

## Q2 2017 Earnings Call

### Company Participants

- Carlos Anibal, Executive Officer - Paper Business Unit Officer
- Leonardo Grimaldi, Executive Officer - Paper Business.
- Marcelo Bacci, Chief Financial Officer and Investor Relations Officer
- Unidentified Participant
- Walter Schalka, Chief Executive Officer

### Other Participants

- Bruno Giardino, Analyst
- Carlos De Alba, Analyst
- Ivano Westin, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Suzano Papel e Celulose's Conference Call to discuss the results of the second quarter of 2017. Participants will be in listen-only mode during the Company's presentation to be made by Mr. Walter Schalka, CEO of the Company. Afterwards, we will have a question-and-answer session when further instructions will be given. We would like to mention that each participants will be allowed two questions only. (Operator Instructions).

We would like to inform you that some statements made during this call or projections or forward-looking statements about these assumptions are subject to known and unknown risks and uncertainties that may lead these expectations not to materialize or be substantially different from what was expected. These risks include, among others, changes in the future demand for the Company's products, changes in the factors affecting domestic and international product prices, changes in the cost structure, changes in market seasonality, change in competitive prices, exchange rate variations, changes in the Brazilian political and economic scenario in emerging and international markets.

Now, I would like to give the floor over to Mr. Schalka. Thank you.

## Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone, and thank you very much for participating in the second quarter of 2017 earnings conference call of Suzano Papel e Celulose. I would like to introduce Marcelo Bacci, our CFO and IRO; Michelle Corda, our Investor Relations Manager; Carlos Anibal, Pulp Executive Officer; (inaudible) Printing and Writing Paper Executive; Renato Tyszler, Innovation and New Businesses and Strategy Officer; and Julia N. Fernandes, our People and Management Officer.

It is with great pleasure that we present to you the results of the second quarter of Suzano Papel e Celulose. Reinforcing our consistency of results, we are bringing you the broad figures. Adjusted EBITDA in the quarter of 1.57 billion. This figure is 20% higher on a year-on-year basis and 37% higher on a quarter-over-quarter basis and as we always say, EBITDA is not the KPI criterion that is the most adequate for our industry. We understand that operating cash generation is a much better KPI and we had BRL910 million, a 46% growth on a year-on-year -- on the quarter-on-quarter basis and 26% on a year-on-year basis. So ROIC of the last 12 months was 11.3% and we would like to continue to grow this ROIC.

And for us it is fundamental to have sustainability and predictability of results. This is why we are always looking at ways to the reduce volatility in our results over time and also growing our spread over the ROIC over time. This is what we are seeking at Suzano Papel e Celulose.

Pulp cash cost in this quarter was very positive BRL568 per ton, driven by production stability, reduction in the consumption of chemicals and a higher generation of energy, but also a very positive result because of the forestry point where we had less third party wood and a shorter average distance in the quarter. Our debt to EBITDA ratio was 2.7 times and this figure is going down over the year and we must not forget that we closed the previous quarter at 3.31 exchange rate, that is to say we have an effect of the monetary variation due to this exchange (inaudible) and that is changing now because of the appreciation of the real over the last few weeks. In the results consistency is driven by a whole set of actions inside and outside the company. In pulp, we have a very robust demand. There is a very major increase in the volume of pulp in the first half of this year, 970,000 tons of growth in the global market of pulp -- market pulp and this allows us to have a price increase that is being captured quarter-on-quarter. We had a price realization in this quarter that was rather positive and we understand that we will have the third quarter also very positive in this regard, because the prices are going up gradually every single month and this is reflected also in the results of July. We understand that we have a price level that is rather good and very stable.

Afterwards, I know that you're going to ask questions and since that we'll be talking about pricing. And in paper, the volumes were lower than what we expected part due to fluff that we are growing the volume of fluff and that cannibalizes part of the paper volumes. However, the Brazilian market is rather stable, so it does not allow a growth in volume and prices in the adequate fashion and it is important to remind you that in paper, there was a postponement of the P&LV [ph] volume from the first to second quarter. So we'll be available to you to answer questions about paper.

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We continue with cost discipline, capital discipline, our CapEx. Our sustaining CapEx is at adequate levels and we are announcing today the maintenance of our guidance for CapEx for the year of BRL1.8 billion and 1.1 billion of sustaining CapEx and 700 million in (inaudible) and extension of our operations. Tissue, also good news in this regard on time and on budget third quarter of this year we'll be operating a jumbo roll in Mucuri and in the fourth quarter in Imperatriz and as of January 2018 already in operation with our sales to the final consumers and this will -- and I think the market has not priced this adequately yet. But this will generate an important increase in our cash generation for the next few quarters and we continue with financial discipline and reducing our gross debt, our cost of debt is really adequate. And interest on the debt is dropping gradually every quarter and this thing of transforming and developing the company is represented on slide -- in the slide where we show that inflation in a period of five years was about 27%, yet all these indicators, cash costs, SG&A, COGS grew much less. The cash costs grew by 1.6% during this whole period. Cost of goods sold 3.6% per ton, SG&A going down 7.1 per ton and there is expected gain in productivity that we are achieving during this period is part of our structural competitiveness pillar and part of our strategy of focusing more and more on efficiency and be better and better, seeking a protection on the cost side to the possible volatility of prices. So the strategy is really built into the company and we continue to work in this direction seeking competitiveness and this has been reflected in our operating cash generation per ton that evolved 62% in the last five years.

