

Q3 2018 Earnings Call

Company Participants

- Carlos Anibal de Almeida, Executive Officer - Pulp Business
- Leonardo Grimaldi, Executive Officer - Paper Business
- Marcelo Feriozzi Bacci, Chief Financial Officer and Investor Relations Director
- Walter Schalka, Chief Executive Officer

Other Participants

- Carlos De Alba, Analyst
- Juan Tavaréz, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Renan Criscio, Analyst
- Renato Maruichi, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to the conference call of Suzano Pulp and Paper to discuss the results for the third quarter of 2018. Participants will be in listen-only mode during the presentation of Mr. Walter Schalka, Chief Executive Officer; Marcelo Bacci, Financial and Investor Relations Executive Officer; Carlos Anibal, Pulp Executive Officer; Leonardo Grimaldi, Paper Executive Officer; and Fabio Prado, Consumer Goods Executive Officer. Afterwards, we will begin the questions-and-answer session and further instructions will be provided. Remember that each participant can ask only two questions. (Operator Instructions)

Before proceeding, please be aware that any forward-looking statements are based on the beliefs and assumptions of Suzano's management and the information currently available to the company. They involve risks, uncertainties, and assumptions, because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. You should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Suzano and could cause results to differ materially from those expressed in such forward-looking statements.

I will hand over the call now to Mr. Schalka, who will begin. Thank you.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. Thank you for joining the third quarter results announcement of Suzano Pulp and Paper. We have with here all the management team of Suzano to be ready to the Q&A session after the presentation. We are very pleased to announce the third quarter results. We have a set of very good operational results this quarter and we are very pleased with that; several records that we are announcing today. And as well, we are on track and on timing on the transaction with Fibria. We are planning to have this operation, the closing of the operation as soon as we get the final approval of the European Commission.

We are very pleased to announce that we had record production this quarter with almost 1.3 million tons combining pulp and paper in the operations with sales of 1.24 million tons on several geographic areas. And we had a record EBITDA on our history with BRL2.1 billion, 35% higher than the previous record that was in the last quarter and 79% higher than last year quarter-over-quarter results. As we have been telling to everyone, and now we are understanding operational cash flow is the most important KPI on our operations. Of course, return on capital employed is the most important one, but operational cash flow was BRL1.8 billion last quarter, that is 40% higher than previous quarter and 98% higher than the last year Q3 results. This is extremely positive and we are very pleased with that.

On top of that we have been going forward every single step to have the closing of the transaction with Fibria. As Marcelo is going to comment with you, we have been -- have -- receiving approvals from several jurisdictions and now only Europe is missing to have the final approval of this transaction.

Now, I am going to pass to Leo who is going to present the paper results.

Leonardo Grimaldi

Thanks, Walter, and good morning, everyone. I would like to present the results for Suzano's Paper business unit for the third quarter of 2018, which was a record quarter for us. The figures presented on this next slide are specific to our Paper business unit, therefore, excluding Suzano's Consumer business unit's results and enabling us to have a better comparison with the past quarters.

Beginning with the top left graph, we have produced 305,000 tons during the third quarter and 1.17 million tons during the last 12 months. This is a 1.4% increase compared to our 2017 production figures. Moving on to the top right graph, we have reported 308,000 tons of paper and paperboard sales in the third quarter, 16.6% higher than the second quarter '18 and much in line with the third quarter '17. We have again used our commercial flexibility of selling our products either in Brazil or internationally with core location of our products. When we look specifically at our paper and paperboard sales in Brazil, we can note a 23.3% increase compared to the second Q18 and a 5% increase compared to the third Q17. Our sales were positively impacted by the additional demand generated by promotional printed material used for presidential and state elections in Brazil.

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Iba, our Pulp and Paper Association has just posted the figures for the third quarter. The domestic industry sales of printing, writing, and paperboard grades have increased 17.4% compared to the second Q17 and 2.1% compared to third quarter of '17. Before we take a look at our EBITDA margins, I would like to reinforce our pricing evolution. Our prices in Brazil have again moved up during the quarter, being 3.5% higher than what they were in the second Q18 and 11.6% higher than they were in the third Q17. Our export prices have presented a similar trend with a 2.4% increase in US dollars when compared to the second Q18 and 12.3% increase compared to the third Q17, or more than 40% in our local currency when we consider the additional effect of the Brazilian real depreciation during the period.

