Q3 2012 Earnings Call

Company Participants

- Alvaro Penteado de Castro, Executive Manager
- Flavio Donatelli, CFO

Other Participants

- Lucas Ferreira, Analyst
- Nicolai Sebrell, Analyst
- Taro Lockette, 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. Now I would like to turn the conference over to investor relations and executive finance manager, Mr. Alvaro Penteado de Castro, and Flavio Donatelli, CFO.

Please Mr. Donatelli, go ahead.

Flavio Donatelli

Ladies and gentlemen. it's a pleasure to be here again, now to discuss our Third Quarter results. I will ask Alvaro to conduct this presentation, will be here for the Q&A session. Please, thank you.

Alvaro Penteado de Castro {BIO 5537843 <GO>}

Hello. Good morning, for those of you in US and good afternoon for those of you in Europe. It's a pleasure to present the Third Quarter results which were a record for Duratex, for both so wood and Deco division in terms of volumes and revenues posted.

Slide number two brings some highlights. The Company has been very active this year in the M&A front. Recently we signed a binding proposal for the acquisition of Thermosystem, a company focused in the manufacturing of electronic showers for BRL63 million. Currently this operation is under the analysis of CADE, our antitrust agency and we should have the results in the coming week or a couple of weeks.

Another important movement happened in the front of the acquisition of Mipel. Mipel is in operation oriented for the manufacturing of industrial valves. We actually acquired this company already. We paid BRL45 million already in the end of September so we should have Mipel consolidated into our taxes during the Fourth Quarter.

And we also subscribed a 25% stake on Tablemac, a Colombian operation in this segment of panels and we are undergoing an operation and takeover bid to acquire an additional 12% stake in this company, probably the deal should be closed until November 2nd.

With regard to the performance of the (inaudible) it was a record in the wood division. We posted 1.9 million cubic meters which represents 12% -- almost 13% growth year-on-year and in Deca we had a 2% volume increase to 19.1 million items a year. Revenues reached a record level BRL2.5 billion contributed to that not only the volume but better unitary revenue in the division. Recurring EBITDA totaled BRL719 million with an EBITDA margin of 29%. Year-to-year return on equity reached 10.7% and for the quarter 12.5%.

Slide number four we have a summary of the revenues where it is coming from. You can see here that for the Third Quarter revenues reached BRL900 million with an increase quarter-on-quarter of 12% year-on-year revenues increasing by almost 12%. The wood division generated BRL600 million during the quarter and Deca the remaining BRL309 million which gives the breakdown of 65% wood and the remaining 35% Deca.

Gross margin increased a little bit to was 35%, up from 34% in the Second Quarter following economies of scale, better pricing days and improvement of sales mix.

With regard to geographical distribution of sales, the foreign market represents only 5% and the domestic market the remaining 95%. It shows that all this growth is being generated within the domestic markets. With regard to the breakdown third line of segment, MDF represents the most important product of ours with a 35% stake on revenues followed by MDP 22%, metals 18%, ceramics 17%, hardboard 7%, and components 1%.

Following to that on slide number five we have the performance of panels within the Brazilian market. We will see that Duratex in the wood division and also in Deca outperformed its market segments. Here we can see that from 2005 until 2011, MDF demand grew by 13.8% compounded annual growth rate which represent around 3.3 times the GDP for the period. This performance is almost double the performance of MDP that posted a compounded annual growth rate in volume during the period of 6% which represents 1.5 times GDP.

For the nine month period, MDF performed better than MDP, probably because the capacities of MDP are already running very close to full and MDF of course is occupying all of that capacity that enter -- was inaugurated starting in 2009. There was more idleness in this segment and this idleness is being occupied following demand growth.

For the quarterly review we can see year-on-year MDF growing by 13.5% quarter-on-quarter almost by 6% in MDF and MDP only 1% year-on-year and 3% quarter-on-quarter.

Slide number six brings the review of the wood division performance. When we talk about volume shift we can see that we posted a growth of 13% showing the strength of this market. We believe that there is a combination of events that are contributing for this good momentum in the wood division. First of course all of these macro environments which is positive to the consumable goods segment, I'm talking about low unemployment rates, increasing disposable income, and financing terms in the retail of furniture with positive or more -- positive financing terms, meaning what. The clients, when they enter this store, they can find the terms adequate to the year income level or capacity to leverage themselves.