2017 is an year of many deliveries. We continue to reduce our cost and expenses. We have other initiatives that happened this year, implementation of the crystallizer in the Mucuri unit. We -- the effluent treatment station that we delivered but it does not have an financial effect, but a very big environmental effect and prospective investment of BRL100 million Mucuri and we are in operation, we cut size the second line of cut size of Mucuri and now in August we will be operating and debottlenecking as of August 20th with the annual stoppage that will be extended this year. We will be debottlenecking Imperatriz and that will go from 1.5 to 1.65 million tons and also working on the reduction of the average distance of our forest. The Tissue business will become a reality in 2017 and we are growing the volumes of Eucafluff every single quarter.

We continue to strengthen the company's balance sheet and recently we announced as a subsequent event on last Monday the migration to the Novo Mercado preparing the Company for the future. We continue evolving, but we want more. We are rather restless and we want to seek always and always challenge our objectives. We are reducing the nominal cash cost in the last 12 months BRL589 per ton and we want to reach BRL570 per ton but we want to reach 2021, 2022, and we have established this purpose for us BRL 475 per ton making it very clear, that the cash cost of the second half of this year should be higher for two reasons, because of the downtime that we will have both in Imperatriz and also one at Mucuri and this reduces the volume and therefore reduces the denominator in terms of fixed cost. And also we have average radius or distances in the second half that are longer than in the first one and higher participation of third-party, but BRL574 next year and BRL475 afterwards. These are our targets and when we reach these targets, we will be talking about over BRL100 of progress of cash cost per ton for the 3 million tons that we have every year. We are talking about BRL360 million, BRL 380 million per year more in our EBITDA, which is our target over time. Therefore, a huge value creation for our shareholders. We restructured our organization and the objective of this restructuring is to increase the speed and increase of ton in these.

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Today, we have the Pulp operation coordinated by Carlos Anibal; Paper, Leonardo Grimaldi. We created a new executive department of consumer goods with Fabio Prado leading it, the executive that will be joining in the next few weeks; and Forestry continues with Alexandre Chueri and for Innovation and New Businesses and Strategy, Renato Tyszler; and Julia Fernandes, Marcelo Bacci, and Pablo Machado lead the growth operations with all the units. This will allow the Company to have more speed in its decision making process and also keeping the focus on each one of the businesses. As of this year the demand by analysts and investors was that we started to disclose our results per each unit, and as of a certain size. We will be doing this with Tissue as well. So you will have visibility about each one of our businesses.

I would like to say a few words about Tissue business. We had Board meeting this quarter in Mucuri, we visited the plant. The plant is very close to start-up in the third quarter this year, we will be starting up for the production of jumbo roll in the fourth in Imperatriz and by the end of this year, we will be starting up operations for conversion as well. This means that we will be placing a lot of focus there and the figures that we had mentioned to you as our target are being maintained. We are on time and on budget with this project and we want to have an accelerated growth as of 2018 in our Tissue business. And already answering your question that I know you will be asking about when we are working with the development of brands and we will have our own private label or own brand next year in order to be closer to our final consumers and we are setting up our commercial teams and our marketing teams as well for this operation. And this consistent results and the ongoing transformation that we are carrying out continue to be focused on the three strategic pillars that we had and that we announced; the market structural competitiveness, re-design of the industry and we continue with our discipline in cost, supply, capital and financial end of portfolio products. It's important to mention as well that in the third quarter of this year we will see a reduction of about an 100,000 tons of pulp basically for the Asian market. That should generate the reduction of the pressure on pulp supply in the market and many of our competitors having their annual downtime in this quarter and we understand that anything a competitor does not generate a huge pressure due to the market situation and the production also by many competitors in the industry and I know that you're going to ask another question, and I'm going to answer it about El Dorado. I would like to tell you that we have already stated that we will continue to state that we are here to be better, and in order to be bigger -- to be better, being bigger is one option and if it is one option, okay, our balance sheet is prepared for this kind of growth. However, we are not going to pay any overprice for any asset and we are not going to grow just for the sake of growing. The capital discipline that we have is being exercised truly by the Company. So about the El Dorado asset, okay, it's a good asset. It does make sense. In terms of consolidation of the industry, we are not going to participate in an auction and we will not be paying any overprice for this asset. So should these conditions be understood, then we could consider this possibility. However, this is not the focus of the Company. There is a competitor of ours that have the exclusivity and we understand that other competitor wants to make a move in this direction. So we are considering ourselves as not be the natural buyers of this asset.

