

Q1 2021 Earnings Call

Company Participants

- Alexandre Nicolini, Pulp Business Officer
- Cristiano Teixeira, Chief Executive Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Paper Business Director
- Marcos Paulo Conde Ivo, Chief Financial and Investor Relations Officer

Other Participants

- Cadu Schmidt, Analyst
- Caio Greiner, Analyst
- Carlos de Alba, Analyst
- Daniel Sasson, Analyst
- Gabriel Galvao, Analyst
- George Staphos, Analyst
- Marcio Farid, Analyst
- Rafael Barcellos, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning and welcome to Klabin's Conference Call. At this time, all participants are in listen-only mode. Later, we will hold a question-and-answer session when further instructions will be given for you to participate. In the benefit of time, we ask analysts to please limit your questions to two. (Operator Instructions)

As a reminder, this conference is being recorded and broadcast simultaneously via webcast, and you may access it at Klabin's Investor Relations website where the presentation is also available for download. Forward-looking statements that might be made during this call in relation to Klabin's business outlook, projections, operating and financial targets and potential growth, should be understood as forecast based on the company's management expectations in relation to the future of Klabin.

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

Today with us we have Mr. Cristiano Teixeira, CEO; Marcos Ivo, CFO and Investor Relations Officer and the other company officers. Initially, Mr. Teixeira and Mr. Ivo will comment on the Company's performance during the first quarter of 2021. After that, all the officers will be available to enter any questions that you might have.

Now I would like to turn the call over to Mr. Teixeira. Mr. Teixeira, you may proceed.

Cristiano Teixeira {BIO 17567319 <GO>}

Thank you very much. Good morning, everyone, and welcome to the first quarter of 2021 earnings conference call of Klabin. The first quarter of this year confirmed the upswing and the demand that we already noticed in the second half of 2020.

This market recovery scenario together with the sound operating performance drove the Company's results during this period. In packaging, the first quarter, delivered a vigorous growth both in sales volume and prices driven by the domestic market consumption, the rebuilding of inventories in the whole supply chain, e-commerce and the growth in export e-sectors such as proteins and fruits.

I would like to remind you that we have now completed six months of integration since the acquisition of the corrugated boxes and recycled paper operations of IP in Brazil with higher than projected volumes and prices consolidating 24% market share vis-a-vis 17% before the acquisition growth of 54% in sales volumes and 78% in net revenue from sales in a year-on-year comparison.

In Pulp, besides the good performance in all fibers in terms of prices, the broad spread between hardwood and softwood of about \$220 per ton ratifies Klabin's accurate decisions to have a diversified portfolio anchoring its position as the only Brazilian company in this sector to produce three types of pulp.

In Kraftliner, the drop in exports from the United States due to the good performance of corrugated boxes domestically cost prices to react in all regions of the world. And with the increase in sales volume, the devaluation of the real vis-a-vis the dollar beside the price recovery in the pulp, papers, and packaging market, which allowed for adjustments in all Klabin business product line, the company net revenue in 1Q'21 was BRL3.467 billion, 34% higher on a year-on-year comparison.

Our adjusted EBITDA, net of the non-recurring effect in the quarter was BRL1.254 billion up by 22% year-on-year. With an integrated, diversified and flexible business model, the good performance delivered in 1Q'21 shows once again Klabin's capacity to deliver sound and consistent results regardless of the market conditions.

With the announcement of the scope of the second Puma II Project machine, which will be a coated board machine, Klabin reinforces its diversified product portfolio besides continue to offer the market recyclable biodegradable solutions coming from renewable sources.

Now, I would like to give the floor to Marcos Ivo, who will bring you the financial details of the first quarter of 2021.

Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Thank you, Cristiano. Good morning, everybody. Thank you for participating in our call. We delivered another quarter of positive results and among the highlights of the period I mentioned three.

Record net revenue for one single quarter reaching BRL3.5 billion with a growth of 34% year-on-year. Adjusted free cash flow BRL4.5 billion in the last 12 months representing a yield of 17.4%. I would like to mention also the issuance in January of a Sustainability Linked Bond amounting to \$500 million with a maturity of 10 years, the lowest cost ever for a Brazilian company with the same rate as Klabin, the seminal example of monetization of the company's sustainability.

On page four, sales volume went up by 7% compared to the first quarter were 20% reaching 909,000 tons. The increase in the sales volume was driven by the integration as of October 2020 of the assets acquired by International Paper in Brazil.