As a result of production stability, strong sales volumes, and successful price increases, both on domestic and international markets, our adjusted EBITDA margin has now reached BRL8,306 per ton. This is a 43% increase in EBITDA margins when we compare it to the third Q17 and adds up to BRL920 million of adjusted EBITDA for the first nine months of the year. Our ROIC has also increased, reaching 16.2% in the third quarter '18.

I would now like to invite Carlos to present the results for the Pulp business unit.

Carlos Anibal de Almeida {BIO 19090865 <GO>}

Thanks, Leo, and good morning, everyone. So, let's go to page five of our presentation to cover the pulp business' results on Q3. The pulp business delivered a solid performance. We continue to see favorable market conditions and supply/demand have balanced across the key regions. Market fundamentals are solid. Actually, demand for Q3 came in stronger than we were expecting.

Operationally, we executed very well. Production amounted 941,000 tons in Q3 and almost 3.6 million tons in the last 12 months. This is a new production record. We are very pleased with that achievement. It is important to remind you that we didn't have any planned maintenance shutdown in Q3. For Q4, we have just concluded our 15-month maintenance planned shutdown at Imperatriz that lasted longer than the usual. The reason behind this fact is the installation of a new washing system that will allow us to reduce chemicals consumption, thus reducing variable cost in the future. This was the last planned maintenance shutdown for 2018. The next planned ones are scheduled for Q1'19 when we will have Mucuri Line 2, Premier, and Suzano.

On our last conference call, we said we needed to increase our pulp stocks once we are running at a very low inventory level that was impacting our logistics and we need to improve our service to customers. Pulp stock went up almost 40,000 tons in this quarter and we are fine with that. Despite this minor increase, we are still running below our ideal level, which brings operational challenge to us. We may continue to build up inventories in the coming quarter in order to normalize our service level and be better prepared for our planned maintenance shutdown scheduled for Q1 '19.

Talking about sales, sales volume reached 903,000 tons. As I said before, we took advantage of a stronger than expected demand across the key markets. Our revenues

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were up 25% quarter-over-quarter and 64% year-over-year, reaching BRL2.7 billion as a function of stronger volumes and a weaker real, which depreciated 10% quarter-on-quarter. Our adjusted EBITDA for Q3 was 1.7 billion and EBITDA per ton reached BRL1,900 driven mainly by weaker real. Finally, the return on invested capital for the last 12 months for the pulp business was slightly over 22%.

Moving to the following page, slide number six. Cash costs for Q3 was BRL619 per ton, down BRL11 on quarter-over-quarter. For the last 12 months, this figure was BRL602, up BRL14 per ton in comparison over the same period of last year, mainly due to FX impacts on raw material costs.

Now I turn it over to Marcelo Bacci, who will cover our investments.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Thank you, Carlos. So moving to page seven, our investments in the first nine months of the year have totaled BRL2.1 billion and for the year, we continue to aim the BRL2.8 billion number that has been disclosed before. In the quarter, the total investments were BRL866 million, pretty much in line what we have planned.

On page eight, we can see our debt profile, which is significantly impacted by some transactions that we have been doing in preparation for the Fibria deal closing. Our gross debt has increased to BRL23.8 billion, close to \$6 billion and our cash position went to almost BRL13 billion as I said in preparation for closing. The average cost of debt increased to 5.2% from last quarter, mainly because of the bond issuance, the 10-year bond that we did during the quarter. And for the same reasons, the average debt maturity went to 93 months, which is the highest that we ever had. Our leverage, measured in dollar terms, is down to 1.4 times according to what we had planned.

The Fibria business combination on page nine, is evolving on expected schedule. I think the main events that we had since last quarter were, first, the registration of Suzano shares with the SEC. And in the sequence, the approval of the shareholders meeting of Suzano and Fibria held on September 13, that finished all the statutory side in terms of the approvals we needed. On the financing side, as I said, we issued a bond of \$1 billion and that, together with some other transactions that we did in the quarter, was responsible for the cash position that we saw in the previous slide. On the antitrust side, we have received the approval from CADE two weeks before today and we have filed with the European Commission and we expect the process in Europe to be finalized still in November.

