

Q3 2020 Earnings Call

Company Participants

- Aires Galhardo, Executive Officer, Pulp Operation
- Carlos Anibal de Almeida, Executive Officer, Pulp Commercial Business
- Leonardo Barretto De Araujo Grimaldi, Executive Officer of Paper Business & Member of Management Board
- Marcelo Feriozzi Bacci, Chief Financial Officer and Investor Relations Director
- Maria Luiza De Oliveira Pinto e Paiva, Executive Officer of Sustainability
- Walter Schalka Suzano, Chief Executive Officer and Investor Relations Director

Other Participants

- Cadu Schmidt
- Carlos De Alba
- Daniel Sasson
- George Staphos
- Jonathan Brandt
- Leonardo Correa
- Marcio Farid
- Thiago Lofiego
- Thiago Ojea

Presentation

Operator

Ladies and gentlemen, thank you for holding and welcome to Suzano's conference call to discuss the results for the third quarter of 2020. We would like to inform you that all participants will be in a listen-only mode during the presentation of Messrs. Walter Schalka, Chief Executive Officer; Marcelo Bacci, Financial and Investor Relations Executive Officer; Leonardo Grimaldi, Paper Executive Officer; Carlos Anibal, Pulp Commercial Executive Officer; Aires Galhardo, Pulp Operation Executive Officer; and Maria Luiza Paiva, Sustainability Officer. After the company's remarks are completed, there will be a question-and-answer session when further instructions will be given. (Operator Instructions)

Before proceeding, please be aware that any forward-looking statements are based on the beliefs and assumptions of Suzano's management and the information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. You should understand that general economic conditions, industry

conditions and other operating factors could also affect the future results of Suzano and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Walter Schalka. Please, Mr. Walter, you may proceed.

Walter Schalka Suzano

Good morning, everyone, and thank you very much for the opportunity to be with you on this presentation of the third quarter results of Suzano. I am very pleased to bring to you our third quarter results. Once again, Suzano is demonstrating an amazing business strength. It's very clear to us that on several different perspectives, we have been performing extremely well.

On the pulp business, even in a very difficult market scenario, we have been performing extremely well with higher volumes and with very good cash generation per ton, a very robust and solid cost as well. On the packaging and paper segment, we have seen a V-shape on the last quarter. Leo is going to present the detailed numbers to us. And on this scenario, the cash flow of the company have been unbeatable in the industry leading to accelerated deleverage of the company. It's very important to mention to you that the company not only have a very good performance, but we have been improving as well and we are going in the details on that on the ESG performance on our follow on operation with BNDES. And we have been performing extremely well as well on our liability management program.

Now, I'm going to pass to Marcelo. There, he's going to enter more details on that.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Hello. Good morning, everyone. If we look into Page 3, we're going to see into a bit more details of the numbers that support the speech that Walter made in the beginning. We had a very consistent result in this quarter starting with the sales volume that was very good considering that the third quarter at least on the pulp business is seasonally low. We had 2.50 million tons of pulp sales in the period, which led us to continue to maintain a stable and low level of inventories in the period. We had a very good performance on paper volumes with 290,000 tons that Leo will go into more details on that.

On the operational side, we had a very amazing performance with BRL3.8 billion of adjusted EBITDA, BRL2.9 billion of operating cash generation and with BRL600 per ton cash cost ex-downtime, which is basically flat in relation to the previous period. On the financial side, we continue to have a robust liquidity of \$2.4 billion, net debt went down to \$12.2 billion leading to a leverage of 4.4 times in the quarter, which was an important advancement in relation to the previous quarter. And again, we have the issuance of sustainability linked bond that Leo will walk us through and also the completion of the offering in which BNDESPAR sold its position to Suzano. So it was a very solid quarter. And I'm going to invite Leo to start talking about the paper and packaging business

Leonardo Barretto De Araujo Grimaldi {BIO 20248747 <GO>}

Thanks, Bacci and good morning, everyone. I would like to present the results of Suzano's packaging and paper business unit for the third quarter 2020. The figures presented on Slide number 4 are specific to our paper business unit, therefore excluding Suzano's consumer business unit's results and enabling us to have a better comparison with best quarters. This was indeed a remarkable quarter for our business unit as we were able to recover sales to pre-pandemic levels restoring our past EBITDA records.

As you can see on the top left graph and as all of our four paper production mills are back into operation since early July, the production of paper and paperboard totaled 266,000 tons during the third quarter. The main variation compared to the third quarter '19 was related to the maintenance downtime at our Suzano paper mill, which is the most relevant mill for our paper and paperboard production.

Now moving onto the top right graph and looking at our sales figures, we can note that we have sold 290,000 tons during the third quarter '20, which is a 44% increase compared to the second quarter 2020 and even 1% higher than the third quarter 2019. Our international sales grew 8% compared to the second quarter and were 3% below third quarter '19. Our domestic sales which grew 66% compared to the second quarter '20 were boosted by two main effects, the strong demand for packaging grades and for the advertisement for municipal elections, which are done primarily on coated papers mainly produced domestically by Suzano.

Our sales in Brazil even exceeded the third quarter '19 by 3% showing a complete V-shaped recovery of our business. Statistics presented by Iba, our pulp and paper association, present a reduction of 27% in the demand of printing and writing papers in Brazil for the months of July and August 2020 compared to July and August '19 and then (Technical Difficulty) 16% in the demand of paperboard grades in the same comparison.

