

Q2 2019 Earnings Call

Company Participants

- Cristiano Teixeira, Chief Executive Officer, Chief Financial and Investor Relations Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Paper Business Director
- Jose Soares, Pulp Commercial Director
- Marcos Paulo Conde Ivo, Senior Financial Planning and M&A Manager

Other Participants

- Carlos de Alba, Analyst
- Daniel Sasson, Analyst
- Gabriela Cortez, Analyst
- George L. Staphos, Analyst
- Marcio Farid, Analyst
- Rafael Cunha, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning, and welcome to Klabin's Audio Conference. At this time, all participants are in listen-only mode. (Operator Instructions) I would like to remind you that this conference is being recorded and broadcast live via webcast, and it may be accessed at cast.communicare-se.com.br/Klabin/2Q19. You will also find the presentation available at this website.

Before we proceed, we would like to clarify that forward-looking statements that might be made during this call, in relation to Klabin's business outlook, projections, operating and financial targets and potential growth should be understood as mere assumptions based on the company management's expectations 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 market behavior. Therefore, they are subject to change.

With us today in Sao Paulo, we have Mr. Christian Teixeira, Mr. Marcos Ivo, and the other officers of the company. Mr. Teixeira, who will be making remarks about the operating performance of the company in the second quarter. And afterwards, the officer will be answering questions that you might have.

Now we would like to give the floor to Mr. Teixeira.

Cristiano Teixeira {BIO 17567319 <GO>}

I would like first to welcome you all to our call about the results of the second quarter of '19, and this call will show you that the result of the second quarter, highlights the fact that Klabin is agile, flexible and with keen attention on the market direction proactively and actively showing a defensive model that only a company with this level of integration and verticalization can offer. With the international and Brazilian markets, we increased 8% of our EBITDA and 9% when we look at the first half of '18, vis-a-vis '19.

Now I would like to turn the floor over to Marcos Ivo and he will be talking about the financial highlights, and then we will return.

Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Thank you, Christian. Good morning, everybody, and I would like to start the presentation of the results of the second quarter of '19, highlighting three points. The sales volume growth in all segments, where we have our activities, especially pulp and coated board, the extension of the average duration of our debt that reached 94 months, the adjusted EBITDA of BRL957 million in the quarter, an 8% growth year-on-year.

On slide number three, the volume of sales in the quarter was 818,000 tons, a 15% increase on a year-on-year comparison. The domestic market represented 53% of the total sales volume, the same level as 2018. And on the same slide, the net revenue in the period reached BRL2.6 billion, representing a growth of 16% on the same basis, explained mainly due to the higher number of sales and the optimization of the products and market mix. Adjusted EBITDA in the quarter, as I mentioned before, was BRL957 million. EBITDA margin was 37% in the period, impacted by production costs that we will be talking about. And the extraordinary G&A expenses around EUR15 million, that will mean savings as of the next quarter. For the year, EBITDA was BRL1,970 million, a 19% growth vis-a-vis the same period in '18. EBITDA margin in the first half of 2019 was 39%, a 2 percentage point increase.

Vis-a-vis the same period of '18 on slide number four, we highlight the growth in the quarter of the sales volume and the net revenue from the pulp business, 26% and 27% increases, respectively, when compared to the same period in 2018. In the Paper and Packaging business on the same comparison basis, the growth in the sales volume was 7%, and the growth was driven by exports that represented 32% of the total sales volume in the quarter. Net revenue in the paper and packaging business was BRL1.6 billion, an 11% increase year-on-year.

On the next slide, the pulp unit, once again, had a higher performance than the nominal capacity with the production of the 387,000 tons, a 13% increase quarter-on-quarter. The cash cost of pulp production, including all the fibers produced by the company was BRL793 per ton in the quarter and the drop in the price of energy, so two-third parties. And as you know, this brings down the production cost, it impacted in BRL24 per ton of

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pulp, the cash cost of the period when we compare this to the same period of 2018. And in the same comparison, the participation of fluff and softwood and production mix was 3 percentage points higher, going from 24% to 27% of the overall pulp production, and this change in the mix, which is beneficial to the EBIT of the company added a cost of BRL12 per ton of pulp produced. And the company's expectation is that the cash cost of pulp production, net of the effect of the stoppage for maintenance will be dropping in the next quarter when compared to the current one. And still talking about pulp, the stock put for maintenance occurred in the beginning of July after a campaign of 15 months. And with that, the company confirms the technical feasibility of 15-month campaigns in the pulp site. And the next stoppage for maintenance is estimated for October 2020.