As I said before, net revenue in the period was BRL3.5 billion and this growth is explained by the increase in the sales volume by the depreciation of the real vis-a-vis the dollar that favors the share of the company sales as exports and also by price adjustments.

The hike IN net revenue despite the some pressures on costs and the impact of the general stoppage of Monte Alegre for maintenance drove the adjusted EBITDA that net of non-recurrent effect reached BRL1.254 billion in the quarter, growing by 22% year-on-year.

On the next slide, pulp production was 413,000 tons in the quarter. With that pulp production reached 1,562,000 tonnes in the last 12 months. I would like to remind you that the next maintenance stoppage of the pulp unit will occur only in 2022. Pulp production cash cost was BRL776 per ton in the period, 3% higher than the fourth quarter of 2020 due to the higher cost of chemicals and fuels linked to the higher prices of commodities and the devaluation of the real vis-a-vis the dollar.

It's important to see that the cash cost of the quarter in dollars was 141 per ton stable quarter-on-quarter and 9% lower year-on-year. Going to page number six. At the end of March 2021, Klabin's net debt was BRL21.7 billion, a BRL2 billion increase on a quarter-on-quarter basis and this increase is explained substantially by the depreciation of the Brazilian currency vis-a-vis the dollar that affects our dollar denominated debt and leverage measured by the net debt EBITDA ratio in dollars closed the quarter with four stable relation to the previous quarter within the parameter established in Klabin's financial indebtedness policy and consistent with the current investment cycle.

Moving onto the next slide. The company's liquidity remains robust and ended the quarter at BRL11.4 billion. The liquidity consists BRL8.5 billion in cash and the remainder in

a revolving credit line. The average debt maturity between 2021 and 2023 period in which Puma II is still under construction is of BRL1.1 billion a year, a comfortable level for the company.

Average tenor for debt maturity by the end of March 2021 was 128 months approximately 11 years vis-a-vis 116 months by the end of 2020. Also the company has credit lines available and not draw down, which are enough to finance the CapEx to be disbursed until the conclusion of Puma II and the details are available in the release.

Turning to page eight, adjusted free cash flow, net of discretionary items and expansion projects was positive in BRL303 million in the quarter. In the last 12 months adjusted free cash flow was BRL4.5 billion representing an yield of 17.4%.

Now on page nine, our sound operating cash generation combined with discipline in capital allocation drove up ROIC, which reached 16.5% in the last 12 months. This result once again shows Klabin's ability to consistently create value to its shareholders under the different economic scenarios and product price cycles.

And the last slide in an evaluation carried out on May 2th, the first Puma II machine had 88% of the works executed and it's the start-up is planned for the second half of July 2021. Since the beginning of the project BRL5.8 billion were disbursed out of those BRL497 million in the first quarter of 2021.

In a material fact published on the 5th, we informed our decision to convert Puma II second machine in a coated board machine, which will have an annual production capacity of 460,000 tonnes and the start-up planned for the second quarter of 2023. For more information on that decision, we have a presentation available on the company's IR website.

Now Cristiano, all the other executive officers, and myself are available to take your questions.

Questions And Answers

Operator

We will now start the Q&A session. (Operator Instructions) Our first question is from Gabriel Galvao from Credit Suisse. You may proceed.

Q - Gabriel Galvao

Good morning, everybody. First, thank you very much for the opportunity to ask this question. Congratulations for the results. My first question has to do with your prices. ForEx in China for hardwood was close to \$610 per ton on average and your price was close to \$530 per ton including domestic sales and export sales. So maybe you could talk about what impacted this discount in the realization of your prices in this quarter and should we expect this to continue in the second quarter and the second one, it has to do

with kraftliner and corrugated boxes. One ton of corrugated to be integrated and if we do this math for the fourth quarter. Since the first quarter, you were selling more kraftliner than it would be possible 1.4 tonnes of kraftliner per year 350,000 per quarter. So could you explain the reason for that? Is it because of third-party purchases of paper or what lies behind this discrepancy? Thank you very much.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Gabriel. Let's start by Nicolini, our Pulp Executive and then Deganutti will follow.