And for the whole market, the announcement that we made about the migration to the Novo Mercado was very positive as a subsequent event to the third quarter, and now talking about the second quarter, and now talking about this one, we announced the decision of the Board of Directors of the company in terms of migrating to the Novo

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Mercado after the approval by BNDES as proceeding condition and also submitting this to the General Shareholders' Meeting that we will be holding after the approval by the BNDES. So about the migration of the company to Novo Mercado exchange one preferred share for one common share, we understand that this is an evolution in governance and we believe that this should allow us to achieve the re-rating of the Company and I think this is very possible and probable and very positive as well and in public I would like to reinforce to all controlling shareholders and the Board of Directors that made a courageous decision with a long-term view with this change in the condition that we are mentioning and this opens new perspective that Marcelo Bacci mentioned about new operations and new situations for the future in which we will have a more (inaudible) about balance sheet and now have the equity as the currency for the future as well or the Company is preparing itself and just give me the necessary strides to become stronger and stronger and also kinder I would say and the view that this Company has looking and paying attention to all stakeholders, our headcount, our shareholders, and the community and the environment has been more and more intense and the engagement of all the employees of Suzano that is becoming more and more active and all these actions being built into the Company generate a positive or virtuous cycle for the Company that we generating even more value for everybody and this is what we are working for and consistently delivering results. So this is what we wanted to convey to all of you. And now we will be available to answer all the questions that you might have, all the executives will be here with me and to answer any questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we will start the Q&A session now. (Operator Instructions) Our first question comes from (inaudible) from Bank of America.

### A - Unidentified Participant

Good morning, everyone. Thank you for the questions. I have two questions on the operating side. Carlos, first one, could you give us an overview of what you see in the pulp market, maybe more specifically, what is your expectation on about the last price increase and the increase in demand in Europe and Asia and the inventory levels. And the second question to Leonardo about paper, what is the visibility for the second half. What about the volumes for July and August. Do you think we will still be seeing a reflex of the price increase impacting in the third quarter and what is your expectation in terms of costs for paper unit for this half year? Thanks you.

### A - Carlos Anibal {BIO 19090865 <GO>}

The first quarter in pulp was marked by a sound growth of demand, approximately 1 million tons and unprogramed, unscheduled stoppages limited the supply and this allowed us over the first half to have price increases of less prices of \$200 in Europe, 210 in North America, approximately 150 in Asia, Asia at lower level, because in this region we started the price recovery in October last year, then we announced for July, an additional \$20 for the year also for North America. The increase in the price to \$880 in Europe, North America 1070 and these two increases were fully implemented already. So we

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closed July with the full application of the new prices both in Europe and in North America, slightly different situation in China where we announced an additional \$20 for June. And it is still underway. We are working so that we may implement it over the next few months. Looking at the third quarter, we see here still with sound demand by all regions observing seasonality especially in Europe July and August. But we understand that the reduction in supply due to scheduled and unscheduled stoppages allowed us to sustain the current prices up to the end of the quarter and what we expect is to have the third quarter with one additional increase in our net prices coming from the last implementation, the inventories are low. I'm talking about hardwood and the numbers of the association reports at 37 days compared to 41 days at the close of June last year. So when we look at the supply chains in the main geographies, we can see lower inventory, especially in Europe and in North America. In China, we understand that the inventories at the ports are between low and normal and we believe that the clients do not have high inventories of hardwood and this explains a stronger month that we had in July in terms of orders coming from China. In China, we closed with the volume of orders around -- well higher than June in July, and of course, we have a very bullish view about the fundamentals of pulp for the third quarter.

### **A - Leonardo Grimaldi**

Good morning, (inaudible), this is Leonardo regarding paper. We have not seen an improvement in demand yet in July that could affect our second half. The Brazilian market continues to be very similar to the 2016 about the prices in the domestic market and the increases -- price increases are toward the way according to the strategy of the end of the year. It is a little bit more diluted because of the low conditions of the Brazilian market and in international arena exports we are being able to put in forth the price increases according to what is expected. In terms of cost, there are still opportunities to reduce costs and this will be presented in the second half of this year we believe.

### **A - Unidentified Participant**

Very good. Could you quantify the price increases that you mentioned and for what kind of paper and also quantify the drop in costs, if you could?

### **A - Leonardo Grimaldi**

About increases, we do not give guidance per line of products, but they are underway. And what we see is that it comes from our strategy of mix and channels and it is a little bit less visible in this quarter.

### **A - Unidentified Participant**

Thank you.

### **Operator**

Leonardo Correa from BTG Pactual.

