

Q2 2020 Earnings Call

Company Participants

- Alexandre Nicolini, Executive Director Pulp Business Unit
- Cristiano Teixeira, Chief Executive Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Paper Business Director
- Marcos Paulo Conde Ivo, Chief Financial and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Cadu Schmidt, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- Gabriel Galvao, Analyst
- George L. Staphos, Analyst
- Marcio Farid, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning, and welcome to Klabin's conference call. At this time all participants are connected in listen-only mode. Afterwards we will have a Q&A session when further instructions for you to participate will be given. (Operator Instructions) I would like to remind you that this call is being recorded, and it is also being broadcast and available on the Internet via webcast, and you may access it at Klabin's webcast or Klabin's -- you have the presentation available.

And we would like to mention that forward-looking statements that might be made during this call in relation to Klabin's business perspectives, projections, operating and financial targets related to the growth potential of the Company are forecast based on the expectations of the Company's management in relation to the future of Klabin. These expectations are highly dependent on market conditions on the economic performance of the country, of the industry and the international markets. Therefore, they are subject to change.

Today in Sao Paulo, we have Mr. Cristiano Teixeira; Marcos Ivo; and other officers of the Company. First, Mr. Cristiano Teixeira will be talking about the operating performance of the Company in the second quarter of 2020. And after that, the officers will be answering questions that you might have.

Now we would like to give the floor to Mr. Cristiano Teixeira. Mr. Teixeira you may proceed.

Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Senjira. Hello, everybody. Welcome to Klabin's conference call about the second quarter of 2020. In our last call, about the first quarter of this year, I started my presentation by talking about some valuable attributes of Klabin, such as our operations in the Parana [ph] sector, our sustainable practices, the resilience and the flexibility of our operations. And what if besides these attributes, Klabin could be recognized also as a company that in spite of the over 120 years of existence, is consistently growing. A Company that is totally familiar with the digital universe, headed sales and that can dive deeply into innovation in the same way that made sales very well achieved our sustainable practices.

So very well, I would like to invite you to think with me about the other attributes that have led Klabin to obtain an extraordinary result in spite of this difficult moment of pandemic. In spite of the devaluation of the real and the fact that it had a positive impact on us right now, I would like to reinforce that only a Company that has research development and innovation as the sustaining basis for the creation of value can be able to sell globally, and only a Company with a clear and ultimate view of the future can carry out an M&A operation right in the middle of the pandemic. And only a Company really committed with sustainability has practices of ESG right at the core of the decision even before the existence of the term ESG.

Only a Company that is familiar with the consumer trends can tap into the business opportunities, anticipating itself before any other player in the market about the need to start the debate about the replacement of single-use plastic packaging or increase significantly its recycling of this raw material. Only Company consistent in its operations can really tackle the increases in demand immediately, be it to meet the needs of e-commerce or be it to meet the needs of essential items all over the world.

Therefore, I respectively ask all of you, what is the market valuation that takes into account all these attributes, including the pricing of the forestry assets and environmental services as well? For some time already, Klabin has become more attractive. The Company has been anticipating itself and preparing itself to offer more than top-quality products and competitive products to the market. For this reason, I think it is important to share with you what I'm asking you, to think about, respectively. Very well, about our results in the second quarter, I would like to mention the adjusted EBITDA reached BRL1.333 billion, a 39% growth on the year-on-year comparison.

Now I would like to give the floor to Marcos Ivo, and he will be talking in detail about our financials in the quarter.

Marcos Paulo Conde Ivo {BIO 21313760 <GO>}

Thank you very much, Cristiano. Good afternoon, everybody. And once again, taking into account its integrated flexible model, the efficiency of its operations, strong culture, Klabin delivered strong result in the second quarter of 2020.

Among the highlights of the period, I would like to mention three. The highest adjusted EBITDA ever for one single quarter, reaching BRL1.333 billion with a growth of 39% on a year-on-year comparison. Adjusted free cash flow in the quarter, BRL1,370 million. And I would like to draw your attention to the approval by the Board of Directors of our financial debt and dividends and interest on equity policies, formalizing and giving total transparency for important financial metrics of the Company. And these policies are available at the Investor Relations website of Klabin.

On Page number 3, the volume of sales increased 5% year-on-year, reaching 858,000 tonnes, and market share for the foreign market was 52%, 5 percentage points higher on a year-on-year comparison. And on the same slide, net revenue in the period was approximately BRL3 billion, increasing 14% vis-a-vis the second quarter of 2019. And this growth is explained mainly by the increase in the sales volume, the depreciation of the real vis-a-vis the dollar that favors our sales to other countries. As I mentioned, adjusted EBITDA in the second quarter of 2020 was BRL1,333 million; and the EBITDA margin in the period, 45%, an increase of 8 percentage points on a year-on-year comparison.

