

Q1 2018 Earnings Call

Company Participants

- Cristiano Cardoso Teixeira, CEO & Member of Executive Board
- Douglas Dalmasi, Industrial Bags Director
- Francisco César Razzolini, Planning, Project & Industrial Technology Officer, Executive Officer & Member of Executive Board
- Gabriella Michelucci, Corrugated Boxes Director
- Gustavo Sousa, Unknown

Other Participants

- Carlos De Alba, Equity Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Sector Head
- Milton Sullyvan, Analyst
- Rafael Cunha, Research Analyst
- Renato Damaso Maruichi, Research Analyst
- Thiago K. Lofiego, Research Analyst

Presentation

Operator

Good morning. Welcome to Klabin's conference call. (Operator Instructions) As a reminder, this conference is being recorded and broadcast live via webcast. And may be accessed at <http://cast.comunique-se.com.br/Klabin/1Q18>, where the presentation is also available.

Before proceeding, I would like to mention that forward-looking statements that might be made during this call in connection to Klabin's business outlook, projections, operating and financial targets related to its growth potential should be understood as mere forecasts based on the expectations of the company's management in relation to the future of Klabin. Such expectations are highly dependent on market conditions, on Brazil's overall economic performance on the industry and international markets, therefore, they are subject to change.

With us today in São Paulo, we have Mr. Cristiano Teixeira, Mr. Gustavo Sousa and other officers of the company. Mr. Teixeira and Mr. Sousa will comment on the company's performance during the First Quarter of 2018. Afterwards, the officers will be answering any questions that you might ask.

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

Cristiano Cardoso Teixeira {BIO 17567319 <GO>}

Thank you. Welcome, everybody, to Klabin's conference call about the results of the First Quarter 2018.

First, I would like to bring to you the information that we reached BRL 760 million EBITDA, therefore, improving our net EBITDA ratio 0.3x, which I believe is a very good pace in terms of our deleverage as we have already talked to you. And this shows the consistency that we have. And this shows that the company, in fact, has been preparing itself to take another important step on our growth path.

I would like to draw your attention as well in this last quarter to our margin. Our margin reached 35% when compared to the same quarter last year, which was 29%. And I would like to remind you that the first and the Second Quarters, in our standard year, are the standards where we have the major maintenance stoppages in Puma, Monte Alegre. And in the third and the Fourth Quarters, this is when we reached the optimal efficiency and productivity levels.

Now I would like to bring to you our news, though it's not really a news to you. But it is already news for the call Gustavo, our new CFO. This was a great acquisition on the part of Klabin. Gustavo is a very seasoned and competent executive. And at the same time, he is young and he will have a very good history of success here with us at Klabin.

Now I would like to turn the floor over to him. He will be talking about our figures in detail. Then I will come back.

Gustavo Sousa {BIO 15242756 <GO>}

Thank you very much, Cristiano. Good morning, everybody. Already starting our presentation on Slide #2. We start the information about our EBITDA. And as Cristiano said, we had an EBITDA in the First Quarter of 2018 of BRL 760 million, which represents a growth of 41% on a year-on-year basis. As Cristiano said, our EBITDA margin went from 29% to 35% in the same period of comparison. And due to the improvement in the sales mix and attractive prices for pulp and kraftliner, we were able to deliver a growth of 17% in our sales revenue vis-à-vis the First Quarter of last year.

Klabin used this flexibility to drive the sale of products with more attractive prices. And we had a growth of 29% in sales of kraftliner vis-à-vis the same period last year. And the volume of pulp sales grew by 4%. And as Cristiano said, we continue to reduce our leverage. We closed the quarter with a net debt/EBITDA ratio of 3.8x.

Going to Slide #3, we have the highlights of our pulp and kraftliner segments. Starting by pulp, the strong demand continued to influence the international price scenario and the list price of pulp -- hardwood pulp in Europe had an increase of 43% in the last 12 month. And the list price of soft-wooden price went up by 32% in the last 12 months. And the

volume of sales went up 4%, comparing the First Quarter of this year with the last one. And the combination of this increase in sales and the price dynamics allowed us to expand by 52% our net revenue from pulp.

In kraftliner, we also had a favorable price dynamic. And the list price in Europe closed the period at 95 -- at \$905 per tonne, a historical record representing an increase of 9% vis-à-vis December 2017, showing a very strong global demand for virgin fiber paper.

