

Q2 2012 Earnings Call

Company Participants

- Antonio Sergio Alfano, CFO, IR Director
- Fabio Schvartsman, Chief Executive Officer
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. Welcome to Klabin's Earnings Call. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session. And instructions will be given at that time.

(Operator Instructions)

As a reminder, this conference is being recorded. Before I proceed, I should like to clarify that any statement eventually made during the conference is (inaudible) Klabin's business outlook, projections, operating and financial targets. And potential growth shouldn't be (inaudible) as merely forecast (inaudible) the expectations of management in relation to the future of Klabin.

Such expectations are highly dependent on market conditions and (inaudible) overall economic performance in our industry and the international market behavior. They are therefore subject to change. (inaudible), Chief Executive Officer and Mr. Antonio Sergio Alfano, Chief Financial Officer and Investor Relations Director.

Mr. (inaudible) will comment on company's performance during the Second Quarter and the projections for 2012. After that, Mr. (inaudible) will answer any questions (inaudible).

Now, I'll pass the call over to Mr. Schvartsman. Please go ahead, sir.

Fabio Schvartsman {BIO 2067677 <GO>}

FINAL

Thank you. Good morning, to all. It's a pleasure to be here again with you explaining the results of Klabin of the Second Quarter of this year. Actually, I'm very satisfied because we've been delivering the results that we were expecting to.

If you compare what happened in the Second Quarter in terms of EBITDA, comparing it with the same EBITDA of the Second Quarter of 2011, you see that a growth of almost 50% we had. That is -- that is really a big number. And it was obviously helped by the fact that Third Quarter of 2011 was affected for -- by a very low exchange rate.

Actually, the exchange rate in the (inaudible) was on average 1.57 of the lowest of any quarter that -- in the last years. So the comparison was -- you have to take this into consideration when you look to these numbers. And nevertheless, the largest part of this improvement was internally driven, because if you think what happened, we had mainly stable volumes. Therefore, it was a -- it was not that we were benefited by growth. There was no growth.

What we had was a reduction in the cash cost of (inaudible) of our company of 2% in nominal reais comparing this quarter to the same quarter last year. That helped a lot. And we had as well an improvement in the top line of 9% caused mainly by improvement in average prices given the fact we have twice benefited in the mix because not only we sold more in Brazil, we sold more in the board markets in Brazil where prices are obviously better than the other papers that we sell -- the other packaging papers that we sell in the country.

So this combination of higher prices, higher average prices, low cash costs focused that improvement that the Company is delivering. Actually, I find very interesting to look at the EBITDA of 12 months rolling comparing June of last year with June of this year. And you see that -- you'll see that we went from BRL920 million to BRL1.220 million, therefore an improvement of above -- of more than BRL300 million.

And we are talking about basically company with the same equipment, the same people doing the same kind of work. Therefore, we can claim that it was produced actually in very weak markets. And that is very -- is very natural to tell that it is internally driven. And that's the reason why the Company is performing so well.

As I usually do, I would like to tell you that the next quarter will be a strong one again, the -- this quarter, Third Quarter. We are expecting our numbers that will be similar to the comparison between the First Quarter of this year and the First Quarter of last year, therefore a meaningful growth in EBITDA in this period.

And I know that everybody is always very focused in the growth process of the Company, rightfully so. And I would like to anticipate that our discretion regarding this main investment of ours -- the new pulp mill is going very well.

We are continuing to have very detailed discussions with investors. And this is -- I think it's good deals because in the consideration of the environment that we are. And if I can

Bloomberg Transcript

claim that this process is moving forward without a problem, it is because of the qualities of the projects that they're as good as I told you in the last discussions that we had.

Finally, in last quarter, we had the approval and the starting of the new project of the (inaudible) machine in (inaudible) that we represent the investment of BRL250 million and we will start operations in the Fourth Quarter of next year.

So for next year, the good news is that with all the bottlenecking projects that we have that we are going to start in the following months, plus the continuation of the efforts of reducing costs through the GMD program of Professor (inaudible), this is -- both together, will guarantee a meaningful improvement in EBITDA in the year 2013, not counting with any benefit from the environment itself.