The hedge portfolio on page 10 that we hold today for the Fibria deal. The position at the end of September was that we had 84% of the payment to Fibria hedged, the position today is even higher. We are close to 100% hedged at an average exchange rate of close to 3.73 as it is in this slide here, which give us a lot of comfort that the total amount that we're going to have to pay in dollar terms is already fixed and is not going to change. Of course that hedge portfolio together with the normal hedges that we have in our balance sheet is a total position now of \$11.7 billion notional when we add FX and interest rate derivatives. And that has caused a accounting loss of BRL1.36 billion in the period, which

is a function of the real moving from 3.85 to 4 in the quarter. Almost, all of this result is linked to FX variations since the interest rate hedges have changed not so much in the period. Of course, today we have an interest -- an FX rate of below 3.7. So if we have to mark-to-market today, we would have a significant gain in relation to the number that we posted at the end of last quarter.

On page 12, we can see the funding structure and the financing that we need to have for closing the transaction. So just recapping the numbers, initial number of the cash payment was BRL29 billion, which corrected by CDI as the contract serves up to the end of September we had 30 billion. The mark-to-market of the hedge positions at the end of November was BRL1 billion. So the total payment that we have to finance if we had to close at the end of September was BRL31.15 billion. We already have BRL13 billion in our cash position as a consequence of the cash flow we generated plus the transactions that we already did.

We still have to draw on the first tranche of the financing that we announced back in March, so that is about BRL9 billion, the \$2.3 billion that we announced before. And the remaining BRL9 billion to reach the 31 billion will come from a combination of the cash surplus that Fibria is going to have up to the end of the year, plus the cash generation that Suzano is going to have between now and the end of the year and some additional financings that we are already doing. And the combination of these two things will be more than what we need for closing the transaction. And that's the reason why we announced yesterday that we are reducing to zero the amount of the bridge loan that we contracted in beginning of the transaction back in March, because now we have funding needs that are more than enough for what we need to close the transaction.

So, with that, I turn back to Walter to make the closing remarks.

Walter Schalka {BIO 2099929 <GO>}

No, before we are going to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Leonardo Correa with BTG.

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes. Good morning, everyone. Congratulations, Suzano, for all the work and for very strong results. My first question is coming on the leverage side post deal. I just wanted to check with you exactly what your goal is for net-debt-to-EBITDA targets maybe by year-end 2019, just to see whether a new wave of expansions could be eventually approved and what type of leverage you are aiming to before approving new projects. And second, my question is regarding supply discipline. We've been seeing some supply being removed from the markets this year, mainly from Fibria and Suzano. So I just wanted to

see how you are seeing supply management into 2019. I think that would be also very helpful. So those are the two questions. Thank you very much.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Leo, this is Marcelo speaking. Thank you for the question. In terms of leverage, of course, we are going to start at a much better point than we had planned before, because of the cash flow generation that we've been having this year, because of the operational performance of the company. It is difficult for us at this point to give you guidance on where we're going to be at the end of 2019. But the starting point is definitely better than we expected.

A - Walter Schalka {BIO 2099929 <GO>}

Related with the expansion, it's Walter, on your point, Leonardo, this is something to be discussed after closing. Of course, we have much more flexibility right now and we want to create optionalities to the company after closing. And with the new management team, we will discuss what would be the capital allocation for the next coming years after the closing. Then, we cannot give you any specific guidance on that.

A - Carlos Anibal de Almeida {BIO 19090865 <GO>}

Leonardo, good morning. This is Carlos. Regarding your question on supply, as I said, we have just concluded our annual maintenance shutdown in Imperatriz and from now onwards, we would be running at full capacity until beginning of next year, when it's going to have other set of planned maintenance shutdowns. So business as usual, running at full capacity.