At this time, statistics for September are still not available. According to the year-to-date statistics presented by Iba, just remember January to August figures demand of printing and writing grades in Brazil have posted so far, a 28% in reduction compared to the same period '19 and the demand of paperboard is very stable with a 0.3% improvement in the same comparison.

Now looking at the lower left side of the slide, we can look that our average prices during the quarter totaled BRL3,815 being 4.5% below the second Q '20 or equivalent to the third quarter '19. Our prices in Brazil increased slightly 0.2% in the third quarter compared to the second quarter, but our international prices decreased 9%, due mainly to a less favorable geographic mix of our exports.

Now looking at the lower right side of the slide, we can note that our total EBITDA was positively affected by the recovery of our sales and totaled BRL355 million being 14% superior to the second quarter '20 and even 3% higher than the third quarter '19. Our EBITDA margin, still very resilient, was BRL1,223 per ton.

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Bloomberg Transcript

I would now like to invite Carlos to present the results of our pulp business unit.

Carlos Anibal de Almeida {BIO 19090865 <GO>}

Thanks, Leo and good morning, everyone. Hope everybody is healthy and safe. So now, I'm in the Page 5 of our presentation to cover the pulp business. Under a very challenging business environment, our pulp business delivered robust set of results showing operational resilience and consistency in our overall strategy execution. Q3 has historically been the weakest quarter for pulp demands due to seasonal adjustments in the paper consumption. This year with the global economy still battling impact of the COVID pandemic, this quarter was even more challenging.

Despite all that, our performance was solid in all fronts of our business from volume to EBITDA. Oil price fluctuated slightly downwards during the quarter in China remaining below the cash cost of some of the highest cost producers. The price environment remained poor and limited the value creation for most of the producers worldwide, most of the recent released Q3 earning report showed that for the pulp producers. With great execution of our planned maintenance shutdown, our production was flat quarter-over-quarter and posted strong growth year-over-year. We are proactively managing our production and supply chain to ensure the full availability of our Suzano pulp to all the customers all over the world producing essential products.

Our pulp production system flexibility, this is very important- with seven different mills and three ports in three different regions grant us speed to react and versatility to better serve our most demanding customer at the most critical time. Our cash costs remained flat quarter-over-quarter and showed relevant reduction year-over-year . Strong cost control initiatives, productivity and synergies have contributed to keep the cash costs unchanged even the under the strong depreciation of the Brazilian real. My colleague, Aires Galhardo will provide more details later on.

Facing very challenging market conditions, our commercial strategy was successfully executed as planned and our sales volumes are still running above 11 million tons over the last 12 months. This volume is above our production capacity and should trend lower in the coming quarters and finally, the strong EBITDA of BRL1339 per ton and 55% EBITDA margin posted in Q3 came on the back of outstanding cost performance and FX. Our pulp inventory after several quarters of reduction was roughly at the end of September when compared to the end of June. As mentioned in our Q2 earnings call, we consider it to be on the lower side of our ideal inventory range.

With that, let me take you through how our third quarter macro fundamentals played out starting with demand, whose pulp drivers were regionally different in Q3. North America, pulp demand has been stable. Tissue demand continues to grow above historical levels and then Tres Lagoas was on track to grow 5% year-over-year. In Middle East,-- Europe, Middle East and Africa region, pulp demand was weak during July and August and start improving in September. Most graph paper produces presented better operating rates at the end of September when compared to the spring, but is still below the pre-COVID time. Tissue demand shows a very resilient growth pace with demand growing above 3% year-over-year.

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China's economy has been recovering faster than initially expected. Graphic paper demand has been improving mainly on coated papers that take a higher content of virgin fiber in its production. Chinese carton board producers continued to migrate the production from duplex board to ivory board. For these grades specifically, the production is growing around 7% year-to-date, which is also boosting the demand for virgin fiber. Tissue demand there in China is growing close to 4% year-to-date. So in summary, very different demand behavior in the main markets during Q3, but other regions show improvements in the operating rate and the order intake by the end of the quarter, which brings good prospects for Q4 when demand is stronger.

On the supply side, as we discussed during our Q2 results, the second half of 2020 will show a record amount of scheduled maintenance downtime. According to Brian McClay & Associates, 70% of the mills will perform their maintenance downtime in the second half of '20, 33% in Q3 and 37% in Q4. In this period, around 1.1 million tons of market pulp is expected to be taken out of the market due to this planned maintenance shutdown. Still according to the same source, NBSK producers have taken a significant amount of market-related downtime curtailing production.

To summarize the supply side, after a difficult start of the quarter, pulp supply seems to be more balanced at the end of Q3 as a combination of different reasons, concentration of the planned maintenance, less pulp for integrated paper producers and dissolving pulp producers swing back to DP from paper grade due to improving market conditions. COVID-19 is still a threat to the pulp global supply chain and risk of disruption although is small, should not be neglected. On top of all that, the U.S. appreciation is adding more pressure on some of the northern hemisphere producers whose costs are linked to euro, Swedish krona and Canadian dollar.

As I have already pointed out in our Q2 call, our team will continue to focus on what we can control, costs and volume allocation. We are confident that effective execution of our operation and commercial strategy will continue to bring us success. For Q4 year-over-year, our sales volume will be lower as we are running with low inventories. Finally, I want to reiterate our confidence in the future demand growth supported by some structural change mainly the tissue, packaging and the lower availability of recycled fibers.