That's the good story of Klabin -- the good part of the story that Klabin can tell, that Klabin is not (inaudible) what's going to happen in the economic environment to deliver the performance that we are expecting.

So thank you. And I will pass now Sergio that will give you a more detailed analysis of the results of the Second Quarter of this year. Thank you.

Antonio Sergio Alfano {BIO 4337533 <GO>}

Thank you, Fabio. Thank you, -- all of you who are participating in our conference call. In the Second Quarter, the international scenario did not change significantly with volatility in our economy.

It resumed despite the seasonal improvements over the First Quarter. The economy has not yet reacted to government initiatives and the domestic markets did not show any concrete signs of growth.

In this challenging scenario, Klabin continues to concentrate its efforts in its operational and financial performance. Still operating properly, pushing new markets to maintain its markets. Sales volume in the first half of the year, excluding wood, totaled 850,000 tons, 3% lower from the six months of 2011.

Exports was 289,000 tons, down 9% from six months of 2011. Domestic sales increased by 1\$ to 561,000 tons. Net revenues totaled BRL2 billion, 5% higher than the previous year. Despite the drop in sales volume and (inaudible) Klabin's continuation of the (inaudible) margins by seeking an optional mix and diversified market. In Brazil, net revenues totaled BRL1.5 billion, 4% higher than six months of 2011. And the -- represented 75% of the total revenue of the Company.

Unit cash costs excluding non-recurring items and maintenance stoppage (inaudible) BRL1,618 per ton. In relation to the Second Quarter of 2011, unit cash costs fell 2% in spite of the fact of inflation and the costs due to the wage increase in last October.

FINAL

Bloomberg Transcript

EBITDA was BRL281 million in the quarter, 48% higher than the same period of last year. EBITDA margins withstood their 87%. In the past 12 months, adjusted EBITDA, which is a record level of BRL1.2 billion.

Consolidated net debt in the end of June was BRL3 billion. And the net debt to EBITDA ratio was 2.5 times. Cash and finance investments stood at BRL3.3 billion in the end of June. This amount exceeds amortizations of ones coming June in the next 4 to six months.

Klabin continues its strong (inaudible) investment maintaining appropriate capital structure and debt profile, in order to reduce its variable costs at the bigger plants; in our bigger plants and the increase the production capacity in all its converting units. In May, the Company approved -- earned the contract with the new (inaudible) paper machine with the annual production capacity 80,000 tons per year and we will be starting (inaudible).

The total CapEx for this machine will be BRL230 million. With this -- with this new Klabin will have a total capacity production -- production capacity 213,000 tons per year. On January 2013, a new unit of (inaudible) start operations in the northeast region of Brazil increasing Klabin's capacity by 8%.

In July 10 of this year, a new (inaudible) box plant. With an annual capacity of 100,000 tons per year, this project aims the Company to follow the growth of the market. After the (inaudible) business unit, the (inaudible) of the harvesting process in (inaudible) area has already been approved and (inaudible) next quarter. In the Second Quarter of 2012, the Company has a total value of BRL160 million correlating in the first half of the year BRL243 million.

Now, Fabio and I, we are available to take any questions you may have.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Thiago Lofiego of Merrill Lynch. Mr. Thiago Lofiego, your line is open.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Hi. Can you hear me?

A - Unidentified Speaker

Yes.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Oh, sorry. Okay. Okay, guys. Sorry about that. So I just wanted to get some color from you on your next steps in terms of cost-cutting apart from the forestry piece which we already discussed in the previous call.

So what are, in general, the next steps you think can take in terms of cost-cutting? Do you have anything to do on the SG&A side? You also mentioned some potential debottlenecking projects that you're -- you can't undertake in the next year. So if you could give us some additional color on these (inaudible), I would appreciate it.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Let me give you some information on that. We -- actually, we are working very strongly towards launching a number of new process towards cost-cutting and these will be mainly to the bottlenecking in Munich. One is not that new. One is in the (inaudible).

The investment underway and we -- actually, we started a connection of the equipment doing the stoppage of (inaudible) this year. And by November we are going to finish the work that is needed for starting this project. This is a very important project, from which we expect an increase in EBITDA of roughly BRL14 million per year just coming from this project.