Another important issue is the number of new homes being delivered, both in the wood division and Deca. We lag from the building industry. We deliver finishing goods and given the number of deliverances this year we are catching up the good performance of the construction industry in the last two, three years.

Following to that, slide number seven brings the picture of the Abramat index showing by how much the industry of building materials is growing or how it is performing. We can see that cumulative data nine months this index is showing a growth of 1.3%. If we check Deca revenues, because this index is based on revenues, on a nine-month period, Deca is growing by 7.3%. So again, outperforming the industry like the wood panel segment.

Revenues have grown more in Deca than volume on the back of better pricing days and mix. Here also performance was record, in Deca of course the performance is pretty much back to the momentum of the housing industry.

Slide number nine we have a review of EBITDA. We can see that we posted an EBITDA of almost BRL280 million. Of course this number, we had some extraordinary events contributing to this number. As we take them offer we had a recurring EBITDA of BRL273 million for the quarter with an EBITDA margin of 30%. Bottom line, BRL121 was the recurrent number which gives us a return on equity of 12.5%.

When we analyze the nine month period, we can see that EBITDA increased by 17%. Just one comment here, I'd like to highlight that during 2011 we also had a number of extraordinary events that contributed for EBITDA by almost BRL40 million. So when we take them off recurring these comparatively was BRL720 million for 2012 up from the BRL610 million in 2011 when we posted a return on equity of 10.2% and cumulative data 10.7% -- almost 11%.

Equity capital reached BRL3.9 billion. Following to that we have the performance indicators in the wood division, again, revenues increasing by 14% on a nine-month period to BRL1.5 billion, almost BRL1.6 billion, and on a quarterly basis posting a year-on-year growth of almost 20%. But even on a quarter-on-quarter basis an amazing 15% growth and gross margin responding to that on the back of (economies of scale) reaching 33.6%, 100 basis points above the previous quarter.

Recurring EBITDA again 27% increase year-on-year nine-month figures, gross margin increasing from 28.9% to 32.1%, more than 300 basis points improvement on the backlog debt prices, mix and economies of scale.

On a quarterly basis, year-on-year EBITDA growing by 35% -- almost 36% and quarter-on-quarter by 15%. And EBITDA margin reaching a 33.3%, a little or slightly above the figures for the Second Quarter. Again, more towards the economies of scale and inventory revenues improvement. Let's remember that increased prices in the wood division on the Second Quarter and during the Third Quarter we have the full benefit of such price increases in here contributing to these results.

On the bottom we post the capacity and for those of you who were not very acquainted with the way we disclosed such capacities, I will take some time to explain you what they mean. Nominal capacity normally is given by the equipment, the presses working 24 hours a day, seven days a week nonstop with a fix mix which of course is impossible to run in such conditions. So when we add the plant stops for maintenance more plus the changes of product mix we get to the effective capacity.

So the effective capacity is the ones that we can reach 100% occupancy rates, but this effective capacity sometimes it has some bottom acts that have to be addressed with minor investments. Then we have the available capacity which is the one we are running today. And the occupancy rates that we have on the right hand side are calculated under the available capacity. So we can see that we ran during the Third Quarter with a 95% occupancy rate in MDF and in MDP 94% and hardboard at almost full capacity.

You will see further in the presentation when I talk about capacity investments that we are doing both to grow organically and to develop (on x) specifically the MDP capacity.

On slide 11, we have the same figures for Deca, again revenues growing by 7% on a nine-month figure. Gross margin a little below following some cost pressures more concentrated in the labor side, but on the quarterly review, we can see some improvement in the Third Quarter as margins increase to 38% up from the 37.2%, following economies of scale and a better pricing mix.

Recurring EBITDA stayed pretty much flat, a little better in 2012, but on an accumulative data but annualize on a quarterly basis, we can see already more cash generation from Deca operation. We posted a BRL73 million EBITDA with a margin of 23.7%. This represents an increase over the previous quarter by 16% in nominal terms EBITDA and a little above 100 basis points, 140 basis points to be more exact on the margin side.

