

Y 2018 Earnings Call

Company Participants

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

Other Participants

- Carlos De Alba, Analyst
- George Staphos, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to the conference call of Suzano to discuss the results for the fourth quarter and the year 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; and Leonardo Grimaldi, Paper Executive Officer.

Afterwards, we will begin the question-and-answer session and further instructions will be provided. Remember that each participants 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>}

Sorry. Hey, good morning, everyone. It's a pleasure to have all of you in this presentation where we are going to present the full year results of Suzano Pulp & Paper and talking a little bit about the new entity, about new Suzano. It's a great pleasure to have all of you with us.

We have here in the room, Camila Nogueira, we have Manuel Paiva, we have Christian Orglmeister, we have Alexandre Chueri, we have Marcela Porto, Carlos Anibal, Marcelo Bacci, Aires Galhardo, Pablo Machado, Leonardo Grimaldi and myself. It's a very, very large part of our executive team with us today.

I would like to start the presentation talking a little bit about 2018. Was an unforgettable year for us. Best year in our history and a major turning point on our history with the combination of the assets between Suzano and Fibria. We have merged two winning companies preparing for the future. We have first quality level of assets and we have a very well prepared and motivated team that will enhance our operations for the future.

We've concluded transaction early this year and it was a little bit ahead of our schedule. And we are very positive from the first results that we are seeing combining and the synergies that we are facing at this point in time. Last year, we had a major tailwind on our price. We had 25% higher prices than the previous years in dollars on the pulp side. The paper had extremely good year as well. And now we're going to go in more granular information to you in a matter of minutes. And we have extremely good prices on the fourth quarter as well, slightly higher than the third quarter on the pulp and on the paper side.

Talking a little bit about the ex-Suzano, the old Suzano, we had a record operation of cash generation with BRL5.5 billion and record EBITDA as well with BRL6.8 billion. This is related with better FX, higher pulp prices and better operational performance, both on pulp and paper. On top of that, we had last year the achievement of the investment rate. On March 16, when we announced operations, S&P upgraded it to investment grade as we had already, let's say from Fitch. Now we are investment grade at this point of time.

Now I will pass to Leo, who is going to present our paper results.

Leonardo Grimaldi

Thanks, Walter. And good morning everyone. I would like to present the results of Suzano's paper business unit for the fourth quarter of 2018, which was another record quarter for us. The figures presented on Slide 4 are specific to our paper business unit. Therefore, excluding Suzano's consumer business units' results and enabling us to have a better comparison with the past quarters.

Beginning with the top left graph, we have produced 315,000 tons during the fourth quarter and 1.19 million tons in 2018. With our focus to improve operational performance, we have achieved a 2.9% production increase when compared to 2017. Moving on to the top right graph, we have sold 328,000 tons of paper and paperboard in the fourth quarter, 6.5% higher than the third Q '18.

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Sales in 2018 totaled 1.18 million tons, in line with 2017, despite the effects of the trucker strike in Brazil. We can hold stability in Brazil and in our exports. We have again used our commercial flexibility to sell our products in more than 70 countries worldwide. When you look specifically at our paper and paperboard sales in Brazil, we can note a 3.2% increase compared to the third Q '18 and a 5.5% increase compared to the fourth Q '17. We have observed a decent seasonality in 2018 compared to '17, but the full year volumes added up to 804,000 tons, which again very stable when compared to 2017.

Iba, our pulp and paper association, posted the figures for January to November 2018. The domestic industry sales of printing and writing and paperboard grades have increased 1% compared with the 11 months of 2017, but imports have decreased 13%.

Looking at the lower left side, we can observe that our prices in Brazil have again moved up during the quarter being 3.7% higher than what they were in the third Q '18 and 16% higher than the fourth Q '17. 2018's average prices were 11% higher than in 2017. In the bottom right part, our export average prices have decreased 2% during the fourth quarter when compared to the third Q '18, due mainly to products and geography mix, but has risen 9% compared to the fourth Q '17. Our average 2018 export prices were 11% higher in dollars when compared to 2017.