Now, I would like to invite my colleague, Aires Galhardo to talk about cash cost in the next slide.

Aires Galhardo {BIO 17954886 <GO>}

Thank you, Carlos. Good morning, everyone. We are in Slide number 6. Our cash costs, including downtime, in the third quarter '20 remained stable in relation to the second quarter '20. The main variations were observed in lower wood costs due to sourcing mix and a higher costs cost related to higher maintenance costs in the period. Now comparing to the cash cost performance ex-downtime in the third quarter '20 with the same period last year, the 8% decrease of BRL54 per ton was mainly affected by the lower costs on account of lower harvest costs, thanks to better operating performance, higher operating productivity and a lower cost of the diesel.

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Moreover, there was a decline in company's average supply radius, especially related to Aracruz and Imperatriz units. In the third quarter '19, this number was 252 kilometers and the next quarter was 225 kilometers and lower fuel costs, the lower input costs as a result of lower price especially of natural gas and the lower consumption, in turn resulting from optimization projects as well as synergy and energy efficiency gains. Nevertheless, these effects were significantly offset by a negative impact of BRL32 per ton due to the appreciation of 35% in average U.S. dollar against the Brazilian real.

Just before moving on the next slide, I would like to highlight that Suzano's cash cost improvement since third quarter '19 shows a structural gains in the wood costs among the others mostly coming from operational synergies with Fibria, enhancing even more our long-term competitiveness.

Now, I pass the word to Marcelo Bacci to continue his presentation.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Page 7 where we see that as a result of this robust operational performance that was shown by my colleagues, Suzano made important advancements on our deleveraging path. Net debt to EBITDA ratio went from 4.7 times to 4.4 times in the period and nominal net debt went from \$12.4 billion to \$12.2 billion in the quarter. I also wanted to draw your attention to the fact that Suzano managed to reduce the nominal net debt by \$1.1 billion on the last 12 months even on a very challenging macro scenario. Our amortization schedule has also improved in the quarter. We have very low levels of maturities in the short term. 94% of our debt comes due after 2022. Liquidity continues to stay very high with robust war chest to deal with short term potential turbulences.

Moving to Page 8. Our financial results have once again the impact of the FX variation. Out of this BRL4.2 billion of negative financial results, around BRL400 million were related to our cash flow hedging strategy and BRL2.6 billion related to our strategy of carrying our net debt in dollars, of which only BRL300 million were actually disbursed during the quarter. We continue to be very conservative when it comes to currency risk management and we want to ensure at all times that our financial obligations will match with our cash flow generation capacity.

And following that consistent strategy, we have continued to roll over our operational hedge portfolio as you can see on the right hand side of the page, and we are actually gradually building a robust position for the second half of '21 and for 2022 that will protect us from any potential BRL appreciation that may come in this period.

Malu, will also -- will now walk us through our advancements on ESG that specifically this quarter was intimately linked to our financial management.

Maria Luiza De Oliveira Pinto e Paiva {BIO 17141192 <GO>}

Sorry about it. Third quarter also saw Suzano's continued progress on ESG. As part of its liability management, in September, the company issued \$750 million in bonds that have

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an environmental performance indicator associated with the company's target to reduce GHG emissions by '25, which reinforces Suzano's commitment to be part of the solution to the global climate crisis and is aligned with the implementation of long-term goals 2030 of reducing emissions. Hence, the new bonds are classified as sustainability-linked bonds according to the principles established by the International Capital Markets Association.

As a result, Suzano became the second company in the world and the first company in the Americas and emerging markets to issue such a type of instrument, which allows the monetization of the ESG aspects through the lower cost of funding obtained when you compare it to similar securities. We had substantial demand for the transaction, which allowed for an important price compression, continued on the secondary market as you can see on the lower left-hand side of the chart.

Looking ahead, we are confident that capital markets will keep playing its role on capitalizing behavioral change through sustainable finance instruments, since they are not only good for companies and investors, but most importantly, for the planet and society as a whole.

I'll pass now to Walter.

Walter Schalka Suzano

Thank you very much, Malu. I'd like to bring your attention as a takeaway with five major points that we understand that shows that how Suzano is performing on this process.

First of all, I would like to bring the resiliency. Even on a very difficult pulp market scenario even during the pandemic, the company has been performing extremely well. This is showing that our fact that we have a very robust asset base and irreplaceable asset base can bring value to our shareholders. The second point that is very important is efficiency. We even on this scenario, we have been improving efficiency. Our cash cost is extremely good. We have been performing extremely well on the paper business showing our flexibility that could allow us to sell in the Brazilian market or to export. We have been working on the packaging business and the coated market to improve our efficiency, to improve our operations, and enhance our position on the market. We have been showing on the pulp business that we can have different geographic allocations and perform extremely well.

The third thing that's quite important issue for us is innovability. Innovation and sustainability together can bring a lot of value to us. We have been delivering transformation of fiber to fiber and fossil to fiber on a consistent base, creating new markets and addressing new opportunities to us. The fourth point I'd like to bring your attention is our ESG. Ladies and gentlemen, we are on the right side of the equation. We are impacting the world and we are creating value for our shareholders. You can see as Malu presented to us our opportunity to monetize ESG through a low cost of capital and this will bring our WACC on a structural basis long-term to a lower level. That's very positive to everyone.