In the bundle we have the capacity, here we talking about nominal capacities, sanitary ware 9.8 million items a year worth of capacity and metal fittings 17 million items a year. Occupancy rates above 90% levels.

With regard to the scenario I will go -- past through the slides quite fast because you pretty much know what's going on. The figures are no news for you. Unemployment rates a record low levels, disposable income increasing, minimum wage increasing consistently during the years, interest rates going down. Currently we are 7.25%. GDP we had better hopes for GDP for 2012. We started the year with a better expectancy but on one hand GDP disappointed a lot of people but for our surprise our businesses reacted on a different direction, outperforming our even better initial expectations for the year.

We are outperforming our budget which is of great pleasure and a big challenge for the coming year. GDP with a relation to credit has been increasing and leveling around the 51% now in August 2012. And in the bottom we have this graph that we normally show and it represents by how much or how munch income, the individuals that receive minimum wage have freed in the last years. Okay the relation of minimum wage to the full basket, how much they consume of their minimum wage to the food basket. Actually, more recently it has been more stable, improve more in past years.

Indebtedness, we can see on slide 16 that the Company despite all of the investments carried on all the acquisitions is still operating with a pretty decent and a level of debt considered to be even low by some standards. We have on cash BRL857 million, total debt BRL2.5 billion which gives us a net debt of BRL1.3 billion representing 35% of equity and 1.5 times the EBITDA for the last 12 months.

If we check the amortization schedule bottom left, we can see that whatever we have in cash is good to perform all of the payments we have during the Fourth Quarter and even during 2013, if we decide to pay all of this debt. Of course, that this not the case we pretend to rollover such a debt expiring in the next quarter and year. We have still some projects with BNDES following the expansion projects we have and also some other capital market banking lines specifically to help us rollover this debt.

With regard to the origin of debt, 8% is in foreign denominated currency and 100% of it is hedged. 92% is creating new reals already.

Slide 17, the brief review of our CapEx during the -- or since 2008 we spent and is projecting to spend with the year of 2012 included BRL3.5 billion including the acquisitions of Thermosystems, Tablemac, and Mipel, besides all the organic growth that we have been undertaking.

On the bottom we have some highlights where investments are being made. In the ceramic segments, the most important project is the inauguration of a new plant in Queimados Rio de Janeiro. This plant is to be due by February next year or during the First Quarter next year. It will have a capacity of 2.4 million items a year and will contribute to elevate the capacity in ceramics from 9.8 million items a year to 12.2 million items a year.

In metal fittings we are investing to debottleneck but to increase the capacity of our Jundiai plant by 1.2 million items a year. This expansion should be completed by year end 2012 where we should reach 18.2 million items a year worth of capacity.

Mipel, where this is the acquisition we paid for in the end of September, this will contribute with an extra 780,000 items a year worth of capacity for the manufacturing of valves and Thermosystems, as I said before is still under CADE study. We should have the outcome of such during the next week or couple of weeks. And if we have a goal, this operation will add 1.5 million items a year worth of capacity of showers in the short run.

In the wood division where we have two important capacity expansion projects, the first one is a new plant of MDF that will be due by the end of the first half year 2013. We are talking about 520,000 cubic meters line and this line will be located in Itapetininga, state of Sao Paulo in a current plant of our so we are talking about a brownfield.

In Taquari we have a project to debottleneck our current capacity of MDP by 220,000 to 240,000 cubic meters making it reach a capacity of 670,000 cubic meters. This project probably will be concluded by the end of the first half next year also, likewise, the MDF project.

And Tablemac, Tablemac is the Colombian manufacturer of panels. We bought a significant stake in this operation. We have a 25% stake. It is a corporation. There is no defined controllership. In our numbers, this operation is recognized and the equity methodologies, it brings to the business or -- this company has the capacity of 110,000 cubic meters worth of MDP and 132,000 cubic meters of MDF.

