniture specifically on retail got squeezed. If we analyze the credit pattern or the terms a year ago, they were more close to 20 about 17, 18 installments. These were the normal patterns to sell furnitures in the local market. And today, these terms are more close to 10, which means that 1,700 furniture acquired a year ago, gave a good finance and 76 installments of R$100.

Currently, the only possibility of this consumer is to finance the same furniture and installments paying R$170, meaning a 70% increase of installments. And as we are completing with the disposable income that is being used to acquire a number of other goods, like services and automobiles, this consumer is more or his ability to leverage himself is really limited currently.

So we expect from now onwards with decrease of the interest rate, that spread becomes a little more longer, the terms. And that might help the revenue, that might help for a better momentum for these, for the two segments.

Following to that on slide 17, we have the reconciliation of the EBITDA, and here is under IFRS. So, we started with third quarter '11, operating profit before financial results of R$119 million. We took the fair value of biological assets were R$37 billion, added back the division related to such fair value, added back also the depreciation, amortization and depletion related to the cost. And took out the employee benefit, getting to an EBITDA level of R$173 million. This regarding extraordinary events, the recurrent EBITDA R$147 million with an EBITDA margin of 29%, which again and I repeat not bad at all to an environment where we have a lot of cost pressure coming from revenue. And this raw material that represent about 20% of the cost of the Wood Division increased in cost on a quarterly basis by 5% and on a yearly basis by 15%.

Also on the labor side, we are experiencing some pressure minor on a yearly basis, all the negotiations of salaries are being made on a 8% basis, I don't know still we have. But in Brazil, all employees are unionized. And on a yearly basis, you have to renegotiate the salaries, the increases and this has to do with a visionary history of review.

So, the economy as a whole is very indexed, contracts are indexed, electric power for example is also indexed. This year, we phased down pressure in this--because the contracts are there to IGPM. So this regarding all of these pressures and the rationality of Duratex in providing profitability, is contributing to keep margins up, down from what we wanted. But view pretty decently pick up there, at the level that we have currently.

On a yearly basis, we posted a 400 million as EBITDA, almost 29% as opposed to R$424 million, 31% EBITDA margin a year ago.

Following to that, we have the markets for MDF and MDP, the two most important pan as we manufacture. We can see and if we compare the shipments level of Duratex against the shipment levels of the industry, you will see that the industry is growing faster than Duratex as we expected, since we are trying to fix price here to fight the inflationary pressures, as we have turned more with rational--that prefer to run with a higher degree of occupancy rate.

In total, on a quarterly basis, volumes shift for MDF increased by almost 5%, MDP increased further by 6%. But the most important thing on a yearly basis, MDF increased by 12% and MDP by 14%.

And when we take the overall performance year-on-year, nine months--we can see that MDF increased almost 3%, and MDP by almost 4%, around 4%. We believe that in the end of the year, probably shipments will grow, or the growth will to be between that interval that we believe applies to the Wood Division, which is between two, a correlation between two and three times GDP, okay? Because of these more uncertain scenario, more restrictive credit scenario, of course that the growth should be more towards the low the low of the range.

And Duratex specific case, because we are trading some market share for prices, our growth should be between zero and 4%.

Following to that, we shift gears to Deca Division, in which we have nine plants. In Brazil, we have narrow-field plant located only in São paulo, one in the City of São paulo and one 60 kilometers out of São paulo, in Jundiaí, where we have also two ceramic plants, one of them which is the biggest in Latin America.

We have also a plant inceramics, two plants in the Northeast region and in Rio de Janeiro, a plant that is currently going through some investments to start this operation next year around mid-year. This project was a change during its course.

In the beginning, we believed that the capacity for that plant would be around 1.8 million items a year. We increased the investment when this plant started run, probably the capacity would be more towards 2.4 million items a year, and all of this because of the high hopes we have for the Rio de Janeiro State, that is receiving a lot of investment recently to cope up with these advance that will take place at the speed it will, this is very better. The main lift the game and our cost.