Q - Leonardo Correa {BIO 16441222 <GO>}

Perfect. Thank you very much, gentlemen, for the answers. Walter, just to elaborate a little bit more maybe on my initial question. On the potential pulp supply additions coming from Fibria and Suzano, it's clear that Fibria and Suzano, they have the best project in the industry which is H3, right, Horizonte 3, at least in my opinion, which I think may be several share. And it's also clear that the incentive pricing at this point in the industry is very high. So if we think of return on equity at current parameters, the level would be probably even above 30% return on equity. So incentives are very high, Fibria and Suzano have the best project in the industry, the market is moving into a deficit, probably 2019 and '20. Having said all that, I remember, Walter, that you -- couple of years ago, you were quite skeptical on adding capacity in the pulp industry, and you've been quite vocal in the past on saying that the industry doesn't need more pulp capacity. I just wanted to see how your views have been reshaped over the past couple of years and how you see more capacity now with all these shifts in parameters?

A - Walter Schalka {BIO 2099929 <GO>}

When we announced the transaction on March 16, Leo, we told that the main target of the company would be to deleverage as fast as possible. Of course, the tailwinds there is helping us with the situation with better pulp prices and better FX help us to deleverage better than we expect. As Marcelo mentioned, we are creating more flexibility and this flexibility is very positive. We will still keep our financial policy to be between 2 and 3

times net debt to EBITDA. And this is very important for us, and we will keep -- and we are very disciplined on this point.

Related with the alternative that we have for the future, of course, organic growth is one the alternatives that we have, and we will consider this on our discussions after closing. We do not have enough information on Fibria assets at this point to allow us to take any kind of comment on that, but I'm sure that after closing, we will put the new management team together and one of the main issues to be discussed at the first moment would be capital allocation for the future. Of course, we are generating a lot of cash. The combining numbers of both companies that you saw the day before yesterday when Fibria announced the results and today when we announced the results are very positive. And it's very good to be in a company that have a lot of optionality for the future. We are not ready to -- we are not even started these discussions. We are going to start just after closing and we are going to announce the market when will be ready after the management team sit together and discuss about these alternatives.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Thiago Lofiego with Bradesco BBA.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, gentlemen. Two questions on my side. On the pulp market, Carlos, if you could comment the short-term dynamics we've been hearing about, higher inventories in China. We also heard about Chinese trade is pushing for price discounts because of resale prices are trending down. Could you please help us understand what's going on in the short term? And also, if you could give us some color on what are you seeing in terms of end user demand for paper and consequently, for the pulp as well in China in the short term? Second question, more -- back on the deal. So you mentioned the time line for the European Commission approval could be in November. What's the time line for the (inaudible) approval? Would you expect that to happen this year still and what's your base case for the ADRs to start trading? Thank you.

A - Carlos Anibal de Almeida {BIO 19090865 <GO>}

Thiago, good morning. This is Carlos. Thanks for your question. I would say that the global pulp market is balanced in terms of supply and demand at this point. We believe that the market fundamentals supports the current hardwood prices. I can say to you that our October business has been evolving according to our expectation. And by that, I mean, our regular volumes and flat hardwood price across the key markets. We are just leaving the low season period behind and I have to say again that was much stronger than we were expecting. And we believe that we begin Q4 with stocks at the normal level throughout the entire supply chain.

On the demand side, we see it as solid and healthy across the major regions. We believe that the new additional capacity in China should go on supporting the pulp consumption there. On the supply side, they can say that planned market downtime continue to limit pulp supply for Q3 and Q4 had to start off with more of the same. We have just learned about no more on planned shutdowns in Japan, in British Columbia. When you look at the Q4 pulp supply, we also expect that to be curtailed by another round of regular and several maintenance shuts across the industry, due mainly September and November. However, we cannot forget, we also have some more softwood capacity coming from Sweden and Belarus.

About China, I can share with you what we have heard from our customers, and we do expect that the paper demand will seasonally pick up over the next weeks or months ahead of the Chinese New Year. They say that the finished product stocks are at the right level to support the seasonal demand pickup. Based on our local team, we understand that the pulp stocks are at the normal level throughout the chain from producers to customers there in China. So we see there, in China, the market is balanced. In terms of new capacity, the number that we will work here for China for this year, we have around 4 million tons, and out of that 1 million, 1.5 million tons would be coming from tissue. And just to share a few numbers that were released yesterday by PPC, market pulp demand has grown close to 7% year-to-date in China. In hardwood, it's growing 15%. So in our view that supports the good momentum of the market there.