### **Q - Leonardo Correa** {BIO 16441222 <GO>}

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Good morning, everyone. Congratulations once again. And I would like to start by a strategic question about your dividend payout policy that was being discussed by the market in the last few months. What is the potential to increase dividend payout? I believe that there is potential to increase dividend payout. Suzano has been working with a very deleveraged balance sheet and I would like to know how this compares to your appetite for M&A because that having a more robust cash situation, are you going to focus on M&A and with the migration to Novo Mercado as you will have a more appreciated stock, maybe you will not need to have such a high cash position. So I would like to know your opinion about that and two other points. The first one, about the EBITDA contribution, any help that you might give us because the market has difficulty in terms of massing this upside for Suzano and there is a very good upside on the table that we are not being able to identify very well. So any help that you might give us regarding the contribution of the new project would be very much welcome. And lastly, regarding costs, it was very clear during the introduction that you're doing quite a lot of work and what we can expect in terms of cash costs for the second half, but I would like to ask given the results that we have been seeing very strong growth in cost reduction, could we imagine an even more bullish scenario than your guidance regarding cash costs for 2018 and on? Thank you.

#### **A - Marcelo Bacci** {BIO 17648865 <GO>}

Leo, thank you for questions, I will start by talking about dividends, M&A and cash and then Walter will answer the other. Regarding dividends and M&A and the size of our cash, the reason for us to work with a high cash position is not because we are considering an immediate M&A possibility, it's a risk management possibility or provisions because of the price of the pulp -- price of pulp and exchange rate having a direct impact. So we need to have a comfortable cash position so that we may not be obliged to rollout our debt. So we manage this over time, there is room to reduce our cash, but the reason why we have a high cash position has nothing to do with M&A. The migration to the Novo Mercado gives us the stronger position for M&As, but as Walter said we have a lot of discipline -- capital discipline. And right now, we do not consider the possibility of making any new acquisition with any return lower than what we expect of course from now on. Let's say, we do not have an opportunity for M&A with these characteristics of course and we turn our heads to organic growth. We are working with the debottlenecking of Imperatriz and there are other alternatives that we are starting.

So organic investments are still a possibility and also because of the growth of the Tissue business that will start now, we could have something in the future, but these would not be very relevant amounts. And also if we do not have opportunities with an aggressive return, we might consider increasing our dividend payout. In the last few years we have been increasing gradually and our yield today is very similar to the other peers in the industry in Brazil and abroad. So the level of dividend payout that we have is reasonable. We might increase it if we do not see an investment opportunity with a correct return. That's all I can say for the moment.

#### **A - Walter Schalka** {BIO 2099929 <GO>}

Thank you for the question. Talking about the EBITDA contribution by the adjacent businesses, we are not giving guidance about fluff yet because fluff is increasing volume quarter-on-quarter and again we had a very positive quarter in terms of growth. We are exporting fluff to many regions in the plan of China, Europe and US and selling in the

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local market as well. This business has been growing. But as we knew since the beginning, this is a business that would soon ramp up and you have to consider the qualification of the product and the evolution of our operations. The Tissue business will be generating a very expressive cash flow as of next year. We have not defined our budget for next year yet in terms of volume and we are working on that. Of course, we have already drafted the business plan when we had this approval by the Board, but we are not disclosing it to the market yet. At the moment we said what would be the marginal contribution per ton, which is rather important because we will not only have a good EBITDA in this operation as we have the cash costs for the production of Tissue which is rather low. We have (inaudible) pulp, energy, steam and water treatment, effluent treatment, so the cost of operation will be very low. We invest in the state-of-the-art technology for the machines and we have a transformation cost and processing cost that is low and also raw material low cost and we are acquiring expertise in the commercial area, marketing area attracting people to participate in the program. We are very motivated by our Tissue business and we understand that it will be important and as soon as we have a certain level of maturity in the operation, then we will start to give you a disclosure about Tissue data in terms of profitability, so that you have more visibility.

In relation to the pulp cash cost, which is the other question that you asked. Our philosophy is under-promise and over-deliver. We do not want to promise things about which we have a little visibility of how to attain that and we have placed targets -- very expressive targets for ourselves for the next two years. And of course the pulp cash costs had the major factor of influence that is wood, that has a big weight in the cost and the quarter-on-quarter or half year on half year, you can see volatility in the use of third-party wood and our own wood in relation to the distance. But the most important and different and this is very important for Suzano to continue to be positive for the next two years. So for the time-being, we would rather keep our objectives of BRL570 for next year and 475 for '21-'22.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Thank you.

**Operator**

Ivano Westin, Credit Suisse.

**Q - Ivano Westin** {BIO 17552393 <GO>}

Good morning, everyone. Thank you for the question. First about paper, Walter, you made it clear in your opening remarks that the market is really going sideways and now you talked about the second half. Could you talk about the outlook for two, three years and not six or 12 months about the normalized profitability of the segment, BRL700 with the first half of last year a little bit higher than a 1000. So when do you believe you will reach the normalization of the profitability and about CapEx, Walter, you talked about 1.8 for this year, 1.7 for '18 and '17, could you break this down and explain what you expect?