And the fifth point that I'd like to bring your attention is our financial discipline. We have very strict with our financial policies and we have been deleveraging the company quarter after quarter. In this quarter, we reached 4.4 times coming from 4.7 times in the previous quarter and we will continue on this process on the coming quarters. We are generating cash even on this difficult market scenario. We never had a long period of so low pulp prices that we are facing right now. And even on this scenario, we are deleveraging the company and I'm very pleased with our quarter results.

And now we have we can pass to our Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Mr. Jonathan Brandt from HSBC.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi. Good morning, and thank you for taking my questions, and congratulations on the results. Carlos, I first wanted to ask you about China pulp demand and pricing. We've heard that you've raised prices in mid-October, I know generally you don't really like to discuss that. But I'm wondering if you can make any comments around prices, your current price in China. And we've heard that, there's been some price hikes that have gone through in mid-October rather than a client's heads up like usual. I'm just wondering, what was the rationale behind that? And sort of what has been -- how much of the price hikes have been accepted by clients?

And I guess my second question is on pulp production. Again, I know you don't generally give guidance, but with the low maintenance downtime that you have scheduled for next year, presumably this means you can produce more than you generally do. So, I'm just wondering if qualitatively you could make some comments? Are you looking to maximize production in to 2021? And then just how much inventory builds do you need to do? So you made some comments about potentially building some inventory in the fourth quarter? I'm wondering if you can quantify sort of what that looks like over the next 9 to 12 months? Thank you.

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

Good morning, Jon, and thank you for your question. We have a good expectation for the demand there in China now in Q4. We believe that, that quarter will be a strong one in terms of our paper production, and that has to do with a growing domestic demand. And also, we believe that our customers in China, they are just about to restart their paper exports to the region, which also can be a good booster for the virgin fiber demand.

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On your question about pricing in China, since the return of their Golden Week, their local holiday, middle of October, since then we have informed our customers about a price increase, we are taking our price to \$470. And I can tell you that that today we closed our month there in China and we concluded business at the new announced price. We have a tissue, carton board and print and writing producers. So the price was announced in the middle of the month, since then we have been working to implement that, and we have been successful. As I said before we just closed the month and we have orders in-house at the new price.

On your question about production, we are planning for -- we will not give any guidance, a specific guidance. But as you said, due to a lower time dedicated to maintenance downtime, we are expecting to produce more than 2020.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Thanks, Carlos. I mean, just a follow-up to that first point. I mean, generally when you announce price hikes, you announce say in the middle of the month that it's effective for the first of the following month. What was behind the change in strategy is of announcing and implementing sort of in the middle of the month?

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

We realized the conditions were in place, and we decided to do that. That's why. I think that the market fundamentals were supporting our decision. We are -- at that time we had enough confidence and I think we were right as we have just closed the month with the new orders at the new price.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Perfect. Thank you.

Operator

Our next question comes from Mr.Thiago Ojea from Goldman Sachs.

Q - Thiago Ojea {BIO 17363756 <GO>}

Hi. Good morning, everyone. Thanks for taking my question. I think my first question is regarding the different prices that we are seeing for hardwood pulp and softwood pulp, we are seeing more than \$150 difference, historically less than \$100. How do you see this evolving for the future? And thinking more long-term strategically, how do you see the capital allocation of the company? What are you planning for the future? I know that the priority now is to deleverage but assuming that prices will recover next year and your volumes are already in a high level, probably you're going to have a strong free cash flow generation next year. Apart of reducing the debt, what are you considering for next steps in thinking more like three, five years for the company? Thank you.

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

Thiago, thanks for your question. On the soft and hardwood spreads, as we always said, we are running there in China, at around \$150 per ton. And we can say to you that at that level, we're going to see more and more paper producers migrating from soft to hardwood. So that is good for the hardwood. That is good for our pulp, as that kind of spread incentivize the substitution.

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

Thiago, on your second question about capital allocation. As you said, deleveraging is our priority, we have also announced that we have the intention that that some of the balance sheet that allows to go for organic growth that we cannot, at this time, precisely when we're going to be in that position to start that project. It is by far the most relevant capital usage that we could have, since the needed scale for organic growth at this point requires for at least \$2 billion to \$2.5 billion of investment. In addition to that, as soon as the balance sheet allows, we will resume our investments also in efficiency and also in new businesses. But the size, the relative size of the capital that we need to continue to invest in efficiency and in new ventures is a lot lower than it would be necessary for organic growth in hardwood pulp. So those are the priorities that we're going to follow after the deleveraging process is completed.

Q - Thiago Ojea {BIO 17363756 <GO>}

It's clear. Thank you.

Operator

Our next question comes from Mr.Cadu Schmidt from UBS BB.

Q - Cadu Schmidt {BIO 21245445 <GO>}

Good morning. Thanks for the questions. Two questions on my side. First, Bacci, we saw another strong working capital release in the third quarter, explained by the receivables line. Can you please comment on the expectations for the next quarters, and if you can expect some sort of reversal here on the strong performance?

And the second one is for Carlos. Carlos, we saw significant decline in wood chip prices in China in 2020, which according to our calculation has taken the Chinese hardwood marginal cost to a levels close to this pulp prices. Can you please comment on the wood chip price deflation in Asia in this year, and how this impacts the decision to take market related downtimes at a time when prices are improving? Thank you.