Just one comment here, the results of Tablemac so far they are based on the MDP production of MDF. MDF is a new line. It started up by the end of the first half until recently was in preoperational stage and impacted the numbers of Tablemac should impact the numbers of Tablemac during the Third Quarter and we should see the performance of this company improving from the Fourth Quarter onwards and next year we will count with 100% of capacity operating on a commercial basis, provoking or generating considerable improvement in the operating numbers of Tablemac.

Following to debt, we have the acquisitions of Thermosystems on slide number 18. So far we have a binding proposal for the acquisition of this company. Again 1.5 million items a year is capacity and the value of this -- the (EZ) for this operation and BRL63 million. This operation is important because it enables Deca to enter in a new segment which is the one for electronic showers. This company is located in the south part of Brazil in Santa Catarina and is a regional company.

The logics behind such a position is of course to take advantage of synergies of distribution of Deca products and probably make such products alive more in the southeast part of Brazil and even in other parts of Brazil, take them off the very south where most of the revenues is generated.

Also these operations have a line of business in a very interesting market that we believe should grow in the near future based on solar heaters. So not only they do electronic showers but also solar heaters that for a country like Brazil probably has a pretty interesting market or we might explore better with our distribution assets.

The acquisition of Mipel, although it is in a similar business than the current ones in valves, it brings a novelty. It is more focused, more oriented for the industrial valve segment that

Deca is not operating in it. But the technology to manufacturers such valves is very known talking about bronze valves but it will the technology because we manufacture such valves for bathing purpose in Sao Paulo. So the idea here was to gain some time to market because this operation is running currently with a great degree of idleness and the idea is to fulfill this idleness with Deca products.

Also since we have limitations to grow the country operation in Sao Paulo, we might use this idleness to grow outside Sao Paulo city. So the current capacity 780,000 items a year in one shift and the value paid for is BRL45 million.

In Tablemac we have is some rational under bottom, the reasons or what called our attention to enter in a new market, geographically diversifying outside Brazil. First it was problematic of private company traded in the stock market in Colombia which brings some corporate governance to corporate governance, good corporate governance level, the business that is audited by Pricewaterhouse, the same auditors of Duratex so that gave us some confidence to move forward into the other direction.

Besides the Colombia market has grown more consistently than the Brazilian market as a whole. Inflation is more under control. The market is pretty open for the capital for investors. At the current stage of the panels we believe is like Brazil 10 or 12 years ago. Currently that market absorbs something around 10 cubic meters to an inhabitant a year. Brazil we generating already (three-fold there) so we have really high hopes that with that market we believe that the conditions of that to promote persistent growth in the future.

Besides Tablemac was a leader within the Colombia market and about to start up a new MDF line that I mentioned before, is already running and operating in commercial stage. The first line in Colombia and with a pretty good prospect to out place the current imported volumes of MDF. We believe that this country is pretty well positioned to capture the momentum in panels in that specific segment.

Slide number 19 brings the evolution of capacities during the years starting in 2007. We can see that in MDF for example currently we have 1.6 million cubic meters worth of effective capacity in MDF up from 553,000 cubic meters in 2007 which represents a growth during this five-year term of almost 190% and of course we are growing further this capacity next year we will reach 2.2 million items a year with a growth year-on-year over 2012 of another 40%.

So the Company is really focused is taking the advantage of the good momentum we are experiencing in the Brazilian market to capture growth and put the Company in a different shaded operating level in the years to come.

MDP, we have currently in 2012 1.6 million cubic meters up from the 1.2 million cubic meters in 2007, the gross year was more limited, now close to 31% during this period and now we are making the last leg of investment to debottleneck non-existing operation of ours and because we grew less the capacity of MDP in the last year, it's possible, we still have some doubts, but it's possible that the second line that was announced for the year of 2015 we are still studying that that might be an MDP or MDF. We don't have the outcome of these studies but we have internal talks that maybe the second line should be MDP instead of MDF on one of which we will release -- we will provide more information as we conclude such studies for you guys.

In Deca it was no different. We also expanded the capacity a great deal during the last two years and in metals we will reach the end of the year, 18.2 million items a year up from the 14.4 million items a year in the end of 2007 with a growth of 26%. And in ceramics we posted more relevant growth during the years because we were more active in MNA in this front. We acquired three companies in ceramics, just to name Ideal Standards in 2008 along with Ceramica Monte Carlo in the same year and in 2011 we concluded the acquisition of Elizabeth.