On the next slide number six, the coated board sales volume anchored by strong shipping to the overseas market was 166,000 tons in the second quarter of 2019, representing a strong growth, that is to say, 19%, vis-a-vis the same period in 2018. The net revenue of the coated board segment was BRL599 million in the period, a 26% increase on the same comparison basis and the major growth in the sales volume and net revenue are evidence of the good moment for the coated board market.

On the next slide number seven, the company ended the second quarter of 2018 with a BRL13.1 billion net revenue, net debt and leverage measured by the net debt-to-EBITDA ratio in the last 12 months, closed the quarter at 3 times stable vis-a-vis the previous quarter. And I would like to mention that in the second quarter of 2019, the company started the outlays for the Puma II project. And in the period, the same represented approximately BRL300 million.

On slide number eight, as we said during the first quarter call and also in the call of Puma II, the average maturity of the company's debt reached 24 months at the end of June 2019, practically twice the time that the company had at the end of 2018. And it's important to mention that this extension of the maturity was carried out, keeping the same level of financial cost for the company. And the success in the process of extension is a recognition by the market regarding the strong fundamentals of Klabin.

On the next slide, as a direct result of the liability manage process, annual amortizations up to 2022, a period in which we will have the disbursement of most of the Puma II CapEx came down significantly, going from BRL2.8 billion per year in June last year to BRL1.4 billion currently. The liquidity position and the debt profile, the average maturity and amortization schedule give the company a very robust balance sheet in order to cope with the mix with the investment cycle underway. The company generated a free -- adjusted free cash flow of BRL368 million in the quarter. And the cash flow in the period was driven by the increase in the EBITDA. And on the other hand, as a consequence of the successful liability manage process, the interest paid and received line was impacted by expenses with fees and breaking funding fee amounting to BRL165 million. Likewise, the prepayment of the rig fees had a negative impact on the working capital by BRL328 million. Net of the effect of the re-fees, the variation of the working capital in the quarter was positive by BRL257 million, in line with what's indicated in the previous results call.

On the last slide, dividend, the company paid shareholders in the last 12 months, including the payment that will be made on the 19th. Dividend and interest on equity amounted to

BRL1 billion, representing a 5.3% dividend EBIT.

Now, we would like to open the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, now we will start the Q&A session. (Operator Instructions) Our first question is from Mr. Thiago Lofiego from Bradesco BBL.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning everyone. I have two questions. The first one has to do with the volume for the domestic market. So could you give us some color about what you see for the third quarter, with a substantial improvement maybe or you're not so much encouraged with the domestic market. What about your order book? And maybe you could give us some breakdown about your CapEx and cash, et cetera. The second question has to do with cost. How much of the pulp cost should be recurrent? And similar with the one that you had in the second quarter, how much of that will repeat itself or is this a nonrecurring cost? Should we consider this cost as the regular for the future for Puma?

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Thiago. Talking about the domestic economy and volumes entry in general ways. The third quarter, we always have the expectation of the beginning of contract for the end of the year and the industry preparing itself for the events that are seasonal events. Should the Brazilian economy be better, that is to say starting in the third quarter that was then in the first half of the year, so our expectation is to -- is a better situation for the domestic economy for this business, industrial bags and packaging and pulp and paper, which means that we are bullish about that. And still talking about the domestic market, we have the possibility of -- in case of the packaging papers when the international markets deteriorate. And as we repeat very often to you, we can integrate more paper in our packaging, and this is what we did in the second half -- the second quarter. And we reduced the purchase of recycled paper from third parties in the domestic market. And this is important for our results, and we always use this method when we see deterioration in the international market. Regarding the cost of pulp, I will give the floor to Marcos Ivo.

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

Thank you for the questions. As I've said before, the company's expectation is that the cost in the third quarter for pulp, net of the effect of the stoppage will be dropping vis-a-vis this quarter, and it should remain between the realized cost in the first quarter and what was realized in the second quarter, something in between. I would like to add, Thiago, going back to the domestic volume. I mentioned pulp and I mean ex stoppage, we will have a stoppage at the Puma unit now in the third quarter, okay. So please keep this in mind. Thank you very much.