Following to that, we have Abramat Index on page 20. For those of you who are not very affainted with this index, it measures revenues, internal market or building materials, manufactures. So from January to September, this increased by 2.2%. We expect it should be close to a growth of 5% for the full year against 2010.

And when we analyze the performance of Deca compared to anyone, we can see that Deca is also forming by far the rest of the industry. Number of reasons can contribute to explain that. Of course, acquisitions, the strength of the Deca brand, the focus of Deca brand in more premium market, the distribution network, the cost of service, all the awards and recognition, prices that it won't, highlighting or differentiating it from the rest of industry.

With regards to strong capacity, we are running very close to 100%. You might ask your sales grow and now how are your going to grow the company? I would like to remind you that there are some investments being done, and whenever we commission a new investment, whenever a new investment is ready and it was in this near past. We tend to occupy with a lower sales mix. So currently, the sales mix of Deca is not the one that we were more used a year ago, few years ago. So margins got squeezed because the volumes directed to more inexpensive product increase.

And as our traditional markets grow, and they are growing, we tend to redirect more inexpensive product capacity to manufacture, the sales mix, where we make more money.

So in terms of revenues, on a quarterly basis. Quarter-on-quarter, we increased by 8% shipments and by 6% revenues yearly, foreign increased by 22%, on a quarterly basis 25%.

So the performance here is strong as we did it. When we analyze EBITDA and EBITDA margin and as reported against second quarter, we can see that margin are stable with regards to cost pressure here. I'd like to remind you that labor cost differently then in the Wood Division and that too increased there closer to 10% and Deca represents something more close to 40%, and 40% that were salaries are increasing by 8% on a yearly basis. If you add that up and consider a more inexpensive sort of mix, I mean their margin is fully explained.

As we keep growing and the markets we have obtained, develop further. We expect to improve the margin.

One important information and this is good for December onwards, December 11 onwards, is that we are portioned price increases here Deca for growth and that also in ceramics by around 7%. We started to increase prices already but the effect will be more same around December.

16 years of sustainability page 24, we have information about our key development assets on the top left hand side. Currently 230,000 hectares of land of which 140 planted with forest. 267 million trees planted, which means 56 trees planted per minute.

The harvesting cycle is between six and seven years. One highlight here is the low distance we have between forest and plants and the increased productivity, because of that, we don't need to buy as much land as we did in the past. So productivity is increasing.

And if we compared only the 2000 years from 40 to 52 cubic meters per hectare a year, a great year of increase. And an increase yield that we contribute to feed these new lines that we are bringing to the market.

On the bottom, we have some highlights of what we are doing. We use mostly recycled metals, bronze to manufacture our metals and metal fittings. We process copper spread to take out, to manufacture bronze and brass to do our products.

We have water saving products. We have waste collection systems certified forest with ISO14000, an FSC which is a Forest Stewardship Council field. We have material recovery areas and land products where this is step back label.

Social action, we have a series of action in all the segments, in all the regions we have affinitive. We have some samples here that you can check afterwards and you can also find information on website.

Page 27 brings some information about economic scenario. You guys probably know that better than I do, interest rates are going down and employment rate is stable on low levels. The disposable income is growing on Real rates. Minimum wage next year will be six times at R$6 million. Although it is increasing by 13%, this do not affect Duratex operation because all our employees, they do not receive minimum wage or about unionized. They remove the rates in different condition.

Total credit opportunities has increased during the years, contributed a lot for the current rate we have, revenues or specific general market demand is.

Page 28, brings the evolution of capacities in this case of the Wood Division. How it is going to be in 2013 and '15 hopefully as it's completion of all of this plants that we are directing. If we compare on a consolidated 2015 and 2007 capacity is to increase by more than a 100%.

Slide 29, the same analysis in the Deca division. 2012 against 2011 capacity is to increase by 13%. And again, we are still or we still have some other strategies ongoing strategies to keep growing this capacity, accompany the movement or the growth that we're seeing in the construction segments.