Moving on to Slide number 5. We can see that as a result of production stability, solid sales volumes and successful price increases in all markets, our adjusted EBITDA margin has now reached BRL1,326 per ton. This is a 70% increase in EBITDA margins when compared to the fourth Q '17. Our average EBITDA margin in 2018 totaled BRL1,152 per ton, posting a 48% increase when compared to 2017 average margins. Our paper business units ROIC has also increased, reaching 16.6% in the fourth Q '18.

I would now like to invite Carlos to present a little for the pulp business units.

Carlos Anibal de Almeida {BIO 19090865 <GO>}

Thanks, Leo. And good morning, everyone. So let's move to Page 6 of our presentation to cover the pulp business results. My initial comments will be related only to the previous Suzano Pulp and Paper. The pulp business delivered a record revenue in 2018, up BRL8.8 billion, which is roughly \$2.4 billion. This was a result of primarily strong pulp price and a stronger U.S. dollar.

Production amounted 3.5 million tons for the whole year and sales were over 3.2 million tons. Lower sales volumes for 2018 was explained by the stock built up on the second half of the year, as previously anticipated and explained, and by a more challenging market condition on Q4. On the last few months of '17, specifically in Asia, we understood the price will not reflect the pulp market fundamentals and therefore we decide to maintain our price. Naturally, our stocks went down. I will come back to this point later on.

Total revenue increases by 27.4%, again totaling BRL8.8 billion. Our average price for 2018 was \$745, meaning a growth of \$147 over the \$598 realized in 2017. On Q4, the realized

price was \$757, was slightly higher in Q3, which was \$752. To finalize this, the tissue segment accounted for 60% of our volumes in 2018.

Our total adjusted EBITDA for 2018 in the pulp business was again BRL5.5 billion and EBITDA per ton reached BRL1,700, driven mainly by the favorable combination of solid pulp price and a stronger dollar. There was a growth of 6% to 7% over the last year. Finally, the return on invested capital for 2018 for the pulp business was almost 23%.

Moving to the following page Slide number 7. Cash cost, excluding maintenance downtime for 2018 was BRL628, BRL29 higher than '17, due to mainly higher timber costs. These higher timber costs are explained by inflation U.S. dollars and a stronger dollar growth. Q4 over Q3 cash cost increase is explained mainly by the lower production costs, of course lower fixed cost dilution due to mainly the maintenance planned shutdown, longer than usual capital activities and again, chemicals.

Having said all that, I am handing over to Walter, who will cover our CapEx.

Walter Schalka {BIO 2099929 <GO>}

Fair enough. Our CapEx from last year was in line with the expect in the guidance that we gave to the market. We had last year BRL2.8 billion at Suzano, from what we had in maintenance was around BRL1.3 billion. We had the acquisition of Facepa, and we have the Duratex project with a CapEx of BRL0.7 billion that was disbursed last year. We'll give more color on CapEx for the next year and synergies and everything on the March 16, at Suzano Day, New York, and then March 28 in Sao Paulo. We will give as well the guidance of culture as well and other related things in the same event that we are going to have. And I'd like to invite all of you to be present there.

We are going to start the new company with high expectations in terms of what we can deliver to the society, what we can deliver to our stakeholders. And starting with our shareholders, we believe that we can deliver higher value to our shareholders with higher value generation. The first step that we are seeing, we are in the 45 days only from the combination of the asset and people. We reintegrated the managed activity the first day. We moved all the headquarters to the same office at the closing date at January 14.

We have been going through a roadshow to every single site that we have in the organization in the last 45 days to disseminate the new culture that we are going to give more highlights to you and more follow up on Suzano Day. We have been working to capture the synergies that we have been working before that at (inaudible) and we have been working to implement the synergies since January 14th. And we are very pleased from what we are seeing at this point of time. And now we are working on integration of processes and systems with the process that will take this year. And we are going to have the merge from these two entities in a matter of 45 days from now.