So all in all we were able to increase the capacity by 167% until 2012 and we will grow another close to 30% next year with the commissionment of the new ceramic plant in Rio de Janeiro.

This was the presentation I wanted to make to you. We made available in the Internet can probably you have with you more slides but those are support materials. They are annexes. If you want me to comment them, please make your comments during the Q&A session.

Myself, Flavio and also (Catajena) my assistant, we are here to assist you during the Q&A session. Thank you very much.

Questions And Answers

Operator

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>}

Hi. Good afternoon Flavio, Alvaro, and Catajena. My first question is actually related to the wood division. I noted that the average price for the wood panels this quarter increased almost 2%.

I was curious to know that because of the mix of sales increases much more in the standard products rather than the coated products so I was wondering how to explain this effect here, wondering if it could be already some reflect that the price increase announced that I think started in September.

And if you could comment as well on the first expectations for next year, this year was an excellent year in terms of demand, you were able to gain some market share so how was your expectation for 2013? Do you think the market could still grow in that range of two or three times GDP? That's my first question. Thank you.

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

Hi Lucas, this is Alvaro. Yes, you are right. Unitary revenue increased by close to 2% as the performance was much better than that and if you analyze the volume shift, the volume increase more than the standard side than in the coated side, but you can see that the cost, cash cost is pretty much under control and it's difficult to say we ship more to MDF and MDF has a better unitary revenue than MDP. So the increase in unitary revenue or the increase margin in performance is more oriented to the better mix in the sense that we ship more MDF than MDP.

With regards to Fourth Quarter, we believe that Fourth Quarter unitary revenue will tend to improve a little bit following the recent movement in terms of prices that we made. For next year, we are positive with the performance of the Company. We believe that we should perform around 2 times GDP next year.

Just to name, we are working with a GDP expectation lower than market consensus following our more conservative buyers. We are working with a 3% GDP growth possibility for next year. So we're talking about around 6% volume growth for both units of business, Deca and wood.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you, Alvaro. My second question relates to Thermosystems. I was wondering if there was any decision in Thermosystems and maybe can benefit for some like rebranding and applying the Deca brands to maybe some more or maybe all of the product line plus Thermosystems, given the Deca brand is well-known, it's top-of-the-line et cetera so that could be one thing that would you consider or not?

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

Well Thermosystems is a very well known brand in the south part of Brazil so to me it's more for each in the other regions that we intend to sell the product. It is currently under study and under discussion the branding, the branding issue. What we know, there's almost a certainty that we should not use Deca but there's a possibility to use Hydra. Hydra is another very well known brand of Duratex and Deca.

It is the more used for flushing valves -- actually flushing valves in Brazil for Hydra, Hydra flushing valves, they are synonymous of flushing valves like Gillette for razors, like BIC for pens. It is a pretty well and strong brand in Brazil. So it's currently under study if we might continue using Thermosystems or may be use Hydra, but I don't have the answer yet.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you, Alvaro, thank you everyone.

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

Thank you.

Operator

For next question comes from (Taro Lockette) with Merrill Lynch.

Q - Taro Lockette

Good morning, Alvero. My first question is a follow-up on prices. Just to be clear we have been seeing a strong demand environment and we saw industry players talk about potential price increases in the coming months additional to the ones seen in September. You think it would be possible despite the usual decline in the First Quarter see price increases or at least stable pricing in the beginning of the year? That's my first question.

My second question is in terms of cost. What have you been seeing in terms of cost pressures and what could we expect for the Fourth Quarter in 2013? Thank you.

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

Hi, Taro. Thank you, few questions. Well with regard to prices, what we see so far is the industry operating at full. Okay. The activity has not shown signs of deceleration yet. So we might see the month of November and strong as we saw in October. The question mark is within normal and seasonal deceleration that normally takes place in December. We still need a little time to understand what will be the better for the month of November.