A - Alexandre Nicolini {BIO 21861040 <GO>}

Thank you, Gabriel. Thank you for the question. Our average price is based on our sales mix in all the regions and what we understand is that for calculation of prices for the domestic market. In our viewpoint, there were some differences and the assumptions because of the PIS and COFINS taxes that were not removed from the calculation that add 9.25% in the price to the price. I would like to remind you that this was made public already and another opportunity. We have one-third of our sales in the domestic market and that followed the ForEx prices linked to the European prices. We have a participation in the European market and the evolution of ForEx was lower vis-a-vis the price increases in China, but looking at the average prices and including the domestic sales we see that prices were reached in their magnitude.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Nico. With Deganutti kraftliner and corrugated boxes.

A - Flavio Deganutti

Gabriel, thank you. Klabin's balance sheet from the point of view of kraftliner has many elements. We are living in a very special moment. We are about to start Puma II with a large machine for Eukaliner in July, but in Brazil we also have the purchase of or the acquisition of Paper and this explains that because we have buyers as it does make sense from the geographical viewpoint and capacity balance. So this gives us a good equation.

Q - Gabriel Galvao

Thank you very much.

Operator

Our next question is from Daniel Sasson, Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Hello, good morning, everyone. Thank you, Cristiano and Marcos for your presentation. My first question is about your strategy to fill up the second machine of Puma II with a volume of coated board as soon as possible. I would like to understand where you can have this upside coming from. So when this is going to happen, if you were actively trying

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to sign contracts for coated board volumes, what is the percentage of guaranteed volume that would make you happy and that would be nice for us to understand the potential of this change and the project's scope. And my second question is about the pulp price and also as a follow-up coming from the prior question. In addition to the spread between the fibers that you mentioned. Also there is a spread between regions right in Europe is \$100 behind when compared to China. How much do you think this spread can be at. Do you think there is the possibility of Europe's price getting close to what we see in China today or maybe even because of seasonal matters or demand. Do you think that China could start but -- and bringing the price down. If you can comment a little bit on that -- on these differences, I would appreciate. Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Sasson. Deganutti will talk about the strategies on machine that you need.

A - Flavio Deganutti

Sasson, thank you for your question. We look at our historical basis and the coated board market is behaving very well specifically virgin fiber coated boards for industrialized food. When we do that projection Klabin has already today a platform of 700,000 tonnes with its two coated board machines in Monte Alegre's unit, only that and the organic base will allow us to have a significant growth at a rate of 2.5. When we do the same projection using what happened in 2020 in the beginning of 2021 as well, this growth in Brazil and all over the world was closer to two digits, the growth change there is a huge penetration and once again this is Klabin's -- actually Klabin has 90% of its coated board portfolio in hygiene and food segment in 2021, the growth was over 26% for those areas. This way Klabin is clearly looking for contracts and technologic coated boards such as LPB&G. Okay for clusters packaging and the beer segment, but also we have -- not only demand that we're expecting for 2023, we are seeing in 2021 what we expected for 2023 in a scenario, in which the capacities entry for competitors is limited. These curves are projected in scenarios and they are in the presentation that Marcos mentioned a little while ago. So we see a good scenario for that market in terms of demand and acceleration that is significant according to the curves that we informed on May 5th.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Flavio and now Nico.

A - Alexandre Nicolini {BIO 21861040 <GO>}

Hello, Daniel. Good morning and thank you for your question. The prices in Europe are evolving consistently as you have seen in the latest indexes published by ForEx. In fact that there was a delay in the beginning of the year in the prices performance, but they are increasing as I said consistently in the past few months and even weeks and we expect that this gap with China starts to close when they come down with the \$1,090 that was announced. We believe this price will be applied and with implementation of \$1,090 the gap will become of more or less \$50 per ton that is -- there is still some room for possible price adjustments in Europe and in the US if the demand allows it.

Q - Daniel Sasson {BIO 19234542 <GO>}

Excellent. Thank you very much.

Operator

Marcio Farid with JPMorgan.

Q - Marcio Farid {BIO 21017394 <GO>}

Good morning, everybody. Thank you for the question. I have two questions. One regarding Pulp. Nico, how do you see the market in China. Recently, we saw price adjustments some talks about the loss in margins, producers of tissue could that impact negotiations in the next few months with the price levels that we have today in China. The second question on the paper side. We understand the rationale of the decision made about the second machine and the change in scope. But I would like to understand why now and why wasn't it defined in 2019 when the project was announced. I believe it has to do with more favorable dynamics towards paperboard than kraftliner today. But could you talk about the level of confidence that you have in terms of paperboard and do you believe that it was the best decision why was it made after the pandemic or was it made before the pandemic and that's it.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Farid. Nico?