Now I am going to pass to Marcelo Bacci, who is going to talk a little bit about the pro forma performance of the combined entities.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Good morning, everyone. I'd like to present to you the main pro forma figures of the combined Company comparing 2017 and 2018. The net revenues of the combined entities were BRL31.7 billion in '18, 42% above 2017. The pulp cash cost reached BRL622 per ton visavis BRL611 in 2017 with the main effect coming from the inflation on the chemical products.

In terms of production and sales the production increased from 10.3 million tons to 11.5 million tons of products with a growth of 9% in paper, which includes the Tissue business and 12% growth on pulp. In terms of revenues -- in terms of sales, we increased total sales from 11 million to 11.2 million tons, with an increase of 6% on paper, 3% on pulp and a reduction of 12% in the cutting volumes that were distributed.

I'd like to pass to Carlos to make some comments on the pulp business before we go on with the other performance figures.

Carlos Anibal de Almeida {BIO 19090865 <GO>}

Thanks, Marcelo. And taking that advantage, we are talking about the combined production sales figures, I would like to make my comment on the market conditions. We remain very confident on the market fundamentals for the coming years. And in the short term, we believe in a more favorable situation, driven by improved demand and casual maintenance shutdowns. We recognize that the combined start of both companies are higher than historical figures, and if you remain high in the short and medium term. Based on the last PPPC report released on January 29th, we understand that Suzano accounts for the majority of the export growth on the last quarter. Despite our inventory level, we believe market fundamentals are supportive of our list price, which should remain unchanged. We are reviewing the entire logistic and warehouse structure of our supply chain in order to ensure the optimization of our volumes according always to the prevailing market conditions. We will run our business to better serve our customer demand and making sure we are always optimizing our supply chain, from the yields to the terminals abroad looking at our storage capacity we have obtained.

Talking about planned maintenance shutdown, I would like to remind you, on Q4, we had our 15 month maintenance planned shutdown that left longer than usual. The reason behind that was installation of a new washing system that has been allowing us to reduce chemicals' consumption and variable cost.

By the end of March '19, we'll have concluded (technical difficulty)

Operator

(foreign language) Ladies and gentlemen, please hold. (foreign language) The line is reconnected, you may proceed. The line dropped again, please hold. (foreign language) You may proceed now. (Inaudible) you may proceed. Yes, please, go ahead.

Carlos Anibal de Almeida {BIO 19090865 <GO>}

Sorry, but we had a technical issue here. I am going to come back to the slide which I was starting to discuss, which is the one on the debt. So we have a total net debt adjusted for the cash payment of the previous years that took place in January of BRL52.2 billion, equivalent to the \$13.5 billion at the end of December, adjusted for January 14. That means net debt to EBITDA ratio measured in dollars, up 3.1 time, coming from 2.2 times last year, which is an increase -- which is lower than we were expecting before. The average cost of debt reached 4.7% with an average maturity of 77 months.

Our amortization schedule, let me take into consideration the transactions that we did in the beginning of this year mainly through \$750 million bond issued in February, it was equivalent to close to BRL10 billion plus BRL1 billion of a revolver, totaling availability of BRL11 billion, which are significantly above the size of maturities that we have this year, which is BRL5.6 billion. We also are announcing that we are proposing dividends of BRL600 million for this year, which will be submitted to the general assembly in April, next April.

With that, we conclude the presentation. Thank you.

Questions And Answers

Operator

Ladies and gentleman, we will now begin the Question and Answer session. (Operator Instructions) Our first question comes from Thiago Lofiego with Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Good morning. So I have two questions. One on inventories. Looking actually this average inventory level of around 55 days over the last couple of years. We're actually now estimating that Suzano's inventory in the first quarter, is running at around 85 days. So a few questions on the inventory in the year. The first for how many more months you can drive to build up inventories? Second what is the normalized or structured inventory level for the new co? Should we think about something close to that which is the 55 days as mentioned? And number three, if demand fails to recover, would you consider announcing a margin related downtime?

So that's the first question. The second question, Carlos, if you could give us some color on how shipments to Asia were in January and February? And what's the indication you have for March? That would be great.

