

## Q3 2020 Earnings Call

### Company Participants

- Alexandre Nicolini, Chief Operating Officer, Pulp Business Unit
- Cristiano Teixeira, Chief Executive Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Paper Business Director
- Francisco Cesar Razzolini, Director of Industrial Technology, Innovation, Sustainability and Projects
- Marcos Paulo Conde Ivo, Chief Financial Officer and Investor Relations Officer
- Unidentified Speaker

### Other Participants

- Cadu Schmidt, Analyst
- Caio Ribeiro, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- George Leon Staphos, Analyst
- Marcio Farid, Analyst
- Rafael Barcellos, Analyst
- Thiago K. Lofiego, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning and welcome to Klabin's Conference Call. At this time, all participants are connected in listen-only mode. Later, we will conduct question and answer session and further instructions for you to participate will be given. (Operator Instructions) I would like to remind you that this call is being recorded and broadcast simultaneously on the Internet via webcast. You may access it at Klabin's Investor Relation website, where the presentation is also available for download.

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call in relation to Klabin's business perspectives, operating and financial targets and projections about its growth potential based on the management's expectations regarding the future of Klabin. These expectations are highly dependent on market conditions on the general economic performance of the country, of the industry, of international markets and therefore they are subject to change.

With us today, in Sao Paulo, we have Mr. Cristiano Teixeira; Marcos Ivo; and other officers of the company. First, Mr. Teixeira, will be making remarks about the company's operating performance in the third quarter of 2020. Afterwards, all officers will be available to answer your questions.

Now, I would like to give the floor to Mr. Teixeira. Mr. Teixeira, you may proceed.

### **Cristiano Teixeira** {BIO 17567319 <GO>}

Hello everybody. Welcome to Klabin's conference call, about the third quarter 2020 results. The third quarter of 2020 was marked by growth in sales volume and company's businesses and moving (inaudible) 10,000 tons, which represents 14% up year-on-year. And in spite of the exchange rate variation, that has a positive impact on our EBITDA, (inaudible) and client service was the major highlight in the period. Of this (inaudible) have anticipated the subsiderent at our company have (inaudible) response variation. We generated BRL1.2 billion in operating cash measured by (inaudible) Klabin, mentioned 59% increase year-on-year, net of non-recurring effect. It is important to highlight that the reduced level of operating cash flow in a moment of very low dollar prices is so agreed build for completeness. And I would like to emphasize that ultimately with social environmental initiatives with R&D and limitation continue to increate consistently anchored on value creation for our shareholders pricing levels.

I would like to give the floor to Marcos Ivo now and he will be moving to use the financial highlights about the third quarter 2020.

### **Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Cristiano, thank you. Good morning. Thank you for calling in our call. Consistently Klabin once again delivered sound results in the third quarter of 2020. Some of the highlights of the Q is, I would like to mention. Deferred [ph] net revenue for one single quarter reached BRL3.1 billion, hence 25% growth year-on-year. Adjusted free cash flow BRL1.737 billion, ROIC of 13.7% in the last 12 months, showing the consistent value generation for our shareholders.

On page number 3 of the presentation, with growth in (inaudible) our business lines, the sales volume increased by 14% year-on-year, reaching 910,000 tons for the quarter. Net revenue as we said before was record, reaching BRL3.1 billion. And this growth in revenue was mainly earned by the (inaudible) volume, however depreciation of the real vis-a-vis dollar which favors the export chains of the company. Together with a flexible (inaudible) the destination of the sales adapting their equity to different economic scenarios. The increase in the net revenue together with cost base business that is BRL1.233 billion, with a growth of 59% year-on-year, recurrent.

On page number four, I would like to move to the highlights of our business units. The pulp sales volume was 398,000 tonnes in the quarter, increasing by 22% year-on-year. The export markets of business attributed 7% of the overall pulp in this basis, 6 percentage points higher than the same period in '19. Our sales volume increased by 45%

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(inaudible) reaching BRL1.1 billion in the quarter and the increase in the sales volume, the better mix and the depreciation of the Brazilian currency more than offset slightly locked in the price of 12 in dollar per ton vis-a-vis the third quarter of '19. Once again, showing the strength of our business (inaudible) important growth in the 3Q revenues packaging units. The sales volume was 513,000 tons in the period, growing by 8% year-on-year. Net revenue from this business is good, increased the higher sales volume and exchange rates continue to net adjustments of prices in the domestic market reached BRL3.100 billion, only by 17% on year-on-year.

