

Q2 2013 Earnings Call

Company Participants

- Flavio Donatelli, CFO, IR Director

Other Participants

- Augusto Ensiki, Analyst
- Diogo Miura, Analyst
- Josh Milberg, Analyst
- Lucas Ferreira, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call of Duratex. 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. Flavio Donatelli, Investor Relations Director. Please go ahead, sir.

Flavio Donatelli

Good morning, people Brazil and US. Good afternoon, for the people from Europe. It's a pleasure to be here again to present our results of our first half, our results that I believe was very, very good, and in line with the expectations of the market.

Starting at page two we have the highlight. The volumes of Deca grew 13% in the first half of this year, reaching almost 14,000 pieces, 14,000 pieces, which is -- regarding the acquired company. We bought since this year we are in -- we add Thermosystem and Mipel in our production. So disregarding this two acquisitions, the increase and volume was around 3%. Wood volume grow 2.5%, reaching 1 million -- 1.2 million, 1.3 million cubic meters.

Net revenues had an expansion of 19.3%. Deca net growth was 21% and 10.3% if we exclude the revenues from Thermosystem and Mipel. And the Wood division, the net revenues were 18%.

Recurrent adjusted EBITDA reached BRL580 million with a margin of 31%. Deca EBITDA improved 12%, obviously 13% in the first half. And the Wood reached almost BRL430 million annual increase (contest) and improved 37.5%.

Our recurrent ROE is 13% for this quarter half.

On page three, our net revenues stand at 19%, reaching BRL1.8 billion -- BRL1.8 million, a growth of 19%. And in the quarter the growth was along 21% when compared with the same period of last year. But situation of Deca in the total revenue was 36% and the Wood 64%.

The export in this quarter represented around 5% of total revenues.

On page four you will see the reconciliation of our EBITDA, according to the CVM instruction 527, the Deca (inaudible) us how to calculate the EBITDA. According to the instruction our EBITDA in this semester was BRL683 million, but this instruction allow us to make all the adjustment needed to be more efficient from a year to the market. So we made (inaudible) our cash generation. We made some adjustments.

We excluded the fair value of the biological asset, the employee benefit and others. So our recurrent adjusted EBITDA is BRL508 million in this semester, recurrent margin of 31.4%, almost 3 point -- 3percentage points above last year.

On page five, our net income reached BRL131 million this quarter, an increase of 33% when compared with the same quarter of 2012. In the semester, in this second half reaches BRL270 million, an increase of 47% over last year, which is (inaudible).

Our ROE of this first semester is only 13% as I point before and it's important to mention that the ROE if you will exclude the financial costs of the investments in progress, which means investments in the Queimados plant of Deca and investment in the new plant of Itapetininga and in Taquari, our ROE would be 14%, one point -- 1percentage point up over our recurrent ROE. This can show us the potential of ROE of this -- the potential that ROE for the Company.

On page six can see the demand of wood panels in Brazil. In the aftermarket growth in this semester, 11% MDP growth 1%, the combined growth is well around 6% in line with the guidance we did all this time.

We are always saying that our expectation was that the market could increase two times GDP. And I think it's the performance of the market is in line with our guidance. This growth reflects the federal employment conditions in the country. And it outlines availability of financial -- the financing by the retailer to the (inaudible) segment.

On page seven we can see the increase on shipment volume of the Duratex, in this semester we increased 2.5%. This volume increase is -- this below the average of the market due to the increase on prices we did in January. If you remember, in January we

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increase our platform 10%, in a builder that's not common to increase the prices because it is (inaudible) period of the year, but if there was an opportunity there at that time, add we anticipate the increase we always do during May or June.

With this increase on prices and this -- have in the weak quarter, we lost some market share, but this strategy (I think) it overly successful when we see the margins we'll be paying this we'll see in the next page, page -- our net revenue growth 18% in this semester.

And our recurrent adjusted EBITDA was 38%, reaching 36.4% margin EBITDA, 5percentage points above the first of 2012. So this is the result of the strategy, but again we anticipated the price increases. And again we believe that this strategy was correct when we saw the -- when we see the results we are -- the results of the Company in this semester.