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

So, thank you, Cadu. I'm going to take the first one. We've been working on optimizing our cash flows and we had a sizable effect on working capital release. But again, what we try to follow on a quarter-by-quarter basis is the management of our credit position. Most of what we sell in Asia, we sell to clients that are backed by letters of credit of Chinese banks, and we have specific credit limits that we assign to the different banks. And whatever is above that limit, we try to sell considering that the cost of selling those receivables is very low.

So what we did is a consequence of the acceleration of the volumes that we had in September that created additional accounts receivable that we could liquidate in the market. In addition to that, we continued to manage properly our inventories and that's why we had such a good performance in working capital release. We cannot consider that performance as replicable to the coming quarters in terms of additional release, we tend to continue more or less at the same level that we have today which is a lot optimized.

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

So, Cadu , good morning. This is Carlos. On your question about wood chip. As far as I know wood chip imports year-to-date are flat and prices are bit lower than the same period of last year. I cannot comment on what our customers will be doing. I can say to you that we have been noticing later -- latest -- we have been noticing lately that some of our customers that are integrated, they are buying more market pulp than they used to do before. So this is new and we are following that trend, so it remains to be seen what they're going to do from now onwards when they are increasing their paper production.

Q - Cadu Schmidt {BIO 21245445 <GO>}

Thank you very much. Perfect.

Operator

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

Q - George Staphos {BIO 1495442 <GO>}

Hi everyone. Good morning. Thanks for all the details. And congratulations on the performance in the quarter and the progress. I had a couple of questions regarding cash cost. Beyond the figures that you reported at the mill level, it looks like your other cash costs within pulp and operating were down, could you talk to what things were going well for you on the cost side in pulp. And how sustainable those are into 2021? I don't know if you're in a position to comment on what we should expect for cash cost at the mill level for 4Q, but if you had any thoughts there we would take them? And then I had one follow-on.

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

All right. Thanks for your question. Despite having -- we have a big challenge in -- over our costs, especially because of the inflation and FX for next months. We believe that we can -- we will be able to deliver cash cost in the flat level that we have in this last two quarters, and that's what we can say on the income.

Q - George Staphos {BIO 1495442 <GO>}

And I guess --

A - Walter Schalka Suzano

Yes. Just to complement that, I think it's quite important to mention to you is that --

Q - George Staphos {BIO 1495442 <GO>}

Thank you.

A - Walter Schalka Suzano

-- we have on a structural basis, been reducing our cash cost based on our lower wood costs. We announced to the market during the Suzano Day that we would like to reduce our average distance and reducing the average percentage of third-party wood on our total consumption. We are working on this direction. Then that the wood cost that we're having right now, it's a structural cost that we can have even better for the future. And the efficiency of our plants have been very good. We are balancing a higher efficiency gains with higher costs based on the FX impact on our costs.

The energy price is, of course, we don't know what is going to happen in the future, as you know it's a very important part of our costs. Right now, it's better than the third quarter, but we don't know for how long. It's very depending on the costs, the price here in Brazil. Then I think efficiency have been improving and we are performing extremely well on the wood side and on the plant side as well, but we will depend on the FX and energy costs for the future.

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

And I'd like to give another complementation to that, which is on the guidance that we gave on total operational disbursement, we decided to report that number on an annual basis. So everything that is not related to cash cost, we will be reporting at the end of the fourth quarter, and you're going to have more details on that. But of course, you can see on our results that some good advancements have been made.

Q - George Staphos {BIO 1495442 <GO>}

Thank you, Marcelo. I guess, my follow-on question longer-term. One, we talk a lot about you did on this call about where pricing is relative to cash cost on the fourth quartile that there should be perhaps more stress in terms of industry production than what we're seeing. Why do you think, we've not seen more in the way of industry permanent adjustments than what we've seen? And what effect do you think China's elimination of our RCP imports might mean for demand for pulp in 2021? Thank you, and have a good quarter.

A - Walter Schalka Suzano

Thank you, George. I'm going to take this question. I think on the structural analysis that we have on the market, it's very clear that Suzano is in a very unique position, We have a very robust cash cost, as you may see right now. Then on the cost side, we are performing extremely well. We have the scale. I think it's very difficult to replicate the scale that we have right now. Then the combination of scale and cost takes us on a very good position in the market. It's very difficult to forecast demand at this point of time.

On our vision -- the year of 2020 should not be considered. We believe that we are going to see structural growth demand at the same level that we had before on an annual basis

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between 1.3 million, 1.95 million tons a year on the next coming years. It's very clear that hardwood, it's gaining market share over softwood, and hardwood will gain market share as well on fossil materials. Then we are going to increase our addressable market for the coming years. Of course, we are not going to give any guidance on the price side, I know that the fourth quartile players are on a debt. They're in a very difficult position right now. The numbers are very clear. They are performing with almost no EBITDA, zero EBITDA.

Our EBITDA is in the ballpark number of \$240, \$250 per ton. I don't think that is sustainable their position, for a long period of time. As you may know, they are facing a new challenge at this point of time because their FX has been appreciating over dollar on the next -- on the last 60 days and we are talking about Canadian dollar, euros, Swedish krone, renminbi, all of these currencies have been appreciating over dollar, then we are in a very good position at this point of time. Of course, we do not believe that this price level is sustainable. We believe that we are going to see some recovery on the price level. We are not going to give any guidance when and for how much is going to increase the prices. We are going to just to announce a price increases when we believe there is the right moment to do it.

Q - George Staphos {BIO 1495442 <GO>}

Thank you very much.