Value creation on page 31, some awards and recognition. We were awarded The Best Company for Shareholders by Capital Aberto, an important publication in Brazil. The decision that we were awarded a number of important prices, Durafloor, Deca and also the Timberland area, and the best company into other business.

Following from there on page 32, we have a sample of the ten largest companies by market starting 2005 and September 2011. The message here what information we have is really is straightforward.

As the market cap of this top ten companies increased in Real terms by 94% in this six year term, and by 145% in dollar terms. Duratex experienced almost a 200% increase in Real terms and almost 280% in dollar terms. So we are clearly growing faster than the market, but and we'll see--bring with some functional challenges related to cost and competitive environment, which we are dealing in my view pretty good.

Of course, that our shareholder base also do not help when we talk about these fast changes in macro environment, Duratex perceived is some houses as a real estate players. And when we analyze Duratex and real estate players, we tend to have a pretty high correlation with the performance of their stock.

So, these companies, real estate companies prior to post slower growth and some issues, accounting issues, causing some questions in the market, and as Duratex results impacted direct into this situation. We are much more than that, more than a real estate player.

We are a provider of goods to the real estate segment, finishing good, quality goods, brand recognized goods. We're company of hard assets. We are a company of a great history of positive results and returns. We're a company oriented to result. And I'm sure that after the completion of these investments that we're going through, return the cap to on a more real base.

Thank you for your time, your interest. I make myself available for the questions you may have. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Mr. Lucas Ferreira with JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Hello, Alvaro. Good morning. I was wondering if you can comment on the credit situation of the furniture industry in Brazil. We know that it's a very fragmented industry, which operates with very little margin. So I was just wondering if this industry will be able to still recovery in next year in case we have more flexible access to credit for the consumer? That's my first question. In this line my question would be in terms of M&A, if also have any news from your competitors because you have significant margin, we see that you have significant margin compression and you're not flowing this drive toward, let's say. So I was just imagining what would be this credit situation of your competitors especially these model ones and if it wouldn't be the situation of may be approaching one of these players for possible M&A in your near future? Thank you.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Hi, Lucas. Thank you for your question. With regards to the furniture industry, there are two sorts of furniture, one that we call the series of the mass production furniture which is factorised by being directed to the more economic segment. And in my view in big numbers, this might represent in our key, something like or around 55% or 60% worth of revenues. And the other segment is directed to the tailor, is for tailor made furniture that represents the remaining 45%, 40% of the furniture market. What we see in this segment is this, that mass production furniture is more exposed to credit because it is directed to more, to lower income segment. So this people is more exposed to the credit situation. As I said in the presentation and this is pretty to see, if you take the newspaper -- or -- just very two important vehicles.

If you take one of these two Sundays' newspapers year ago, 11 months ago, you would find advertisements of selling furniture in 17, 18, six monthly installments. These things newspapers, advertising today players on this more economic segment furniture, selling in half big installments. So yes, we believe that with a little easing on this macro conditional measures might contribute yes for the credit in the mid run. I don't see it happening yet because as you know interest rate, it is not the only component on the credit. What is more important is the level of the compulsory deposit requirements of cash deposits, and the level compulsory deposit will increase also recently among the measure of potential bank implemented in Brazil. So a series of measures are expected to happen following the interest rate production. That in the retail consumers being much more than the CDI rate. The financing rates on the retail, they are between, I don't know 25, 30, 35% a year. As CDI is only 11.5.

So term represents a great challenge to date to be overcome to increase the revenues of balance probably more close to the upper side of the range, the roof of the ranch of three times GDP. Currently with this current scenario it will be more closer to that. With regard to the competitive environment, yes we are seeing some competitors reducing prices on the MGS segment un-coated products. These movements as we learned is coming from more commoditised players and we don't know what is motivating them so far. Besides our desire to keep these airlines running with more efficacy rate. Duratex so far is managing the situation, find how to engage into this price reduction. But we know that the market is at ease at all. And as we approach December and January, if this situation continues we will have to accept the sort of volumes that we are performing to see if it is the case or not to reduce top companies such price reductions in the turn of the year. My take is that, with the GDP expansion above 3%, these industries shows growth minimum 6%, 7%.

And if you will think about the top of the ranch more close to 10%. I don't have the budgets Duratex yet for 2012, but given the occupancy rate during the year you'll see that on an average basis, the industry will run around 77% of occupancy rate this year as it went or it reached above or close to 90% on the third quarter. Next year, probably if the industry will run on an average basis between 80 and 85% and probably we'll occupy plans the capacities -- the current capacities by third quarter next year, if everything goes right. You mentioned small players, there are not small players in this industry. This industry is comprised by big companies of course throughout tax, it's biggest. We have our market share in terms of capacity close to 40%. The second runner something around 70% and we have four other direct players with around 10% each. Of course there are two or three other very small players. There are more regional but their market share is the low 1%. Did I answer all of your questions?

Q - Lucas Ferreira {BIO 16552031 <GO>}

Yeah. Just in terms of M&A is there is any news from this side?

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

M&A I don't see nothing happening in the short-run. My guess is that up to the next investment cycle, the ones who are not investing properly will become actual target. But it is difficult to say since again these players are big, the industry is very profitable and we'll have to wait and see news I don't know something motivate these smaller companies to drive forces with bigger players. We know that there are some succession issues in the future. Some restriction in this players, smaller players to grow given timberland capacity constrain, wood supply constrain. So there are some issues that we'll have to see how they develop in this near future. But I don't think nothing going on in the next one two years, may be three years now.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay. Thank you very much. Alvaro.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Thank you.

Operator

Excuse me, our next question comes from Mr. Augusto Ensiki from Morgan Stanley.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Hi, good morning Alvaro. I have a question I think you touched on this already regarding market share on the wood panel side. Instead of capacity though, do you know what your current market share of shipments of deliveries has been on the wood side. And you said just now about, you would assess your pricing on the wood panel. What will be the trigger that would tell if you're, you are going lower prices inline with the market? Just looking over the past, I think eight quarters or so, your wood panel growth has been below market growth.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Good question. Well, the shipments of Duratex nine months cumulative was 1.7 million cubic metres, okay, taking into account, MDF, MDP and hardboard. The effect is, capacity of the industry, what is worse or -- is around 8.4 yearly, about 8.4. So lower shipments market share is around 35%. Over time this changed, because this industry is developing much in this last year it's growing a lot. Duratex in the beginning of it of course, because it's so clear in hardboards, increase on the entrance in to the market. So we have I don't know the best or the better times like 60% market share and today, we have these more 40%, if we did not lose much, but the market increase the rate deals in terms of capacity. After this investment cycle, we most likely will gain something like 4 to 5% market share output capacity. In terms of shipments' capacity, it will depend on the rationality of this industry. One thing that I can say is that Duratex will be willing to trace some of its market share, some not, not much but some of its market share, because if you do the math you see that the results are much more elastic to prices than to volume.

And as a profit oriented entity, we of course are going to prices, specifically now that we are facing these cost pressures which are making us move into this direction. These regarding this pricing issue, I would say that as a tax custom, possibility is also to improve its capital utilisation of its current hard assets. Means what? We have already more than 100% self sufficiency in the wood supply segment. We have already land holding that can support three new plants. We are coming already with two. So the current portion of land will be better utilised in the future improving the returns and the results of the company only by optimising the utilisation of it which should happen in the coming years. So, all in all the analysis is not only in market share of how much. There is an internal discussion we analyze the market numbers and if we feel or we believe we are loosing more around than the industry probably will have to fall. But we don't see it right out at this specific moment November 4th.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Alright. And just one more follow-up question. On Deca side, you've talked about volumes did very well this quarter up 23% year-over-year. But in terms of EBITDA you are still down about I think 10% for Deca. And so with this eventual price increase in December what's the target margin for the Deca Division?