On the next slide, our production was 415,000 tons in the quarter, stable vis-a-vis the second quarter of 2020, and 20% higher than the same period last year. It is important to remind you the yearly regions (inaudible) in the third quarter last year, as for 2020, it is scheduled for December. In relation for the part of the general stoppage for maintenance in 2020, the company expected to be in line with the amount spent in 2019. The production cash growth for the quarter was BRL7.051 million per ton, growing by 6% when compared to the same period in '19. For dollars, the cash flow through 1,422 per ton.

On the nine first months of 2020 year-to-date, the pulp production cash cost was BRL715 per ton, representing reduction of 4% year-on-year. Most of the effects of the maintenance stoppage and for the last quarter 2020, net of the expenditures with the generate stoppage for maintenance, a couple of expensive transport per ton of pulp in line with what we had in the third quarter, of 2019, the accumulated costs for the year is slightly lower than what we had in 2019.

Now, let's go to page number six. We've resumed corrugated board market has been showing business growth (inaudible) in the near and the first quarter of '20, this market went up 10% year-on-year, according to data by Brazilian Corrugated Board Association ABPO, submit an important participation in the staples market, and the immediate with one or two in the roaming services and the final in the primary sector, well, this is the an increase of 5% and volume and 17% in net revenue both year-on-year.

On slide number 7 at the end of the net debt coming was BRL31.1 billion compounds delivery on the same level of the previous quarter. And this was possible because the cash generation in the pillars of Texas, but the negative news that of the exchange rate variation, that over (inaudible) makes acceleration at Albright in the dollar-denominated debt, by the net debt-EBITDA is almost close the quarter four time according to the perimeter established for the najor investment of the company.

Now, if we can move to slide number 8, the liquidity of that continue to be strong as of the end of the third quarter, it is BRL10.7 billion, made up by BRL7.8 billion in cash and the remainder in credit line, revolving credit line and annual average of maturities of our the average in 2021 and 23, still in construction, automotive products is approximately BRL1.3 billion per year. The average maturity of the company's debt at the end of the quarter was almost 10 years, paid vis-a-vis the previous quarter.

I would like to remind you that the company have been using contractors and not upon amounting the NIM in an amount that is is private in the CapEx that included this. We

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continue to be optimistic, stated with another strong quarter, the free cash flow, adjusted free cash flow that -- but not contributed the pension inspected legislation, it was positive by BRL1.8 billion beside the traffic data, the reduction in both capital appointment with could give more also. The reduction in the working capital was due to optimization structurally optimization, then some positive they intend with the reversal of these, KeyBanc mix for fourth quarter and increase in the working capital amounted to up to 50% of the amount that was in the first quarter of 20.

In spite of that, Klabin closed 20 tranches, with a significant deductions of working capital vis-a-vis the discounted we have been in the 2019 and we are continuing to tap into optimization opportunities. (inaudible) this free -- adjusted free cash flow of BRL4 billion, this is actually in free cash flow needs of 18.7% within the year.

On Page 10 return on invested capital up 13.7%, showing the company's capacity to create value was consistent for shareholders in the different economic scenarios. And on the next slide, the management carried out on October 31st, the first phase of the Puma II Project that already 57% of the scheduled already executed in the start-up estimated for July 2021. Since the beginning of the project BRL3.848 billion, of which BRL1.1 billion refer to the third quarter. For the year 2020, our projection show it the disbursements of approximately BRL3.6 billion (inaudible).

Now going to the last Slide, (inaudible) of our Board of Directors held on the October 23, with was only by independent members, we approved the advancement to further for the incorporation of Sogemar reflecting agreement with BNDESPar (inaudible) royalty payments and we addressed to has formal approval of the Sogemar and the biggest minority shareholders of the company, and it will be the object of the shareholders' meeting that AGE to be held on November 26.

Now, Cristiano and (inaudible) to answer your question.

## Questions And Answers

### Operator

Now we're going to start our Q&A session. (Operator Instructions) Our first question comes from line of Daniel Sasson from Itau BBA

### Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning everyone and thank you for the opportunity. Congratulations for the results and my first question, such corrugated boards, I was wondering the status expansion strategy and what are the main narrative to set you are looking for. And the answers to be acquired, what about the integration between international paper and along the same line (inaudible) in volume in the quarter and in this year. I would like to know details about where in the fourth quarter, what maintenance governance given the little bit of color, it will be great.