**A - Walter Schalka** {BIO 2099929 <GO>}

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Ivano, thank you very much for your questions about paper clearly. We have an opportunity to evolve our EBITDA per ton. We consider that it is below our expectations, and there are two reasons that are the cause for that. The first one is the local market, in relation to pricing and volume. And this has not been growing the way we would like and we would like and we understand that in the next few years the new implementation of the go-to-market program of Suzano will give us an advantage in this field and we are gradually exchanging bigger clients with lower profitability for smaller clients with the higher profitability in terms of revenue management and this is something that has been in place for quite some time and the exchange rate also affect these situations, another factor that affects is the importer price and we have to look at what is happening with global prices. The increase in pulp prices is leading to an increase in global paper prices and our export prices already reflect that and it depends on what will happen in the next few years. I do not want to give a guidance regarding a certain value, but I can tell you that BRL700 per ton is low and it's lower than what we consider as adequate in order to create value for our shareholders although we have ROIC in paper of 13% in the last 12 months, but there is a possibility given the work of disintermediation that we are carrying out over time to create more value. And I would like to make it clear and very transparently with you that we are not pleased with our cost in our paper operations in the first half. They were slightly worse than we would like.

And with the same transparency, I would like to say that we are working to capture more value over time CapEx. We have not defined the CapEx for the next year yet and today if I could give you, the sustaining CapEx should be at the same magnitude, this is not a guidance, mind you, and we do not have any major project to be implemented next year.

So there should be a drop in the refurbishing CapEx. If we do not bring another project for approval, of course, there is a carryover that should go from this year to the next, but we do not foresee right now any major projects that of refurbishing or expansion. But we are analyzing many of them, so that we may submit them to the Board of Directors.

**Q - Ivano Westin** {BIO 17552393 <GO>}

Perfect, thank you very much, Walter.

**Operator**

Carlos De Alba, Morgan Stanley, in English.

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

Yes, and good morning and congratulations on -- this may have been very good news for Suzano all around. My question really is, Walter, you guys have had an outstanding performance in terms of cost you have improved, you have expanded the pulp business or you see the completion of the ramp up of the pulp business expansion, the company has debottlenecked or has (inaudible) working on a couple of (inaudible) projects, the Tissue project is running well and it's a great start and the fluff business seems to be ramping up nicely.

Bloomberg Transcript

So what is next now, the corporate governance announcement was very well received, surprised positively. You seem not to -- you seem to believe you are not a natural buyer for El Dorado. So could you tell us where do you see the company going in the future. If we are absolutely to go outside the field, (inaudible) more into the greater business. When do you think you'll be in a position to lay out the next phase from a strategic perspective for Suzano? Thank you.

## **A - Walter Schalka** {BIO 2099929 <GO>}

Carlos, I would like to thank you for your question. And tell you that we are humble enough to recognize that we still have many evolutions to progress. And in order to meet the needs of all stakeholders, we are working on that, and on the other hand, we have a lot of energy, the energy of transformation, the energy of doing better, and doing things differently from what we were doing before and this process is really in-built into the company. It does not depend on a small group of executives that lead the company and I have been saying this -- I have been seeing this, I saw this on Monday and Tuesday, in Mucuri I see that everybody is very much involved in that.

So I have no doubt whatsoever that the Company, the whole Company wants to do more and better all the time and all our program for variable compensation, our program of incentive and people development and new media development, all the programs that we have to attract and to train people and to retain people, will allow the Company to become stronger and stronger over time.

And now, answering your question, which is totally correct. Okay, okay, so what next? And I would like to say that we have three major lines of business right now. We have a pulp line, we have a printing and writing paper line, and now consumer goods line. All of these lines are being observed so that we may analyze what are the opportunities for growth in each one of them, growth of value and growth of businesses.

And the question that was asked before by Leonardo, he asked about our dividend payout policy. This is -- of course this is our escape route, in case we do not have any significant growth projects for the Company. However, Renato Tyszler is coordinating a work in terms of strategy of generating new opportunities in all our businesses. So we have no limitation whatsoever regarding product or geography. So they think that is rather obvious that is to say merger operations between us and Fibria would generate a lot of value. Okay, so this is one alternative that could be considered for the future. However, it should not be considered as the only alternative.

We are not going to place all our bets on an alternative that depends only on Suzano and Suzano is taking attention to all our stakeholders and we have shown our preferred shareholders that we can create value together. We believe in shared value creation among all stakeholders and this is what we are doing on an ongoing basis. The inorganic growth that the Company could have by means of an M&A, it's also an alternative that we are considering very thoroughly. So, yes, we consider the possibility of growing in pulp, growing in paper, and growing in consumer goods in Brazil or outside Brazil. So this is a work-in-progress and as soon as we have news, we will be telling you about it and of course we cannot say anything before we have a fact to report to the market. So I thank

you for the question, but I would like to reinforce that these results, the transforming energy that we have in-built in Suzano, so this is going to make Suzano better, Brazil better and a better society as well. So this is what we want to leave as a legacy for the Company.

