

## Q1 2020 Earnings Call

### Company Participants

- Alexandre Nicolini, Executive Director, Pulp Business
- Cristiano Cardoso Teixeira, Chief Executive Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Paper Business Director
- Francisco Cesar Razzolini, Executive Director of Projects & Technology
- Jose Gertrudes Soares, Director of Pulp
- Marcos Paulo Conde Ivo, Chief Financial and Investor Relations Officer

### Other Participants

- Cadu Schmidt, Analyst
- Caio Ribeiro, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- Leonardo Correa, Analyst
- Leonardo Domesca, Analyst
- Marcio Farid, 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. Later, for the whole of question-and-answer session when further instructions will be given for you to participate. (Operator Instructions) As a reminder, this conference is being recorded and also being broadcast live via webcast. And you may access it at Klabin's Investor Relations website, where the presentation is also available.

Before proceeding, I 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 forecasts based on the expectations of the company's management in relation to the future of Klabin. Such expectations are highly dependent on market conditions on Brazil's overall economic performance, on the industry and on international markets. Therefore, they are subject to change.

With us today in Sao Paulo, we have Mr. Cristiano Teixeira; Marcos Ivo; and other officers of the company.

Mr. Teixeira will be making remarks about the operating performance of the company during the first quarter of 2020 and afterwards, all the officers will be available to answer your questions.

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

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

Thank you very much. Welcome to Klabin's conference call about the first quarter of 2020 results. This is a very sad moment for all mankind where (technical difficulty) invade our lives, our families, our friends, our communities, our clients, our suppliers. We are all part of this very sad moment in the whole planet where we have to renew our belief in science, in research and in our valiant health professionals.

Now talking about the results of the first quarter 2020, I would like all of you to think about what we have been saying very frequently in our conversations that our business is perennial, it's sustainable, it is resilient and it is flexible. What makes Klabin a company with these characteristics with respect to sustainability, focus on clients, our team, which is very motivated and with our own culture, where it is not enough to master the processes. We believe in research and innovation, we do our volumes in all business lines, a growth of 8% vis-a-vis the first quarter of '19. We grew our EBITDA 2% year-on-year, BRL15.28 billion, highlighting the line of coated boards and fill packagings.

Before giving the floor to Marcos Ivo, who will be talking about the financial results, I would like to thank (technical difficulty) and Francisco (technical difficulty) and Soares, our internal professor who have made Puma a benchmark for the whole sector worldwide. And I would like to welcome Nicolini with a sound career and very successfully working in many companies of open paper and with a very fast integration to the team.

Marcos, you have the floor.

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

Cristiano, thank you very much. Thank you for participating in another conference of Klabin. Started with Slide 4 in the presentation during the first quarter of the year, in spite of the challenging context, that we delivered solid results by means of its integrated and flexible business model and also operating efficiency and strong engagement of our teams.

Among the highlights of the quarter, I would like to mention sales volume reaching 849,000 tonnes, adjusted EBITDA BRL1.028 billion, growing 2% on a year-on-year comparison. And also during this quarter, we concluded the acquisition of the corrugated paper packaging business of IP in Brazil, which will further strengthen the leadership of Klabin, bringing value to its shareholders.

On Page number 5, growth in all business lines. Sales volume increased by 8% year-on-year, reaching 849,000 tonnes, as already mentioned.

Driven by sales of pulp and of packaging, participation in the domestic market represented 55% of the total sales volume in the period.

Net revenue in the quarter was BRL2.6 billion, growing by 4% on a year-on-year comparison. This growth is explained mainly by the increase in the sales volume and depreciation of the real vis-a-vis the dollar, which has a favorable impact on the company sales to other countries to exports. As mentioned, the adjusted EBITDA in the fourth quarter of 2020 was BRL1,028 million. This is an increase of 2% on a year-on-year comparison. EBITDA margin in the period was 40%, the same percent that we saw in 1Q '19, showing once again the resilience and the capacity of the company to adapt to different scenarios.

On Page 6, I would like to mention the highlights of our business units. Pulp sales volume were 383,000 tonnes in the quarter, a growth of 9% of the year-on-year comparison. I would like to stress the increase in our participation in the domestic market in our pulp sales representing 38% of the total sales volume in the period. And this evolution is part of our strategy of distribution after the termination of our offtake agreement with Suzano due to the drop in the price of pulp, partially offset by the higher volume of sales and the share of the (technical difficulty) dollar, the net revenue of the units reached BRL830 million, dropping by 10% on a year-on-year basis.