Kraftliner went up by 5%. I would like to draw your attention to the right on the white part, to the part that represents a domestic market. Our volume of sales of kraftliner in the domestic market grew by 72%. And now representing 36% of our total sales volume in the First Quarter of this year. This combination of increase in volume and price dynamics allowed us to increase our net revenue from kraftliner by 29%.

Going to Slide #4, I would like to draw your attention, once again, in the first chart on the right. I would like to mention the white part that represents the domestic market of volume of sales. And the domestic market grew by 12%, representing then 51% of the total sales volume net of wood. This shows a recovery of the Brazilian economy and flexibility in the Klabin product lines.

Klabin increased the sales volume in Brazil in all its product lines in the comparison with the same period last year. And this improvement in the mix and the increase allowed us to increase 17% in the revenue closing the quarter with a net revenue of BRL 2.2 billion. And also, this was one of the main factors to grow 41% our EBITDA.

On Slide #5, we have information about our debt and our deleverage. We closed the period with BRL 17.7 billion in gross debt and BRL 11.1 billion in net debt. The green line on the chart shows the trend of deleveraging in the company and the green part on the lower part represents the accumulated EBITDA in the last 12 months, shows a trend in Klabin. So this is the 27th quarter in a row of accumulated EBITDA in 12 months.

Now going to Slide #6. We have our debt schedule BRL 17.7 billion in -- at the end of the quarter, a reduction of BRL 1.9 billion in relation to December last year, mainly due to prepayments that we made of (BPS) that were more burdensome. And over 2017, the company made a major move regarding funding and that reinforces cash and allowed us to have a very good strategy of liability management. And when we look at the average duration of our debt, we see from 43 months in December 2016 to 47 months of average duration at the end of March this year. Our cash position continues to be robust BRL 6.6 billion. And this is enough for 37 months of debt amortization.

Now going to Slide #7, we have our free cash flow information. We closed the First Quarter of 2018 with the free cash flow adjusted BRL 215 million. And in the first column, we see the total for the 12 month, the accumulated one, we had adjusted EBITDA of almost BRL 3 billion with a cash generation due to the reduction of working capital of BRL 370 million. And we had an adjusted free cash flow for the last 12 months of BRL 1.8 billion, which represents a free cash flow of practically 10%.

On Slide #8, we have information about our dividend yield. We closed the last 12 months with 3.4% dividend yield. And yesterday, we announced the payment of dividends referring to the First Quarter of '18, a BRL 152 million. And payment will be made for May - during -- on May 15 -- 14.

Now I would like to start our Q&A session, please.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Thiago Lofiego from Bradesco BBI.

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

I have 2 questions. The first one has to do with the fluff price, the realized price we saw an increase in the quarter. But maybe you could tell us about the renegotiation dynamics for the contracts with your clients? And what do you expect for the future? Will there be more impact of these price negotiations in the Second Quarter? And the second question has to do with Puma, the cash cost of Puma. What could we expect from now on in terms of production and cash cost for Puma because of the recent incident that happened? And I would like to know if production has gone back to normal? And what is the trend? And what kind of variables should we consider for the Puma price?

A - Gustavo Sousa {BIO 15242756 <GO>}

Thiago, this is Gustavo. Thank you for the question. I will ask Francisco Razzolini to answer your question because he is in charge of this segment.

A - Francisco César Razzolini {BIO 16565930 <GO>}

Thiago, about our pulp business, specifically about your question, about fluff, we see a rebound -- a gradual rebound of our prices and the fluff price is very -- is getting very close to the softwood fiber, about \$100 regarding vis-à-vis hardwood. A very good moment for demand, a very strong demand from the market. And we believe that the fluff price will go back to the levels that we saw a few years ago. And even during this year, we see a very active market for fluff. And also a very positive situation. Klabin has been achieving a very good penetration. Over 30 countries are covered in the world and we already have a significant chunk of the Brazilian market. And we are -- have a very sound position in this market. We are very happy with the results obtained so far. Now about Puma. We have resumed operations at the end of the month. And the stoppage was extended a little bit because of the recovery of the collection system of the boiler. And the plant is going very well. We had some implementations of improvement in the plant that we've already done. We are very pleased with the results obtained after we resumed production. And this shows a good potential for recovery of the volume that we lost. Because of the addition of stoppage, we lost about 50,000 tonnes during this year. And in terms of costs, we have a plant that is operating at higher production levels already. And assuming the dilution in our cost. But mainly the generation of energy has resumed.