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

All right, thank you. And then if I may, I'll ask my second question there, here you guided for a slightly higher or higher cash cost evolving during the second half of the year, in the first half it was 536 excluding the maintenance downtime and for 2018, it is 570, is there any more color or range of how much do you see the increasing of the back half of the year, the way you can come out?

**A - Walter Schalka** {BIO 2099929 <GO>}

Carlos, we do not give guidance of cash costs per quarter or perhaps year, of course we do have this analysis and in the second half our cash costs will be higher than in the first half but due to these two variables, more work from third parties and longer distances because something that is specific in the quarter and in the half-year and also because of the downtime that we will have mainly Imperatriz, that should be a longer downtime.

So this is a snapshot for us and we are interested in the whole film and not in a snapshot and the film is the film of constant evolution.

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

Fair enough. Understood. Thank you very much.

**Operator**

Lucas Ferreira, JP Morgan.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Good morning, everyone. The first question is to Carlos Anibal. Carlos, going back to your remarks, something that draws attention is the dollar movements in the last few months as well as news about price increases for softwood for August and maybe also for the paper and one of your competitors announced more maintenance downtime as well. So how do you see the possibility of going back to price increases like June and maybe increase your prices further? What do you expect in terms of demand for the next few months because seasonally they are weaker, but do you believe that this year you could have a more balanced third quarter? And my second question is very specific about G&A. There was an increase in the quarter and I would like to understand if this is a one-off situation regarding compensation or could we believe or imagine that this would be the level of G&A from now on?

**A - Carlos Anibal** {BIO 19090865 <GO>}

Lucas, thank you for the questions. As I said before, we have a very positive reading of the third quarter. We were very successful in the implementation of the last increases in

Europe and North America. I believe that we will have a clear view of the market as of September. We could have surprises as you said yourself, coming from facts and events on the supply side as the market shared one competitor would be extending a scheduled maintenance downtime. So I would rather wait until September, but we do have a better view of the prices and the market behavior until the end of this year.

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

Lucas, this is Marcelo. About G&A, the main effect is under administrative expenses and the biggest effect has to do with the correction of the phantom shares because of the increase in the share prices. On the operational side, there is no relevant change. We should see relatively relevant changes because of the Tissue start-up. So then we will have to look at it as a separate business. But the profitability will be more than the increase in this expense. But so far we have no effect coming from that.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Thank you.

**Operator**

Thiago Lofiego, Bradesco.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Thank you. Carlos, going back to China, what is the main stumbling block for the implementation of price increases for July. Because you said that demand in July in China was better than June. However, the implementation of the price increase was not full. So is there a psychological factor or maybe do you think the spread between softwood and hardwood impacts this negotiation? I would like to understand the dynamics regarding China and prices. Leonardo, I would like to understand the price dynamics here in the domestic market, you talked about some initiatives of price increases, but even before the change in the exchange rate, the export market was taking share from the domestic market. So I would like to know your frame of mind now considering the dollar rate and the imports still heavier, would it make sense to continue with price increases for the second half?

**A - Carlos Anibal** {BIO 19090865 <GO>}

Good morning, Thiago. This is Carlos speaking. Thank you for the questions. We started price recovery for the Chinese market in October last year. Ever since then until May all the prices announced were effectively implemented very successfully. In June -- we saw pressure on softwood -- softwood logs between May and June approximately \$40, \$50 and this created in the local market an expectation that we could see a contamination of hardwood, which is something that did not happen. I would say that the buyers were trying to weaken softwood -- hardwood and this was wrong. The hardwood chain in China is under-supplied. There is not enough inventory at the ports and we believe that their inventories are lower than historical levels. So in my understanding, this is an explanation for the fact that in June, we had a number of orders that was well higher than June. So now in August, we will be working to go back to the implementation of this \$20 and my

reading is positive in this regard regarding the -- for the next weeks and months. The announcement made yesterday that a certain competitor is extending a downtime will certainly have impact on the Chinese market in the next few weeks.

## A - Leonardo Grimaldi

Good morning, Thiago, Leonardo regarding imports. It's important to understand that a major part of that is made by Suzano with the go-to-market program within uncoated products that supplement our line of products and even though -- even it is very small relates -- in relation to what was imported last year. So the increases that we announced will be executed and the term will be a little bit more diluted I would say than we expected at the beginning.

## Q - Thiago Lofiego {BIO 16359318 <GO>}

Very clear. Thank you. Thank you very much, Carlos and Leonardo.

## Operator

Marcos Assumpcao, Itau BBA.

## Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning, everyone. Congratulations for the results. My first question to Walter. Could you talk about the pulp cash cost in the second quarter, more or less how much do you imagine that it could be, if you were using your martingale point more intensively. And Bacci, regarding deleveraging in the third quarter, we see the EBITDA the last three months improving significantly and maybe the cash generation as a whole also improving, once we do not expect a dividend payout, and working capital could be better in the quarter. Along these lines, what's optimal level of leverage do you see for the company? And lastly Walter, with higher cash generation and with the deleveraging of the company, more intense one, when you look at the pulp market as of 2020, 2021, with no projects announced, what would you like to see in the market, where there is the need to see if market conditions to approve the expansion of the martingale brownfield project in the company?