On the other hand, in our paper and packaging businesses, the sales volume of 466,000 tonnes in the quarter, increasing 8% on a year-on-year comparison. Net revenue from these businesses grew by 12%, also on a year-on-year comparison.

On the next slide, the pulp plant continued to operate at a very good pace, reaching production volume of 296,000 tonnes in the quarter. Thus, the plant continues to produce more than its nominal capacity, having reached in the last 12 months a volume of production of 542,000 tonnes. The pulp production cash costs in 1Q '20 was BRL693 per tonne, a loss of 4% when compared with the same to the same period of 2019. In US dollars, the cash cost for the quarter was \$155 per ton owing the high competitiveness on the part of Klabin.

Now going to Page number 8, confirming what we shared in our last conference call, the coated board volume sales were 169,000 tonnes in the first quarter of 2020, growing by 15% vis-a-vis the first quarter of '19, driven especially by the higher volume for exports. Net revenue of the coated board business reaching BRL655 million in the period, 23% higher on a year-on-year comparison. These are the operating results.

And on Page 9, I start to talk about the financial results. The company closed the first quarter of 2020 with a net debt of BRL20.4 billion. The increased debt we see in relation to the previous quarter is explained substantially by the devaluation of the reals vis-a-vis the dollar. And this sector also explained most of the growth in our financial leverage in reals, measured by the net debt-to-EBITDA ratio, which reached 4.7 times at the end of

the quarter. And the same indicator measured in dollars, which in our view is the one that best reflects the leverage of the company, closed at 3.7 times.

On Page 10, we have the debt amortization schedule at the end of March and the highlights on the stages is the ongoing evolution of the average maturity of our debt at the end of 2018, which was four years. And as a result of our liability management work then over the last four quarters, the average term closed the third quarter in over nine years. And, at the same time, the average cost of debt dropped slightly, as you can see in our release.

I should also mention the robust liquidity of the company that at the end of the period was BRL9.8 billion with maturities of approximately BRL1 billion per year during 2020 and 2022, which significantly mitigates the risk of refinancing for Klabin addition. At least the company has financing already contracted and not drawn upon equivalent to CapEx that will be disbursed until the conclusion of the Puma II project.

And, lastly, confirming what we said during the Klabin Day as well as in the last conference calls after the annual evaluation pitch, we affirmed the rating of Klabin BB trial on global scale and AAA domestically, keeping a stable perspective. And this is another fact that shows the financial strength of the company to support the current growth cycle.

Page 11. Adjusted free cash flow net of discretionary factors and expansion profit was positive by BRL173 million, and this amount -- of this amount, almost BRL200 million higher than what we saw in the same period last year was possible in spite of the impact on the working capital line coming from the reduction of receivable discount operations that are no longer attractive after the impact of the COVID-19 on the financial market.

In the cash flow of the quarter, I would like to mention the improvement in the paid interest and taxes in an annual comparison according to what we said in the last two conference calls.

Page 12. In the last plus 12 months closed at March 2020 having paid its shareholders BRL910 million in earnings as dividends and interest on equity. And this amount represents a dividend yield of 5.1% and the value of the earnings paid in the quarter was BRL223 million.

Going to the last slide of the presentation about the team in mid-April, Klabin returned to the gradual mobilization of deploying to work in civil construction in the setting up of the Puma II project. I would like to remind you that in March, we announced the partial and temporary reduction of the number of workers as the preventive measures to contain the advancement of COVID-19. And the full resumption is still subject to evaluation in the next few quarters of the evolution of the pandemic, especially in the regions that are closed to the site. Although we still have no precise information about the impact of the original schedule of this project, supposing that the economy will have a reopening in the next two weeks, we do not expect a change in the total cost of the project. So far, we have disbursed BRL1.8 billion for Puma II, of which BRL527 million refers to the first quarter of 2020.

Now, Cristiano and the other officers of the company and myself will be available to answer your questions.

## Questions And Answers

### Operator

Ladies and gentlemen, now we will have our Q&A session. (Operator Instructions) Daniel Sasson from BBA.