A - Alexandre Nicolini {BIO 21861040 <GO>}

Good morning, Marcio. Thank you for the question. What we have been seeing in China since mid-April is a leveling of the price levels. This is a natural process because of the speed and the implementation of price increases in China vis-a-vis other geographies. Nevertheless, we do not see a point of inflection right now because demand overall continues to be strong and market -- continued with a very good performance and the volumes contracted in China being purchased with no big problems. The US market with a good performance and price evolution for these markets. So we do not see any change in the horizon at least not in the short run.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Farid, regarding papers and the strategic decision about the machine, I would like to start by a point that you raised regarding confidence. Plastic has changed, migration from plastic has changed a lot in the last couple of years.

Two of Klabin's businesses where we felt that very strongly. I would even include a third one, but this is more recent. In the last couple of years bags, paper bags, with a very strong demand to replace plastic which motivate us quite a lot and Klabin is very important in this market and this is a strategic vision and we feel very confident in our talks with our Board.

The other one is coated boards, coated boards for beer had a strong dynamic in the US. So migration from the plastic packaging or stretch packaging and we see this in the small

breweries, not only in Brazil, but all over the world that really drove the market of coated board and after that, the replacement of plastic came very strongly.

So putting all that in context kraftliner is a safe haven for Klabin. Kraftliner is the product for the future of Klabin. I have already said that in other call that Klabin in the future vis-a-vis global players. Klabin will be the main or one of the two or three main players and producers of virgin kraftliner in the world.

So I have no doubt whatsoever about that and we can bring investment of kraftliner in another side of Klabin investments that will be bringing benefit similar to the benefit achieved with Puma. And one of the main drivers of our investment in Puma II was the dilution of fixed costs that we can replicate the model in other units of Klabin, for instance, for kraftliner.

The coated board market is a smaller market and it is limited only a handful of players, only a handful of buyers, very high lead technological by means of complex high-end industrial complexes, industrial processes and Klabin is one of the few global producers of LPB for instance, but this specific machine showed us that not necessarily we needed to have at the beginning major contract and the effect in the last couple of years of plastic replacement gave us the necessary level of confidence. And as I answered the first part of your question. So we are very confident, we are very assertive regarding our decision, but we have to mention and remember that kraftliner is our safe haven and this is what drives us to the future.

Q - Marcio Farid {BIO 21017394 <GO>}

Okay. Just a follow-up please for kraft. Do you have a more aggressive plan to become more relevant. You have been exporting even to the west, a market that was dominated by large local producers. So do you intend to grow kraft more aggressively and tapping into the opportunity that the plastic replacement is bringing to you? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you. And the answer is yes for kraft and the convertible bag is a product that is in our portfolio with more credibility than ever in terms of strength of the competitive differences of Klabin and bags becoming more and more technological in order to really go after the competition and exceed the competition go beyond them and we have strategic debate with our Board to continue to have this in our portfolio.

Q - Marcio Farid {BIO 21017394 <GO>}

Very clear. Thank you very much.

Operator

Next question from the english room. Mr. Carlos de Alba.