Operator

Mr. Daniel Sasson, Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning everybody. Thank you for the questions. My first question has to do with pulp. So today, where do you see the cash cost of the marginal producer? Maybe you expect in the short run some announcements regarding the closure of capacities and something related to hardwood, we saw some current announcements for softwood already. And what about the concentration for the industry since the last bottom when it was \$460 more or less per ton? And the second question has to do with volumes sold. It seems to me that this is going to be the first month with no volume sold directly from you to Suzano. So how much -- what percentage of the future volume is already contracted? And what about the acceptance on the part of your clients? And will you be able to tap into this premium, so to say, vis-a-vis the prices that you had with Suzano due to the fact that you are able to reach these clients? And maybe you could talk about the process of the new CFO, could you give us an update? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Sasson. I will start answering your question about the production cash cost for the sector, then I will give the floor to Soares and I will come back in order to answer your question about the CFO. Based on what we can understand, published by the specialized media, it is about \$450, \$460 producers in the northern hemisphere, mainly through cost inflation. Well, this depends whether integration exists or not, whether they are self-sufficient in terms of wood fiber. And in the last couple of years, softwood in the US has been increasing in price. And the effect of this price increase in the US for softwood impacts cost inflation. But in the region, that is really important to determine the forward cash cost, \$460, \$450. Regarding the volume of the contract then, Soares will be answering and then I will come back.

A - Jose Soares {BIO 16986980 <GO>}

Hi, Daniel. Regarding the volume of our contract at the end of July, this was the last shipment that we made to Suzano, 15,000 tons. Therefore, as of August, we will be selling 100% of our volume. August is totally sold already, so we are not finding any problem whatsoever in terms of selling the full volume. I would like to remind you that in this process of August, we are buying inventory in the client in Europe based on inventory. So sending this to Europe, you have 45, 60 days. So with the volatile market, it will be almost impossible to cater to these clients. We are making the first shipment now in August, and as of September, we will start catering to the client based on our inventories in the Northern Europe. We will have two, one in Northern Europe, and then we will be able to meet the needs of the contracts that are being negotiated already.

And clients right now, they are buying from us up to December on spot. And in 2020, probably all the clients -- all the contracts will be streamlined as of the event in Barcelona. And this year, the clients are trying to end their contracts as soon as possible or establishing the conditions for the contract as soon as possible. So at the beginning of the year, it will be very clear and up until then, we are dealing on a spot basis. And in the other

markets, Latin America, Brazil and China as well and the Southeast Asia, most will be on a spot basis. And we find no problem whatsoever because the product was already sold by Fibria. So the time for approval, et cetera. There is no problem there because the quality is very well known by the market, and it's been very well received there. Any additional point? I think this was basically your question.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Now I return to talk about the CFO process. I would like to remind you that now, we have five months without our CFO because our previous CFO asked to leave the company five months ago, and this was before these points of the debt profile and the extension of our debt profile with liability management and everything that we were doing at the time. With the exit of our CFO, I decided to do this with our team and I had to choose between doing the process and not starting the process of choosing the CFO. So we talked and the team was very motivated, very much interested in doing this, not to delay the issuance of our bonds and the beginning of the project.

So the team led by Marcos Ivo that did a brilliant job during all these months. The company delivered what we had to the Board that we would be delivering and on time. And now, we are again, focusing on the choice of the CFO. So we are right now, choosing the CFO, there is a selection process. And very soon, we expect to have some news about that to convey to you.

Operator

George Staphos from Bank of America in English.

Q - George L. Staphos {BIO 1495442 <GO>}

Good morning everyone. Thank you for taking my questions. I wanted to ask a follow-on question regarding cash cost, sequentially 2Q into 3Q. Would it be possible to talk about what the cost impact would be at Puma with the outage in the third quarter and also what the impact at Monte Alegre was in terms of this turbo generator? And should that be entirely behind Klabin in third quarter as a way to quantify there's enough, that would be helpful. And I have some follow-ons.

A - Cristiano Teixeira {BIO 17567319 <GO>}

George. Thank you very much for your questions. And could you please wait for 1 minute because we are going to -- the audio was very bad. The audio of -- your audio to us was very bad. So could you please standby just for a while?

Q - George L. Staphos {BIO 1495442 <GO>}

No problem at all.

A - Cristiano Teixeira {BIO 17567319 <GO>}

George, the audio of your question was very bad. But I understand you are asking a question about cash cost and Marcos will try to answer your question and (Technical

Difficulty).