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

Good morning everyone again. Thanks, Thiago, for your question. As I've said before, I'm not going to give any guidance on our inventory and shipment. But I'm going to share with you a broader view about how we see things developing in our business. Overall, I would say that, generally speaking, we foresee a stronger demand for the coming months.

Certainly, micro condition or events like U.S., China trade war, Brexit, European economic situation might somehow impact up or down the prospects for the pulp market in 2019.

So looking beyond '19, at least until 2022, the fundamentals should be even better. Leave options, just after the merger, we revisit all our market analysis related to stocks, shipments, supply and demand fundamentals. I mean, by the first time, we could cross information coming from both companies, which was not allowed before due to the antitrust compliance requirements. And based on that, we took some actions. First, on Jan 21, we announced the new list price, effective immediately which are valid for the rest of Jan and Feb.

The list price were: China, \$780; North American, \$1,210; Europe, \$1,010. We revised it all the pulp shipment plans to certain markets or regions. We are now shipping any additional volume in the next two or three months. Once we have [ph] the stocks required to fully serve our customers. We can expect, for example, at our shipments rate that by the end of this quarter will be reduced by approximately 50% compared to the last quarter. As I said before, we will run our business to better serve our customer demand and making sure that we are optimizing our supply channel from the yields to the terminals abroad.

In order to reduce the shipments, we decided to increase our storage capacity in Brazil from the yields to the outflow ports. So with all those actions, naturally, our inventories at this major ports made in Europe will be, in the short term, compatible with the historic figures. I can say that on the demand side the major event should be the purchase activity resumption in China. We believe the paper producers' pulp stocks are at the record low levels. And we expect them to be back to the market by the end of this month. On the supply side of the equation, we expect that several planned maintenance shutdowns will reduce the output in the coming months.

Let me give you an overview about the stocks and share some additional information. We have just informed our Q4 December '18 production and sales figures for the Brazilian pulp and paper Association, Iba, and they should be releasing soon that information to PPPC, which we expect to release a revision of the report issued on January 29th. We do expect that the revised numbers will show the hardwood stock at a higher number of (inaudible) that has been formed. It is very important that all of you read that carefully.

As you can see in our financial statements, the difference between the combined Suzano and Fibria production and sales volumes plus the Klabin volume built up stock take to a stock increase of approximately and let me reiterate that, approximately at 700,000 tons. Based on the last PPPC report released on Jan 29th, we understand that Suzano accounts again for the majority of the stock growth on the last quarter. This increase was the ultimate result of our commercial decision taken at the end of last year. As I said before, we believe a spot price did not reflect the market fundamentals, and therefore, we decided to maintain our price. That decision compels to close the year with higher than historic figures. Again, despite our inventory level we believe market fundamentals are supportive of our list price, which will remain unchanged.

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Talking about China. What I'd like to say to you is that we do not see any structural change in the paper consumption, and the recent destocking in prior pulp and paper supply chain has to do with circumstantial factors related to US-China trade war sentiment, deleveraging, credit crunch and specifically related to our industry and oversupplied paper market for some specific grades and growing volume of pulp sitting at the major Chinese ports. We think the finished product stocks are at the right level to support the seasonal demand pickup. We also believe, again as I said before, paper producers in China, generally speaking, are running with their pulp stock, at the record low level.

It is true, pulp stocks particularly at Chinese ports stand higher than historic levels. Based on the logistics supply data and our market intelligence, the majority of the stocks located at the Chinese port is owned by Suzano. And that is we manage our quality for commercial policy. To make it very clear, we will follow our last step commercial policy and we believe that the inventory will naturally decrease as a result of the purchase activity resumption and the fact that as I said before, we are reducing our shipments to Asia, not only Asia, in fact, but also Europe. And which should mean a reduction of pulp arrivals as early as the beginning of March.