One thing that gives us some confidence with regard to the pricing situation, is that since everybody is running at full, I think the pricing movement will depend on the possible seasonal deceleration. If companies are to operate around 90% or upper 80% levels, in my view there would be no reason for competitors to reduce prices. Actually, competition has shown that sales more rational during the year of 2012 and than in 2011.

I don't know if you remember but around this time last year there was one competitor of ours that in the peak of the cost pressure and the peak of the revenues started to reduce prices, which was something that we did not understand in that time and we decided to keep our price level, losing and trading some market share ease. This year is different. Capacities are running at full again and no signs of deceleration yet so I don't see up to the present moment anything making or causing prices to deteriorate in the turn of the year.

Further price increases I think is difficult. It's too optimistic. We are not working with that possibility to the present moment.

Let me talk about costs. Costs have been behaving better during this year, specifically the commodities. We started the year with the resin in higher levels than we see today. In Deca also copper was slightly above what we have today. So cost was more -- was pressuring more in the beginning of the year. There was a trade-off, as commodities decrease the pressure in the cost side and we had more pressure coming from the labor side.

With regard to labor we still have two negotiations during the Fourth Quarter, one for metallurgicals and another one for the corporate office. So this is what we have. So probably we will have inflation plus, real gain that it is not negotiated yet. I don't have the number but probably it will be a minimum real gain of 1%.

Looking forward, labor is the issue. As we see inflation on the top of the band this is the thing because when we seek to negotiate with the union, you are talking always about inflation plus the real gain. If you're working on the top of the band, you're talking about salary increases meaning more around 6.5%, around 6.5%. So this might be the pressure going forward with this kind of model that we currently have in Brazil.

For the commodities, they will go along with China, along with Europe so we have to wait a little bit to have more color in the direction of such costs. But we are doing our homework, internally we are adopting some actions to control costs. We might engage in to the zero budget concepts next year, so the Company is aware that the market is more competitive and moving returns via prices is becoming more difficult, more challenging. So it demands more managerial skills to go around this situation via cost and we are pretty much focused and determined to move into that direction.

Q - Taro Lockette

Thank you.

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

Thank you.

Operator

Our next question comes from Nicolai Sebrell with Morgan Stanley.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Hi, guys. I have two questions. The first has to do with the growth that you clock in the quarter on a year-over-year basis. It looks pretty good, but I was curious how much of that is organic, how much was acquisitions? Admin just as general as we think about the future, what percentage of your growth do you kind of foresee, and just a rough ballpark number? I know you can't really give guidance, but kind of the share. That's the first question.

The second one is a follow-up on costs. I know we are seeing unit costs -- labor costs on a unit basis going up in Brazil for the past few years. I'm wondering could you talk about how you are handling it, maybe a little bit more detail on productivity gains. What kind of productivity gains are available in each part business? Thanks.

A - Flavio Donatelli

Hi Nikolai. Thank you for your questions. First one about growth, everything is organic because the last acquisition we made was in February last year and it was Elizabeth. And

Mipel which we paid for September, it is not within the numbers and Tablemac is not consolidated. We are using the equity methodology. So 100% of this growth is organic, is Duratex and that's it. It's market.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay, perfect. So 100% organic and going forward the acquisitions you made weren't very big so that will be a small portion of the total. Okay. Thanks.

A - Flavio Donatelli

Yes and they will start being consolidated. Mipel only. Mipel will have 100% of this operation during the Fourth Quarter and of course during that 100% of next year. Thermosystems, if everything goes right, we might have only one month of Thermosystems this year and next year of course 12 months. For Tablemac we don't know yet. We will need to wait a little bit to see if we are going to consolidate this operation next year or not. So far again, we are using the equity methodology because of our participation in that business. It is only 25%.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. And since we're on the topic, could you describe a little bit more the acquisition strategy? It seems like it is all in Brazil or the region. Do you have any vision for the future, maybe going international question mark

A - Flavio Donatelli

Our strategy to grow the operation, M&A goes like this. For Brazil, we are analyzing not only core businesses possibilities but also synergical businesses like the moves we made in Mipel and Thermosystems.