And the new ones -- a number of new debottlenecking project in Santa Catarina will start doing the second half of this year and will start to be executed. And we only start operations in the beginning of next year. But until the middle of next year. Altogether, they are going to bring more BRL20million, BRL23 million -- BRL20 million to give you a round number of more EBITDA growth.

And this -- half of it more or less will be achieved this year -- sorry -- in 2013. And the other half only the -- in the year next. On top of that, we have the effects of this investment that we made in the (inaudible). That only we'll start showing the results by December of this year and this will bring another BRL20 million to BRL30 million of EBITDA for next year.

So we have a number of projects underway that are -- if you add this to continuity of the GMB effort of (inaudible), this will produce a meaningful increase in EBITDA just with more than double-digits. And this -- the great news here is that we are making things in such a way that the Company will show an improvement in results meaningful next year no matter what's going to happen with the Brazilian economy.

But if you ask that we are expecting a slightly better Brazilian economy the performance Company next year will be certainly significantly better than this year.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, Fabio. And anything on the SG&A side, or not yet?

A - Fabio Schvartsman {BIO 2067677 <GO>}

FINAL

Not yet. We are working on that. We don't have nothing specific at this point. We are finishing the analysis. We are hoping to have it -- the analysis that we are doing done by the end of July.

Therefore in this Third Quarter will be analyzing to see which are the opportunities in the SG&A side. And here my approach was slightly different from in the other areas because here, I decided it was better to have a benchmarking for the step where the Company has too much and where the Company has too little.

And actually, I think that it's much more important that the SG&A delivers the kind of results that is needed, than to thinking in reducing costs through this because the costs are not very meaningful in this area.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. And final question here, just to clarify, these small projects you mentioned here, which one -- which ones are new, or are all of those you have already mentioned before just to --?

A - Fabio Schvartsman {BIO 2067677 <GO>}

No, no, no. It's actually, this -- all this (inaudible) of Santa Catarina, they are brand new.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. The BRL20 million --

A - Fabio Schvartsman {BIO 2067677 <GO>}

It's the first time that I'm mentioning this. And if you add to all the others, we are -- we have more than BRL100 million of further EBITDA coming from these projects.

Q - Thiago Lofiego {BIO 16359318 <GO>}

And the BRL40 million EBITA projects in (inaudible) one you had already mentioned that one (inaudible).

A - Fabio Schvartsman {BIO 2067677 <GO>}

Yes. But the benefit is basically for next year --

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay.

A - Fabio Schvartsman {BIO 2067677 <GO>}

-- because (inaudible) first full month of corporation of this new equipment will be December.

Bloomberg Transcript

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. All right. That's clear. Thank you.

Operator

Excuse me. Our next question comes from Mr. Carlos de Alba from Morgan Stanley.

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

Thank you, very much, gentlemen. Just to compliment what you had been saying (inaudible) quarters. So it's clear that the cost front is going to help you (inaudible) BRL100 million (inaudible) in the next few quarters most likely (inaudible)?

And what about prices which may be the only other way to build the EBITDA in 2013, right, because the volume would still be relatively flat at least in the first half of the year? So if you can help us understand that to one extent prices can go up, one. And two, if there is any chance for volumes to increase next year? Thank you.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well, start the answer with volumes, no. Volumes cannot increase next year because we don't have capacity. And we are only going to have capacity by the Fourth Quarter of next year with the new (inaudible) machine starting operation.

This will be very small in 2013, therefore the effect in 2013 will be minimal. But in the pricing side, it's not that we are going to increase prices because I don't think that's the case. But I think that I can anticipate a meaningful improvement in mix next year because we are going to sell more -- for value-added profits in 2013 that we sold in 2012.

Therefore, we are going to have more boards of better quality. Even among boards, you have boards that are better than (inaudible) than others. And we are going to probably include our sales of corrugated boxes in Brazil, if the Brazilian economy recovers a little bit.

Therefore, I am anticipating we expect for the next year an improvement in mix that will actually translate into a better published price in comparison to this year.

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

All right. So given this (inaudible) mix. And the BRL100 million in benefits from the cost reduction initiatives in the different projects, in the different plans, the run rate for EBITDA in 2013 should improve from the 1,200 -- or the BRL1.2 million that you were mentioning over the last -- reach over the last 12 months to something around 1,400 or even 1,500.