Another question about paper -- COVID factor mainly the differentiation of the reis, the prices, more like for exports and may be can you to tell us about the prospective for price negotiations for across the board for next year for your main clients maybe in dollars and maybe you will have some adjustment done in your dollar prices and the fact that those are the segments, and what would be the reality for 2021 in your view?

### **A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you for the question. I don't know whether we had a problem but we had some problem with Sasson or understanding what Sasson was asking, maybe we were able to understand 90%. I will start by talking about M&A, then Douglas Dalmasi will be talking about the integration of International Paper and the expectation for volume, and afterwards, we will be talking about opportunities.

Right now, Klabin has no company whatsoever be evaluated for M&A purposes. There is no plan in this regard. The management doesn't have any intention of carrying out acquisitions right now. What we have is a positive attention towards our future (inaudible) all the opportunities and right now, there are no opportunities on our screen should this happen it will be evaluated by the Executive Board and then submitted to the Board of Directors, right now there is no opportunity for M&A be evaluated.

Now, we will talking about utilization -- we're talking about centralization of IT, and talk about the expectation for the full quarter.

### **A - Douglas Dalmasi**

Daniel, good morning. Thank you very much for the question. We started to integrate IP in the second half of October and we had the opportunity of carrying out a planned process to designing of our content [ph] with financial (inaudible). So on restructuring side, the integration of the plant which was very well done. So we had no problem, no hurdles, all the clients and all the executives participated, we held it briefly. With each one of the point and each one of the problems that could arise, so it was very, very good.

On the market side, we know that the market is quite strong, and placing our goal to our client service, integration and informing our clients, we have a long-term partnership and the commercial team is integrating with the international sales team. In the plants, coming week, with our technical knowledge, technical expertise and all the careers -- are know, started to the market, we are very happy to participate in this process in the whole theme of companies and we're very happy with the outage that we have gone through this quarter with the market.

About the third quarter, we presume it will continue to be strong, and third, this is the most important for the packaging market and it follows the figures of the third quarter you'll see that we had 17% growth vis-a-vis the previous quarter. And the outlook for the fourth quarter is very good, because we have a very strong -- we are having many, many orders, our portfolio, all the portfolio, orderbook is practically complete, October will not be different (inaudible) standards comparing to last year will not be different because this will be the record. So we will be closing this deal in a very positive fashion, mainly if you

consider the theme and we expect to have a growth of over 5% for the year. And for next year and the beginning of the year, we see that the inventories have never been (inaudible). So our expectation is once again of a very strong quarter for third quarter payment terms.

Now, Flavio Deganutti will be talking about paper business.

### **A - Flavio Deganutti**

Good morning. Thank you very much. The (inaudible) of the slide. To the variation of increase and with a very good performance in the market, and the association (inaudible) substantial business plan, substantial because it's standard the near base also higher than it was in the last two years first nine months, so we have announced we already have a very good performances in the renewables market. Looking at exports market now, in the brown paper market, which is our most recent market, I can tell you that the major drivers indicated EBITDA in the development so those kind of coated board. We carry out integrations everything of many business is we have him like right now, so we'll be in, so do not authorized a specific plan for one client only, but it is always guided by the situation in the end.

### **Q - Daniel Sasson** {BIO 19234542 <GO>}

Thank you very much.

### **Operator**

The next question is from Caio Ribeiro [ph] with BTG Pactual.

### **Q - Unidentified Participant**

Hello, good morning everyone. My question was a part of the public market. I would like to bring those a balance of supply and demand, the topics. First, you have recovery or demand for print and write. Secondly, we also envisaged consumption above normal level, and thirdly, if you envisaged any deficit when it comes to supply thinking about integrated kind of manufacturers, soluble, (inaudible) comfortable to the scheduled maintenance or shutdown related to the market, handling the market envisaged toward the future. And if I put in all together, I would now like to today will officially confirm the price increase from lumber. This is confirmed by Klabin and also the level of price that we will launching now and beyond. Could you confirm back to us please? And with its all that fair in login China, as we already have negotiations for Europe, and US as well.