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

George, regarding the production cash costs for Puma, the expectation is that it will go down in the third quarter, always reminding you that it is net of the effect of the scheduled stoppage that we had in July, and it should be between the cash cost of Puma that we had in the first quarter of 2019 and the one that we had in the second quarter of '19. I think you had a second question about G&A.

Q - George L. Staphos {BIO 1495442 <GO>}

Yes, the two questions I had. And I apologize for the poor audio. The translation is not coming through very well. How much is the cost of the outage of Puma for the third quarter? And how much was the impact of the turbo generator at Monte Alegre in the second quarter?

A - Cristiano Teixeira {BIO 17567319 <GO>}

The cost of the Monte Alegre. No, the Puma stoppage cost will be at the same level of last year. So we do not expect to have any different costs than what we had last year, restated by the inflation in the period.

Q - George L. Staphos {BIO 1495442 <GO>}

Understood. I'll ask one last question and I'll turn it over just to be courteous. We've seen some stabilization in the global paperboard markets in a good way after what has been some declines the last several quarters. Is Klabin seeing that as well? Was that any factor in the pickup in the export coated board market? And does that have any implications for how you're thinking about the second project at Puma II? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

George, thank you for the question and Flavio Deganutti will answer your questions.

Q - George L. Staphos {BIO 1495442 <GO>}

Thank you.

A - Flavio Deganutti

Good morning, everyone. The coated board market had a good reaction over the year, and we are reaping fruit from the investments that we made last year, mainly regarding geography mix and product mix. So Klabin has a more intense activity of coated board related to the beverage market, also the cups market. And the card -- coated board with barrier more limited. And the migration towards more sustainable packaging is underway, and we are -- now, we have a more diversified portfolio and also an important migration vis-a-vis -- towards the products that we produce. We see stabilization after drops in the international market. Right now, we have more stability vis-a-vis what we had in the first quarter with some expectation regarding the last quarter of the year. I know we have not

covered or maybe we have not covered all the points of your question, and we remain at your disposal, should you need any additional clarification.

Q - George L. Staphos {BIO 1495442 <GO>}

Thank you.

Operator

Thiago Ojea from Goldman Sachs.

Q - Thiago Ojea {BIO 17363756 <GO>}

Good morning. Thank you. And my first question has to do with the CapEx of the Puma project. In this quarter, it was around BRL280 million, and the expectation is to spend almost BRL2 billion this year. So how do you see CapEx expenditures in the next quarters? And is there any possibility of delay regarding the startup of the project? And going back to the previous question about pulp cash cost, I do not have the history of last year, maybe you could remind me about the cost of the stoppage. And maybe you expect the third quarter to be the bottom in terms of the EBITDA margin for the company.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Thiago. Marcos will answer your questions.

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

Thiago, regarding outlays for Puma II. Right now, the most precise figure we have is BRL1.750 billion or BRL1.8 billion for 2019, so a slight reduction vis-a-vis what we communicated before. Regarding the cost of the Puma stoppage, it would be between BRL40 million and BRL45 million. And there was another question regarding any delays expected, and the answer is no. We had to choose our suppliers, about 70% of our suppliers have already been chosen and things are already underway, and there are no delays expected.

Q - Thiago Ojea {BIO 17363756 <GO>}

Regarding the EBITDA margin in the next quarter, do you believe that would be valid for the year? That is to say, the bottom for the year.

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

We have the stoppage of Puma, which, of course, has a major impact. And you have a deterioration of market because of inventories of pulp, as everybody knows. And I would still mention in the paper market, in spite of the good situation of the United States in the last 10 years, what we've see now is an apparently stable level in terms of corrugated boxes. And what -- there could be an impact for Kraftliner suppliers, but looking at the plus side, the half-full glass, yes, the domestic market is beginning to improve and we have some positive expectation regarding the domestic market, but it's a little bit too early to give you any guidance about margin and with the stoppage of Puma, these

figures are lower. But for the market, it's a little bit too early to tell you anything about that.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you.

Operator

Rafael Cunha from Credit Suisse.

Q - Rafael Cunha {BIO 20229675 <GO>}

Good morning. My first question has to do with demand. How do you see the demand for pulp globally? And the difference between softwood and hardwood demand, what could we expect in terms of prices for these two kinds of fiber? And the second point, can you give us an update about royalties? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Well, let's start with Soares, okay, and then I will be back.