Does this sound reasonable?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Carlos, actually, I don't if we give out too precise figures for me to be able to comment on them in the call. Actually, we can work on that. We are going to have an improving EBITDA 12 months rolling through December which will continue to improve.

Therefore, the comparison will be above BRL1.2 billion during this year. And we are going to add more from this project in 2013 and a little bit more with the (inaudible). Therefore, it's too early to give you a precise number. But I am expecting double-digits growth in EBITDA in 2013.

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

All right.

A - Fabio Schvartsman {BIO 2067677 <GO>}

That's the only thing that's in comparison to 2012.

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

Excellent. And now, with all these improvements and the good free cash flow generation in the Company (inaudible), do you expect the possibility of maybe paying higher dividends in the coming quarters?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well, thank you for asking about dividends because -- actually, Klabin has just distributed a couple of weeks ago the best dividend in all of its history. Therefore, it means that not only we are -- we are producing more results. But we are treating fairly the shareholders, paying them back with better dividends. And it's going to remain like this.

We are going -- as our results continue to improve. So our dividends are going to continue to improve as well.

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

All right. Thanks.

A - Fabio Schvartsman {BIO 2067677 <GO>}

(inaudible).

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

Excellent. Thank you, very much.

Operator

Excuse me. Our next question comes from (inaudible).

Q - Unidentified Participant

Hi. Good morning, everyone. Thank you. My first question is regarding the debottlenecking plans that you have. What's the CapEx tied to those improvements. And should we expect that CapEx to be this year, or is it -- can you give us a sense of how much will be applied next year?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well, thank you for asking. The total CapEx for this investment are around BRL170 million for all of these debottleneckings and -- including investments in the forestry area for what we are calling primarization coming from third parties from using the -- for using our own machinery.

And with all that, we plan to spend BRL 170 million, clearly (inaudible) between this year and next year. It is already in the numbers that Sergio mentioned about the investment that the Company is going to make in this year around BRL500 million total CapEx of this year and more or less, the same size for next year.

Q - Unidentified Participant

Okay. Perfect. And just moving on to your sales mix when you look at it, I guess, domestic versus exports for the next few quarters, given that the domestic market is, I guess, somewhat stale at the current moment with no expectations from you guys in terms of price increases, do you see the mix shifting towards the export market as the same price increases there? Or, will you still be committed to try to get to 70% total domestic markets this year?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well, we are -- we have know what we call (inaudible) choice because we are not sure what is better for the Company -- to take advantage of a better exchange rate and better prices in the international markets, or to sell more in the domestic market.

In this way, we are going to do a little bit more of both. We are going to sell more in the domestic market because it is a stronger season-wide. And we are about -- we are not going to go so far as we went last year. That means that we are going to grow proportion in comparison to Second Quarter. But less so than we did in 2011.

Q - Unidentified Participant

Okay. So we could probably assume something close to the mix that you had this quarter of around 67%? Would that be fair?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(inaudible) these are slightly more -- really slightly more -- very slightly more in the domestic market.

Q - Unidentified Participant

Okay. Perfect. Thank you, very much, gentlemen.

A - Fabio Schvartsman {BIO 2067677 <GO>}

(inaudible)

Operator

(Operator Instructions)

Ladies and gentlemen, there being no further questions, I'd like to pass the floor to Mr. Schvartsman for the final considerations.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you. Again, it was a pleasure having you all in this call today and I'm very glad that the Company is performing according to expectations. We can see that the Company is very responsive. And actually the kind of markets that we operate and the quality that Klabin delivers give us the ability of making a very reasonable forecast of the performance of the Company. It is proving right quarter after quarter.

And the same will happen next quarter, I suppose, where we are going to believe an important growth in EBITDA. The Company is highly focused in delivering results. All around the Company efforts are -- very supported. And there is a lot of commitment internally for this purpose. I couldn't ask more.

So the Company will continue to deliver the results. And I'll be very pleased again to have you on-board to listen to the results call in the next quarter. Thank you, very much. See you again.

Operator

This is the end of the teleconference promoted by Klabin Estates. Thank you, very much for your participation. And have a nice day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript