

Q1 2021 Earnings Call

Company Participants

- Antonio Joaquim de Oliveira, Chief Executive Officer
- Carlos Henrique Haddad, Administration, Finance and Investor Relations Vice President
- Guilherme Setubal Souza e Silva, Revenue Growth Management Manager - Deca
- Marcelo Izzo, Vice President of Deca Business Unit

Other Participants

- Caio Greiner, Analyst
- Caio Ribeiro, Analyst
- Isabella Vasconcelos, Analyst
- Marcio Farid, Analyst

Presentation

Operator

Welcome to Duratex's Conference Call, where we will discuss the Results for the First Quarter of 2021. During the company's presentation, all participants will be in listen-only mode, and following that, we'll begin the questions-and-answer session, when further instructions will be given. (Operator Instructions)

Before we continue, we'd like to clarify that any forward-looking statements made during the company's call regarding its business perspectives, any projections, operational and financial goals are merely assumptions and beliefs of the company's Directors, based on the currently available information.

Future remarks are not a guarantee of performance because they involve uncertainties and assumptions, as they refer to future events that may or may not come to pass. Investors should understand that the industries condition, economic conditions, and operational factors may affect the company's future results and lead to results that differ materially from those expressed in these forward-looking statements.

Now, we'd like to pass the floor to Mr. Henrique Haddad, the Vice President of Management, Finances and Investor Relations. Mr. Henrique, you may continue.

Carlos Henrique Haddad {BIO 17599460 <GO>}

Thank you. Good morning, everyone. Welcome to another earnings call for Duratex. I'm here with Antonio Joaquim, our CEO; Marcelo Izzo, Head of Deca and Ceramic Tiling

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Operations; and other members of our Board of Directors, as well as our Investor Relations team.

Starting on page three, with the maintenance of demand and with the productivity implemented in the last years, we've come to an adjusted recurring EBITDA of BRL496 million, a growth of 126.1% of the first -- first quarter of 2021 versus the first quarter of 2020. This is the best first quarter in the company's history. It's important to highlight that the gains we had were mainly in revenue, which was due to a successful price management strategy in across all divisions, which offset the negative effects of the inflation we saw in the last months preserving and boosting our margins.

It's also worth highlighting that we are less than 12 months from starting our new dissolving pulp unit LD Cellulose. So we're seeing that prices for us -- dissolving pulp are improving showing that we will have better results than expected.

Continuing with page four. This quarter, I'd like to share with you the challenge that we faced with our cost increase. There was a high end packaging prices of over 131%, while the amount, excuse me, the prices of our main inputs like methanol, urea, copper and polypropylene, had 40% increases, which added to the BRL devaluation had a direct impact on our results. That's why it's so important to highlight the EBITDA margin levels that we reached during this quarter. Finished the first quarter with an EBITDA margin of 28%, 9.1 percentage points above the same period in 2020. And this is also higher than what we presented in the last quarter. Even with increased cost, we managed to show the results of all of the restructuring and productivity initiatives that we had in the last years.

Moving on to page five. Facing the record results we presented, we finished the quarter with a surprising performance in operational cash generation, which was 187 million, reversing the consumption of BRL19 million in the same period last year, a conversion of our recurrent and cash EBITDA of 37.8%. This result was possible due to effective working capital management, which reduced our cash conversion cycle by 57 days. Even by advancing strategic purchases, reducing continuous costs and also increasing the inventory, our working capital over revenue proportion dropped to 13% in the first quarter of 2021 and operational cash generation of 178 million this quarter.

Now looking at the impact of these results on our debt, let's continue with page six. A strong improvement in operational results and a stronger cash generation offset the payment of interest over own capital and dividends carried out in February, a total of 517 million, which led the company's debt level to 1.2 times net debt to EBITDA.

Regarding the debt, I'd like to share with you that we've taken a credit with BNDES of 697 million at an average payout term of 12 years. It will be used to acquire machinery equipment and industrialized materials for national manufacturing, and also, raw materials for our productive process. We hope to capture these resources until the end of 2021, and it will have a positive impact on our average price and in extending our debt.