A - Walter Schalka {BIO 2099929 <GO>}

Related with the time -- it's Walter. Thiago, thank you very much for the question. Related with the time line of the transaction, we expect November to have the approval of the European Commission and (inaudible) And as you may know 45 days after the precedent conditions will be the closing date of this transaction. Then probably it's going to be late December or early January, the closing this what we are expecting at this point in time.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Thiago, the ADRs will start trading sometime between the approval date and the closing date. This is still being discussed with the exchange and the date will be defined and will be announced when we have the final approval of the transaction.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Bacci, could you repeat that, please? I couldn't understand ADRs will trade sometime between --

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

We will start trading sometime between the final approval that as we said end of November and the closing, which is going to end of December, beginning of January. Probably, closer to the closing. We still don't have the date defined, but this will be announced probably when we announce the final approvals.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. Very clear. Thank you, Carlos, Walter, and Bacci.

Operator

Our next question comes from Marcos Assumpcao with Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. Good morning, everyone. My first question. If you could, Bacci, elaborate a little bit more on the potential leverage policy for the new company? So how do you see the combined leverage for the new company, if you have a target for total debt or for net debt? And also, what's the minimum cash that you think that the new company could have in the future? And the second question, on the pulp cash cost, we saw decline this quarter. But also if you could elaborate a bit on the wood cost, what were the trends in this quarter, mainly on the logging distance and third-party wood? We were actually expecting a bit deeper decline in cash cost, but maybe you can explain a little bit what happened. Thank you very much.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Marcos, this is Marcelo speaking. Thank you for your question. The leverage policy for the new company will be -- we will start as the same that we have today and some changes are being discussed between management and the board and the discussion will probably take place on a more definitive way after closing as to whether or not we're going to add additional features to the existing policy. As we're going to have a significantly large amount of debt, close to \$12 billion or \$13 billion, we may define some limits in terms of total debt, but that hasn't been discussed yet and will be announced as soon as we have a decision in relation to that. The minimum cash, we have an assumption to start the operations that we, unfortunately, we cannot disclose right now. We will probably start with the minimum cash that is higher than what we're going to probably need in the future. And just because we don't have full control or understanding of the flows on the Flbria side, so we'll probably start a bit more conservative. And we will refine this in the first months of operation.

A - Carlos Anibal de Almeida {BIO 19090865 <GO>}

Marcos, good morning. This is Carlos. Thanks for your question. We will not give any guidance about the cash cost, but I can say to you that our average radius in Q3 was 183 kilometers and the mix was close to 80% own wood and 20% coming from third-parties and this is our normalized level.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

All right. Perfect. Last one here on the tissue side, if I may. We saw production reaching 45,000 tons this quarter. Is it fair to say that Suzano is already at full capacity?

A - Walter Schalka {BIO 2099929 <GO>}

Marcos, it's Walter. Answering your question, we are not running at full capacity on tissue. We have been gaining market share on the north and northeast part of Brazil. There is that

our target market, but we are not running at full capacity. We will keep growing month after month on our target to be the leader in that specific region of Brazil.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Walter, I understand that in terms of sales you still have a lot of potential upside, but I mean on production, if we just deduct the total paper production from paper production only on printing and writing and cardboard, we get close to 45,000 tons. So if you were to annualize that, would it reach 180,000 tons which seems to be pretty much the capacity of the company. Maybe you have been able to -- you will be to produce a bit more than what we were forecasting?

A - Walter Schalka {BIO 2099929 <GO>}

Marcos, we need to reconcile your number. We are not recognizing this 45,000 that you are mentioning on your -- because probably you are mixing with third-party sales on the paper side. But I'm not sure how we need to reconcile that. We will bring to you and to the market the right information related with that. I can guarantee to you that we are not running at full capacity, firstly, but it's producing extremely well when we are growing our volumes on that specific region, and we are growing our volumes on Mucuri and Imperatriz facilities as well. But we are far away from the full capacity.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Perfect. Okay. Thank you very much, Walter.

Operator

Our next question comes from Carlos De Alba with Morgan Stanley. Mr. Carlos, your line is open. We're going to the next question from Renato Maruichi with Santander.

Q - Renato Maruichi {BIO 17847481 <GO>}

Good morning, and congratulations for the healthiness of the balance sheet. My first question is regarding the cost of debt. Suzano is in a -- let's say, in a transitory stage and probably the cost of debt to improve going forward. So my question is what do you believe is the sustainable cost of debt for the company longer term? And my second question is regarding the EBITDA margins of the paper business. They were quite high in the third quarter, but how sustainable are they and how do they compare to the margins from export? So those will be my first -- my two questions. Thank you.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Renato this is Marcelo speaking. On the cost of debt, we have several forces here playing in different directions. First, as we are extending the average tenure of our debt bringing more long-term debt in reparation for the Fibria deal, this is of course that goes against the cost of debt, it increases the cost of debt. On the other hand, as we're going to have a very healthy balance sheet even after closing the deal, this is a signal that in the future our cost of debt tends to be lower than what it is today. But I think more important than that, we are investment grade and we intend to keep the investment grade status going

forward. And when you compare the different companies in our sector that are investment grade in different regions of the world, we pay higher cost of debt than some of our international competitors. And that has a lot to do with the situation of Brazil. So I think if we continue to deliver a good operational performance and if Brazil helps this a little bit, I think we have a lot of room for improving the cost of debt in the coming years.

A - Leonardo Grimaldi

Okay, Renato, this is a Leonard. Thank you for your question. Yes, we are very proud of our paper EBITDA margin for the quarter being over a BRL1,300 per metric ton excluding, obviously, our consumer products business unit. And this high EBITDA margin, obviously, is due to the seasonality in the third quarter. As you know, usually the third quarter is a very strong quarter for our paper business and the price improvements in our businesses, both in Brazil and internationally and also due to the real depreciation and the effect that this has on our exports. Looking forward, we will have a variable, which we obviously don't control, which is currency, but all other variables remain much controlled and we are very positive as well.

Q - Renato Maruichi {BIO 17847481 <GO>}

Okay. Thank you very much for the answers.

Operator

Mr. Carlos De Alba is back on the line. You can ask your questions, sir.

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

Yes, good morning. Sorry, about -- I got disconnected. Carlos, would you comment, maybe you did before, but I was offline for a couple of questions perhaps. Could you comment, Carlos, on the impact of the longer than normal maintenance stoppage and trees? Although you don't give guidance, but you can maybe try to quantify to some extent or give some color on the potential impact on cost as well as pulp production, that will be great.

A - Carlos Anibal de Almeida {BIO 19090865 <GO>}

Good morning. We usually do not give any informational guidance about what happened with our planned shutdowns. So I'll ask to apologize me, but I can not disclose that information, no. Definitely we're going to have an impact on our cash cost for this month due to the shutdown.

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

Thank you.

Operator

Our next question comes from Juan Tavaréz with Citi.

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Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi, thank you. Good morning, everyone. So my first question just following up on pulp. I'm just curious, you mentioned that you saw stronger than expected demand during the third quarter, but what would you attribute this to? Is end demand growing or are customers restocking? Kind of what's your perception there? And kind of thinking about inventories, you did mention that inventories today are somewhat comfortable for you. But I'm also curious, how high could it go in term -- if demand were to face any challenges? How high could we see inventories be restocked at Suzano to the point that you won't need to take any production downside? Thanks.

A - Carlos Anibal de Almeida {BIO 19090865 <GO>}

So as I said and you could realize the demand again on Q3 was much stronger. That happened in all of our key markets in US, in Europe, and China. And that has to do with the demand growth. If you look at PPC numbers that were released yesterday, we are talking about a growth of roughly over 100,000 tons per month. So I think we benefited from that in all of our key markets. So could you please repeat your question about the inventory, Juan?