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

Good morning, and thank you, Cristiano and Marcos, for the presentation and for the questions. My first question has to do with cash generation. On the CapEx side, could you remind us of your estimate for CapEx for Puma II and total CapEx for 2020? And if there is a possibility of reduction in these amounts in order to preserve to a very strong cash position?

In relation to working capital, you talked about the reduction of receivables discount because of the higher costs in this pandemic environment. Do you have room to revert part of this increase in working capital that you had in the first quarter? And how do you see this line?

And my second question has to do with pulp. For the first time in April, producers announced jointly, so to say, this increase. So could you tell us about the implementation and if you see room for price increases in China in May? Or if you're following the price increases that competitors have announced for Europe and the US? Thank you very much.

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

Thank you, Sasson. I will start with Marcos Ivo and then Soares will answer the other question.

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

Sasson, this is Marcos Ivo. With relation to CapEx, during the Klabin Day, we indicated the CapEx of Puma II in 2020 of BRL3.8 billion. And for the remainder of Klabin, BRL900 million, BRL4.7 billion total for 2020. The company, as you saw in the release, and you follow us very closely, had a very robust financial position, high liquidity loan debt profile. And, therefore, we see no need whatsoever to reduce our CapEx.

On the financial side, we are very well prepared to support this. And the BRL900 million for the current operations of Klabin are maintained. This continues to be our view of CapEx for the year and for Puma II. This will depend on the evolution of the project, and we believe that we will be able to go back to our normal pace and disbursing this amount over the year.

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In relation to working capital, Klabin until a few years ago had receivable discounts of parts of its accounts receivables in a treasury tactical operation. Every time the cost of doing this discount is lower than the remuneration for the same amount, we did that. What happened was that after the most severe impact of the pandemic on the financial market the costs went up, and they are no longer attractive.

And going back to the previous question, as we do not need this from the cash viewpoint. So we no longer carry out these discounts, and we already see the costs going down, specifically on these lines in comparison to the return of the Carnival, but still not attractive. But over the year, if they go back to higher levels that are attractive for Klabin, we will review this operation. Soares?

### **A - Jose Gertrudes Soares {BIO 16986980 <GO>}**

Good morning, Daniel. Thank you for the question. With relation to China, I think you remember that Klabin made an increase of prices in February with \$20 in China per ton. And we see a strong increase in demand at the beginning of COVID-19 crisis. And up to the end of March, we implemented a major part of this increase, and we have already the increase almost totally implemented, and we cannot have \$30 over the \$20 that we have already carried out. So we continue to see opportunities with smaller clients and medium-sized clients in order to go after these \$10 difference during --

Of course, the scenario much more complicated than the one that we saw in February, but it's not yet 100%. So it's a tougher scenario, but we will continue to remain in order to be in line with the market.

And your other question has to do with Europe. They have not made an official announcement, but we are totally in the market. We are tracking the levels of inventories. And if an opportunity arises, we'll be implementing this, although I can tell you that 90% of our sales in Europe are contracted based on preset. And this will be the determinant factor for our prices in Europe.

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

Thank you, Soares. Very clear.

### **Operator**

Caio Ribeiro from Credit Suisse.

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

Good morning, and thank you for the opportunity. My question has to do with the acquisition in Brazil of IP. Could you talk about the timing? And about the synergies as well, the synergies that you intend to tap into? And how do you expect your conversion business margins will evolve based on the synergies and what kind of contribution will this happen in terms of additional EBITDA because of this acquisition?

And could you talk about the kraftliner market as well? We saw some European players trying to announce price increases in Europe in March, about EUR50 per ton. But based on the price series reported by some consultancy companies that changed the law, that this has been rather challenging. So how do you achieve this market? And how do you see the behavior of demand with the impacts of COVID-19? And when do you believe that we do see a stronger price recovery? Thank you.

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

Thank you, Caio. Douglas Dalmasi, you will be answering and then Flavio Deganutti.

## **A - Douglas Dalmasi**

Caio, good morning. Thank you for the question. About the acquisition, we submitted this to Caji [ph] on April 17. And now we're following the process it caused. Our expectation is that this process will take a few months. It is an ordinary procedure, and we expect to have Caji's opinions, and we are planning the whole pace of happy into synergies and integrating it deep in our process.

We are looking for synergies in all the businesses by the integration of the business of Klabin integration with our assets. And better results in terms of fixed cost and the price of raw materials, and we published the second report within -- BRL5 million and this delta of EBITDA that we are seeking as an increase in margin, our packaging business is BRL5 million annually, 50% of that factoring in 2021 and 100% for 2022.