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

We don't have a target margin, it's very difficult to say we have a target margin. All the equities they are remunerated or part of their variable compensation depends on EBITDA margin return on equity. These are two important components of the variable compensation. So we are after the return. We are not happy with the current levels of margins. And of course this price increases we are dimensioning in the market, we contribute to improve the results. And we are going after it. We have some way relieve recently with the devaluation of the Real. So currently the FX gave us some more room to increase prices scoping up with this inflationary pressure much statistically in the wood deviation related to labor. Again the labor represent 40% of the cost.

We have increased labor 8%. So, due to the map, you see that we have an impact on -- rate were around 300 basis point on the operating margins of the company. If you watch the product mix that is more or we grew more on the more economic segment I mean as one plus is other effect, it explains all of this margin consumption that we had. But Deca is gaining a lot of scale. We believe that with the development of the market, the growth of our traditional market and I'll tell you the markets are growing. We expect to start a recuperation of or an escalation of margins in the coming quarters. I don't have a target to provide you but it's pretty clear to me that everything that is been done will contribute to improve the results in the near future.

Q - Augusto Ensiki {BIO 15988025 <GO>}

That's very helpful. Thank you very much, Alvaro.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from, Mr. Luis Vallarino from Citibank.

Q - Luis Vallarino {BIO 15049752 <GO>}

Good morning, Alvaro. So maybe we just, just if we could elaborate a little bit more on the pricing side of the new division. I mean should we assume with the current macro situation that there will be light or no price increase -- in the next six months? And maybe what should happen in terms of macro scenario so you guys have canceled the effect that yet to be announced with those plans? Thanks.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Hi Luis, good talking to you. Thank you for your question. Well, with regard to the pricing environment, if you have the ability to increase prices in this future or not is difficult to say at this present moment. If again if we have to go back to the macro environment, the macro scenarios, if we have GDP growing above 3% in the coming years which I think is a pretty decent growth rate to pursue specifically when you take into account everything that is been done in the market. If you take into account that currently or in the third quarter we reached already close to 90% occupancy rate. The prices -- tends to be more positive in the coming quarters where it is difficult to say if we're going to increase prices this or in that quarter. The price increase that we implemented last week in the wood division in April and May basically they are still effective. The correction is how the demand environment will be in the turn of the year, will it weaken as it always does and will the competitors take with this strategy of bringing prices down. Probably, we'll have to accompany some portion. I don't know if it is indeed, we really don't know.

Because on the other hand you have some cost pressure that makes the price increase this viable. What I can say is that when we analyze the results of Duratex as against other companies, these more commoditised players last year, they posted margins, EBITDA margins of 17% as Duratex posted EBITDA margins of 33%, 32% on the wood division. So, less than half of our margin, around half of our margin in these more sales scenario for sure they are having more problems than we are. First because in terms of logistics they are not as well positioned as Duratex, in terms of the geographical diversification, location of plants, degree of integration. Some of these commoditised players they are also integrated, but the business they have, the average business between timberland and plant is much higher than our average business which is translated into higher logistic cost. So when you -- altogether, you have belief that everybody is doing worst than you. So what is tricking the willingness to bring prices down we don't know. We know that there is one new plant coming to the market in the beginning of next year from competitor of ours local Internet, I don't know maybe it is, this strategy to reduce prices, to spoil the body of the rack, I don't know.