### **A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you, Caio [ph]. I'll give the floor to (inaudible) in order to answer your questions.

### **A - Unidentified Speaker**

Hello, Cryo Good morning. Thank you for your question. There was a number of issues that when optimism proven. If I talk about Q3, which is a quarter usually weaker owing change in our aspects in the northern hemisphere, usually demand is weaker continue to

other quarter. However, what we saw starting August this year, with the gradual resumption, again our expectations, conditions I would approve but the managed to see a recovery of people coming back to your offices closed some of our customers were starting moving back to their normal purchasing levels. That much over -- and the tissue market remains extremely healthy, and also the hygiene market, and a low normal range and happening occupancy range of machines are higher compared to last year. To some extent, it shows some growth in the rules of virgin fiber.

If you put them together and combine to expect a drop in global inventories, especially now in Q4 or maintenance or scheduled maintenance in the northern and southern hemisphere, we think about a gradual resumption of demand starting Q4 and consequently a gradual recovery as prices challenge. (inaudible) announced a price increase for (inaudible) remember this year, for soft wood. For hard wood, we are already using price increases starting August and September this year and for October, now in China, we are already running above the benchmark, which is so less, shown a good expectations for Q4. So as a point of concern, combined to grow their inventory levels there whereas to do that should be litigated now would be our scheduled maintenance and some concern about the second wave of COVID in Europe that to (inaudible) you don't see any indications or so, as it might have a significant impact on demand in the following months.

### Q - Unidentified Participant

Perfect, clear. And just one quick follow-up question. So for the moment, you are operating in prices higher than ForEx but not closely exactly the price level that you're running China. Any possible increase in the highlands in Europe, you understand that's a concern about the second COVID wave, so in other words, think that you haven't announced and includes overdoing more conscious, is that my assumption correct?

### A - Cristiano Teixeira {BIO 17567319 <GO>}

Having re-announced a price increase to China of \$L2, does this all other manufacturers with the market debt. Like I've said, we're above the benchmark price starting October you will follow exchange in China, so we know the level of price currently in China, there again this full racks, and we already saw a slight resumption of all of those price in the month of October and now for November, will try to implement those strong dollar increase that was confirmed globally by our manufacturers.

### Q - Unidentified Participant

Perfect. Thank you.

### Operator

The next question is in English and it comes from Carlos De Alba wit Morgan Stanley.

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

Thank you. Good morning, everyone. So the question -- I have two questions. The first one is related to forestry activities, in the release you guys mentioned that because of the

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pandemic, the planting activity in the second quarter was affected and then you experienced a -- sort of a catch up during the third quarter and September was a record level. Can you elaborate as to how you see, the reduced planting activity in this year, potentially affecting subsequent years in terms of forestry or trees available for your plant and what can you do in order to catch up with your internal planting activity or you could potentially buy trees or forest from third parties? And then could you remind us please, what are the annual endorsement for for Puma II CapEx in 2021, 2022 and 2023 that you vision. Thank you very much.

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you, Carlos. Marco Ivo is going to answer both questions, and two products, by Francisco Razzolini other officers. So we can also support answers.

**A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Carlos, we're going to planting, actually we had a postponement of planting in the second quarter of the year. And this is early into the impact of coronavirus and also well (Technical Difficulty)

**Operator**

Next question, Thiago Lofiego with Bradesco BBI.

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

Hello, good morning. Your audio is not so great. I hope you can hear me. I have two questions. Cristiano, could you make some comments about potential projects after Puma II? So, what are the next steps for growth at the company level. And would you consider anticipate this aspect, what's in your mind when it comes to the company's strategy after Puma II. My second question is about margins in the domestic and foreign markets, more specifically for kraftliner and coated board. What is the margin do you think it's sustainable to maintain this next more oriented to the domestic market or maybe even increase it into the domestic market, what are your thoughts on back? Thank you.

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you Thiago. Neither way, if you recall on last conference call, in my opening remarks, I shared with you that the company that is a 120 year old company, searching for innovation, like very few players in the industry, with investments in R&D, always trying to set itself apart with different products for clients, so we are a 120 year-old company focused on market trends in R&D and above all a company oriented to grow, so we are a growth company. I said that in our last call and I'll say it again, we are grew [ph] oriented, with a lot of expectations for the future of the company, we have a brilliant future ahead. Now we have some homework to do and we want to deliver the best way possible. We have Machine 27 for instance, it is a unique product in the market.