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

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If I may on some numbers, working capital, you reduce your cash generation this quarter as expected. How do you see that progressing in the coming quarters. And then SG&A surprise to positively relative to our expectations. How do you see that also evolving in the next few quarters and years as the company grows. How much of the fixed cost will be diluted and how much will increase just because the company will be bigger. And then finally very interesting chart on the return on invested capital. I see that you adjust for the construction in progress that is clearly not generating EBITDA right now, but you have already put money into it. In your modeling, what do you see as a sustainable long-term after Puma II Stage 1 and Stage 2 you return on invested capital? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Excuse me. You should proceed answering in Portuguese. My apologies. Thank you very much, Carlos. To remind you that this is the first time that I hear you perfectly, Carlos. I would like to congratulate everyone here at Klabin and our IR team because this is the first time that I really hear you perfectly. I will turn to Marcos. But before I would like to make an observation, a strategic observation on the SG&A. I think this is a topic that it goes with what I just said considering Klabin has projects that are focused in Parana and Santa Catarina at least in the cycles that we are analyzing now. These investments will come to dilute the fixed costs of Klabin. So I just would like to bring to you this strategic view, which is important of value creation that offsets a traditional response in the pulp and paper sector, which is increase the capacity and increase the radius of purchasing wood and this is also true, but Klabin is constantly increasing its productivity and ForEx is diluting its fixed costs and these two things offset one another. So now I will turn the floor to Marcos.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Thank you very much, Carlos. Thank you for your questions. Now about the working capital. First, I would like to say that in the last 12 months, we reduced the working capital in BRL1.9 billion. Oscillations among the different quarters are natural. We have also seen that last year and structurally wise Klabin will keep on working to reduce its working capital vis-a-vis the company's net revenue. This is our constant goal and over time we will be seeing the results specifically about the next quarters. We have an event which is the start-up of the first machine of Puma II, which was going to produce Eukaliner and it will have an increase in the working capital because it has an inventory and a little bit of receivables. But that does not change the trajectory of what we want in the mid and the long term, which is to bring it down the working capital vis-a-vis the net revenue of the company. About SG&A, we also have seasonalities in the different quarters, but what Cristiano said, I think is the main message here, which is over time with the company's growth and we already have a significant growth contracted right now with the start-up of Puma II. So SG&A per ton or in a percentage of net revenue will have gains over time. About our ROIC. In fact, we do have a part of our capital there that is not included in our accounts and this is part of the capital that has been already spent in Puma II. When Puma II project starts producing we'll have EBITDA and this is going to be part of the capital allocated by the company and we do not have a target that we can disclose, but how do we see it in strategically wise. The projects, the large projects that Klabin carried out in the past few years and here I should mention Puma I and Puma II that is under construction right now and the future investments. They have ROICs that is higher than Klabin's ROICs ex these projects and therefore we'll be seeing in a sustainable fashion an ROIC growth.

But we also will have changes oscillations among those quarters, it's not going to be a steep curve. It's going to have changes because of the product cycles, but if we analyze in the mid and the long-term ROIC will be increasing, okay, when compared to the past.

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

All right. Thank you very much. Good luck with the ramp up.

Operator

Mr. George Staphos in English. Bank of America.

Q - George Staphos {BIO 1495442 <GO>}

Thanks very much. Good morning, everybody. I appreciate the details and we appreciate you taking our question. First question I had will be on Monte Alegre and the maintenance outage and then the next question will be on the global outlook for containerboard. Gentlemen, can you talk about the outage this year at Monte Alegre what the year-on-year cost difference was versus 2020 and for that matter forgetting about timing here, but just in terms of the overall expense that would be incurred in a year. How does the Monte Alegre maintenance spending look for '21 versus 2019 and what did you do differently and what are the implications for 2022. So increase or decrease in costs over those comparative periods and what is it accomplished for Monte Alegre as we look out to 2022, that's question number one. Question number two, given our global model we have operating rates and containerboard improving about 300 basis points in 2021 versus 2020. Yet, we're seeing signs at least in the OCC market that the global market has maybe stabilized. What are you seeing early in the second quarter in terms of containerboard trends. Are you in fact seeing an increase in acceleration in demand for containerboard and pricing or are you seeing some stabilization and if you can provide some color on that, that would be great? Thank you very much.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you very much, George and Deganutti will help us here.

A - Flavio Deganutti

Hi, George.

Q - George Staphos {BIO 1495442 <GO>}

Hey, Flavio. How are you?

A - Flavio Deganutti

Okay, let's talk about Monte Alegre and the stoppage, the general stoppage. In 2020, we had an important situation in terms of the COVID pandemic. And due to this reason, we had to dedicate part of our work especially to the central plant and reducing the number of people in the plant and for 2021 this led to an increase or a widening of the scope. So the way you should look at it is the average between what was realized in 2020 and

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added to what was realized in 2021. In 2022 it will happen after February and March this year as of the average values between 2020 and 2021. Now regarding the second question, I can add to that, if it was not very clear. The market has room for growth. The global containerboard market has room for growth. We see especially the US market that we are very familiar with and the market continues to have a very accelerated demand, higher than the capacity that came in both there and in Europe and what we see for the second half is stabilization closer to the end of the year. So we see a very benign scenario for the -- our capacity of Eukaliner as of July this year.

Q - George Staphos {BIO 1495442 <GO>}

Thank you. That's very clear. I just wanted to ask a point of clarification on Monte Alegre. Could you give us from your most recent calculations or estimate what the cost was in BRL this year versus last year? Thank you.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

George, this is Marcos Ivo.