Specifically because their rack is located in the same region of this player, that is in the forefront of this strategy of reducing prices, this could just stay Duratex cannot say or what's going on. I think the analyst, the industry has to talk with the industry to have a better assess. But in our view, the markets, the cost pressures, we think they justify these movements that Duratex is going after. With regards to cancel net of the second line, at this present moment as I said before, we have until the next year to decide on the second plant and make proper announcements of location this and that. Because it takes two years to erect a new line. We've signed a contract already since we're already in the striking conditions of the equipments. So we made an advancement already for the second line. If the question is if we have a worsening of the macro scenario came to effect to affect us some flexibility of the second lining, I would say yes, we might postpone the investment. Yes we might, but this is too soon to say to enter -- the market. So far we are year keeping the investments, again the first line we'll start running up beginning on 13th and second line most likely at this present moment we'll start running up beginning of 15th. This is what I have so far. But yes we have some flexibility on the second line.

Q - Luis Vallarino {BIO 15049752 <GO>}

Great. Thank you Alvaro.

Operator

Excuse me. Our next question comes from Mr. Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Hi good morning. Thank you for the call. Just I have one question. Could you give us some color on cost transfer to fourth quarter. If you could break it down into wood panels and Deca cost. So basically, where are you seeing more or less pressure within this division in the short-term? So are you seeing any cost, addition of cost pressures for any of these divisions or on the other hand any cost going down for any of these divisions? Thank you.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Hi Thiago. Thank you for your question. In Deca, we still have one category of employees which negotiation of salaries pass now in November which are in metal bathroom. On total labor costing Deca is 40% but in the Duratex segment that we increase salaries already is more towards 50 something and in metal is a little lower than that, is more towards 30. So we still have negotiation of salaries in metal in November. The full impact of this will be more seen in the first quarter next year. The other inputs that we have to keep an eye on is copper. Recently copper prices has reduced in dollar terms and the recent, the strengthening of the Real also happened in a positive way. So when we add this two components labor in metals and the improvement on the cost environment of copper. I would say that if they do not offset each other, probably it would be close to offset each other. I don't see any other pressure coming in Deca in the short run.

Again we have to keep an eye in copper. That represents close to 20% of the cost of these divisions. For next year, as the focus before of Central Bank is showing that inflation expected for next year is in lower levels than 2011 but still around 5%, if negotiation of salaries happen in the same way that it happened in 2011 meaning inflation plus the spread it was more close to one. Probably for next year we will be seeing a minimum salary increase allowance of 5%. But it is difficult to say. We have to wait a little bit to have more color on the macro scenario how the GDP expectation is to be, how the macro extend overview is happening to see the negotiation power of the two sides of the table, company and union. On the wood division, this is more tricky because we have more commodities on the cost side. We have people that represents around 10%, 11% --. We have the chemical resins that represents more close to 20%. There is a great view of uncertainty with the direction of the resin because these specific raw material is composed by two commodities, urea and methanol. Urea of the total cost of resin 51, 60 that's a big number 50% of the cost is urea, close to 30% is methanol, 9% is freight and 12% is in costs.

And urea recently showed a great deal of increase in its cost in dollar terms. This with respect to fertilizers demand as well. I don't see the price coming down in the near future. I don't see it. Methanol increased in dollar terms, less than urea. But is more possible to see the possibly raw material coming down as it is. Here the input labor grows to 10%, the same history of Deca. And electric power that is more relevant in the wood division than in Deca. In Deca we do not represent or -- we have sum of 3% in the wood division or close to 10%. And the comfort on --. So, whatever is it -- this year, or slightly the slight increase will be best to the next year contract. The good news is that we have some important contracts that are expiring in November, specifically November. And then renegotiation of such contracts are in a much better basis than the current prices. So we might have some benefit on electric power further. But it is good to see I had to see the negotiation patterns to have the full information right now. What I know is that part of these energy is been renegotiated. And terms are better than the contracts that are expiring.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. Thank you, Alvaro.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Thank you.

Operator

Excuse me. Since there are no further questions, this concludes today's question-and-answer session. I would like to invite Mr. Alvaro Castro to proceed with his closing statements. Please sir go ahead.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Thank you all for accompanying the call. I put myself available along with -- which is my associates here, to answer this sort of questions you may have. Thank you and have a great day. Bye, bye.

Operator

Thank you. That does conclude the Duratex audio conference call for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.