Mipel, although the manufacturer valves, it is industrial valves. It's a segment different than the ones that we operate currently and this is the segment that we wish to be in because of the growth we have seen in Brazil. Besides this industrial valves, they manufacture a lot of products geared to the construction industry. So again synergical to the end markets of hours.

Thermosystems is electric showers, something that we were not in, proud of again year for building industry, for residential use and the interesting thing is that the turnover of this product is much faster than the current turnover of our product.

Normally 2.8, 2.5 years you substitute the product and since it is not very expensive of the price range is between BRL50 to BRL150, it is oriented for mid and low income segments and very easy to operate to install, wherever you have a drain or cold water if you plug in this product you have a hot shower which is very popular in the South part which is colder than the North East and North part of Brazil and also in the Southeast you have a really interesting market that we will attack from now onwards.

We have other studies of course of companies in Brazil with different segments. We analyze already the tire segment. We took a look in the pipe segment, anything related to the building industry we are taking a look. We are spending some time to analyze the market, to see where we can add value if via distribution branding, know how. So we have some possibilities, the Company has a pretty good or a pretty balanced capital structure to take advantage of the current momentum.

If we analyze the markets outside Brazil, we are limited currently to Latin America. We are not looking for assets in Europe, in US. We don't believe it is the time for us. Companies in those markets are very distressed, very leveraged. There's not -- at least we haven't seen nothing that really caught our attention, made us excited about it.

So Tablemac which is located in Colombia was the first one that we found. A pretty interesting country, consistent growth, inflation more under control than in Brazil, a better business environment in terms of taxes, in terms of labor costs, and a growing market. So our first movement was in Colombia this leading company named Tablemac we are -- we have currently a 25% stake, will probably we'll grow to 37% next week and we have an option to increase participation further in that operation by another 10% in the next couple of years.

So we are doing are phase in in this new market very organized, very focused. We have a team of people from Duratex contributing with the ramp-up of the new MDF line there. We have a team of ours from the Timberland side analyzing possibilities to integrate further the operation with the Timberland. What we found out so far is that the productivity of the timberland in Colombia is much lower than in Brazil and much lower than what Duratex generates. So we might see improvements, considerable improvements looking forward.

Of course that when we talk about timberland we have to obey the harvesting cycle which is around six or seven years so we might not see nothing or no big improvement in the short term. But in the next 10 years for sure we might see improvements in operation and if everything goes according to what we plan, this operation will grow. Okay, this operation will grow. We did not enter into that market to keep the current capacity or current stages, we want to grow, generate more values to our shareholders.

So this is pretty much the strategy to grow abroad. Of course that -- there are some countries in Latin America that we are more cautious about, just to name a few, Venezuela is one, Argentina, Ecuador. There are some countries that we have to -- there is a different approach. Okay. You know that we have one small operation in Argentina, named Deca Piazza. We are studying currently what to do with that. Recently we decided to invest marginally to keep that operation profitable and competitive in that difficult competitive environment. But is a marginal investment, we're talking about $20 million worth of investment, nothing that will harm our numbers if something goes south.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Great and if you could just comment briefly on labor productivity.

A - Flavio Donatelli

Labor productivity. Yes. Where ever is possible to automate the processes we are doing so. So in Deca, the degree of automation is very high so it has very little to be done in terms of further automation, at least with the current product mix.

In the wood division, for example the new extension, 80 people can run a 500,000 cubic meter line so it's very -- the productivity gains are enormous in the wood division. In the timberland business we have a pretty good degree of automation and high productivity equipment. What we are doing on the cost front is more addressed in the G&A expenses. Okay? We are starting to benchmark our expenses with some other companies, trying to improve the internal processes, trying to make things better. So this is where we are more focused currently.

Just one thing about the expansion project outside Brazil, outside Brazil we are limited to core business. Okay, you will not see Duratex moving into synergical businesses, only core businesses, okay. So panels, metals, and ceramics.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Thank you. Thanks a lot.

A - Flavio Donatelli

You're welcome.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Alvaro and Mr. Flavio to proceed with the closing statements. Please go ahead.

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

Thank you very much for your patience. Myself, Flavio, and Catajeno we are available for further questions you may have. Have a great day. Thank you for accompanying our call.

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.