A - Jose Soares {BIO 16986980 <GO>}

Rafael, thank you for your question. Regarding demand, what we have been seeing is that demand is still weak in Europe because summer, July, August, seasonally, they are periods of low consumption in printing and writing paper and specialty papers. But tissue, in tissue, we see a normal stable market in Europe. When we turn our eyes to China, we see a low demand from the packaging market. We have clients who buy pulp for packaging, and they have been buying less, so the activity is lower, printing and writing as well is weaker. But in specialty papers and tissue, the market is going up. I was in China one week ago, and our clients were not complaining about demand. The prices in China are good, the clients are having margin after the drop in pulp prices, and we see that they are somewhat encouraged and they are starting to make money. And their inventories are relatively low, so the time is coming for them to replenish their inventory, rebuilding their inventory.

So in softwood, we already see price stability in the last couple of weeks. This stopped dropping in China and softwoods are going up a little bit, NBSK is already 570 NBSK, 540 million, and the difference would be \$60 to \$70 between NBSK and the hardwood fiber which is historical difference between these two fibers. And with that, we see that the certain balances will reach the cash cost of NBSK producers and SBSK as well that's very close to the cash cost, and some stoppages have already been announced in the northern hemisphere. And more recently also a stoppage in hardwood fiber and we see that producers are starting to get to a cash cost. So the solution for that is a stoppage. So it seems to us that the balance between the two fibers is already established, maybe still with a little adjustment being necessary.

A - Cristiano Teixeira {BIO 17567319 <GO>}

FINAL

Now I come back. If you allow me, I would like to remind you about the theme we identified, that there was an opportunity at Klabin S.A. in terms of acquiring and this contract that involves the brands. And we continued with our negotiations in this regard and the owners are controlling shareholders of the company. Therefore, that would be a conflict, so we decided to do this by means of a general shareholders meeting. And the matter was being developed very well based on the contract and we thought that would be a good moment to carry out the negotiation and Klabin S.A. sees a major opportunity to go ahead with this initiative.

And there was a short period that one minority shareholder challenged and there was a public debate and the controlling shareholders stopped the negotiation. And we were obliged to cancel the shareholders' meeting that would be making a decision about this theme without the participation of this party, the company. So the Board on June 12 has new members and these new board members are participating in a very transparent way in this debate. And therefore, we see this which -- a degree of optimism, and we believe that the same could come back should this negotiation be resumed. And as the administrator of the company, I would like to mention that we are extremely interested in incorporating this contract, but we have to wait for the Board members to debate this.

Q - Rafael Cunha {BIO 20229675 <GO>}

Very clear. Thank you very much.

Operator

Marcio Farid with JPMorgan.

Q - Marcio Farid {BIO 21017394 <GO>}

Good morning. Thank you for the questions. Soares, the outlook for demand was clear but I would like to understand, Soares, the spot volumes that you mentioned and that you have already sold in August. What price level are we talking about mainly for these spot transactions to Europe? What would be the ideal breakdown in terms of geographies after you finished the operations with Suzano, would be more to Europe or spot to China? So what could we expect in the next few months? And also a follow up regarding prices, what could we think about the outlook of cash? Well, maybe in the fourth quarter, do you believe there will be additional price increases this year or would that be more towards 2020? Thank you.

A - Jose Soares {BIO 16986980 <GO>}

Thank you for your question. Your first question about spot prices. Today, European prices, as I mentioned, European clients buy based on the spot price and we made some initial sales as of the beginning of this result with Suzano in April in order to start these initiatives. And the sales were done in (inaudible) and the conditions were FIS. And as the market deteriorated, the company started to buy from inventories because they cannot just wait for 45 to 60 days for the merchandise to get there. And this week, 823, full x and then each client has a level of discount that is established during the negotiations. And our focus continues to be on small and medium-sized clients. Of course, we have large clients in our portfolio, but our focus is to look for clients that buy lower volumes or medium-size

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when we get a certain premium in our sales. So it is a full x price for the week, aiming at the mix of clients that we established as a strategy of the Klabin. And regarding geographies, our strategy is to divide the volume, one-third Asia, one-third Europe, one-third Americas. So this is what we are doing today, and we will continue at the same pace in the next few quarters. And the other question was -- oh, it was boxes, corrugated boxes. So Douglas Dalmasi will be answering this.