We also have heard from our customers and market that the recent paper price increase announcements are all going through. That applies for premium writing and paperboard grades. Finally, to conclude about China, Chinese buyers are just coming back from the Chinese New Year holiday. And we expect to close growing volumes by the end of this month, I mean between Monday and Wednesday next week with hopes to conclude a good month in China.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you Carlos. If I may just a quick follow up pulpwood [ph] market Asia at least, you mentioned a 50% decline in shipments to Asia. Was that in the fourth quarter versus third quarter or is this the expectation for the first quarter versus the fourth?

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

No, this is our expectation for Q1 over Q4 last year. And I'm talking about shipment, I'm not talking about sales.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. You're talking about shipments to Asia?

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

Yes. Bear in mind that (technical difficulty)

Q - Thiago Lofiego {BIO 16359318 <GO>}

Your sales could be higher than that, right?

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

Say that again Thiago?

Q - Thiago Lofiego {BIO 16359318 <GO>}

Your sales could be higher than the shipment?

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

Yes. As I said before Thiago, we will not give guidance on that. Apologize us.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay.

Operator

Our next question comes from Marcos Assumpcao with Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi, good morning everyone. First question is, again on the issue of probably higher inventories in the short term for you guys. Does it make sense -- if it makes sense for Suzano to announce extended maintenance downtime for the mills that are stopped in, in the first quarter to balance the market a little bit similar to what -- similar to the strategy that Suzano started a couple of years ago, shutting down a little bit of capacity in order to balance the market in the short term. Do you see that as a possible strategy in the short term?

And the second question to Walter. Now that the deal is concluded and the Company is already merged, you have a lot of challenges at the new Company merging the cultures, creating a new culture. What is your main challenge that you see at this point at Suzano. I remember that when you got there -- when you got at Suzano initially, you had to deliver the growth project of Maranhao, but you also thought about consolidating the industry and bringing more discipline to the industry. Now that you had done a tremendous job on that deal, what is your main challenge going forward? Thank you.

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

Marcos, Carlos speaking. Good morning. As I said, we not give guidance related to our Fibria production, sales and inventory. We'd like to emphasize that we cannot give information involving our commercial strategy plan, that might be sensitive or that might be perceived as noncompliant with the antitrust laws or regulations. I can say to you that we run our business to better serve our customers' demands, making sure that we are optimizing our supply chain from the mills to the trading of our brands. This is what I can say to you.

A - Walter Schalka {BIO 2099929 <GO>}

Marcos, thank you very much for your question. I think it's quite important to mention to you that despite your interest to discuss granular situation on the pulp market, and I

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understand that since we are facing a turbulent moment. We are looking forward on value creation to our shareholders long term. And we are looking for alternatives how we are going to do it. At this point of time I think our main target are to be able to deliver the expected commitment that we are going to disclose with better colors to you on March 26 in New York and March 28 here in Sao Paulo during the Suzano Day.

And then the second step of the process is to put both companies together in terms of culture, process and integrate the two things as well that it would be quite important for us and prepare the Company for the growth in the future. I think it's very important that we are going to be a company that will deleverage at a very fast pace. At the moment, we are going to deliver probably a very good cash flow from our operations, part of that would be used to deliver better results and of course to deleverage at a faster pace than you imagined before.

On the other hand, we are preparing the Company looking for the future what would be our capital allocation for the future. We have several alternatives, we do not have enough maturity and unable to discuss and to disclose the information to the market, but we are working on this direction as well.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Perfect. Thank you very much, Walter. Just a follow up on the inventory question for Carlos. Carlos, historically, Fibria had a higher inventory level, closer to 55 days, as mentioned before and Suzano had a lower or tighter inventory level. Where we should see the new Company prevailing strategy? Should it be closer to Suzano's previous strategy or close to Fibria?

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

Marc, once again, I apologize as we cannot give that kind of guidance. That might be perceived as a non-compliant information. So we cannot talk about that.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

No, problem. Thank you very much Carlos.

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

Thank you.

Operator

Our next question comes from Leonardo Correa with BTG.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hello, good morning everyone, thank you. My first question on synergies for Walter. Walter, I know that we need to be patient at this time and wait until the 26th of March. But just from a qualitative perspective, if you can give us an indication on how things have been evolving? I think from your introduction, you seem quite confident of the capture of

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synergies. But would it make sense to assume that 100% of the run rate of synergy gains would already be achieved in 2019? That's my first question. If you can provide any color that would be helpful.