Q - George Staphos {BIO 1495442 <GO>}

Hi, Marcos.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

The numbers that we published, the stoppage of 2020 of Monte Alegre had a cost of BRL30 million and this year stoppage BRL96 million.

Q - George Staphos {BIO 1495442 <GO>}

Thank you very much, Marcos.

Operator

Our next question comes from the Portuguese room. Mr. Caio Greiner, BTG Pactual.

Q - Caio Greiner

Hello. Good morning, everyone. I have a question for Cristiano. Now with the startup of the first machine of Puma II very close and having taken the decision about the second machine. We start thinking about what is going to be your next step for growth. Klabin's leverage because of pulp obviously is going to be close to three times by the end of the year. And I would like to know if it makes sense Klabin is start thinking or start preparing itself for about four in terms of next investment round even before concluding Puma II and understanding if the company could work on two different growth avenue growth and also can you share with us where do you consider to be the next project, you mentioned that inevitably you probably will grow more on kraftliner. This is a project that you might be adding maybe an additional machine of long fiber in the south of the country and additional consolidation in M&A and corrugated box or maybe products such as a soluble pulp. I would like to know if you have any updates on that and if possible what would be

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the ideal leverage that you consider to be know from this point on and I can go for the next growth stage. And your second question about corrugated box. We see that you were able to deliver a 10% growth in the net revenue, but one of your competitors was able to implement prices in 20% -- 25% in the quarter. That's relevant. We understand that Klabin's price implementation might be slower because the way that you were getting the results, but we also see that the prices of OCC is going up in Brazil is over BRL1500 per ton here. So what I would like to know is, does it make sense to wait for another round of 10% increase in the next quarter and then 10% in the following quarter. Are we going to see that type of increase that we saw in your competitor diluted in the next quarters? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you very much, Caio. Okay, let's talk about investments. We are not going to take our eyes out of our focus right now. We have a huge responsibility with the company we wanted to start working very well with machines 27 and 28. There is no way about thinking there was no way that we are going to think about the sector a year before announcing anything everything in this sector in this industry. You start thinking years before and you can see that's because of the wood cycle. What I could tell you is that this is a constant conversation with our Board of Directors. This is a strategic view of the future et cetera, but right now our focus is on machines 27 and 28, we are dreaming about the future, but it will come in due time. Douglas Dalmasi our Packaging Officer is going to talk about the dynamic for corrugated boxes.

A - Douglas Dalmasi

Hello, Caio. Thank you for your question. Well, part of the answer you already have. We have a size where we have a greater share on key accounts. Therefore the speed of our adjustments and the price increase is different from the rest of the market for the next few months and supply and demand. We expect that the second half of the year is usually strong and that combined with the supply and demand going well for the year. We do not see new capacities coming in from corrugated boxes. OCCs we do project that the costs for them is still high and stable at this high price. So we see price increases there and throughout the year and also margin improvements for the rest of the year. We cannot disclose the level there, but we do see a margin improvement from now on up to the end of the year as we are seeing.

Q - Caio Greiner

Perfect. Thank you very much.

Operator

Next question is from Mr. Rafael Barcellos from Santander. You may proceed.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Good morning, everybody. Thank you for the question. I would like to talk about corrugated boxes. You continue to gain market share. Do you believe this will continue in the next few quarters and what is the level of market share that we could expect by the

end of this year. M&A, could it be a strategy for corrugated boxes. Not only corrugated boxes, but maybe other areas of the company as well? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

I will start by your second question and then Douglas will talk about corrugated boxes. There is no M&A being evaluated by Klabin right now. What I always say to you is that of course we always pay attention to opportunities that might arise and in the last few years we made three acquisitions. International Paper was the most relevant, but we also made one acquisition in Manaus and another one in Parana. And the whole market share that we acquired by -- led us to increase even more and the success story has to be reckoned with besides organic growth then besides our engineering capacity for organic growth and our forestry and productivity gain in our forest for organic growth. Klabin is also a company of consolidation and we are very proud to say that this happened always reflecting the markets and the partners, everybody and we have been able to consolidate what and deliver what we promised, but there are no M&As being considered right now. So Douglas?