## A - Walter Schalka {BIO 2099929 <GO>}

Marcos, thank you for your question. As always not very easy to answer. Cash cost, we are not using the forest that we have recently acquired late last year from Queiroz Galvao. We made the decision two-and-a-half years ago of not using our Macuri Forest and saving them and bringing more distant wood -- third-party wood well with a higher cost at that point in time, and we said to you that was important for us was the NPV and our maximization in the short run, and this is what we are using now. We are saving the wood that we acquired from Queiroz Galvao and we are using third-party wood looking at our martingale unit as we are saving these forests so that they may have a higher average age and then we will be tapping into this value later on. This is part of the equation, so that we may reach BRL475 in 2021 and 2022. We are not going to give guidance to the market of what would have been the effect, if we had an immediate utilization of this wood. But of course the cash costs will be lower than what we have today, but part of our objective of

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the 475 is linked to that and the other part is the debottlenecking of the Imperatriz plant that will allow us to have a higher production and lower consumption of chemicals and less specific consumption of many different products. So we will gain in variable costs and fixed costs besides the higher volume as of mid September when we go back to our operation. So the cash costs, our objective of 475 is maintained and one of the variables is the utilization of the forest as well as other forests in the region that will be maturing during this period. You must not forget that we are expanding our forestry base in the region and of course we are expanding it with forests that are better and better and we are going to tap into that over time. Now Marcelo will answer your question.

#### **A - Marcelo Bacci** {BIO 17648865 <GO>}

Marcos, about deleveraging, our expectation is to have a deleveraging in the third quarter in addition to what we did until now and of course I leave aside the exchange rate because we never know how much is going to be, and it's a direct impact. But if everything remains constant, we should generate a higher one than the one that we have now. And as you said yourself, we are not going to pay dividends in this quarter and this impacted a lot the second quarter.

And also the relative weight of the CapEx in the second half is higher than at the first, but not a very big difference, still the cash generation will be higher, the EBITDA will be higher. We are going to deliver a little bit of that in our working capital because the pulp prices are going up, so you accumulate the receivables, this is just temporary effect that is to say, over time, it is offset but in spite of all these factors we will see deleveraging, yes, and according to the policy that we disclosed some time ago, the optimal one is between two and three times. We are slightly lower than three and we are getting closer to two. So within this range, if we stay within this range, we are within the level of efficiency and also we will continue to work to reduce the cost of the debt. In relation to the future cash generation, you are correct, Marcos. It will be rather major in the next few years. If we do not have any retrofitting project or expansion of our capacity projects, our total CapEx tends to go down and with an even more robust cash generation with Tissue coming into stream, deleveraging will increase. So we are going to accelerate the deleveraging of the company and you asked, well, couldn't this generate brownfield in Imperatriz and I can tell you that we are analyzing other alternatives. This is not our priority, however, we do not leave aside any future possibilities to create value, so Marcos we want to maintain a view of many options and this what we are creating. By migrating to the Novo Mercado, we create other options for the company, for the future. So we are increasing this array of options and every time I have a new option, if it does have a cost, however, if it gives the return, we give all the shareholders the dimension of value accretion.

We track many KPIs and one of the fundamental KPIs is ROIC and if it's based on this ROIC that we carry out the whole analysis regarding variable compensation for our executive and of course we want to increase ROIC over time. So we will be looking at actions that lead to an increase in ROIC and we'll not leave aside any option whatsoever for the company.

#### **Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Thank you.

## Operator

Bruno Giardino, Santander.

### Q - Bruno Giardino {BIO 15974970 <GO>}

Good morning, everyone. Congratulations for the results. About Tissue, could you share with us the rationale for tissue paper and with your own brand, your private label and regarding paper do you expect any significant changes as of 2019?

### A - Carlos Anibal {BIO 19090865 <GO>}

Well, Leo will answer about the paper and I will answer about Tissue. About the P&OD [ph] for 2019, the new rules were published some weeks ago -- and the new rules were published a few weeks ago and we are still evaluating the impact of that on paper. So we do not have a final figure to give you. Regarding the one for this year, Walter has already said that they have postponed the execution of the delivery of volumes and this is very much concentrated in the last months of the year.

### A - Leonardo Grimaldi

Regarding tissue. Thank you for the question Bruno. The rationale started with a chronic problem that the pulp industry has in Brazil, which is the issue of the ICMS tax. We have accumulated credit of the ICMS as are the other players in the plants that export more. So Mucuri and Imperatriz have a very significant credit and the idea was to look at way to monetize this credit in the local market.