Second one for Bacci. On working capital, Bacci. Typically, this is a question we would take off line, but just given how important this is this year for Suzano given deleveraging and cash flows. We previously spoke about the negative impact from the end of the Klabin contract of close to \$600 million. We've been seeing a series of issues impacting the Company, mainly on inventory management. So how can we view the working capital line this year for Suzano? And what type of hit are you expecting for the year? I think that would be helpful.

Finally for Anibal. Anibal, you -- just wanted to confirm an information. You were talking about list prices in Asia at \$780, if I heard correctly. Is this a level where transactions are happening? I mean, have you been selling relevant volumes at those pricing levels? I mean, can you open up at least a bit of details on that because ForEx prices -- and I know ForEx is not the -- I know there is a series of issues involving and surrounding that pricing calculation. But I just -- there is still a very big difference to it, apparently, we're seeing the spot prices to what Suzano is talking about as list prices in Asia. So I just wanted to get a bit more clarity on that front? Thank you very much guys for taking [ph] questions.

A - Walter Schalka {BIO 2099929 <GO>}

Good morning. Leonardo, thank you very much for the questions. Talking a little bit (inaudible) everyone on the same page. You have to remember that since last year we have been working through occasions [ph], an external consultant company to working with us to prepare the synergies. We have been preparing that. We delivered the books to all the teams including to myself on January 14, the closing date. Now we start working on the implementation of that. And we're beginning a little bit all those synergies that we were not able to foresee.

On the other hand, we have been working on two different synergies that we were not able for (inaudible) isn't to work before the closing of declaration. One of them is the commercial synergies and the other one is on the wood side to buy third party wood. We understand that the synergies -- the work that has been done is extremely useful and positive. That we are facing even further alternatives and synergies that we are facing after we have to put everyone together and we are discussing.

Just remember, the four areas that we were working before mainly was G&A, was shipping, was procurement and was the ForEx side. Of course many of the synergies we are not going to have the run rate during this year. We're going to start implementation all of them immediately. But due to the fact that we have contracted it from procurement and shipment company, we are not able to have all of them implemented this year. We are going to give full color to you during the Suzano Day at March 26.

I'm going to pass to Marcelo now.

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

Hi. Thank you for your question. On working capital of course we have some short-term pressure coming from the situation in terms of volumes and the increase in our inventory level, which is circumstantial. This according to what Carlos mentioned before, we believe that for the year, the fundamentals are supportive of the return of a normal situation on the commercial side, that will lead to a natural reduction in inventory throughout the year to a level that at this point we cannot discuss or anticipate. There is a structural event on the inventories of course, which is the Klabin contract, which we believe is going to create an impact of something around \$500 million to \$600 million throughout the year, especially in the first half as we would phase out the Klabin contract.

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

So, no, we will not. It is Carlos. On your question about China. You're right, we announced a gross price of \$780, and that can be translated in a net price of around \$730, \$740, depending on the customer. So that would be the prices that would be targeted close our Fab business in China.

Q - Leonardo Correa {BIO 16441222 <GO>}

Perfect. Anibal, if I may, just a clarification from the previous questions. I mean, in your remarks you're stating that the demand environment in China is improving following the New Year in China. And we have been seeing evidence that things are picking up and activities return to normal in several parts of the industry. However, your indication is that shipments, if I'm not mistaken Anibal and please correct me if the interpretation is wrong, but you just indicated that shipments would drop 50% quarter-over-quarter to Asia, first quarter looking versus fourth quarter. That indicates that things in Asia are deteriorating. So I just wanted to understand if that interpretation -- I mean how should we think of the situation in China, is it normalizing, are things picking up, is business returning, are the commercial conditions being restored to normality or it's getting even worse versus the fourth quarter? That's the part that's not clear to me. Thank you.

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

Okay. Now that's a good question. As I said before, we can see stock at the Chinese ports at a much higher level than the historic figures. And as I said before, the majority of that stock belongs to Suzano. So what we're doing? We're reducing the shipment so we can serve the customers directly from the pulp that we have sitting there at the Chinese ports. So we are reducing shipments. And the customers in the coming months would be served directly from the volume, from the stock that we have sitting there in China. Am I clear?

Q - Leonardo Correa {BIO 16441222 <GO>}

That's clear. Thank you very much Anibal.

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

Thank you.

Operator

Our next question comes from Carlos De Alba with Morgan Stanley.

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

Thank you very much. Sorry, my line was not working properly, so I couldn't tell if you mentioned this in the past. But Walter, can you elaborate as to wide vision that you have for Suzano after, I guess, the deleveraging phase is over and you feel comfortable that the synergies will be -- from the acquisition are playing out. Should we think about Suzano in terms of a growth company, a cash regenerating company that pays dividends, a company that is trying to or will try to expand into other businesses, in maybe more tissue, maybe energy applications for wood or any other areas?

And then, Carlos, if I may just -- so could you elaborate a little more on what is the debate that you have with your particularly Chinese customers? Where is the discrepancy -- are they much more bearish in their paper and tissue demand than you are? Do they have very high inventories back in September and October that allow them to basically hold on and not buy pulp on a price that they tell you was too high. And what are you looking for in tissue? They have higher inventories and they have a moment view on demand that you do. What are you looking for in terms of the indications to confirm your views?

A - Walter Schalka {BIO 2099929 <GO>}

Well, if I have understood your question because the system is not working properly, and we apologize for that. We will review that for the next conference call that we have. From my understating, you are asking about what we are going to do after the deleverage of the Company? We have been working on the discussions internally and on the executive committee about that. But it's very important to mention to you that innovation is part of our DNA. It's something that we always keep working for the future. We have several roads [ph] that we're going to pursue in terms of innovation. We will give color to you during the Suzano Day as well. But it would be something that would be part of our daily activities.

Innovation is something that will create value. We understand that due to the fact that we have a renewable product and we have a product that could replace other materials, which could create new revenues for us in the future. Of course, the capital allocation is going to be a critical issue to be declared among ourselves and then giving more transparency to the market. As I mentioned before, we did not have the discussions yet with the level that could create more information to you, but it's something that we are going to work and we will deliver to you more information on March 26 as well.

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

So Carlos, this is Carlos Anibal. We understood well your question that has to do with China. So I'm going to repeat what I have said. We do not see any structural change in the paper consumption there in China. In our view, the recent destocking the entire pulp and paper supply chain has to do with circumstantial factors related to the US-China trade war sentiment, deleveraging the credit crunch and specifically related to our industry, an oversupplied paper market for some specific grades.

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And also important to mention, growing while our pulp sitting at the major Chinese ports. Based on information that we have from the markets, pulp customers will take that finished product stocks are at the right level to support the seasonal demand pickup after the Chinese New Year. We believe that our customers, the paper producers in China, generally speaking, are running with their pulp stocks at the record low levels and, therefore, we expect them to resume the purchase over the coming days. As I said before, it is true that stock sitting at Chinese port is higher than historic levels. Based on the logistic and supplier data and our market intelligence, the majority of pulp [ph] business in China is owned by Suzano. And we will manage that according to our commercial policy. So just to make it clear and to avoid any confusion between sales and shipment, once we pile up [ph] the stocks there, we do not need to ship more pulp to China. That's why I said that we cut our shipments to some markets, we cut our shipments to Asia in about 50% when we compare with what we shipped in Q4 last year. We also have heard from our customers and the market that the recent paper price increase announcements are all going through that is mainly applicable to premium writing and paperboard and paperboard grades. So again I will have a positive view that the market will improve there in China in the coming days and weeks.

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

Understood. Thank you.

Operator

Our next question comes from George Staphos with Bank of America.