A - Douglas Dalmasi

Rafael, thank you for the question. Our market share with the acquisition that came to 24% and as Cristiano said, we are always looking at new opportunities, we have this vision of integration whenever we have a project for paper and there is a possibility for integration and integration of International Paper was very successful. We have not lost any share. We maintained it and this is the way we should go on maintaining this share and looking at new opportunities and integration.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Thank you very much.

Operator

Our next question comes from Thiago Lofiego from Bradesco BBI. You may proceed.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much and good morning. I have two questions. If you can comment more on the initiative of price increase for coated board. What do you already have and what do you have coming for the next quarters? New initiatives for coated boards in the domestic market. And second question about cash cost for Puma. Puma I, what is the trend here and those last quarter, if I'm not mistaken, it was BRL770 per ton. What can we consider from now on which are the variables involved and what is the level that you're expecting for the next quarters? Thank you.

A - Flavio Deganutti

Hello, Thiago. This is Deganutti. The Brazilian coated board, the market has huge demand. As I said initially, it's over 26% in the first quarter of this year. There was an inflationary pressure that is significant in the industrial costs as we had a price movement

in January and another price movement in April. Today we have a long portfolio and this is going to be visible and the results of the second quarter of 2021.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Hello, Thiago. This is Marcos Ivo. Now about the cash cost for Puma I. We have pressure on chemicals and fuels and your understanding and your vision considering we have changes and the quarters, but if we analyze for 2021 and 2020 we should have a cost increase slightly higher than what we predicted in the first quarter of 2021 vis-a-vis first quarter of 2020 because our ForEx supply forecast for the next months, some increase of the third-party wood and that implies greater average radios. Therefore again implying higher costs of fiber.

Q - Thiago Lofiego {BIO 16359318 <GO>}

And just to understand then, the cost was up 3% year-on-year, in the first quarter, you're saying that in 2021, the average cost of 2020 should be higher than 3%. Is that it?

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Well this 3% is quarter-on-quarter and what I said is the first quarter of 2021 vis-a-vis first quarter of 2020, so it should be a little bit higher than what you are seeing in that comparison.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. I'm sorry I might be wrong here. But from what I see it is 3% against the 3Q '20. I just would like to understand it would be if it would be more than 3% or if I'm using the wrong number.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

It is more, but look at the presentation, the presentation we just showed there is a specific number there.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. I'll check that. And I'll come back to you later if I need.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Okay.

Operator

Next question from Mr. Cadu Schmidt from UBS. Please you may proceed.

Q - Cadu Schmidt {BIO 21245445 <GO>}

Good morning. With a different focus now. Could you quantify the magnitude of price increases that we could considering the spot price and the net revenue have already

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talked a bit about it, but we would like to better understand that along the same lines, Flavio. What about the price dynamics of paper prices in the domestic market in the last few quarters for the historical levels it was explained by the fast depreciation of the currency, but when could we expect a reduction in the spread. The interpreter apologize but the sound was very bad here.

A - Cristiano Teixeira {BIO 17567319 <GO>}

The price carryover, Cadu, we cannot say anything about price carryover and Thiago will tell you the dynamics of the paper market. Cadu, I'm going to talk about the coated board and the containerboard markets, which are the main ones. Board is very much contracted and the dynamic suffers the effect of the validity of the contracts or the time or the duration of the contract that we have signed with the main players and client in the business the kraftliner has a more lose to say dynamic over the year that gap will be closed gradually between export prices and domestic prices and we know that we have a major increase in capacity, that will be coming in line and correct.

Q - Cadu Schmidt {BIO 21245445 <GO>}

Thank you very much.

Operator

The Q&A session has come to an end. I would like to give the floor now back to Mr. Cristiano Teixeira for his closing remarks.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Now I would like to bring our perception for the second quarter of 2021. The flexible operating model and the favorable moment of market will allow Klabin to once again optimize its results. We should be delivering and even stronger growth in cash generation measured by the EBITDA in 2Q'21 and even stronger one if compared to the one that we saw in 1Q'21 vis-a-vis 1Q'20. Klabin persists in its vision of growth and value generation in the long run and focus on people, innovation, and sustainable development and more specifically about sustainability. I would like to reiterate our commitment with the best market practices and I highlight the Company's engagement in the world climate change agenda. Thank you very much for your presence and I hope to see you all in our next quarterly meeting.

Operator

Klabin's conference call has come to an end. We thank you very much for your participation and wish you a very good day. Thank you very much.

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