On page nine let's talk about Deca now. We can see the performance of ABRAMAT. The ABRAMAT is indicator of fixed performance of the construction materials in Brazil. It's measuring in reals, the (retail of) reals.

In this -- up to May, which is our last information, the market was 3.7% when you can compare with the 21% of what the growth in revenues for Deca growth, especially above the average of the market, reflecting the inception of Deca in the Brazilian market.

On page 10 the shipment increases 13.6% this year, this first half, and disregarding the volumes of Thermosystem and Mipel, shipment levels would have be around 3%, about 3%. When you compare the Second Quarter of 2013 against 2000 -- Second Quarter 2012, the growth was 18%, 5% if we do not consider the new acquisition.

Our capacity utilization, occupancy rate was around 92% for metal fittings and 72% in the sanitary benefits because we are considering our capacity now, the new capacity from the plant of Queimados of the 2.4 million capacity, okay? If you do not consider the new capacity in the first half of this (inaudible) would be around 90% of the occupancy rate.

On page 11 our net -- the net revenue of Deca Group is 21%, 10.3% (inaudible). And the recurrent adjusted EBITDA increased 13%, 12.9%, came from BRL135 million to BRL152 million, reaching a margin of 22.7%.

These numbers (inaudible) increasing the amount of the EBITDA. EBITDA margin is a little bit lower than last year because less showers than the production for Mipel as margins below our average margin index.

On page 12 our net debt was at the end of June BRL1.5 million -- BRL1.5 billion, a little below the number in March, an increase when you compare with last year -- during the last two year, but this decrease is due to the investments we are doing.

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But the way to (that) is very positive, our net debt over EBITDA, which moved 1.3 times, 1.2 times, which reflects our capacity to maintain our expectation growth through acquisitions or through expansions.

When analyzing the amortization schedule, this page, we can see that the amount we have in cash is only sufficient to pay all the loan that matures in 2013/2014, again reinforcing our leverage position.

Our CapEx in the period was BRL302 million, our expectation for this year is still BRL660 million. Our main expansion was Queimados, which is starting up now in August -- July and August, with Itapetininga, which produced its first panel plate, you can see through the picture here in the (standard).

On June 14th it was maybe the first plate of this unit, the Itapetininga plant. And it will start producing regularly in August or September.

And we have the Taquari bottleneck of the MDP capacity when we increase 230,000 cubic meters annually.

On page 14 you can see the evolution of our capacity, considering the capacity at the end of this year, (inaudible) this year we would finish with 2.2 million cubic meters capacity, it would be 1.8, category 195,000 cubic meters capacity.

Probably the next month or next days we will announce our new plant or in the (POND) or MDF, which accounts for a project at the end of 2015 or beginning of 2016. And in Deca capacity the growth of metal fittings and sanitary wire.

Thank you very much. And now we are open to the questions you have. Thank you.

Questions And Answers

Operator

Excuse me. Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions)

Our first question comes from Mr. Josh Milberg with Deutsche Bank.

Q - Josh Milberg {BIO 2004065 <GO>}

Good morning, everyone, and thanks for the question. I had a follow-up on the issue of panel pricing from the Portuguese call. I think you indicated that the unit revenue increase was driven mostly or completely by a shift in the mix.

And I was just wondering if you could comment on what drove that mix shift, whether it's explained by just quarter-to-quarter volatility or if there's some secular factors leading to

higher demand for the coated panels, and also if we should expect the full-year mix to be stable this year versus last year?

A - Flavio Donatelli

Okay, Josh. In the Second Quarter the mix changed with the higher volume of growth in the quarter. In the First Quarter we noticed that the (mandatory losses) (inaudible) due mainly with the standard products.

These demanded (varieties) quarter-to-quarter, depending on the market behavior, okay? There is no one specific condition was that (EBITDA) minus the (inaudible) -- in maybe the (period) the particular (board) around the 70% to 80% of our sales are in good products, standard products. In (inaudible) this number is higher.