Now to talk a bit about our divisions, let's continue on slide eight. According to IBA data, the wood panel market advanced 22% versus the same quarter last year, 28.9% in MDF

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and 20% in MDP. Volumes grew by 25% in the domestic market, and nearly 4% in the foreign market.

Now to look at Duratex, let's continue on the next slide. The Wood Division started 2021 with the best results in its history and adjusted recurring EBITDA of 158% above the first quarter of 2020, and 17% higher than the last quarter of 2020. This was due to a high demand in the market, which overcame our traditional seasonality. In the quarter, the division expedited 36.3% more than the first quarter of 2020. This above market increase can be justified by strengthening commercial relations with Duratex over [ph] the last months, and the quick positioning of its products to meet the market's trends.

We've significant gains in market share in the covered products line. Another positive highlight was our successful price strategy, which added to a higher sales in covered products led to an increase of 23.7% in the unit revenue this quarter. This performance boosted our -- the Wood Division's adjusted and recurring EBITDA, and we finished this quarter at BRL376 million, more than twice as much as we presented last quarter -- excuse me, last year. While adjusted and recurring EBITDA went from 34.4% versus the 22.5% posted in the first quarter of 2020.

Moving on to the Deca Division, we'll continue on slide 11. The construction materials market continues to grow in 2021 with above capacity utilization comparing to the same period in 2020. According to ABRAMAT data, there was an increase -- an average increase of 15.6% in invoice in this quarter versus last year. When we look at Deca on page 12, 2021 started as a challenge for Deca. There was a strong cost pressure in its main inputs like copper and polyethylene, packaging material as well. So price increase and mix improvement led to an increase of about 11% in the unit revenue this quarter versus the same period 2020. The volume was nearly 25% above what we had in the first quarter of 2020. So Deca continues to prioritize its commercial and channel diversification strategies, which has allowed it to have relevant growth across all product lines, especially the ones connected to the Hydra brand.

We have to remind you that during this time of the year, seasonality has its direct impact on electric shower heads, which makes our plants are focusing -- focus especially in re-composing their inventory for the winter. However, with new products like plastic taps, we were able to mitigate a part of the seasonality and keep the same sales volume. Because of these factors, we finished this quarter with adjusted and recurring EBITDAs of 71.6% above the first quarter of 2020, while the EBITDA margin was 14.1%. Deca's efforts to improve its strategic excuse me, it's commercial strategy and focusing on its operational efficiency resulted in the eighth quarter in a row, where we gained margin, excluding the effects of the pandemic.

Looking at the Ceramic Tiling market, we will continue on page 14. The Ceramic Tiling market according to ANFACER data presented an average growth of 21.6% this quarter versus the same quarter last year. While the industry's utilization level finished the quarter at around 88% utilization. For further detail on Ceramic Tilings, we continue on page 15.

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The Ceramic Tiling Division's year -- has been marked by the implementation of the SAP S/4HANA system another step in the Cecrisa and Ceusa integration process. This process led to an impact on our bottom line. And the capturing synergies between Ceusa and Portinari increasing mix and increased prices led to an increase of nearly 7% in the net revenues this period. This increased price do also aligned to the productivity gains due to investments made in the Portinari units have offset the gas cost increases and allowed us to have margins above 25% even in the weaker season. With that the Division's recurring and adjusted EBITDA finished at 55 million this quarter, 53% above the same period in 2020.

Now continuing with our Dissolving Pulp Project on page 17. Even with a challenging context because of the pandemic and the frequent increase in input costs, we've continued to manage our budget, and we confirm that we will start operations in March 2022. We'd like to highlight that company's standout location very close to a forest, one of the biggest differentiators for our Pulp business, with over 6,000 employees on the frontline, we finished 60% of the construction, which confirms our expectations to start our operations next year. We'd like to highlight our efficient management during the pandemic, keeping working going with all the safety that is required for the frontline team.

Now on page 18, we'd like to highlight that during this quarter, we've announced the creation of the new ESG management position, which will lead activities related to environmental, social, and corporate governance activities, ensuring that it will be focused and moved forward whenever the company faces challenges. With a special look at people especially, diversity, and inclusion, this management will be connected to the people and ESG Executive Directors with under Glizia Prado, and will be led by Guilherme Setubal Souza e Silva. To this new management position, we hope that we can move forward with our ESG levels and ensure that all stakeholders have the highest access and trust in us and the company's next steps.