So we started with this idea of manufacturing jumbo roles and selling them to our potential consumers in the local market and the reaction was positive on their part. We had many offers but none led to a maximization of value for the company in our view. A 120,000 capacity of tissue and 60,000 in conversion starting with the implementation and the investment was already announced for both plants. So we are going to help part jumbo roll and part conversion.

And we realized the fact that we start with the pulp cash cost of about BRL570 per ton and these plants had slightly lower than that. When consumers pay BRL10,000 per ton at the shelf for the tissue paper, there is a huge value chain to be tapped into, in this process as a whole, part with expressive operating gains and part with philosophy of the sale and quality of product -- differentiated product. So we decided to get into this business of consumer goods and tissue and we are sure that this is going to create a lot value over time for all our shareholders.

## Operator

Jon Brandt, from HSBC, in English.

### Q - Jonathan Brandt {BIO 5506998 <GO>}

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Hi, good morning. First I wanted to ask you about the Tissue segment with the upcoming start in the second half. Could you give us a little bit more detail on whether or not you've signed contracts, did you expect to see you have to (inaudible) tissue products into the market at a discount given you're just breaking into the segment. And maybe what the reaction is, some of the other tissue players who are also your customers on the pulp side. And then secondly just returning to one of the previous questions about strategy, Walter, you mentioned, you wanted to, as well as increasing ROIC, you also want to reduce the volatility, my assumption is that as you head into the consumer segment that should reduce a bit of the volatility, so I'm wondering if you look out five years to 10 years, what the strategy is of Suzano, do you want to be significantly more exposed to the consumer market or producing hub, sort of how do you see Suzano in the next five years to 10 years? Thanks.

### **A - Walter Schalka** {BIO 2099929 <GO>}

Jon, thank you for the questions. I'm going to start about Tissue and the way to conduct the business, we are right now discussing the sale of jumbo rolls in the local market, the local tissue market, we have already received important offers and we of course consider the hypothesis of in case we do not conclude these volumes. This is another possibility that we have exports, because clients have already said that they would be interested in buying jumbo rolls from us and up to the end of this year. And as of January next year, we will have the product already on the shelves and creating more value and the volume of monetization of ICMS increases and the cost and the competitive advantages that we have volume of monetization of ICMS increases and the cost and the competitive advantages that we have vis-a-vis all the local players in the north and the northeast are rather significant. So we are very encouraged to do that. We recognize our low expertise about trade marketing and branding and this is why we are attracting people who have the necessary skills to lead this business.

Looking at the future of Suzano, as I said before, we are looking for options. We understand that the consumer goods business could become more important over time, but we also consider investing in our traditional businesses Printing & Writing, Paper and Pulp in Brazil and abroad.

Jon, we are very clear about that. There is a fundamental intrinsic advantage for Suzano that is represented by our forest and based on this intrinsic advantage we will understand the value chain as a whole and see where the opportunities lie to -- for value accretion and we will try to tap into these opportunities over time. So there is no limitation on the part of Suzano about where we are going to invest in geography or in product and by having these options we create value over time. I have just given you the disclosure of the cost of 1 ton of pulp and to transform it into tissue, it's 1.07. So that will be BRL600 per ton of pulp into tissue for a product that is sold at BRL10,000 on the shelf. So we certainly will be tapping into part of this amount and we are investing in low transformation costs and in branding and we will be investing in the adequate logistics operations.

So Suzano position is looking at all -- the whole value chain starting from our advantage, which is the forest. This is where our competitiveness lies.



**Q - Jonathan Brandt** {BIO 5506998 <GO>}

Okay. Thank you.

## Operator

The question-and-answer session is closed. We would like to give the floor back to Mr. Schalka for his closing remarks.

**A - Walter Schalka** {BIO 2099929 <GO>}

I would like to thank you all for participating and say that our team represented here by all of the executive officers is extremely motivated in continuing this transformation, this positive energy that we see at all levels of the Company and this is being represented by the figures that we are delivering quarter after quarter. Consistency, visibility, predictability are words that we want to give to our shareholders and the analysts continuously. We want to convey to you the perception that we will be considering each one of the stakeholders and try to understand each one of them better and better. The visibility that you have in the figures that we are delivering on the one hand has to be translated to the communities where we operate and all our employees, the possibility that they have in terms of career development and also attracting good people to the Company and providing our clients increasingly better services and products and you see that the price realization work done by Carlos during this quarter was very positive and revenue management for instance looking at each one of the geographies in a different fashion and looking at each one of the stakeholders and we are in constant evolution. This gives us energy and we are proud of that. And this means a lot of responsibility on each one of our shoulders. Suzano will continue to work to transform itself, transform the business, producing disintermediation and producing more value for the value chain as a whole and sharing this value with everybody.

So this is our philosophy and that is implemented and that is another way in Suzano. So we are very happy with what we are delivering and we are very much committed and we want to do more and more in the future. So thank you very much.

## Operator

Suzano's conference call is closed. So we thank you for participating, and wish you all a very good day. Thank you.

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