It is not challenging when it comes to customer qualification, but it is a challenge, when it comes in taking it to market, adequately without affecting price. So if you consider all this challenge, involving engineering, everything that we've said, 57% is (inaudible) decreased



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anything at all, quite the opposite, it brings a lot of complexity in terms of equipment assembly and this is the focus at the company today. Likewise, the integration with International Paper and bringing all this welcome team aboard to get used to our culture or to generate a new culture that you add to our business view with our new IT team, this is one of the big challenges right now.

So we do expect to see a (inaudible) future ahead, even though it's going to be discussed from the moment we delivered different responsibilities and accountabilities with our Board as soon everything is delivered certainly, we're going to guide the new company's growth to create more value. So our view is going to make comments now on the margins of kraft paper and coated board.

### **A - Douglas Dalmasi**

Thiago, good morning. We have quite a challenge for the year 2021. At first in the kraftliner market, we have Machine 27. We also have significant growth in the domestic market with corrugated boards naturally demanding more paper that is manufactured today. So this is the balance that we are pursuing in the long term. When it comes to contracts, we are very careful with long-term agreement supply and growing and that will happen in the future, keeping an eye particularly in Q1, however, this growth that we posted this year, and now that we have Machine 27, in July next year, we will have to focus on long-term agreements and long-standing relations that have been already shared. Margins will come to a balance one day and the foreign exchange, it's hard to predict anything but during the longer timeframe, there will be a margin balance, that will be closer in the future.

And the same goes for coated board except for capacity. We have a discussion about capacity as you know. However, what we always see in the coated board market, we have an opportunity with price over a historical series that is very long. Naturally, there is some disadvantage to the business and recently like I said before, via demand in brown coated board, we expect this to be supported over 2021. Once again, in the last series, we think about bringing things together in the domestic and foreign markets.

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

Now, if I may, just to clarify, with the current foreign exchange rate of 5.6 approximately and the current price in the domestic market, I'd just like to understand is there a margin differential, five percentage points or 10 percentage points just to have a better numeric understanding?

### **A - Cristiano Teixeira** {BIO 17567319 <GO>}

It always happens. FX made it even steeper. But the focus lies on customer service and long-standing relations. I have a part of the business and this difference is on this spot business. But like I said in the beginning, thinking in the long-term, this will be reduced, the difference will be reduced.

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

And just going deeper into the question, the potential to continue increasing exposure to the domestic market, do you see that as something natural, or is there a limit and then you prefer to preserve your relation with the current foreign customers, what's on your mind?

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Well, for Kraftliner, we have to think about domestic and foreign markets, because their capacity is very close and it will help us to have the better adjustment. In addition to the well-known integration and the assets of International Paper. As to the coated board market, we have to consider how the market would behave and grow domestically. It behaves more stable over a long series of years in Brazil and luckily, leverage possibly by the migration of other types of packaging and the market behaved well growing like with 34 [ph]. So naturally the market trend also is part of our strategy.

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

Cool. Thank you. Thank you all gentlemen.

**Operator**

The next question is in English. George Staphos with Bank of America.

**Q - George Leon Staphos** {BIO 1495442 <GO>}

Good morning everybody. Thank you for taking my questions. The first questions are around growth, perhaps piggybacking a bit off of Thiago's last question. At this juncture, given what you've seen because of COVID and the change in behavior that you've seen in terms of corrugated demand and similarly in terms of what we've seen for increased demand for packaged foods, which would benefit the coated board market. Are your customers yet able to quantify what the increase in demand has been created from COVID and these events and relatedly, we talked about this in past calls. I was wondering if there is a way to quantify what your customer's seeing sustainability is doing to your demand right now in percentage points? If not, quantify qualitatively then I had a question on (inaudible).

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

George, I understood one of your questions, because it's not very good. So we're going to answer this question. And the second question was not quite understandable. So -- then maybe you could ask the secretary --

**A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Sorry, madam. Thank you very much. Marcos here.

**Q - George Leon Staphos** {BIO 1495442 <GO>}

Yes.