Operator

Our next question comes from Mr.Daniel from Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Hi, everyone. Good morning. Thanks for the questions. Congrats for the results. Walter, could moving away a bit from the discussions related to short-term pulp prices, what's your view for sustainable hardwood prices in the long-term that you think could generate different profitability for the industry or at least for Suzano?

And maybe my second question, Bacci, according to your financial policy, your leverage ratio shouldn't be above 2.5 times during investment cycles, and I mean, it's clear that the most important priority that you have today is on the deleveraging side. But that said, I'd love to understand if, in your view, Suzano has to be at least that 3.5 times to announce in new project or if you see the leverage trend going toward that direction, that would be already enough? Thank you.

A - Walter Schalka Suzano

Daniel, thank you very much for your question. I'm going to take the first one. It's very difficult to give a guidance to you about what would be the price for the future. We can look for the past. The average pulp price on the last 10 years is roughly \$610 per ton. Now, it's going down every month, because we are replacing higher prices with lower price, but ballpark numbers around \$600 per ton. We do not believe that it's going to happen on a very short-term. But on a structural basis, it's very important to deliver the net capital

employed to higher cost producers, they cannot live with this \$450 or \$470 level that we are -- that we have right now.

It's very clear to us that the upside risk it's much higher than the downside risk on the next coming quarters, but it's very difficult to give a guidance to you, where is going to get the price next years? I think it's very easy to you, on the sell side to calculate how much will be the minimum price level that would allow the higher cost producers (inaudible) long term because we are talking about EBITDA but it's not only EBITDA, they have their own sustained CapEx.

It's very important to look for our major KPIs, the cash flow generation that this quarter for us was BRL2.9 billion. And I think you should track not only us but the other players as well, for how long that they can sustain in this price level. I don't think there is for a long periods of time, we are sure in that.

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

Daniel, on your second question, we have a very clear financial policy that states a maximum of 3 times net-debt-to-EBITDA. That may reach 3.5 during the investment phases. In order for us to announce a new investment, we have a both to be in the right position and also have a good outlook about what will happen with the prices in the coming periods, so that we can have a good visibility of the maintenance of a lower debt levels during the construction phase.

We, of course, have today a very sizable scale that allows us to build a new deal without increasing the leverage during the construction phase. So it's very important to start at the right point. In addition to that, there are potential ways to accelerate investment, trying to minimize the necessary CapEx with whole financial structures or different structures that we can use on the construction to speed up the process or to minimize as I said the CapEx. We are at this point analyzing different alternatives to see how we can manage to maybe announce this project and start this project as soon as possible, but always respecting our financial policy.

Q - Daniel Sasson {BIO 19234542 <GO>}

Perfect. Very clear, Marcelo and Walter. Thank you.

Operator

Our next question comes from Mr. Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hello gentlemen, good morning. Thank you very much. My first question is regarding costs, given how important this variable has been, I think you can maybe sift a little bit more on this one at least on my side. If we move back to Suzano Day, right? I remember that you presented a slide, I'm talking about cost cutting, cost and expense cutting of BRL2.8 billion per year, that number already incorporate synergies, so I just wanted to see you guys where exactly are you on that curve, if you can help us understand, let's say,

medium-term paths and how much you've already accomplished? I think that would be helpful.

A second point to Anibal, on the -- just on the discussion on how we exit COVID, right? We've been receiving a lot of questions from investors on how we think the market shapes after this shock. And it's been very difficult to get a grasp on where things settle, because there are opposing trends right, tissue consumption is growing, printing and writing is still declining. There is a train of thought that basically incorporates, even slower or even stronger deceleration in printing and writing after, let's say, the crisis.

So therefore, the future demand growth in pulp would be below that rule of thumb that we always use, let's say, 4% to 5% growth rates on a yearly basis. So just, if you have any thoughts to help us understand how exactly you exit the crisis, and whether you think it's reasonable to assume lower demand after. And we think that's a fair assumption, I would definitely like to hear your comments on that?

And finally, very quickly for you, Walter, on the -- you have a slide talking about monetization of ESG. It doesn't seem that anyone gives any credits on that at least on a climate change perspective right, we don't know exactly what to incorporate. Do you have any number at this point to talk about from a quantitative side on how you monetize ESG? Thank you very much. That's it.

A - Walter Schalka Suzano

Thank you, Leo, for your questions. I'm going to start your first question telling you that during the Suzano Day, we announced what would be our total cost that implies not only production costs, or cash costs but our shipping and other costs that we have, SG&A as well and CapEx sustaining. As Marcelo mentioned to you, we are not going to give any guidance on a quarterly basis. We are going to give a perspective on an annual basis, and we are not going to give disclosure to you. It's very easy to check that our trend on the cash cost side had been performing extremely well.

We had as Aires presented to you last year, cash costs in the first three quarters are BRL654 per ton. Right now we are below BRL600 and we are on the right track of reducing our total cash cost, every single plant that we announced in during the Suzano play -- Suzano Day is in place, right now that we have been performing, and we are very happy with our operational performance, and with all the structural changes that we are doing on our forest base, on our plants to be and on the shipping cost as well to be able to reach the targets that we announced

I'm going to go to the third question, and then I'm going to pass to Carlos. We are going to monetize ESG on a different manners. One of the alternatives that we have is with lower cost of capital. If you check right now, Leo, how much is our '31 bond is trending -- is trading right now, it's a lower yield than our own 2030 bond. And we can see that -- we can have benefits of the ESG comparing, because we wouldn't have an additional for 1-year extension of our bond. Our '31 should be traded at higher costs, but it's traded at lower cost. This difference can be show that we can be on the right track to create value.

Another alternative that we have is through carbon sequestration that we have right now that we can be monetizing the markets. We are working on this direction. As you may know, we have two different markets, the regulated and the voluntary markets. Brazil, is not on the regulated markets due to the COP26 in Glasgow next year. Then we have been working just on the voluntary market. And we think that we can create value on these area as well. And this is the second part that we can create value on the ESG. Now, Carlos?

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

Thank you, Walter. Good morning, Leo. Thank you for your question. We believe that tissue will go on, growing in some regions above the historical level, which is positive. We believe that the packaging and some specialties that taking higher content of virgin fiber, we will go on growing as well. So this is positive.

For printing and writing, we believe that the decline in the mature markets will persist and the emerging economies, we are expecting for the coming five years a flat growth. That decline in the mature markets will imply in a lower availability of a waste paper and that can be positive for us, that can be positive for virgin fiber. We have around 15 million tons of tissue that is produced from virgin fiber and part of that in that scenario, we will migrate to virgin fiber and we're going to benefit from that. So all-in-all we have a good perspective. We have a good reading for the pulp demand, demand for the coming years.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you very much.

Operator

Our next question comes from Mr.Marcio Farid from JPMorgan.

Q - Marcio Farid {BIO 21017394 <GO>}

Thank you. Good morning, everyone, and thanks for the opportunity and congrats on the results. I have a couple of questions. The first one maybe to Anibal. Carlos, can you please comment on what you're seeing in Europe? And what we need to see for prices to move there? I mean do we need to see demand actually improving in the region or China prices going up should be sufficient to eventually prices moving up in Europe as well? And my second question on the hedging side not so much there on the hedges that you already do? But I mean, would you consider doing some hedges on pulp and on commodity prices. Why not is this or hasn't been considered by the company? And what would be the best way to do it if you eventually do it? Thank you.

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

Good morning, Marcio, and thank you for question. As I mentioned in my initial speech, there in Europe, July and August were really weak, usually they are -- these months are weaker and this year they were even more due to the pandemic. But our customers were very excited with September, all of them mainly the print and writing guys were reporting

a better order intake, they were reporting a better operating rate. So things were improving, they were more confident.

But then it came, the second wave. So now, we have some kind of a poor visibility about what's going to happen. So this is on the print and writing side. On the tissue side, customers are running at full capacity, and actually, we have already seen some bench reloading in some of the countries -- in some of the countries there in Europe. We note that in U.K., maybe 10 days ago and more or lately, we have been those in the same, some countries where like Germany, like Austria. So it is hard to foresee what's going to happen on the print and writing side. But again, customers on tissue specialties they are reporting, they are foreseeing a good Q4.

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

Marcio, on the hedging side, Suzano at this point is not considering any pulp hedging. We believe that these instruments that are available in the market are not liquid enough to provide for transaction that would be meaningful for us. We also believe that as a leader in the sector participating in the hedging market may send signals that could be misinterpreted by the rest of the industry. So at this point, we are not in a position to hedge for pulp prices.

Q - Marcio Farid {BIO 21017394 <GO>}

Carlos, just a follow-up, any comment on potential price movements in Europe or too early to say? Sorry.

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

Marcio, we will not give you any guidance on that. We are very happy that we were successful. We are successful there in China. As I said, we collect orders today at the new announced price, but in Europe and North America, I prefer not to comment on that.

Q - Marcio Farid {BIO 21017394 <GO>}

That's fair enough. Thanks. Thank you very much.

Operator

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

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

Yes. Good morning, everyone. Thank you very much. So the question is, if you are thinking or is there a possibility to change your hedging -- BRL hedging strategy given the levels where we are right now. And presumably at a fiscal situation in Brazil becoming more challenging. The prospects of a very strong appreciation in the currency to level where the profitability of the company really becomes jeopardized is very remote. So is there a possibility to hedge in a different way or not to hedge? At least for a period of time into the future. You already are hedged basically to the first quarter of 2022, but it will be interesting to see if you are thinking about any changes?

And if I may ask also on the longer term and we with new mills of significantly bigger size, coming in low cost regions of the world. And with the question marks around future demand, future pulp demand growth. How do you see the cost curve of the industry evolving? And what would that mean for sustainable pulp prices? Thank you.

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

Carlos, thank you for the question. We are at this point sticking to our policy. We don't make calls in terms of BRL, we don't have any view in terms of what the currency -- where the currency can go. We have a kind of a binary scenario here, where you know, if the government doesn't deal properly with the fiscal situation, we may have a situation in which the currency could be more depreciated in the future. But on the other hand if the situation is properly managed, there is a risk of appreciation. We cannot bet the result of the company on actions that we don't control, so we prefer to stick to the policy of hedging, and remember that we don't hedge for a 100% of our position, we have a partial hedge, and we think it's the most responsible thing to do at this point.

A - Walter Schalka Suzano

Carlos, thanks for your question. I'm going to answer the second one. We believe that the new projects coming on stream are on the first quartile in terms of cost. Our new project that we are going to have in the near future, we will have a very competitive cash cost position. Then we believe that in the other hand, what is going to happen is that we are going to see a structural demand on the hardwood side as we have been seeing for the last many years except for 2020, and this is based on replacing softwood and replacing fossil materials. Then we believe that the demand will grow on different addressable markets. And even on the markets that we are right now and these are going to be on the supply side coming from this new plants with low costs. Then we are not going to give guidance on price, but we believe that the demand will come and this will match, we have the new supply that is coming on stream in the next coming years.

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

Thank you, Walter, and thank you Carlos. Good luck with the quarter. Thank you.

Operator

Our next question comes from Mr.Thiago Lofiego from Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, gentlemen. Two quick questions for me. Carlos, could you comment on pulp inventories held by paper makers? We have been hearing that some of them are holding inventories on the higher side. So do you think that could be a factor against further pulp price moves in China specifically?

And then the second question to Grimaldi. What is the outlook for graphic paper demand in Brazil? And considering the current BRL level, I would imagine that there is further room for price adjustments for paper in Brazil. So, could you tell us what you guys are doing in

terms of a price hikes? And if you agree that there is more room for adjustments? Thank you.

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

Good morning, Thiago. And thank you for question. In North America and Europe, our customers' pulp stocks are at the normal level. There in China, we note some variation. We believe that we have customers with lower than normal. We have customers holding normal inventories and we have customers also with higher than normal inventories. And for those that are holding more than normal, the way that we can explain that is the following.

Some of them are just about to start a new paper capacity, meaning that they need to have more pulp. Some of them have decided that they need with the pandemic to hold more stocks at their facilities in order to avoid any sort of potential supply disruption. And some of them they believe the season is going to be stronger than people is expecting, and therefore they're going to need to have the pulp available to run a good production. And as I mentioned before, we have been seeing lately some integrated producers buy more market pulp. So all-in-all that is a situation, so again to summarize that, customers with lower than normal, normal and higher than normal. I don't feel that as an issue in the short-term.

Another important information that I'd like to share with you, most of the pulp at the major Chinese ports today Qingdao and Changshu is wanted by our customers. In our view the paper producers hold a very little position at the ports, and then we have also noted lately that some of our -- some of the paper producers are holding less pulp at their facilities, leaving more pulp at the main ports like Qingdao and Changshu. So as we speak we do not see that as an issue. And again, I want to reinforce the demand is good, I think Q4 is going to be strong one, in terms of our production, paper, paper demand, and our customers want to enjoy that having the pulp available, so they can produce whatever they need to sell, not only in China, but also they expect that with the local economies being reopened, that might boost the export to the region.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, Carlos. That's very clear. And if I may here, we also heard that some tissue producers are fighting against the recent price hikes. So how do you see specifically the tissue market, do you think there is room for tissue producers to increase their own prices and keep their margins or do you think there will be some margin compression there?

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

What we have heard from our customers is that they are dealing with a fierce competition. Now in Q4, this is a high season for them. But again as I said before, we have already concluded October business at the new price with tissue producers with print and writing and ivory board. So we already have orders in-house at the new price including tissue producers.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Thank you, Carlos.

A - Leonardo Barretto De Araujo Grimaldi {BIO 20248747 <GO>}

Thiago, this is Leonardo. Moving on to your second question regarding paper. In Brazil, we see a consistent and strong demand for packaging grades, but we still see some uncertainties regarding the demand of printing and writing grades. Most of the volumes for advertising for elections, and also for the Brazilian national textbook program have been invoiced in the third quarter. So we still see some uncertainties regarding a full recovery of all grades in this upcoming quarter.

We are also constantly evaluating the supply and demand fundamentals of printing and writing papers and the impact that this digitalization and new consumer habits accelerated by the COVID pandemic will present. Regarding your question then on pricing, our pricing strategy depend on a constant analysis of market fundamentals. Taking into consideration not only currency but also international prices seasonality and international freight to and from Brazil. We have however announced price increases for all of our packaging grades and for some of our printing and writing grades for which we expect full implementation by early 2021.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Can you tell us the magnitude of the price hikes there? Was it up double-digit or below that?

A - Leonardo Barretto De Araujo Grimaldi {BIO 20248747 <GO>}

Yes, certainly. We have announced a double-digit price increases for packaging grades and also for coated papers in Brazil, for the time being.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Very clear. Thank you.

A - Leonardo Barretto De Araujo Grimaldi {BIO 20248747 <GO>}

Around 10% to 12% to be more specific.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Great. Thank you.

Operator

This concludes the Q&A section. I would like to turn the floor over to Mr.Walter Schalka for final considerations. Please Mr.Walter, you may proceed.

A - Walter Schalka Suzano

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Thank you very much for participating on this event. I would like to publicly thank you, all of our over 15,000 colleagues. These people always working very hard. And we have a lot of competency to deliver very good results to our shareholders. We do have this pandemic situation, we do have 4,000 people on home offices, but we do have 11,000 people in the front line working to produce on the forest side, on the production side, on the logistic to operate all of our ports of our terminals in the world. And I would like to thank you very much.

It's very clear that we do have three major pillars on our culture and we are implementing this pillars every single culture on this journey. People that inspire and transform, create and share value with all stakeholders and just good for us if it's good for the world. I think it's very clear that we are on the right side of the equation, we can create value for our shareholders' side, but in the other side we can deliver a better world for everyone. Thank you very much. I hope that we stay safe. I hope that we continue our development and let's work on that. Thank you very much, ladies and gentlemen.

Operator

Thank you. Suzano third quarter results conference call is finished. Have a nice day.

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