As you see the (MDF) the demand of MDF increasing more than MDP to have (more goal to the product). The price is the same and the class is the same, you had -- we had in January, the change was only in the mix.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay, Flavio. Then so with that, a reasonable expectation would be that since you're not, you don't expect to raise prices over the remainder of this year that we should see the -- your net unit revenue level in subsequent quarters and the coming quarters coming back to what we saw in the First Quarter, or closer to that level than to the Second Quarter level?

A - Flavio Donatelli

No. We believe that the -- we do not foresee any, any price increase for the Second Quarter. We know that and (inaudible) started a new line in March and April, we are starting a new line now in August, however we do not foresee any increase in price. We believe that the average of the year, of the first year (inaudible) guidance for the second semester.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay. Thank you very much.

Operator

Excuse me. Our next question comes from Mr. Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Hi, Flavio. Good morning. My question relates to the working capital investment that you're going to need to make this year to the new panel plant and also new investment they were starting up in Deca, if you have any idea on how much you're going to invest in working capital for this expansion. And they're starting now and will be ramping up in the second half. Thank you.

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A - Flavio Donatelli

Lucas, we do not foresee any increase in the working capital except that the level that will remain will increase our sales, okay? We are not -- we do not intend to produce -- to increase inventories, okay?

We produce to obtain demand because we don't have the space for example to increase our inventory in panels. Have a (maxima) to strength to (25 base) (inaudible). We do not foresee any increase on working capital, both in Deca, both in (Queimados), okay?

Q - Lucas Ferreira {BIO 16552031 <GO>}

All right. Thank you very much.

Operator

Excuse me. Our next question comes from Mr. Augusto Ensiki with Morgan Stanley.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Hi. Good morning, ladies and gentlemen. So I have a quick question regarding the Deca line. I saw that the utilization of the ceramic side went down to about 70%, 72% this quarter, and what, what -- if there was any particular cause for the decline and how it's looking going forward. Thank you.

A - Flavio Donatelli

Okay Augusto. The utilization, this we presented of 72% that's because we consider the (inaudible) assets of Queimados plant, okay? We increased to 2.4 million pieces capacity this year. But this capacity was not available during the first half. Certain we just mentioned this as of our capacity now, we now with our capacity to 2.2 million.

If you do not consider this capacity, our occupancy rate was around 90%. And this -- the economic is, the null-efficient capacity (inaudible) is our -- we built it to reach to the capacity of 2.4.

When you can operate this plant with a good occupancy rate it will be more profitable than when you compare with other plants you have with lower -- smaller plants, we have -- we think that the (next two or three years) we will increase our occupancy rate in this slide, okay.

This capacity will have to -- we will have (inaudible) with a bigger size (the rest withstand) and increase our capacity according to the market.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Perfect. Thank you very much.

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A - Flavio Donatelli

Thank you.

Operator

Excuse me. Our next question comes from Mr. Diogo Miura with Goldman Sachs.

Q - Diogo Miura {BIO 17360784 <GO>}

Hi, morning, everyone. And thanks for the question. I know you haven't changed your (dramatic) expectation for the year as a whole, but I was wondering if you could provide any visibility on your order book for the moment (inaudible) we may be assure there is no deceleration increase.

A - Flavio Donatelli

Diogo, we do not foresee any changes in the volumes for the second semester. We think the beginning of the year we have been saying that the market would grow (inaudible) GDP, okay?

And the first semester grow to 6% in panels. As we believe is that this growth we will see this growth in the Second Quarter -- in the second semester to all the indicators, the (thermologists) are analyzing (produced) unemployment is still low.

The financing for the acquisition of (furniture) didn't change. Here you have terms of 12 to 24 months to finance the acquisition of furniture. So we believe that the (2000 are marked) in the first half year will be repeated in the second, despite all the weakness of the economy, the spirit.

Q - Diogo Miura {BIO 17360784 <GO>}

Okay. Thank you.

Operator

(Operator Instructions)

This concludes today's question-and-answer session. I would like to invite Mr. Flavio Donatelli to proceed with his closing statement. Please go ahead, sir.

A - Flavio Donatelli

Today thank you for all -- for the audience of this presentation, and say that (Katagin) and I, we are available for any questions, any doubts you have. Thank you very much.

Operator

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

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