So to conclude my presentation on page 19. After concluding the first quarter even in an uncertain landscape, we're positive that we will have an upwards trend in the construction industry, which is confirmed in the expected launches for the main construction companies in Brazil. With the advance vaccination for COVID-19, we also see a favorable horizon for the country and the business unit. We're still focused on keeping our utilization levels, and we're strong in our strategy of differentiating products and implementing prices considering the inflation that has been observed.

In Deca, commodity costs continue to be negative surprises, but we expect new price readjustments and to improve our product mix and other productivity activities.

In Ceramic Tilings, we continue to capture synergies between Cecrisa [ph] and Portinari. And we've also started integrated with the Deca Division, which promises to generate significant gains in our mid -- middle and long term results.

Regarding our Dissolving Pulp Process -- Project, we've observed an increase price for dissolving pulp, which may favor our results at the end of construction. So it continues to be a very positive horizon.

Thank you for your attention. And now we'll continue with the questions-and-answer session.

Questions And Answers

Operator

We'll now begin the questions-and-answer session. (Operator Instruction) The first question will be asked by Caio Greiner from BTG Pactual. Caio, your line is open.

Q - Caio Greiner

Hi, good morning, everyone. I have a couple of questions. First on your expected results. It's striking to see how stable your EBITDA results were. It's clear that the price of wood, with the prices you implemented you've got a 10% increase or 24% year-on-year. We're also trying to understand what this will be like for the next quarters?

We are expecting a seasonal improvement on the number of units, still, so should we continue to expect record results for your EBITDA in the next quarters. So I believe it would be above 2 billion for 2021. And the Wood Panels level, will you keep the same level of results, also ESG management. I just like to know what your main goals are for the short term, what are the main projects that you are going to run and what's your agenda to improve these three fronts in Duratex, environmental, social and governance. That's all. Thank you.

A - Antonio Joaquim de Oliveira {BIO 15358831 <GO>}

Well, Caio, thank you for your question. But to answer your first one, which is recurring results and what we expect from the market and the next months. A very important point of what was presented in the first quarter that refers back to the second or third quarter of last year. So what has happened in the last few quarters that led to this stability in wood panels. What happened was?

The first important point that might have not been noticed by the analysts is that well, there was a strong price implementation strategy. We managed to mitigate the adjustments on input costs with our new prices. So that was quite favorable.

Now the new situation for us is that during price hikes, and here we're talking about Wood Panels, right, because it represents a major share of the company's that [ph] but especially in this first quarter. But we didn't see exactly what you mentioned. When our prices were raised, we didn't see a higher level of purchase because there is no product available. So all of our competitors, and we're operating at full steam. There is a higher level of demand than supply in the market. So we had to make price adjustments, but it did not increase purchasing at all. Whenever you announce the price for the next month, you usually sell everything, but this did not happen for us because we don't have any additional availability.

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So the purchasing level for our clients, and as you know, Duratex has a strong relationship with our traditional clients, and we really honor our commitments, as we grew in the market, these clients grew along with us, which means that we were able to pass on the costs, but clients did not increase, how much they purchased because of it. So increasing prices in the first quarter and then seeing a lower purchasing level in the second quarter is not something that we can assume for this case.

So what we expect from now on is this? We have a scenario for the next months, as far as we manage as -- as far as our S&OP season wood, it's showing a solid demand for the long-term still. So I don't believe that this quarter, we are going to see many changes. I mean we've updated our figures for April, and we're at the same level. We're operating at full steam and selling everything. If we had more products right now, we would sell more. So there is a solid demand. And I don't expect to see margin reductions in the future, I don't understand that will this backlash, so to say.

When we look at Deca and Wood -- excuse me Deca and Ceramic Tilings, the outlook is a bit different. It's not as unbridled from supply and offer, but it is a solid market. And for the future, we will still have some inflation pressures, which will make us have to correct our prices. There is an announced price increase for natural gas. So this will definitely make us have to change our prices because it impacts our cost structure significantly. But I don't believe that Deca or Ceramic Tilings or Wood will see any backlash on our margins in the future. And we should continue to operate at the same volume levels that we had in the first quarter because everyone is working at full steam.

In the first quarter we had -- Wood, in the first quarter, we had some downtime -- maintenance downtime, and we have some program for the second quarter and if I'm not mistaken, in July as well, but our sales levels are flat right now, and it should continue to be during this time. This had already been calculated in our operational plans. So I believe that Deca and Wood are in line with our expectations, with our budget, even a bit higher than what we expected. And for Wood Panels, the market is quite solid, and it seems to be signaling a strong demand for the future. So I don't expect our margins to drop, and I don't expect to see significant changes that will move the dial upwards or downwards especially because we're working at full steam.

So we've Guilherme here with us and he might be able to tell you a bit about that. But our view on ESG, sustainability, social issues, and so on, is something that we've been looking at for some time. There has -- a lot has been said on ESG, and we're now starting our transition. We had some initiatives that were spread in different areas. So for example, we had with human resources some social initiatives. They were very active during the pandemic. We also had some under Haddad and other areas some government -- governance efforts. And we had a sustainability department connected to Daniel's innovation offer. So we decided to concentrate this in ESG area with Glizia.

So this concern about people, human resources, and ESG is very strong and it's something that we see in a lot of companies right now. Many companies have been adopting this strategy, and we are structuring these strategies in our own company. We have a number of excellent professionals working with that. So we've Guilherme, who works with sustainability. We're organizing our social efforts. And we also have a very

strong governance initiative that we've had for a long time. So this will make it easier for us to organize our governance initiatives. And if Guilherme would like to share or add anything, please do?

A - Guilherme Setubal Souza e Silva {BIO 20114864 <GO>}

Hi. Good morning, Caio. Well, I think Antonio, described it very well. We're actually merging these three areas that we're very strong in Duratex, sustainability, and social areas, and this is not only about social responsibility outside of the company, a lot of it is in the company as well when we talk about employee health and safety, diversity and inclusion, and in governance, we're also making a strong effort with Haddad's team. So we hope that we can work better together. And if you'd like, we can talk about our ESG challenges in the future one-on-one. Thank you.

Q - Caio Greiner

Great. Thank you everyone.

Operator

Our next question will be asked from Caio Ribeiro from Credit Suisse.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good morning, everyone. Thank you for taking my question. I'd like to ask about some growth opportunities that you have. Your leverage is close to one times EBITDA. So you believe you will have organic growth, do you want to continue growing in that traditional sense?

Now secondly, in the first quarter, we saw that the Wood Panels Division was very strong, but can you tell us a bit about what you see in your orders for the next months for each one of the divisions. What are you expecting? Thank you.

A - Antonio Joaquim de Oliveira {BIO 15358831 <GO>}

Caio, your audio was not so good. But I do believe, I heard your question. If I forget anything, please let me know. Well, first, we do have a very quick deleveraging that took place last year. We're coming close to one time the EBITDA. And hopefully, if things continue normally, this leverage might drop down even further. So right now, we're looking into it and all seems to point to the fact that in the next years, Duratex will go through a very positive cycle.

Not only civil construction is doing very well, but also you know, refurbishings and all of that, we believe that this will be a multi-year cycle. Everything we see in our scenarios and our analysis show that we may be going into a period that will last until 2022, 2023. So I believe that this year and the next two years bringing positive opportunities. We believe we'll have a positive cycle for our businesses in Duratex because we're working with improving the spaces where we live, this idea of improving our way of working. And this is

also strongly based on the medium to high end segments, which have developed to be very strong.

This is not a seasonal cycle that will only last a few months. It's something that started last year and it's based on what Haddad mentioned, low interest rates, a wave that was -- that was brought by the pandemic means having a better home, receiving people at home, having guests, which all leads to people improving you know their offices, their homes. So this trend is extremely positive for us. I believe, we'll see this happen.

And remember that so far we haven't used and we haven't even gone into that strong building movement that started last year. Usually, our products are bought at the end of the construction process. So I think only in 2022 and '23 that we'll see the impact of this positive wave. So it's a very positive scenario.

So if the company is the deleveraged at this scenario, I really hope that we can have a new growth cycle for Duratex. This is what we expect. We've been working on it. We of course, we don't have anything to communicate. We don't have anything on the table, but we have been making an efforts to analyze inorganic growth opportunities.

We have been analyzing them carefully with everyone because in a moment like this, of course, if we were to merge with different companies, we would merge with companies that are connected to our businesses or are very close business. Right now, all of these companies are in very positive market moment. So many of these assets are expensive. This is not the right moment to do it, not the moment for acquisition. So we're not going to take big risks so just -- just, so that we can buy. That's not what we do.

We are very disciplined in how we allocate our capital, and we'll continue to do that whatever makes sense, whatever has a fair price, we may see as an acquisition opportunity. At the same time, we are preparing an organic growth agenda, which is what makes sense now and as we'll make these decisions, you'll hear about them. But we are analyzing all of our businesses to see what organic growth possibilities we have.

We're focused especially on what I believe will bring the biggest growth opportunities. For example, right now, we've merged the Deca teams and Ceramic Tilings together because there are many shared opportunities and we're capturing all the synergies making sure that not a cent is left on the table. So we're really focusing on that right now. And this is possible due to how our margins are growing especially in Ceramic Tilings.

So with the organic possibilities we have, we've talked about this before, we are investing and adding value to the panels, not adding capacity, but adding value. We've purchased two low pressure presses. We're also investing in debottlenecking some parts of our plant, which will give us an additional boost in some plants and their productivity, which is not that significant, but it can be advantageous to gain 5% when you're working at full steam.

We're continuing to -- continuing to work on our forestry project in the Northeast, which is a long term investment. So for Wood, we have -- we're trying to add value. And in Deca

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and Ceramic Tilings, we have been looking at opportunities to accelerate plans to -- well, imagine this, we always work with the 2025 plan. In a moment, like this, your figures are accelerating meaning that we're reaching the results we only expected for the future.

So since we are operating at full steam in all divisions, we have been looking at organic possibilities. But I can ensure you that we're not going to work on any opportunities that take us to a margin reduction, even if it's only short term or any sort of process, where you invest to see what's going to happen. No, we're very disciplined in those. We have been analyzing our projects, and we want to contribute, any capacity increases are related to productivity. They are related to markets, where we feel there is a right opportunity. So this is what you can expect. Of course, we expect to start a growth cycle for the next years. This is what we expect will reflect into solid results in the medium and long term. I don't know if that answers your question completely Caio. As I said, I didn't hear it very well. But I'm here.

Q - Caio Ribeiro {BIO 18420483 <GO>}

No that was very clear. Thank you.

Operator

Our next question will be asked by Isabella Vasconcelos from Bradesco. Isabella, your line is now open.

Q - Isabella Vasconcelos {BIO 20566061 <GO>}

Thank you. Good morning, everyone. I have two questions. First a follow-up on your capital allocation statements. You mentioned that you wanted to invest in the Wood Panels Division to add value to your portfolio. I want to ask about this specifically wood panels didn't seem to be -- your strategic initiative -- your main strategic initiative, but now it seems like you're seeing it as that.

My second question is about Deca. If you could tell us about the measures that you're implementing to try to offset your cost pressures. How are you recovering your margins, and how are you -- how is the integration process between Deca and Ceramic Tilings? Thank you.

A - Antonio Joaquim de Oliveira {BIO 15358831 <GO>}

Thank you for your questions, Isabella. We continue with the same position about any growth possibilities in Wood Panels. Right now, we're not focused on mergers and acquisitions and the wood panels operations. There were possibilities for M&As. But right now, this would definitely lead to approval issues because we are operating at a -- at a very big share of the market, 40 -- 40% some in MDP and MDF. And we continue to add value to our products. So this is our investment strategy. We're making a low profile investments, which are very solid. We bought two of the biggest lines there are in the market that we're possibly going to buy a third, we're analyzing it. So we're also investing in debottlenecking the plant. We're focused on that. And we're very happy to be working at full steam and with the results we've been getting.

So I'd say that any mergers, many players that might be acquired by us, any smaller players would possibly reduce their global results just by increasing volume, the moment we acquired them. So we're not focusing on that not for Wood Panels anyway. If we did have an operation like that it would be more related to another strategy in the company.

I'll pass it on to Izzo to tell you a bit about Deca, how it's recovering its margins and how its integrating with the Ceramic Tilings Division. This is at the end stage, as you'll see. But that's a very positive statement to me.

A - Marcelo Izzo

Good morning, Isabella. So let me answer your two questions. First, you had asked about what measures we're making for Deca to recover its margins; and also, you asked about our integration process. It's funny to say that right now out of all of Duratex's businesses, Deca is the one suffering the most from inflation. Rebuilding our margin during high inflation periods, given the market dynamics will not be immediate. But over the next quarters, we'll see more pressure there in the second quarter. But during the third and fourth quarter, we'll go back to this -- the normal margin levels because we are able to use new costs or new prices to offset our costs.

But more than passing on the price, if you look at our pillar in our strategic growth agenda, we had a pillar on suppliers and profit centers, where all the productivity process should continue to contribute, so that in high inflation periods, our contributions towards the results did not depend only on generating volume and better prices per unit. So we have a composite plan, which is related to efficiency and productivity. It means improving our mix, improving our mix by itself without passing on prices already makes your per unit prices have smaller -- small increases. And also increasing future prices, which is going to happen nonetheless given our high inflation.

Regarding the integration of our businesses -- oh, just one comment on margins. Haddad mentioned in his presentation that since we began to implement our strategic agenda, we have been having eight quarters in overall of margin gains. We don't want to interrupt that trend. So we're making an effort and this is something that is a demand that we make on ourselves, so that we don't interrupt this trend.

Regarding integration, since I came in I had a conversation with some of you about integration. So I've always made it clear that the main focus right now is to look at the integration between Portinari and Ceusa to analyze if all these synergies have been captured throughout the integration process. So now, we can see that these synergies have been captured. Now we're continuing with the second stage, which is integrating the both -- the two businesses.

We have two business units that are basically integrated, exports and what we call corporate business and engineering, but there's still a lot to do. We presented a plan recently to Antonio. We're making some small changes, but there is a process. As Antonio said in his call, they will bring significant gains to this business unit both in margins because you know when we look at synergies we're capturing them, we're capturing our revenue and cost synergies. So these are the two things that we're bringing to the organization. As

Antonio said, these are two types of synergies that will bring significant benefit for the company on the middle and long term.

Q - Isabella Vasconcelos {BIO 20566061 <GO>}

Great. So if you can tell us a bit about how big these synergies are. And the next follow-up is on price. We saw that you had a very positive results in the first quarter. So what is your expected price increase? And also Antonio and Haddad, if you could tell us some more about your price dynamics for Wood, that would be great? Thank you.

A - Antonio Joaquim de Oliveira {BIO 15358831 <GO>}

Isabella, we usually don't talk about some of these things. Prices are very dynamic, Today, we had a very important opportunity. In Wood, prices are at very good levels. Margins are all very good for all wood line. So we don't have much to adjust in Wood Panel prices right now. There may be opportunities for the future. But I'd say that Wood is at a very good price level, and we certainly will have adjustments. So we've adjusted Wood and we may might have other one-off adjustments.

In Deca and Ceramic Tiling, we've a very important inflation cycle, which took place over this period. So we know the -- about the impacts of it, and we will need to change prices at some point. We're not talking about levels like we had before. They will be lower. But we will need to change our prices in Deca and Ceramic Tiling. But this should be probably at the end of the second quarter or around there.

So, for Wood Panels, we're at a very good price level. We don't -- we're not predicting that we will change anything unless we need to correct anything or unless we've a surprise there. We've a forecast for the year. We've our own inflation forecast, and the prices that we've so far have been plan to mitigate it. So you might not have the need for that in Wood Panels. We don't expect to adjust anything right now.

But we'll have to follow-up on the inflation scenario and whatever else happens. There are still price changes being made by suppliers, right, because everything changed, all of our basic costs have increased. So we might need to follow the market trends. But I do believe there is some space for that. If we do need to make adjustments, then they will be made. The market is still very pressured on price. But I can't give you any further details right now.

Q - Isabella Vasconcelos {BIO 20566061 <GO>}

Okay. Thank you.

Operator

Our next question will be asked by Marcio Farid from JPMorgan. Marcio, you may continue.

Q - Marcio Farid {BIO 21017394 <GO>}

Good morning, everyone. Thank you for taking my question. I have a couple of follow-up questions. I remember the last time we talked Antonio and Haddad, you had mentioned that the increases for this year would be one-off just to recover your price levels. And now you're giving us the guidance for flat margins. So should we expect to have a greater margin expansion this quarter, I know that you mentioned before. But I just like to hear a bit more about that. And what I had understood before that -- was that these price increases would be one-off not because of market conditions, which were favorable, but because Duratex wanted to give its entire supply chain to adapt to the new price levels. Did I understand it incorrectly or did anything changed in your strategy.

My second point is about your inventory changes. The demand we're seeing now is that -- what we see is usually the first quarter is weaker, but you had a strong demand that was one of the things that was surprising to us. Do you think that the chain is re-composting its inventory, is this due to end consumption. What do you believe explains that?

A - Antonio Joaquim de Oliveira {BIO 15358831 <GO>}

Well, thank you, Marcio. As I said, we're working at margin levels that we expect will continue. For example, let's break it down for business. We're at very good margin levels, which are sustainable in Wood. I don't expect that they will reduce at all. But I also don't expect it to increase either. I think the margins there are at a very stable level. We will see some inflation ahead. We -- but we do have discipline in terms of costs.

A part of the results for Wood were due to a couple of reasons. First, the price implementation, which was very positive and this was allowed for by the market situation. So prices were pivoted because there was market opportunities and not -- only to recover the cost. So we did this in advance, it was a very positive opportunity.

But another part of the result came from a combination in this good market situation with exceptional cost execution because we've been having high production levels at record levels actually. If you look at March, we did about 10 historical records in productivity, price performance. So we're having a very positive result due to our operational teams efforts. This is also the case for Deca and for Ceramic Tilings. Ceramic Tilings have improved. In the last month, we had the historical record in occupying all lines. We're not occupying, but making them profitable. So this was a very positive effect.

So I do believe that we can expect margin expansions, for example, for Deca, because Deca does have a seasonal factor. The situation is different now. So, I think that we do have a positive perspective on that, but margins are at very good levels.

Ceramic Tilings being close to 26 that was our target for at least for this stage in the company. It's basically what we see in the market benchmark. It's higher than our competition. It should be kept. It will certainly capture some of the margins in this activity merge. It's very different for example to go to a construction company, and a corporate client and offer the floor [ph] solutions through a single channel with ceramic wear and with finishings and so on. So that's very positive. It gives us gains, not only in costs, but also in revenues.

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Another aspect that is contributing towards our solid demand is that inventories are very low. Wood inventories are still very low. We don't have the inventory and our clients don't either. There might be the occasional segment that does. But you know for most of the chain, this is not the case. I think it was Caio from BTG, who asked and I said, forget about the model, the traditional model, where you say that you're going to set the price at this level and people buy it before the prices go up. No. This is different now because people don't have their inventories made up. So we don't believe that they have started to build up their inventories yet. If they do build up their inventories again, then certainly in Wood, the second quarter will be very strong. But the second quarter traditionally has a higher demand.

Imagine if you know the pandemic and the domestic market improves in the next year, if we step away from this terrible situation, if things improve, we might have a good Christmas, we might have a good end of the year and all of that will pull up new projects. So as I said on inventories, we still have long ways to go.

So that's why we're conservative in our future perspective. But in this case, we have a very positive expectation with the company's perspectives. This is probably the best thing in these Haddad [ph] results, the quality of the results, right. These are results coming from a solid market. We don't have anything that is non-recurring. So it really is about quality, productivity, and we're positive that this will continue in the future. We even have some projections for our own internal measures, but it's a solid market for the future.

Q - Marcio Farid {BIO 21017394 <GO>}

Great, Antonio. Thank you. That was very clear.

Operator

As there are no further questions, we would like to give the floor back to Mr. Henrique for his closing remarks.

A - Carlos Henrique Haddad {BIO 17599460 <GO>}

Well, thank you, everyone. Thank you for listening, and for taking part in our event. And we hope that we can answer any additional questions through our Investor Relations team. We'll see you during the next earnings call. Thank you, and have a good day.

Operator

Thank you, everyone.

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