Q - George Staphos {BIO 1495442 <GO>}

Thank you for taking my question. The audio quality has not been the best. So I apologize if you have already answered these questions. The first question I had, you were answering one of the other people on the call, speaking about shipments being down sequentially to China, 15%. And the question was whether things were normalizing, picking up and the audio cut out. Can you finish your thoughts there as to whether China is in fact picking up? And relatedly, what gives you confidence that your customers' inventory, if I've heard correctly, are at record lows at low levels as we sit here today? And then I had a follow on.

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

So George, this is Carlos speaking. Thank you for your question.

Q - George Staphos {BIO 1495442 <GO>}

Thank you for taking me.

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

I'm going to start from the end. When I said that we believe that our customers are running with their pulp stocks at the record level. That, I know we do not have any official statistics for that. And that is what we can get from our salesforce, get the customers

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talking to the market, our stakeholders. So that's how we came up with the idea that we believe they are running with a record low levels of stocks. So I was saying that we recognize the stock sitting at the Chinese ports, it's higher than historic levels. And based on all the information that we get, we believe that the majority of that inventory located at Chinese port is owned by Suzano. And I can say that we will manage that according to our commercial policy. Once we have this stock sitting there okay, and we believe that the demand will pick up soon. Our idea is to serve our customers in Asia and China with the stocks that we already have there. Having the majority of the stocks in China, we do not need to ship more pulp to Asia. That's why I said that we are reducing our shipments. We are revising our shipment plan to Asia and also to Europe. And that's why I said in the beginning that we have to increase our storage capacity in Brazil from the mill to the ports.

Q - George Staphos {BIO 1495442 <GO>}

Thank you. That's very clear. My related question is a two-part and then I'll turn it over. To the analysts and portfolio managers who are on this call right now, as we look at industry data, the next month or two months, what will give us a signpost, an indication, that your strategy is working despite the fact that it would appear that some of the other producers are still willing to sell below where Suzano believes is a fair price?

And my second question is, we've begun to see some signs that non-wood variable costs are beginning to decline. What would be your expectation in terms of trends in chemicals over the next one to two quarters? If you talk about that on Analyst Day then feel free to punt to that day. Thank you very much. Good luck in the quarter.

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

So let me start with your first question. As I said before, we do not see any structural change in China. When we talk to our issue customers, they are happy with the volume we are growing. Tissue should be growing another 6% or 7% in China this year. When we talk to several market stakeholders, we hear that the destocking is close to the end, if not ended. So that's why we believe it's just a matter of days or weeks to see the situation in China coming back to the normal. We do have strong information saying that the major buyers, they need to come back, they need to buy, they need to replenish their stocks. As far as chemicals costs, what we have seen lately is for the major chemicals, is a reduction on the price we have in compare what it has to date, what it had last year that is mainly (inaudible).

Q - George Staphos {BIO 1495442 <GO>}

Thank you very much.

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>}

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All right. I'd like to start apologizing for the problems that we have with the connection at this call. We will try to resolve this for the next meeting. We'd like to apologize as well for the people that we were not able to answer any questions. Our team here is ready to be prepared for answering the questions that you have been raising on the next day. We have to move now to the press conference. This is the reason that we need to stop.

I'd like to deliver to you a very positive message. The combined entity, the new Suzano, the company will be prepared to impact positively all of the stakeholders. We are going to create value for our shareholders. We are going to share value with all our team. We are going to share value with the communities that we are attending. We are reducing our environmental impact. We are going to bring innovation. We are going to have transformation, digital transformation in our operation. We are going to enhance culture of this company. We are going to deliver the expectations that have been raised during this process of combining a very good quality of people and team. We are extremely happy from what we are doing right now. Of course, we have seen improvement and we recognize it on the Pulp market at this point of time. But we are not facing any structural changes in the market. What we are facing is a continued growth in this market for the coming years and a very positive scenario for us to deliver the expected value for our shareholders.

Thank you very much for the opportunity to be with you. And I'd like to wish a very nice weekend to all of you. Thank you.

Operator

That concludes the conference call of Suzano. Thank you, everyone, for participating. And have a good day.

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