A - Douglas Dalmasi

Thank you for the question. In the first half of the year, we had price increases on average 6% to 7% because of some market niches and also because of markets that are more profitable. And for the second half, we have the same expectation between 6% and 7%, repeating what we did in the first half. The demand in the second half is usually stronger, so this is due to this and also because of what we did in terms of transfer and the participation in more profitable markets as well.

Q - Marcio Farid {BIO 21017394 <GO>}

Thank you, Soares and Douglas.

Operator

Carlos de Alba, Morgan Stanley.

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

Yeah. Thank you very much. Good morning, everyone. So first question is regarding paper packaging prices in the domestic market. What are the expectations there? Do you think you can increase prices in the second half of the year, continuing with the good performance that we have seen so far? Or given that the demand is recovering but still relatively soft, would you postpone any price hikes in Brazil for the first half of 2020? And then on pulp, what -- are you considering changing the way you sell pulp, maybe offering also fixed prices for more than one month, similar to what Suzano has done? Or do you think that you will continue to stick to the current more common practice in the industry and that Suzano only did that in order to clear their excess inventories? Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you very much, Carlos. We will start with Flavio Deganutti and then Soares.

A - Flavio Deganutti

Thank you for your question in relation to the domestic market. The main initiative on the part of Klabin was taken in the first half regarding prices and now, we have the reaction to that in the second half. As I mentioned before, is to have the third quarter still without major changes in terms of demand, but moderate optimism regarding the fourth quarter of the year. And should this happen, we will have additional activity there.

A - Jose Soares {BIO 16986980 <GO>}

Carlos, answering your question regarding pricing policy. Right now, we do not have any definition regarding establishing prices. So we are in this transition moment of our contract which then regarding our direct sales, and we are still defining volumes and defining with our clients, what will be the volume for 2020. So we have other definitions to be arrived at before talking about prices. So we are doing this on a month by month basis. We are accompanying or following the market this way.

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

Thank you very much.

Operator

Gabriela Cortez, Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Good morning, and thank you for the question. I have a few doubts about coated board. You had a major increase in volume now due to some commercial negotiations that you carried out at the end of last year. And I would like to know whether this is a new client in your portfolio, and could we expect the same level of sales? Or was it because of one single contract for this quarter specifically? And still talking about coated board, what about expansion to other regions and new product lines? Could you better quantify what you expect regarding the new products? I don't know whether you have already answered these questions, but I think I have missed something.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Gabriela. Flavio Deganutti will answer.

A - Flavio Deganutti

I will split this in two. Going back to 2018, as a company, we decided to have a higher participation in some markets where we saw room for expansion to North America, United States in the coated board products. Asia, China and Korea and Australia and the main countries, so these are countries where Klabin had small participation, and we increased the card products. And the other part of my answer has to do with the product mix. So these are three different highlights in fact. The first one is the food service market, and as the main element for this market, it is the coated board for cups. And with a very major participation in the world market, so this allows us to replace less sustainable materials than ours. So we can gain scale there, so Klabin also goes after something very much connected to its products, which is the cups market with a brown surface. So they are not like the 100% white and so you associate this to more premium consumption.

And the reaction of the packaging market, especially for the year, be it cans or bottles with a major reaction on the part of this market associated to the growth in sales but also the expressive growth of microbreweries within indirect association with more sustainable packaging because we have a printing quality that is very good vis-a-vis the typical packaging that this industry uses. And also the fact that we are starting to deliver products with barriers to the market, fat barriers, with off-the-shelf food. And we're still crawling,

we are in the initial stages but we start to have an international participation with major food brands. And the other part of the answer has to do with the LPB market and with a major growth based on contracts that were signed last year, so this shows our situation for 2019 in relation to your questions.

Operator

Now we close the Q&A session. We would like to turn the floor back to Mr. Cristiano Teixeira for his closing remarks.

A - Cristiano Teixeira {BIO 17567319 <GO>}

In spite of the uncertainties of the global markets, there is a clear opportunity in the Brazilian domestic market. Confidence will come back and will place Brazil in a sustainable growth path. Klabin is a company in the sector that has the best conditions to tap into these opportunities and the improvement in the environment of Brazil. Our expectation for the third quarter, well, we will have the stoppage of Puma and we will be working to offset the still present deterioration of the global market. So thank you very much, and see you in next call.

Operator

Klabin S.A. conference call is closed. We thank you for participating, and wish you a good day. Thank you.

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