

Q1 2015 Earnings Call

Company Participants

- Guilherme S. Souza e Silva

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call of Duratex. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions to participate will be given at that time. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Guilherme Silva, IR Manager. Please go ahead, sir.

Guilherme S. Souza e Silva {BIO 15325478 <GO>}

Thanks, everybody. Thanks for calling Duratex first quarter results. My name is Guilherme Silva. I am the new IR Manager of Duratex.

So, let's start the presentation and please turn to the page number 1 of our presentation that you can see in our website. First of all, we will discuss about the highlights from the first quarter. The first point and the main one is regarding the volume in the Wood Division in the first quarter 2015. When you compare the volume in the first quarter 2015 with the same period of 2014, we increased volume more than 12%.

There are significant growth if analyze the current macroeconomic scenario in Brazil. And this (00:01:28) important to mention that's including Tablemac, our division in Colombia. The point number two is the consolidated EBITDA margin of 21.4% and we will discuss the margins later on. And the third point, and the last one, is regarding acquisition of Ducha Corona. In the beginning of March, we signed a bidding offer for acquisition of Ducha Corona (00:01:53) and we are waiting for that to move forward in this acquisition.

Please note that Ducha Corona is the second player in the electronic shower and we started this movement in electronic shower segment in 2012 when we bought Thermosystem, the third player in the market.

So now, let's move to page number 2 and the idea here is to discuss the financial highlights consolidate. So the net revenues in Duratex's in the first quarter 2015 was at around BRL 1 billion. This amount is 7.7% higher than the same period of 2014. Below, you can see the breakdown for each division. Wood Brazil, the net revenue was at around BRL

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600 million; in Colombia division, BRL 72 million; and finally, in the Deca division, the net revenue was BRL 336 million.

In the picture below, you can see the breakdown for each division. 36% (sic) [34%] (00:03:01) of the revenues in this first quarter is coming from Deca division and 66% is coming from the Wood division as a whole, Brazil plus Tablemac in Colombia. And the picture beside, we can see the revenues – the domestic revenue [indiscernible] (00:03:20) the foreign markets revenues.

The domestic revenues was 87.5% of our net revenues in this first quarter and the export market was 12.5%. It's important to mention here that this number in the export market was below 10% in 2014 and right now is 12.5% despite of our strategy to grow business out of Brazil. This number is export plus Tablemac.

So let's move right now to the page number 3. And the idea here is to discuss the (00:04:04) in the Deca division and the Wood division. The Deca volume in this first quarter was at around 7 million items. This volume is 5.4% below of the same period of 2014.

But here, it's important to say that the first quarter 2014 was the best quarter of Deca division in terms of volume, last year in one of the best quarter ever in Deca division. When you compare the volume of 2015 this first quarter with volume of last quarter 2014, we increased the volume at around 13%. This is a significant growth when you compare last quarter 2014 with the first quarter 2015.

On the Wood division, as I said before, the volume increased in the total more than 12% first quarter 2014 against first quarter 2015. The volume was 711,000 cubic meters and the total – and the volume in Brazil was 653,000 cubic meters. So the growth in Brazil was at around 9% when you compare to the same period of 2014.

Regarding EBITDA, the recurrent EBITDA in this quarter was BRL 214 million. This number stands at around 10% below the EBITDA in the first quarter 2014 that was BRL 240million. The EBITDA margin was 21.4%. We decreased the margins net around 400 basis points when you compare to the same period of 2015. Basically, due to the cost pressures that we are (00:05:52) on the energy cost and the pricing MDP because we gave some discounts in the second quarter of 2014. The recurrent net income was at around BRL 70 million and the recurrent ROE was at around 6%.

So right now, let's turn to the page number 4. And the idea here is to discuss the Wood division in Duratex. This first picture is regarding the MDF market in Brazil, right. When you compare the first quarter 2015 (sic) [2014] (00:06:26) with the first quarter 2015 on MDF market in Brazil, the market increased 2%, it's a significant growth if you analyze the scenarios in Brazil nowadays.

On MDP, the market was flat year-over-year, first part 2014 against first quarter 2015. But it's important to say here that the MDP market was decreasing over the last quarter. So

right now it's flat, this is a good news. As a whole, the panel market in Brazil, MDF versus MDP increased 1.3% in this quarter.

Now, let's move to page number 5 and the idea here is to discuss the occupancy rate in the first quarter 2015. MDP, on the MDP, the occupancy rate this quarter was 68% while in the same period of 2014, the occupancy rate was 61%. In addition to that, it's important to mention here that the capacity available this quarter was 2.1 million cubic meters while in the same period of 2014, the capacity available was 1.880 million cubic meters.

On MDP, we increased our level of occupancy from 62% of the first quarter of 2014 to 65% in the first quarter 2015. The hardboard was 96% but please note that hardboard is a small part of our panel business in Brazil.

In the total, the average of level of occupancy was 68%. This is higher than the same period of 2014 when the level of occupancy was 62%, and it's important to say here that the first quarter is the result of analysis (00:08:24) is normal if the weak quarter in terms of level of occupancy.

Right now, I like to turn to the last page on the Wood Division is regarding the operational highlights, regarding net revenues, EBITDA and margin. The net revenues in this quarter in the Wood Division was BRL 665.5 million while in the same period of 2014, the net revenue was BRL 584 million. So, we increased net revenue at around 14% for year-over-year.

The picture below, we can see the EBITDA. The EBITDA on the Wood Division this first quarter was BRL 154 million. In the first quarter 2014, the EBITDA was BRL 165.4 million. So EBITDA decreased at around 7% when you compare to the same period of 2014.

The margins in this quarter was 23.1% and in the same period of 2014, the margin was 28.3%. And the main reasons are; first of all, the cost pressures that we're suffering from the energy cost and the price on MDP that in this quarter was below of the first quarter of 2014 because we gave a 7% average discount in the second quarter 2014.

However, it's important to mention that in the beginning of March, we announced a price increase of 7% in both lines, MDP and MDF, and this increase is starting April 1. And the idea here with this announcement is to recover the margins for the same level of margins that we had in 2014.

And now, let's move to Deca Division and the first slide, which as you can see, there is our ABRAMAT index. The ABRAMAT index shows the sales performance of the construction material segment. In this quarter, first quarter 2015, when you compare to the first quarter of 2014, the sales performance decrease at around 9%.

So let's turn to the page number 9, and the idea here is to discuss the shipment in Deca Division. So as I said before, the volume of this quarter was at around BRL 7 million; this volume is at around 5.4% below of the same period of 2014. The level of occupancy on

the sanitary wares we increased from 56% in the last quarter 2014 to 68% in this first quarter 2015.

Basically due to - for two reasons. The first one, we shut down one plant of ceramic in Jundiá in the end of the year. The capacity of that plant was at around 5%. And the other reason is that we increased volume when we compare to the last quarter 2014.

Move to the metal fittings, we increased from 68% in the last quarter 2014 to 73% in the first quarter of 2015. Basically, this two the higher volumes in this quarter.

So right now let's move to the next slide, which are in Deca, page number 9. And the idea here is to discuss the financial figures. The net revenue in the first quarter of 2015 was BRL 336 million, while in the same period of 2014 the net revenue was BRL 345.6 million. So the net revenues decreased 2.8% when you compare with the same period of 2014.

Regarding EBITDA, the EBITDA in this first quarter in the Deca Division was BRL 60.5 million, while the first quarter 2014 was BRL 74.6 million. The EBITDA decreased 19%. Regarding the margins, the margins of this first quarter was 18%. This margin is higher than the average margins that we had in the Deca Division last year. The idea for this year is to maintain the same level of margins over the next quarters.

So right now, let's move to page number 10 and the idea here is to discuss the CapEx for 2015. Our budgetary (00:13:26) CapEx for 2015 to be BRL 400 million. This CapEx will be only for maintenance only to sustain the operation. We are not considering in this CapEx any new acquisitions for the Ducha Corona.

The breakdown for this year in terms of CapEx, BRL 175 million will go to the forest OpEx, to the plantation of eucalyptus and to the maintenance of the forest and BRL 223 million will go to maintenance machines in both divisions; Deca Division and Wood Division.