I think this is what you asked. So Caji, well, it will take a few months for us to get this return from Caji's to have the full integration of the acquisition.

## **A - Flavio Deganutti**

This is Flavio Deganutti. We have three important elements in the world of kraftliner. The first one is a strong demand. In March and April, important moves and some signs of demand in May also increase in some places in the world. And you can see that based on US exports that have been increasing in the last few months. And another element is that Klabin, because we have operation in kraftliner 100% virgin fiber. This has a very important connection to the foodstuff. And -- well, then more resilience and this helps these producers to position themselves vis-a-vis pricing.

And another element is that because of this demand and some stoppages, the inventories have had a reduction. So there are some uncertainties ahead of us yet. So we cannot really sheath in June and July how the behavior of the market will be. There are uncertainties about supply and demand. So we do not want to talk about further scenarios. Thank you.

## **Operator**

Carlos De Alba, Morgan Stanley, in English.

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Bloomberg Transcript

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

Thank you very much. Yes. So my first question is, could you comment a little bit on how do you see the situation for Klabin market in the export -- in exports? Well, clearly you pointed out the flexibility that the company has. But, presumably, all companies as well in other countries are also looking at the export market. So how do you see those dynamics for Klabin playing out? Do you see much more room to shift more production on volumes of paper and packaging to the export market? And how do you see the pricing for those exports and the profitability of those exports for Klabin in the coming months?

And then, I understand the situation may not be as bad right now, but just trying to think about a possible scenario where pulp prices do not increase on -- or do not increase much from current levels. And the currency in the field strengthens a little bit from the oversell conditions that we may argue we are seeing today. How -- what would Klabin do to protect the balance sheet if anything? Why would be the client or the strategy if you don't see price of pulp increasing and you see a little bit of strengthening in the currency, given the leverage ratio that you show? Or maybe the answer is that you feel comfortable because the maturities are extended to nine years and therefore you didn't really need to do anything. So I just wonder if you can comment on that as well. Thank you very much.

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

Thank you, Carlos. I will start by answering your question in a more general way about exports. And then I will give the floor to Marcos Ivo and he will add to my answer to your question about should some specific increases in pulp do not occur. So talking first about exports in general. Klabin, as you well know -- so part of our business of Klabin, we can shift from the domestic market to export and the opposite is true as well, always focusing on the best possible result for the company. And this best result is not only linked to shift to the margin because it has to do with a long-term relationship as well.

So the long-term base that we have always obtained in terms of contact that we have had for 20, 30 years, and we have commitments abroad, and we have commitments domestically as well and these commitments allows us to keep the level of service that we have always given. Be it in kraftliner, paper and today in pulp, we are establishing the same level of relationships with our clients in the domestic market.

Nevertheless, there is always a flow of volume that we are able to choose to send to the most profitable market. And this is a path. This is what we are doing right now. And of course, the devaluation of the real helps us quite a lot in this regard. But we already see some recovery in some markets and talk about market recoveries. We see, as you can see as well, China driving this trend, and there are signs that countries in Europe are already resuming their operations and Brazil is lagging behind in this wave. And we expect Brazil to have some recovery in each economy.

And, of course, I'm talking about -- we're talking about the platform of information that we have available to us and you have available to you as well, but it's about the infection by COVID-19. And going back to our business. We are quite confident because of our flexibility and also the way we have been treating our clients both domestically and



externally in order to preserve our relationship but focus on the highest possible profitability.

Now, I would like to give the floor to Marcos Ivo, and he will add to my answer.

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

Carlos, thank you for your question. I'm going to split the answer into two. I'm going to talk about Klabin in two parts. First, I'm going to talk about the Puma II project because the Puma II project started 100% of the funds that Klabin will still be diversion, Phase I and Phase II, has already been complex, and we have not drawn upon this, as we said in our release -- in our earnings release. And when we look at the other part of Klabin, which is Klabin net of Puma II, in any possible scenario of pulp prices, we are cash generators.

Free cash flow of Klabin is positive in any scenario of pulp prices whatsoever. And finally, that's so because we have a production cash cost that is rather low, and we are in the lowest part of this curve worldwide in production cash costs, together with the liquidity position of Klabin, which is very rugged and with the debt profile that is quite long and also considering the fact that the company has no financial covenant whatsoever in our cold debt.