Q - Juan Tavaréz {BIO 15083199 <GO>}

Yeah. I'm just curious, in an environment, let's say, that either demand were to slow down and you would try to restock your inventories, how high could they go above what you consider comfortable levels? Are you willing to take it 5, 10 days above or you consider normal in order to try to balance the market? Just curious.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

As I said, we are still running at a very low level and we easily can have space to increase our stocks in about 5 to 10 days of production depending on the market conditions. Depending on the demand, depending on what we get from our customers in terms of their needs for the coming months.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay, thanks. And maybe if I can just ask a question on paper, since we started to see this currency move, I'm curious if you see any risk of pressure from imports or if we could potentially see a rollback of the some of the price hikes implemented on the paper side?

A - Leonardo Grimaldi

Thank you, Juan. Up to now, imports are decreasing in Brazil. In the third quarter, imports of printing, writing, and paperboard have decreased 21% compared to the third quarter '17 and almost 10% year-to-date. Regarding prices and what we are looking for in the effect of the import -- of currency, as you know, our price dynamics depend on several factors, such as seasonality, supply and demand, freight rates and not only currency. But unfortunately at this time, we cannot give further guidance for the fourth quarter.

Q - Juan Tavaréz {BIO 15083199 <GO>}

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Okay. No worries. Thank you very much.

Operator

Our next question comes from Renan Criscio with Credit Suisse.

Q - Renan Criscio {BIO 18747357 <GO>}

Hi, good morning, everyone. Thanks for the questions. So basically, just one follow-up here on the leverage side and dividend policy. You mentioned in the past, that you intended to pay the minimum dividend in order to not to jeopardize that leverage process throughout the next year. So now considering this new and better scenario for cash flow generation, do you consider perhaps being more flexible on paying dividends and perhaps increasing the dividends for the next year? And also, my second question is on the effect to the consumer goods business. You are still in the ramp up phase. Can you elaborate more what can we expect for the consolidated margin once you reach full capacity in the consumer goods?

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Renan, thank you for your question. In terms of dividend, I think as we've said before, we have more flexibility on the leverage side right now, but we still have to see how we progress during the year to see what we can do in terms of dividends, but the base case is that we're going to pay minimum dividends next year, but see if the cash flow generation is higher than we expect, we may have that discussion again during the year.

A - Walter Schalka {BIO 2099929 <GO>}

Related to the consumer goods, Renan, thank you for the questions. Of course, the margins are pressured because the pulp prices that we are -- using the pulp prices going from the pulp business to the consumer goods at market levels. Of course, the margins are pressured at this point of time. We are trying to enhance our margins through price increases on the consumer goods at this point of time. And this could allow us to have better margins, of course, we are not going to give any guidance on that.

Q - Renan Criscio {BIO 18747357 <GO>}

That's great. Thank you.

Operator

We are now closing the question-and-answer session. I will pass the call back over to the company for the closing remarks.

A - Walter Schalka {BIO 2099929 <GO>}

So, ladies and gentlemen, I would like to give a broad picture to you from what we are doing right now. I think the company is going through a major transformation. We are very pleased not only with our operational results, we are preparing ourselves for the future. We are preparing our ourselves to have with our -- all of our stakeholders to create

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and share value with all of them. We are very pleased with the results of the company, but we are looking for the moment that will be able to have the closing of the transaction of Fibria and deliver the synergies for the future. We are very humbled, and we are very dedicated to prepare the company for the future at this point of time.

The company is going to be the fourth largest company in Brazil. This operation is combined operation between the two entities. It's quite important not only for the companies and the shareholders, but it's important for the country. We are becoming more and more competitive on a world-wide basis. We are preparing the company to have a lot of optionality for the future and we are very pleased at this point of time with -- that we are on track and on time on the time line with right time line, not only with this transaction, but we are delivering extremely good operational results at the same point of time.

Again, thank you very much for your support. Thank you very much for the team. We are very pleased with the 9,000 employees' efforts that we are doing right now to deliver good result, looking for the present, and preparing the future of the company. Thank you very much and hope you have a nice weekend.

Operator

That concludes the conference call of Suzano Pulp and Paper. Thank you everyone for participating and have a good day.

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