## A - Marcos Paulo Conde Ivo {BIO 21313760 <GO>}

And I'm going to start with (inaudible) to add, so what I say and you was just taking about the expectation. That's the reaction that we have been following at least as a lot capital such as happens in the United States, and all the total countries of Europe and in Asia. There is a strong migration for the e-commerce and this migration includes we deliver food stuff mainly. And orders have been, had a significant impact on consumption first, then of course there are structural issues involved because of the return of these packaging for the chain, and we need to keep almost 90% re-transferability of this product, so which is in a circular chain so we have to keep that. So this is a plus in the whole story and it is (inaudible). And the chain seems to be here to stay in the same way but we've seen that the markets for instance, saw digital integration amongst people, all this is increasing enormously such as the change in e-commerce and they should stay as a positive impact of COVID. I don't know whether we can see a positive impact of COVID, but anyway.

But I would like, Flavio to talk about this migration for instance of course, the board and issues we are (inaudible) sustainability. And the opportunities that are arising, those for our clients and for ourselves. But first, I would like to bring you something more informal. My personal testimony, so to say. The shopping centers are reopening and of course, we have to keep in mind our wholly owned supermarket are -- and I have never seen before the situation that we are having in (inaudible) as we have here in Brazil and as far as I'm concerned, I believe that this has to do totally with the environmental awareness.

Now we have to wait for the figures, then the reports participation that I have, maybe because of all this talk about sustainability and everything that is going on round graft. As it's a much more visible on supermarket shelves for instance, and these are the form of, I'm sorry I apologize, but now they had allotted me to talk about data, talking about the segmentation. The major separation that we have is amongst the projects that need more innovation, in order to migrate to our products and there are solutions today available, and that has to do more with the financials and sustainability. The major key is the -- in the case of beer, for six packs for instance and this market easy to replace the plastic films and coated board. And this is valid for Brazil and also for the very large beer markets in the world. We do have solutions and the systems to see that the major brands already have seen this regards. For the long fiber packaging for -- due to the sales, there was a very important impact in the most iconic case in the peak of the pandemic was when there was a major increase in consumption. So we have -- this is a cold chain and you can store it at home for a very long time and it suffered a very major impact over this year. And afterwards, going back to normal numbers.

So what we see now are migration in this chain. There are investments being made that support the chain. It is not just a measure of occupying spaces, but you have to make investments structurally for the bottling. And we already see some indications in some destinations of this migration for the coated board packaging. And I can tell you that this is a major fact that we pay attention to at Klabin. And we have on the other hand, the product that need innovation and we are operating at full steam regarding our R&D as we already have on (inaudible). On an industrial scale, the barriers regarding water, regarding oxygen, and -- so it's important to have the kind of migration which is not easy

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to quantify this. It is gaining attraction and part of what we've seen, they are all part of these structural changes that we see in the foodstuff chain.

**Q - George Leon Staphos** {BIO 1495442 <GO>}

Okay, thank you very much for the thoughts. I don't know if you mentioned it earlier, but quickly, did you mention at what rate your corrugated box shipments are growing so far in the fourth quarter? Thank you and good luck in the quarter.

**A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

End of the third quarter, we see a two-digit growth. As I said before, we needed to see the growth in the fourth quarter of higher than two-digit growth.

**Q - George Leon Staphos** {BIO 1495442 <GO>}

Very good.

**A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

And for 2021, we are working with consultancy company in order to have a better picture of 2021. In September, we have the 26% growth in coated board on a year-on-year basis.

**Q - George Leon Staphos** {BIO 1495442 <GO>}

Thank you very much.

**Operator**

Caio Ribeiro from Credit Suisse asks the next question.

**Q - Caio Ribeiro** {BIO 18420483 <GO>}

Good morning, everybody, and thank you for the opportunity. My first question has to deal with OCC. Could you give us some color about your expectations regarding the (inaudible) from now on. Have they ended with a strong demand for corrugated boxes and you expect to continue in the fourth quarter? Could you talk about prices for corrugated papers? And secondly, could you talk about fluff market, because in the last few months we saw some pressure on prices? So what do you see in this correction of prices, so to say, and what do you expect for the next few months regarding fluff prices?

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you, Caio. Douglas?

**A - Douglas Dalmasi**

Hi, good morning. Thank you for the question. We saw this movement of price occurring more strongly, BRL700 in the first quarter, then between BRL900 and BRL,000 for tissue prices and the corrugated boxes in the third quarter because of inventory replenishment. It will be very strong and it will continue to be strong at the beginning of the year as well.