Because of all these regions, we are very comfortable to say that Klabin will be able to shove the next quarters, even if we have a very bad price scenario, much worse than the average that analysts believe will happen. And I would add to my answer the following. I would like to remind you that Klabin the next three years has only about BRL3 million in debt maturing. And in many tests that we carried out internally simulating many different scenarios, in none of them we see the company with liquidity problem. Therefore, there is no need for any contingency plans so far.

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

Understood. Thank you very much. Good luck.

### **Operator**

Thiago Lofiego from Bradesco BBl.

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

Good morning, everybody. My question is for Flavio and Douglas. Thinking about the packaging paper in Brazil, the volumes are recovering. And I would like to know how much of this recovery you believe is because of inventories, and what about the evolution of volumes in the second quarter? And also considering the export markets now, how should we see the evolution of volumes of paper and packaging for the second quarter, considering that many regions are still locked down, some of them only partially but like -- I would like to know your opinion about demand.

FINAL

And going back to talk now. My second question, maybe Soares could answer. Soares, what is the prices that you have in China for hardwood? We see ForEx of February. It was up by \$8. Do you have to reconcile the ForEx with the prices that you have? At least we see producers facing this price increase and talking to other large producers. They say that price increases are being implemented at least \$20, but we do not see this being repeated at ForEx. So how do you concile this, reconcile this? And could you talk about the demand for pulp in Europe? What about the evolution, inventories going down, but we have been hearing that inventories are going up in order to minimize the rates of the supply chains.

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

Thank you, Thiago. As you said yourself, Flavio and Douglas will answer your question and then we will give the floor to Soares.

### **A - Flavio Deganutti**

Hi, Thiago. Thank you for the question. And I'm going to talk about packaging paper, and then I'll give the floor to Douglas. I have been reading a lot about the demand and inventory is going up. This was a very important element at the beginning of the concern with a shortage of supply, but this is not the current situation.

What we see now is that there is in household an expressive consumption of packaging, much more than the bulk consumption of restaurants and out-of-home in general, so there was a moment that when there was a risk of a shortage of products, so this really happens, but now the consumption of packaging is higher because of the fact that people are staying home, and this is very evident.

So, for instance, UHG mill Canada has allowed the consumption is higher than it was. And this more than offset the drop in durables. So we have a movement there that of replacement, so to say, offsetting this decrease in durables. About exports, but Klabin is very diversified for kraftliner and for coated board as well. So we have started in Europe and in Asia and in Africa, the Middle East. And ultimately, this gives us a very high flexibility in terms of placing these volumes in markets that are a little -- relatively high or more advanced regarding the opening of their market. So I do not see any major consequences for the next quarter.

I would like to repeat that we still have a lot of uncertainties for the second half of the year, how these economies will be behaving. But for the second quarter, we can tell you that the pace is quite good, at the same pace as the first one.

### **A - Douglas Dalmasi**

This is Douglas, Thiago. I'm going to talk about the BPO figures. Klabin's are very similar. Looking at January and February, the market was already strong. 8% in January at a BPO February close to 4% and Klabin, the same in March, already having people buying a lot. Because of the pandemic, it was close to 11% EBITDA. So this was the acceleration that we saw because of people who always think. And for April and May, what we see is a similar situation as last year's volumes.

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We see that there was an adaptation but still with good volumes in the market and really a change in the standard of consumption that should be maintained from now on. And this was risen basically by hygiene, cleaning and food and we see a strong e-commerce and the first division of e-commerce in the sales of Klabin is still low. But growth was very high on a monthly basis. This has been going up gradually, and our figures have been growing about 70% to the segment in the first quarter. In March, it was over 100% growth. So the three forces, the pieces that I have already mentioned of a growth in the sale of paper in the domestic market.

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

You said that the volume in April and May are very similar to April, May last year. That's what you said?

**A - Douglas Dalmasi**

Yes. So the first quarter was very strong year-on-year. With March fee the big highlights but April and May year-on-year, this is in line with last year, April and May, very similar and May as well to different by these segments because durables are not recovering yet, which is about 35% of this market for corrugated boxes. And when you look at packaging target, we look at bags and not only corrugated boxes. So there is an important impact because of sugar [ph] construction, which was strong in March. April, we saw something similar to markets here. And in May, we see a slight recovery vis-a-vis April.

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

Okay. Clear. Thank you.

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

Thiago, I can give the floor to Soares now, but I think you have seen that we are sparing Nico because he came on board this week. So this is the reason why the other officers are answering and not Nico, just to clarify. Soares?

**A - Jose Gertrudes Soares** {BIO 16986980 <GO>}

Your first question about prices. As we said in our release, we continue to implement the \$20 and in April --

**Operator**

Mr. Soares's sound is cutting, it's interrupted.

**A - Jose Gertrudes Soares** {BIO 16986980 <GO>}

In relation to your second question about demand in Europe, we have a strong presence in tissue clients. So we have had a high demand so far and there is a degree of concern at the beginning in February regarding logistics. Then this -- what we have been seeing is the dropping offsetted by issuance from specialty papers. Some clients are suffering and the scenario because of that is more difficult. This demand is still supported by tissue.

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

Thank you, Soares; and welcome, Nicolini.

## Operator

Marcio Farid, JP Morgan.

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

Good morning, and thank you for the opportunity. May I ask Nicolini a question? It's not a quantitative question, so could I address a question to him? I would like to congratulate Chico and Soares for the first years of Puma and the result obtained. But Nicolini, you come from a company that from the viewpoint of discourse is very much aligned with Klabin about sustainability and new products.

And I would like to know about your first impression so far after you came on board of Klabin and what could we expect in terms of potential changes from the operating and commercial side. I know that it's a little bit too early, but I would like to know your frame of mind, so to say, and what you have been talking about internally.

And my second question is to Razzolini. What about your schedule for Puma II with a more challenging scenario, let's say, the lockdown continues for a couple of months? Will you be able to recover this waste of time or is the schedule tight, and we could expect a slight delay in the project?

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

Thank you, Farid. I would like to take the floor now to Nico. And I would like to remind you that Nico has not even met the people because the offices are closed. And we only have a handful of people working in the offices. But of course, he has his own opinion, and then he will give the floor to Chico.

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

Marcio, thank you for the question. As Cristiano said, yesterday was my first day. So of course, I'm not familiar with the whole situation. Of course, I have been following Klabin for quite some time. And everything that is being done by Chico and Soares is irreproachable. And also in regard to the totalcy of the firm taking to consideration to them. And Klabin has a very interesting portfolio. We are not concentrated on one single fiber. So this is a natural hedge that supports us in dire straits.

And I'm very happy to have started and I have not yet had the time to sit and talk to people. So I cannot tell you what actions will be implemented from now on and what kind of initiatives we could have on the commercial side of the operation in order to maximize our sales mix and thereby optimizing our profitability, but I'm sure that whatever has been done so far has been irreproachable. And it will be from now on. So there is nothing I can tell you yet.

FINAL

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

Marcio, thank you for the question. About Puma II, we have been complying -- we have been following the schedule. It was really ahead of time, but not so much. So we decided to have this temporary interruption of the project in order to keep our people safe. And also due to the uncertainty that we have had at the end of March regarding how to behave in this pandemic environment, and we are resuming as Marcos said, very slowly and very gradually because we need to give our people safety above all, and we have to pay attention in whatever is happening all these municipalities where we have our projects. It's a little bit too early to talk about the potential delay in the project. In July and August and September, we had a very big contingent of people being mobilized and then a reduction until February and March when this should be -- when we should start commissioning. And we have all these curves and peaks, et cetera.

And our curve our personal curve, is shifting more towards to the end of the third and the fourth quarter this year, provided we can carry out the necessary mobilizations. And it will depend on the scenario of the pandemic and the degree of freedom that we have in terms of allocating our people. So we cannot really do anything more concrete than that, but we believe that there is a delay, it will be small.

Based on the conditions that we see today. And I would like to remind you that we have not stopped our engineering or our equipment or transportation or materials that are -- the materials that are made but they are coming to Brazil. And we will depend on the direct scenario in order to say something more concrete about the new schedule for the product should we need any adjustments.

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

Thank you, Chico and Nicolini.

## **Operator**

Thiago Ojea, Goldman Sachs.

## **Q - Thiago Ojea** {BIO 17363756 <GO>}

Good morning. Thank you for the questions. I would like to go back to what Carlos asked about your debt. For you do not have a commitment for the three years. The project did a very good job in terms of -- if you have no covenants on your debt. But let's say, the exchange rate is kept more or less where it is today. I understand that cash generation is positive in this scenario. But of course, with the Puma project, you have disbursements that will be necessary in the next two or three years. So I would like to know if you see a scenario in which you would force the Puma on hold in order to preserve your cash? Do you have any scenario like that?

And my second question. Could you go back to the long-term and explain something about the wood supply during the Klabin day? You said that you had already been able to get the supply for the first type of the projects. But there would be an increase in the medium distance from 65% to 90%, I think, if I could remember. Are you planning to have

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any further land acquisitions? And what would be the impact on Klabin's profitability after Puma II is fully started up and vis-a-vis your wood supply?

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

I will there give you some color and mention a few other things before Marcos goes into our debt profile and our financials in general and giving you some information that precede the financial situation, which is a guarantee of the cash generation of the company measured by the EBITDA. Could you please stop for one moment and think that our product portfolio is corrugated boxes that brings all the food, all the vegetables and also industrialized products to supermarkets.

So you should think about Klabin as one of the three main manufacturers in the world for liquid packaging paper and the UHT, that in a moment of crisis, in which you increase your purchases and households buy more. And due to the characteristic that it does not have to be kept in the refrigeration. So the startup is very resilient.

So I talked about corrugated boxes. I talked about liquid packaging paper. I talked about industrialize and of course, the tissue. I'm talking about -- unfortunately, old people have been suffering a lot in hospitals.

So we have products for old people that use our tissue. This is the reason why I said that we should give some color because our portfolio of products is extremely resilient and added to the perennial business that we have, and we also say it is perennial, not only because of our forest, but also because of the way we treat our forest. So for all these reasons, we are very comfortable in terms of cash generation.

Now I would like to give the floor to Marcos Ivo, and he will talk about the financials.

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

I would like to add to what I shared to Carlos already. The first important point that we have to keep in mind is that Klabin, if you look at EBITDA, for instance, we are creditors in dollars. So the Brazilian currency, when it is devaluated at the beginning of the year, it was around 4, now it's closer to 5 at the same move you have for 2021. And the exchange rate as it is today with a weak real, this means deleveraging Klabin.

So the first point that I saw in your question was maybe a concern about the high exchange rate that generates an increase in our debt -- net debt and increase in leverage. In the next few quarters, it brings benefits to the company in the medium and the long run. So let's say the exchange rate is kept around 5. Our peak of leverage will be lower than what we had originally planned for. And my deleveraging will be faster due to the fact that we are exporters and due to the fact that we are creditors in US dollars. So this is the first point.

The second point, based on what we have already said, the 9.4 years average maturity, only BRL3 billion maturing in the next three years, which is a period of higher disbursements for Puma II and our cash position of about BRL10 million cash and cash

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equivalent and the whole disbursement of Puma II will not consume all this cash, they will consume on the line that are already contracted. And as we have no covenants whatsoever and still linking to Cristiano's answer: In any scenario whatsoever, we generate cash ex Puma II.

Therefore, when we place all these tests in a same basket, we see no scenario whatsoever in which we might have liquidity problems. And therefore, that may need us to delay the project. In fact, we have already disbursed BRL1.8 billion. So as soon as we conclude Phase I of the project and as soon as it starts generating cash, it will be beneficial. And acceleration is beneficial in terms of deleveraging the company. So we are very comfortable with that.

And ending my answer, theoretically, should we want to, we would be able to delay Phase II of Puma II, which is the second paper machine. But I reiterate that this need does not appear in any scenario whatsoever that we have modeled internally and even in the most pessimistic scenarios. Okay?

## Operator

Leonardo Correa [ph], BTG Pactual.

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

Good morning, everybody. I would like to ask a question about tissue. Have you seen the demand in China? Many producers have been talking about the strong demand in China for tissue in order to implement their price increases. So how do you see this demand on the part of the end customers? How do you see the scenario comparing to the scenario in Europe about demand from -- maybe in the lockdown situation. Could this become a new standard of consumption? Do you believe that this increase in the consumption of tissues could be structurally stronger over '20, '21 and '22? Do you think this means a change.

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

Thank you, Correa. Soares?

### A - Jose Gertrudes Soares {BIO 16986980 <GO>}

Thank you for the question. If we compare to the last three months, there was a boom of 200% in consumption in some markets and 40% [ph], 50% [ph] others, what we see is that improved. This demand is going down to more reasonable levels. In the US, we still have this increase in the demand for tissues, hygiene products, but this trend is going back to normal. In June and July, we believe that the demand will be more moderate.

Because of the higher concern with our hygiene, people using more tissue and many habits that are being included in people's behavior because of the higher need of hygiene and in China there was a large idle capacity in tissue producers. And today, they are having full production. So you see a new dynamic there. The large ones, operating at full capacity and the small player suffering because of that because they were not as agile

as the big guys passing into this moment. And what we see is a new level in consumption of tissue in general.

Have we answered your questions?

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

Yes. Thank you.

**Operator**

Leonardo Domesca [ph] from Bank of America.

**Q - Leonardo Domesca**

Most of my questions have already been answered. And I would like to ask a question about the pro cash cost. In the first quarter, it is what you expected, there is a trend in the reduction of fuel consumption. So what could we expect for the second quarter?

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

This is Marcos Ivo. Leonardo, we maintain what we said for the cash cost for the year for pulp. It could be similar to the level that we had in 2019. So we see this.

**Q - Leonardo Domesca**

Thank you.

**Operator**

Cadu Schmidt from UBS. Will you please limit yourself to one question, because we are already late.

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

(technical difficulty)

**Operator**

The sound is very bad here for the interpreter. We have a bad call. We apologize.

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

Okay. We would like to start with the COVID-19. Just to give you some color, and then Marcos Ivo will add.

**A - Douglas Dalmasi**

This is Douglas. It was a reduced stoppage in April, 60 hours on. In May, we believe it will be a 10-day stoppage, and we postpone this to the end of October. This impact, there



will be no impact because we will be doing this with the same investment. And in the year there will be a loss of volume because of the additional stoppage of 60 hours that we had in it so the number of days of May to be the same number of days in Europe and August and October that we are still scheduling about COVID-19.

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

This is Marcos Ivo, Cadu. Our tenor stoppages change date the back end of the year because in some of our plants, we have this at every 15 months and looking at all the plans together, the cost of general stoppages of 2020 will be similar to 2019. And if you want, we can give you the detailed stoppage schedule for the year. But this means that we have no expectation in terms of increases in costs vis-a-vis what we did last year. And as Douglas said, the change of one date to the second half of the year does not mean any material impact on the company, okay. Thank you.

### **Operator**

As there are no more questions, we would like to take the floor back to Mr. Cristiano Teixeira for his closing remarks.

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

I would like to give Marcos Ivo the opportunity to answer a question that it seems has not been answered. And then afterwards, I will come back.

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

One question was pending, Thiago. We apologize. You asked about wood in Parana, the wood supply in Parana. What the company has been explaining to the market is that the first supply cycle of Puma II when we talk about eucalyptus, the first seven years of eucalyptus consumption by Puma II will be done with third-party wood that we have already been buying over time. So this first part that is buying wood that has already been planted in order to supply the first cycle is on schedule. From the viewpoint of cost and the acquisition and the volume, everything is on schedule.

And as of the second cycle, that is eucalyptus after the seventh or the eighth year, then we will start consuming wood that will be produced in land that is managed and controlled by Klabin. And this is the reason why a couple of years ago, we started to expand our forestry base. We have been doing this program of expansion of a forestry base, either buying or leasing land substantially with third-party funds in the partnerships that we have, the teams.

And at each transaction, they are the object of a market communicated with all the details about the transaction. And the evolution of this expansion in our forest base is on schedule and in line with the original schedule and with no impact on our cash flow, because this is done with third-party funds.

I hope I have answered your question, and I will remain at your disposal if you have any doubts.

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

Marcos, thank you. As we normally do, I would like -- we wanted to bring you the following. We believe that potable packaging will be maintained in the second -- in terms of bulk, together with the devaluation of health, puts us in the position of expecting even better results for the second quarter vis-a-vis the forestry. We continue with a long-term view that you are all familiar with, which is on people, sustainability, innovation and operating excellence above all. And this faces us as the world benchmark in the pulp and paper area. So thank you very much, and we will come back in the next conference call.

## Operator

Klabin S.A.'s conference call has come to an end. Thank you very much for your participation, and we wish you a very good day. Thank you.

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