And below, some news and some numbers about Ducha Corona. As I said before, Ducha Corona is the second player in electronic shower; it's a very important player. We've got very good brands and the idea is to move forward this integration after (00:14:26) approval that can happen over the next month.

Right now, turn to the page number 11. And the idea here is to discuss the capacity evolution. We doubled our capacity over the next eight years. In 2007, for example, our capacity on Wood Division was at around 2 million cubic meters. And right now, 2015, our capacity is 4 million cubic meters.

On the Deca Division, in 2007, for example, our capacity was 80,200; and right now 2015 is 37,300 so it's more than doubled. Please note that we finalized an important high-cost investment in 2013 with the MDP (00:15:22) with the increase of MDP line (00:15:26) and with the conclude of key marbles plant, our ceramic plant that we deals in key marbles and initialized in 2014. So with this high-cost investment we are ready to capture a new future type of growth in Brazil.

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I'll now turn to the page number 12. The idea here is to discuss our corporate debt and our net debt in this first quarter 2015 was BRL 1.8 billion. So we are in the same level of first quarter 2014 when the net debt was the same, BRL 1.8 billion. The net debt to EBITDA increased from 1.6 to 1.9, but it's important to say here that we are very comfortable with this level of debt. Our CapEx defines EBITDA and the decline of the debt is very (00:16:25).

In the picture below, there is our amortizations schedule. As you can see we have more than BRL 1 billion in cash. This is enough to pay all the debt to expire in 2016. The idea - but the idea is to roll over the debt for the long-term debt.

In the picture beside, we have the currency of our debt in Duratex as a whole. 72% of our currency is domestic currency, in BRL, basically BNDES, rural loans and working capital. 26% of our debt is of foreign currency. But it's important to say here that 100% of this debt is hedged to BRL. The hedge policy of the company is you don't have any debt, any kind of debt in other currency in Duratex Brazil. And in addition to that, we have 2% of our debt in pesos colombianos, but this debt is linked to our business in Tablemac that is colombianos is the currency level.

Right now, let's move to the last slide, slide number 13. And the idea here is to discuss the main actions for 2015. As you know, 2015 will be a very challenged and tough year for all the industry as whole in Brazil and we're doing some measures to face this tough year.

The first one, as I said before, we shut down one plant of ceramics in Jundiai, the name was Jundiai II, and the idea is to rebuild our capacity at around 5%, and we can transfer, if necessary, the production to Queimados. Queimados is a new plant in Rio de Janeiro (00:18:22) with new machines and with lower labor costs.

The second point and very important one is regarding the cost reduction. So, we are very focused on that. We started this year, a Duratex Management System together with Falconi Consulting. Falconi Consulting Brazil is a very important consulting focusing costs reduction. We hired them.

Last year, we start the implementation of the measures, over this year and the idea is to capture the majority of the cost reduction this year and part of that over the next years.

The point number three is regarding the CapEx. As I said before, the CapEx for 2015 will be limit to sustaining only to maintain our operation in Duratex.

Number four is regarding the integration between Hydra and Ducha Corona. Hydra is our electronic shower brand and the idea is after had approval to move forward in this integration between Ducha Corona and Hydra in the electronic shower segment.

And finally, and the last one, the point number five, is regarding the joint venture between Duratex and Usina Caete that we did in the end of 2014. And the idea here is to plant a forest in Brazil Northeast region to support our panel operation in the near future. So we

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start the plantation in the end of 2014 and after four years, we will analyze the market that you have enough conditions to build our MDF plant in Brazil. It's important to mention that there is no player in the Northeast part of Brazil and this region is the region that is growing more than the average of the other regions in Brazil.

So that's it. Thank you very much for your time and we are here to answer the questions.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session.

This concludes today's question-and-answer session. I would like to invite Mr. Guilherme Silva to proceed with his closing statements. Please go ahead, sir.

A - Guilherme S. Souza e Silva {BIO 15325478 <GO>}

So again, thank you very much for your time. As I said before, this will be a very challenging year for us, but we are doing some measures to face this tough year. And if you have any additional doubts, please let us know. My name is Guilherme Silva and we have our IR team here to support any new doubts that you face in the near future. Thank you very much.

Operator

That does conclude the Duratex audio conference for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.

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