We are transferring these costs for the cost of packaging through the cost for packaging, so taking it ahead to the whole team.

**A - Alexandre Nicolini** {BIO 21861040 <GO>}

Thank you for the question. As you know, the fluff market has a small time gap regarding the other fibers. So the adjustments that we saw in fluff was because these producers with capacity, mainly the ones with softwood had been operating in the market because of higher margins and with the recent price increases for the softwoods, this additional visibility of fluff prices has been mitigated. We will see an improvement in the overall market for fluff also regarding the availability of fluff. Demand continues to be very robust. In this quarter we delivered higher sales of fluff that we expected because of the higher demand mainly in the domestic market, which is our core market for fluff. So the perspective for the improvements for long fiber or softwood we believe that prices will become more stable.

**Q - Caio Ribeiro** {BIO 18420483 <GO>}

Very clear. Talking about the pulp transfer that you mentioned about corrugated boxes, could you talk about the magnitude of that over the next quarter.

**A - Alexandre Nicolini** {BIO 21861040 <GO>}

We are transferring this cost increase that we are suffering, mainly in the OCC and in the paper markets as well, and it just comes two digits.

**Q - Caio Ribeiro** {BIO 18420483 <GO>}

Perfect. Thank you very much.

**Operator**

The next question is from Marcio Farid with JPMorgan.

**Q - Marcio Farid** {BIO 21017394 <GO>}

Good morning, everyone. Thank you for the opportunity. You made a lot of comments on the company's vision to coated board and pulp market considering the potential consumption in the world post COVID. I would say that maybe the most straightforward manner to implement your vision is with machine number two in Puma II. We understand the decision to be made by year-end, but I would like to hear from you about the compensation process. What are the early numbers to share about incremental CapEx. Should the decision be to have the coated board machine and which additional value should we see in the coated board versus craft machine in the second phase?

A second question about pulp. Nicolini, could you make some comments about what you think about supply demand in Europe in the last months and the expectation for the end of the year and early next year. And with regards to Puma, production is above 1.6 million tonnes. Should we consider this to be the new normal for Puma I. Is it 1.6, 1.7 annualized? Is that what we expect to see for coming quarters? And any CapEx related to Puma II that

would be related to the close of Puma I? And if the answer is yes, which additional capacity or production should we expect to see with Puma I in pulp?

### **A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Thank you, Farid. Let us begin with Flavio and then Nico and even Marcos are going to answer your questions about pulp and CapEx for Puma.

### **A - Flavio Deganutti**

Farid, that's a big problem, I mean, to define well. For kraft we have the benefit of converting in-house, we increased recently the market share. So coated boards we see structural changes, particularly via migration and ESG being very much highlighted, so that's a good choice. We are right now in the process of having a better understanding of demand for the coming years from different segments and it takes a while and possibly in early next year. So these are engineering studies or demand studies. They are at full speed and even CapEx forecast to happen early next year by February. Well, that's a good problem and we are running it well.

Over to you, Nicolini.

### **A - Alexandre Nicolini** {BIO 21861040 <GO>}

Hello, Marcio. Good morning. Thank you for your question. Marcio, with regards to Europe, demand remains flat, stable. Since mid-September, we began to see a reduction in the segment of printing paper, a gradual demand, but as you know well, Klabin is not so exposed to this segment. Our percentage is low in this segment, so we did not see a significant impact. We don't have any indicators as we speak that might have an impact in the short term. Perhaps COVID now coming back, but it hasn't brought any impact on our older portfolio. November is normal with no kind of drop in volume, the -- owing to COVID or rupture in demand and the levels of inventory in Europe, recently in Southern Europe, for instance, there was a drop, a slight drop. The trend for coming months, we believe it's going to be deeper owing to maintenance or scheduled maintenance in the manufacturers in the Southern and Northern Europe -- hemisphere. So expectation remains positive. As for Puma, 1.6 million ton capacity is our new normal. We don't see any change in this scenario.

### **A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Farid, since Razzolini is here with us. He is going to answer your question about CapEx and also give some color about the project. I think you may be curious to know the status.

### **A - Francisco Cesar Razzolini** {BIO 16565930 <GO>}

Good morning, Marcio. Good morning, everyone. Thank you for your question, Marcio. With regards to CapEx in Puma I, we have some timely investments leveling in the bleaching plant, but that's just to face demand for bleached pulp and top line papers that will happen in the new machine number 27, so we maintain the amount to market. Nicolini already said around 1.6 million tons, this will remain unchanged. As for the status of the project, we're back to very intense pace, more than 7,000 people working. Everything is

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going well and we're doing everything we can for hydro connections between Puma I and Puma II.

Now in the shutdown -- general shutdown November, performance is quite good. Big equipments have already arrived on site. No challenges about the arrival of equipment and now it's only a matter of men working in our facilities. So we expect to meet the deadline, like we said in the beginning of the call. And the start up of machine 27 is scheduled for July 2021. Decision about the second machine for the beginning of year 2021 with no impact on the schedule for May 2023 for the second phase of Puma II project.

**Q - Marcio Farid** {BIO 21017394 <GO>}

Great. Thank you very much, Nicolini, (inaudible) and Flavio.

## Operator

The next question is from Cadu Schmidt with UBS.

**Q - Cadu Schmidt** {BIO 21245445 <GO>}

Good morning, everyone. Thank you for taking my questions. I have two questions. First, Nicolini, could you tell us expectations about growth in pulp demand in 2021? Maybe breaking down by grade and also expectations before and after the pandemic. And Marcos, could you tell us more about cash tax? We see a very low tax rate. What about the expectation for the coming years? Thank you.

**A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Thank you, Cadu. Over to you, Nicolini.

**A - Alexandre Nicolini** {BIO 21861040 <GO>}

Cadu, thank you for your question. We are working on an assumption of growth in demand of approximately 1.2 million or 1.3 million tons for next year. Cardboards approximately 900,000 tons in softwood. So this is our assumption for the budget next year.

**A - Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Cadu, when it comes to cash income tax, what had been had were accumulated credits which were amortized in recent years and this is coming to an end. So starting next year we are going to have a normal income tax rate and in (inaudible) owing to our structure, it is closer to 25%.

**Q - Cadu Schmidt** {BIO 21245445 <GO>}

Perfect. Thank you very much, Nico and Marcus.

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## Operator

Rafael Barcellos from Santander.

### Q - Rafael Barcellos {BIO 20593721 <GO>}

Good morning. Congratulations. Most of my questions have been answered, but I would like to go back to corrugated boxes. Now that you have already acquired IP, what is the market share that you expect to reach in the next two quarters and next year? And what about the strategy regarding volumes and prices? It would be great to hear from you. And regarding the maintenance stoppage. I think it's a little bit too early, but it will be interesting to know in this different year. What about the situation for next year? Puma I is not going to have a stoppage and Monte Alegre will be the same as this year? So thank you.

### A - Douglas Dalmasi

Thank you, Raphael. This is Douglas. Rafael, good morning. Thank you very much. About the market share, we have over 17%, 17.3% exactly. (inaudible) with 4% with the acquisition (technical difficulty) and this is what we expect for next year. About price, I'm going to focus on profitability. We have hands-on work of operating efficiency at the plant. Regarding the (inaudible) and everything about the product to synergy, so we have a lot to share in our (technical difficulty) of the business that we are bringing on onboard.

Regarding the stoppage, of course, it will be subject to the behavior of the pandemic itself with possibly a baseline scenario. (inaudible) in 2021, that is the same (inaudible) stopping in the first quarter of the year. (technical difficulty) in campaigns and the stoppage of '20 will be December, so the next one will be in 2022.

### Q - Rafael Barcellos {BIO 20593721 <GO>}

Thank you.

### A - Marcos Paulo Conde Ivo {BIO 21313760 <GO>}

Thank you. We have already exceed our time, so we have concluded our Q&A session. We would like to give the floor back to Mr. Cristiano Teixeira for his closing remarks.

### A - Cristiano Teixeira {BIO 17567319 <GO>}

Now I would like to relay our perception for the fourth quarter 2020. The good pace of demand in all the markets in which we operate should be maintained. Nevertheless, the general stoppage in Ortigueira and Puma could affect the volume of sales, and despite of f that, we expect those in the operating cash generation, measured by the EBITDA in the fourth quarter 2020. On a year-on-year comparison, always excluding the effect of Monte Alegre close, having continued -- in the view of growth and value creation in the long run with focus on stable sustainability and innovation.

Thank you very much and see you during the next call.



## Operator

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

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