And this helps a lot in terms of cash cost. So we could expect a cash cost in line or even better than what we had last year.

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

Razzolini, could you go back to fluff? I would like to understand the dynamics of your negotiations with clients. I understand that you have some annual contracts? And correct me if I'm not mistaken, with the time interval, which is higher than the monthly period that we have in general for pulp. So could you explain this?

A - Francisco César Razzolini {BIO 16565930 <GO>}

The fluff dynamics is based on the reference of a price list. And that is a little bit complicated initially. And with discounts, mainly in relation to capacities and volumes and the performance of the contract, this table is being adjusted and this makes the fluff prices go up, as I mentioned.

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

But how long does it take? What is the time interval? Because we know the monthly prices. But I would like to know how to project that. You have 3-month contracts and are you going to review it and...

A - Francisco César Razzolini {BIO 16565930 <GO>}

We have different types of contracts. But as the average, you could consider 3-month adjustment, as the average.

Operator

The next question comes from Marcos Assumpção from Itaú BBA.

Q - Marcos Assumpção

My first question has to do with the pulp production. And looking at the last 12 months, we saw that production was close to 1.4 million tonnes. And the capacity is slightly higher than that. So how do you see these indicators evolving for this year? And when you have a production migrating between hardwood and softwood and fluff, ultimately you could lose a little bit of your capacity and should we consider a lower capacity looking at the long run? And regarding the coated board, the volume dropped 10%, mainly in exports in coated board. So could you tell us about the strategy of the company? And maybe the average price was a slightly higher than what you expected, maybe better negotiations with clients?

A - Francisco César Razzolini {BIO 16565930 <GO>}

Marcos, this is Francisco. About Puma capacity, 1.5 billion tonnes is the overall capacity with the 2 lines operating in full. And there isn't practically any loss of synergy, if we switch from fluff and hardwood and softwood. And this is really independent from that. And as of this quarter, after the beginning of April with the resumption of the plant, we see Puma

running on a monthly basis at a capacity that is slightly higher than the nominal capacity, 2% to 3% higher than the nominal capacity. And continuing, I would like to ask Gabriella Michelucci to answer about the coated board.

A - Gabriella Michelucci

Thank you very much for the question, Marcos. First of all, there was a strategy on our part to prepare ourselves for the Monte Alegre stoppage that will start in May, that is to say, in the very near future. Then, we tapped into this moment of the market. We took advantage of that because the market was behaving very well vis-à-vis demand. And we organized these sales to the domestic market and also with a better profitability in the international market. So this has to do with reorganization of inventories and reorganization of our sales, always seeking a better profitability.

Q - Marcos Assumpção

Now about pulp, if Razzolini could answer going back to the subject. We saw that in this quarter, you had sales, slightly higher than the production of pulp itself. So what about the level of inventoried for pulp at the end of the Third Quarter -- of the First Quarter, I'm sorry.

A - Francisco César Razzolini {BIO 16565930 <GO>}

Marcos, we had lower inventories because of the length year, general stoppage of this unit. And we are rebuilding these inventories over the years to have our -- a very safe level. And we estimate an impact of about 50,000 tonnes on our production budget and as a consequence as well as sales.

Operator

Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

My first question is about the kraft market and conversion. We see that the average price went up quite a lot in this quarter. And I would like to understand how much was due to exports? How much came from improvement of prices in the domestic market. And about conversion, could you compare the prices in Brazil vis-a-vis export prices nowadays and the relative margin for each one? And could you give us a regional mix as well? And is there room to increase price now that we have the international prices okay. But we have the real with the depreciation now. And the second question is a follow-up about Puma. Razzolini talked about 50,000 tonnes. And I would like to understand if these 50,000 tonnes include the annual stoppages? The normal reduction that you have every year? Or if these 50,000 are extraordinary, in addition to because of the length year stoppage. So Razzolini. And as you have 2% to 3% higher than the capacity for the full year, how much do you believe you will be producing for the full year?

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

Well let us start by the end, Lucas. And Razzolini will answer and then we will come back.

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A - Francisco CÃ©sar Razzolini {BIO 16565930 <GO>}

Lucas, our projection regarding annual capacity already takes into account the scheduled stoppages and maintenance -- the general stoppage for maintenance 1,500,000 is already met of these stoppages. And the volume that we mentioned, 50,000 tonnes, was an additional period that was not scheduled. So we estimate to close the year close to 1,450,000.

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

Okay. So you see the opportunity of -- well, now we have the opportunity to talk with all the officers. And Douglas, who is in charge of the packaging department, will be talking about conversion and kraft.

A - Douglas Dalmasi

Lucas, this is Douglas Dalmasi. And thank you for the question. If we look at the kraftliner market internationally, we see that the market is going very well. And you can increase prices because of that and in general. And the market is very active and because of that, our strategy has been increasing our margin in conversion domestically. So we made a move in this regard that is to say price increases. And if you compare with the ABPO figure, you see that the market grew more than we did in corrugated boxes. So our strategy is to choose a higher profitability in the domestic market. So the international market is very good. So we are able to transfer this to a new prices or increased prices and also the situation in the domestic market.

Operator

Renato Maruichi, Santander.

Q - Renato Damaso Maruichi {BIO 17847481 <GO>}

I have 2 questions. The first one is the following. Could you give more details about your inventories in the First Quarter? I imagine that with the high prices in the quarter. And a very strong trend and with the Puma incident, there could be a reduction in inventories and not an increase as occurred? I know that the cost of debt is low. But some credit lines are still very expensive. So do you have a target for your cost of debt? Do you believe it should be lower? Could you talk about the opportunities that you see in terms of improving the cost of debt besides the liability management that has already been mentioned?

A - Gustavo Sousa {BIO 15242756 <GO>}

Renato, thank you very much. This is Gustavo. Yes. We do see additional opportunities in the direction. Cristiano said, that the company is preparing itself for a new cycle of growth in business. And right now, we are preparing the full strategy that evolve the capital structure related to that. Traditionally, in the last few years, the company has counted on funds with a shorter duration, PPE predominantly. And we believe that we can have or we can count on market instruments more now. And thinking about growth project, due to the nature of the project and the nature of the suppliers, this kind of funding could be

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(ACA). And what are the usual business of the company? There is a possibility to further optimize that in further future growth. So this is -- this funding is very attractive.

Q - Renato Damaso Maruichi {BIO 17847481 <GO>}

So you will no longer have to rely on the BNDES?

A - Gustavo Sousa {BIO 15242756 <GO>}

Well the condition is more favorable right now to market instruments. But we never say no, because we do not know what will happen tomorrow. The BNDES has been a traditional partner of Klabin always. And we have always counted on the contribution of BNDES. But other options in the market are more attractive now. We have already issued CRAs and bonds in the past and this could be repeated.

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

This is Cristiano. I will take this opportunity to answer your question about inventories. This is, in fact, a very small variation. And in the overall context, we had a slight variation in wood because of the addition of stoppage in Puma. But a small variation in the finished product, as Francisco said, there was a reduction. And we are preparing a buffer stock for the Monte Alegre stoppage for the coated board. So this is in the normal situation of our yearly seasonability.

Operator

Rafael Cunha from Credit Suisse.

Q - Rafael Cunha {BIO 20229675 <GO>}

About the new machine for kraftliner, I would like to know if you already have a destination for the volumes to be produced. Do you see a market that will be the target for this product? And along the same lines, what about the global market and the lead them in the long run already taken into account the implementation of the new machine? When do you believe the market will become attractive enough to remunerate your investment in this machine?

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

Rafael, thank you for the question. I confess that the second question -- at the end of your second question, it was not very clear what you asked. But in case I don't answer your question in full, could you please repeat it. Regarding the kraft machine, you asked about the destination for the product. And right now, as we speak, we are talking with the engineering department and they are studying together with our market department. We are talking. And we are deciding about the technology to be applied and the format. And all this is part study of the machine. Klabin has been the pioneer in the kraftliner technology. And we have been pioneers for decade and we want to continue to be as inventive as we have always been, not only regarding packaging. But also papers and kraftliner. Well the product from this machine will be a top-quality product and a very innovative one. The markets, well, this will depend on the characteristic of the product

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that will be produced from this machine and we are still analyzing that. So I would rather postpone my answer to -- more towards the end of this year, in fact. And with the alignment with the controlling shareholders, we expect to bring you news regarding investments to you, regarding the long-term view. I don't know whether this was the gist of your question or not. But regarding kraft, we are very bullish about it. We see major structural advantages in this market. We see kraftliner from virgin fiber, especially with the technology that we are seeking to implement also with the use of eucalyptus fiber for this paper with printing quality, unprecedented printing quality. And this is a market that more and more will demand from this product printing quality. And we believe that this product in the future and the characteristics of replacement of packaging with low recyclability and also products with a high requirement regarding the quality of printing and regulation regarding contact with food. And also the use of recycled fibers for some types of product. And the overall or the global regulation, the international regulations about solid waste, all that together brings to kraftliner in mainly to Klabin due to the productivity of -- due to the yield of Klabin's forest. For all these reasons, we believe this is a winning product in our history and the history that will be told in the next growth cycles very clear.

Operator

Milton Sullyvan from XP Gestao.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Cristiano, we have heard a lot about innovation from Klabin. And we know that this is one of your main pillars. But as usual due to the fact that we are within the reality of the industry, sometimes it's difficult to understand the order in which this will happen and the impacts that will be felt on your bottom line. So could you give us one concrete example, that is to say the order of priorities of your innovations? And what kind of impact do you expect to feel in the company's figures over time? What is your major focus today? What is the apple of your eyes for the long run? And the second question is the following. Could you do a retrospective regarding the pulp contract for the sale of pulp with Fibria? The time you signed the contract, which were the main points that led you to sign this contract with Fibria? And what changed from then on in this reality regardless of the deal with Suzano? Only from Klabin's viewpoint, which were the main points in your contract with Fibria? And what changed from then on? And if you had to make a decision today to renew the contract, which would be the point that you would take into account for this renewal?

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

Milton, thank you. Regarding your first question about innovation, I will ask Francisco, which is really our champion in this area and the world reference in innovation and technology. And he will be able to bring to you part of Klabin's view. But before I give the floor to Francisco, while it is a little bit the fashion today. And this could sound as an opportunistic view here in this context. However, I would like to say something to you. Something that in Klabin belongs to the history of Klabin. And that has to do with the view of the controlling shareholder and down to the trainees that are coming on board. Innovation has brought about a higher purpose than the one that Klabin already had, which is to guarantee that all the production processes mainly due to the fact that they have a direct link with activities regarding energy, production, the contact with

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communities and the acceleration of forest. So there was already this proposal of relationship with all these stakeholders. And now we have a new purpose that has been thoroughly discussed by the company, which is seeking a product that really, really may respect the policies regarding solid waste in the wood. And when we talk about the packaging made of paper, we talk above all about our products that besides, having a very high recyclability rate in many countries, totally recyclable, 100% recyclable from the technical viewpoint. Besides that, we are always seeking a biodegradable product. So I would like to give the floor to Francisco. And he will get into detail about the areas that we are researching. Then I will go back -- come back.

A - Francisco CÃ©sar Razzolini {BIO 16565930 <GO>}

Thank you for this question about innovation, this is a recurring theme and a very valuable and important theme to Klabin. We're working both segments, both in incremental innovation and disruptive innovations. We intend to be even more pragmatic and work hands-on on innovation, mainly in what regard of forest base, which is, of course, base for the whole company. The sustainable base for the company. So our focus is the improvement of the quality and yield of the wood that we deliver to our units. So -- and also with a lot of endeavors by Klabin, we have the improvement in the quality of our papers -- our packaging papers, both in terms of the resistance to reduce the thickness of the paper. And this is a market trend. And having less volume being produced and even more resistant papers and with better properties. We have been investing quite a lot in the use of eucalyptus for packaging paper. And last year, we had the opportunity in the Klabin day to show you your euca line. And our euca line in the kraftliner made with a 100% eucalyptus. And this is a patent owned by Klabin. And in this sense, we have already evolved a lot in what we consider as barriers incorporating properties to the paper that might bring us a lot of difference in the market, thereby, creating more recyclability and sustainability in our papers replacing other materials. And a third segment that we have been following. And we have been investing in, are the new technologies using our forest-tree base and basically the use of pulp and microfibrillated and nanocrystalline pulp that was the object of our recent investment by Klabin. And also the use of lignins and other sugars that are present in the wood. And these are growing more towards disruptive innovation, I would say. And the path is longer. But we see important progress by Klabin and by other players in this sector in the world. And I believe that we will have this path for sustainability more and more present to the next few years.

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

Milton, now answering your other question about the contract with Fibria. Fibria, when we decided to sign this contract, the motivation that we had was our contribution to the market so that the market could have responsibility in terms of the entry of new volumes always focusing on the profitability of this sector because this is an extremely important sector. And with high volumes of investment required in the sector. Need cycles is the one that we are living now and they have to be longer. So these cycles have to be longer so that the natural fiber and the major investment in pulp in the world may be worth. And our contribution was in terms of preserve the profitability for our shareholders. And our view about the contract. Well let me say it like this, this new configuration that should be occurring after the approval -- the necessary approvals between Fibria and Suzano, there is nothing against Klabin continuing with the contract. But we feel that we have the obligation, always looking at the best opportunity in terms of profitability. This is our

obligation vis-à-vis our shareholders and anything departing from that would be against our own culture. So up to now, this contract has been successful in our view. And it has everything to continue to be successful. But we also pay keen attention to the best returns.

Operator

The next question is in English, Carlos De Alba, Morgan Stanley.

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

Could you comment just to clarify given your standard stoppage at Puma, how much of the 50,000-tonne loss do you think are going to happen in the Second Quarter? And given probably the reduced levels of inventories, shipments of pulp in the Second Quarter maybe a little bit lower than they would typically be? If you can even give us a little bit more details around that, that will be helpful? As well as what is the impact on volumes that you're expecting Monte Alegre this time in the Second Quarter? Or you think this is going to be similar to what we have experienced in the last couple of years? Then finally, is there anything that you can comment on price -- potential price increases or price movement in the domestic market, particularly across all the different product lines?

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

Thank you, Carlos. Let me address your first question about the loss between the first and the Second Quarters. Most of that will be felt in the Second Quarter. But as Francisco has already said, now we have to wait because the plant has recovered and production is very good. So as he has already given an order of magnitude, we will wait for the performance of the machine in order to check the real loss at the end of the Second Quarter. But most of that is in the Second Quarter. Now going to Monte Alegre, your other question, the number of days of this stoppage and here we are talking about 10 days to be precise. So the volume losses regarding the stoppage of last year is quite similar or the same. Now going to the domestic market, the prices in the domestic market, the price dynamic is going well. We are moderately optimistic regarding Brazil and I usually say that -- well, without getting into the merit of the political part of the issue, I believe that all Brazilians have the feeling that the worst of the crisis is over. And that we are close to the elections already. And I believe that people are feeling more like citizens, I would say. And we see a moderate optimism regarding politics with its impact on consumption. And we know that everything starts with consumption and then you have to be -- have confidence and then investment and a decrease in unemployment rate. So I would say that I'm moderately optimistic. And this means that the prices in 2018 in Brazil following this situation that have already described to you, industrial capacities will start to be occupied. So to say, as the economy, mainly the industry, will start to reach good levels of occupation. And we have this seasonable advantage in our specific sector of packaging regarding OCCs. And OCC have a characteristic of having a lower price in this period. And then the price goes up by the middle of the year. Then they are kept at high prices up to October and November. And this increase in OCC also helps -- well, OCC together with a better use of industrial capacity and mainly in our own sector. All these together brings about an expectation of a better realignment of prices in the corrugated work sector. In the civil construction sector where we know that it impact of bag area. And we depend less on this sector because we

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chose the alternative to export. And I don't know whether you remember. But I remember that we made the first investment in the sect line in the machine for export, specifically, it happened to then we were adapting ourselves. And now we have a strategic view and strategic investments for the export of (fax). But we continue to be moderately optimistic about an improvement in civil construction that will help as align prices, once the domestic market will have to increase their profitability, such as happened in the international market. So our expectation regarding the domestic market is good for the year.

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

And if you haven't, just maybe a few comments or a comment as to the level on leverage that will make you feel comfortable before moving ahead with the projects, has that changed or remained the same?

A - Gustavo Sousa {BIO 15242756 <GO>}

This is Gustavo, Carlos. Thank you for the question. When we talk about leverage, we should think about not the snapshot for the quarter 3.8%. But we have to take into account our track record. So what we saw over the last year -- over the last 18 months, I would say, we can expect an ongoing reduction in our leverage for the next few periods. So having this in mind, we already have comfort in terms of thinking about the new road cycle and internally, we are going into deeper details regarding the projects and basic engineering and reinforcing that more important than the figure now. But the trend of the figure is more important. And it already gives us comfort or enough comfort internally to know that by the end of the year, probably in the Fourth Quarter, we might have something already concluded to talk about with the market because of our confidence in this trajectory. And I would like to remind you that growth project also occur over time, this doesn't mean that they are 100% disbursed next year. We will know the schedule regarding the implementation of the projects and disbursements.

Operator

Marcos Assumpção, Itaó BBA.

Q - Marcos Assumpção

Cristiano, could you talk about the study that you carried out to run scenarios and combinations of investments? What comes first? What comes last? And the work that you did with the consultancy company, what was the final conclusion of the study? And do you have update to give us about the discussion about the closing of -- regarding the cash cost, it was BRL 690, net of stoppages and we saw Suzano and Fibria close to BRL 600 cash cost. So could you compare your hardwood cash cost to competitor's cost? And also talk about the difference regarding cost between your hardwood and the softwood and the fluff fibers? I believe that you are probably at the same level as Suzano and Fibria. But I would like you to confirm that.

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

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Thank you, Marcos. About the work done together with this consultancy, it was a great opportunity for us to bring these people to talk with us. I don't know whether all you have the same level of information. So I would -- I will explain in a nutshell, Klabin took advantage of this moment in which we were dedicating ourselves to cash generation and preparing ourselves to a new moment of growth. And we brought on board a consultancy company as they went in depth together with our engineering team in our plants and looking at our capacities regarding organic growth using our asset base as well as where the best investments would be, not from the practical view of CapEx costs. But opportunity in a more encompassing way, thinking about the market, logistics and wood. And mainly, with the resources that we had already in house and even each one of the teams that we had in each one of the locations. So this was a great work done. And this shows that the path that we are considering are the right ones. And we still have a major opportunity for organic growth using our base. So this combined study was -- this was -- the market studies and then engineering studies, this is everything that we will be bringing to our controlling shareholders and to talk about our next investment. Regarding royalties, this was the question about royalties. The history of Klabin, the track record of Klabin is a very successful one. And this brand, this name has always been very valuable and every time we go to market that we have been serving for 40 years already with the same brand, we go there and we know the importance of this asset that we have. Now about the negotiation of this asset with a controlling shareholder. Well there will come a moment in time in which the -- well, I know that the controlling shareholder is aware of the importance of growing the company as of now and dealing with things such as this one. Because on and off, you have been bringing this subject to be discussed during our calls. And I really expect that this may happen in the best possible way. But the timing, I cannot tell you right now. It will take the necessary time. So that this can be solved.

Now going to cash cost, I will ask Francisco to help me here. And he will be explaining this in detail to you.

A - Francisco César Razzolini {BIO 16565930 <GO>}

Marcos, when we talk about the Puma costs, they are higher because we work with 2 lines and the pine line has a higher cost. The cost of pine is 40%, 45% higher than the cost of the eucalyptus line. What we are sure, looking at the figures published by other players in the market, we are sure that our cash cost for eucalyptus is lower than the average of the other companies, the other players. We are very competitive mainly because our medium distance is very short and our production line is very effective at Puma mainly because we have a very significant energy generation vis-a-vis our competitors.

Q - Marcos Assumpção

Razzolini, just to confirm the softwood is 40% higher?

A - Francisco César Razzolini {BIO 16565930 <GO>}

The cash cost in the chain, yes.

Operator

As there are no more questions, I would like to turn the floor over to Mr. Cristiano Teixeira for his closing remarks.

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

So we start the Second Quarter, as I mentioned before, being moderately optimistic about the domestic market. And very bullish about the prices in the international markets. And we have already said. But I repeat that we must emphasize the good returns and the good investment after the stoppage at Puma and all this taken together should ensure a good result and the same speed in the deleveraging of the company. Thank you very much, everybody, for your presence in the call. And see you next quarter.

Operator

Klabin's conference call is closed. We thank you for participating. And wish you all a very good day. Thank you.

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