On Page number 4, I mentioned the highlights for each one of the business units. The pulp sales volume was 380,000 tonnes in the quarter, going up by 2% vis-a-vis the second quarter of '19. And the diversification of fibers markets and geographies got more resilience to our sales in a so challenging quarter for the pulp business. Net revenue of this business went up 6% year-on-year, reaching BRL1 billion in the quarter. And the increase in the sales volume, the depreciation of the Brazilian currency more than offset the drop in the price of pulp in dollars per tonne vis-a-vis the same period of 2019. And I would like to highlight the good performance of fluff. With an increase in price and helping those results and showing the strength of its business model, Klabin delivered an important growth in the units of paper and packaging and the diversified portfolio and the exposure to important industries, such as the world of personal hygiene, and food markets contributed to those results. And the sales volume was 477,000 tonnes in the period, going up by 7% on a year-on-year comparison. The net revenue from these businesses, driven by the higher sales volume, the exchange rate depreciation and the adjustment of prices in the domestic market, reached BRL1.9 billion, growing by 32% on a year-on-year basis.

On the next slide, the pulp operations once again delivered a sound operating performance in the quarter, with a production volume of 413,000 tonnes. And the plant continued to produce more than its nominal capacity, having reached in the last 12 months a production volume of 1,568,000 tonnes. The pulp production cash cost in the second quarter was BRL690 per tonne, a reduction of 13% on a year-on-year comparison,

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stable in relation to the previous quarter. In dollars, the cash cost of the quarter was \$128 per tonne, showing the high competitiveness of Klabin's capacity to generate cash even in moments when the pulp prices are low.

Now going to Page number 6. In the last few quarters, we shared with you our reading of growth in the card market. The second quarter of the year shows, once again, the continuity of this trend. I would like to mention the high exposure of the business to the board of (inaudible) that by nature, has a very resilient demand. And the volumes sold in the quarter was 182,000 tonnes, 10% higher than the same period last year. In the moment of exchange rate devaluation, exports increased, reaching 48% of the volume change.

Net revenue in the quarter was BRL782 million, growing by 31% on a year-on-year comparison. And besides the higher volume of sales, revenue was benefited by the devaluation of the real and adjustments of prices in the domestic market.

And I end the highlights, and as on Page number 7, I talk about the financial highlights and the longer operating highlights. On Slide number 7, at the end of June, the net debt of Klabin was BRL20.8 billion, and the increase vis-a-vis the previous quarter is explained substantially by the devaluation of the real vis-a-vis the dollar that has no cash effect. The growth of the EBITDA in the last 12 months more than offset the increase in the net debt. Financial leverage, net debt EBITDA ratio in reals dropped from 4.7 times to 4.4 times. And the same indicator measured in dollars, which, in our view, is the one that reflects the leverage of Klabin, clearly reported at 3.6 times, opposing to the parameter established in our financial indebtedness policy.

Now going to Page number 8. We have the debt amortization schedule at the end of June 2020. I would like to mention the robust liquidity of the company that at the end of the quarter was BRL12.6 billion. And the maturity of debt between 2020 and 2022, a period of the highest concentration of disbursement for the Puma II Projects are approximately BRL850 million per year. The average debt maturity at the end of the quarter was 9.5 years, stable vis-a-vis the previous quarter. Additionally, the Company has financing contracted and not withdrawn yet equivalent to the CapEx that will be disbursed by the conclusion of the Puma II project, as we have already detailed in our release.

Now going to Page number 9. What I consider as a major highlight in the quarter from the financial viewpoint, the adjusted free cash flow that -- which is net of discretionary factors and expansion project, was positive by BRL1.4 billion besides the strong EBITDA that gave a relevant contribution to the reduction of the working capital, BRL578 million in the quarter. For the remainder of the year, the Company expects the maintenance of the current working capital levels.

In the quarter, there were no payments or proceeds because as a consequence of the intense devaluation of the real this year. In spite of the strong cash generation, the Company posted an accounting book a loss that consumes its profit reserves in the last 12 months. The adjusted free cash flow was BRL2.6 billion, representing a free cash flow yield of 13.7% a year.

On Slide number 10, Klabin's ROIC in the last 12 months was 13.3%, showing the Company's capacity to create value consistently for all shareholders, and the management of Klabin works consistently to increase sustainably ROIC by the optimization of returns on current assets or expansion projects.

Now going to the last slide of the presentation. In a measurement carried out on July 26, the first machine of the Puma II project had 45% of the schedule already executed after the remobilization in the last few months according to very strict safety protocols. We have disbursed BRL2.7 billion so far for the project, of which BRL908 million refer to the second quarter of 2020. For the full year of 2020, our current projections show a total disbursement of BRL3.5 billion for the Puma II project, slightly below what we expected at the beginning of this year.

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

Questions And Answers

Operator

Ladies and gentlemen, we'll start now our Q&A session. (Operator Instructions) Gabriel Galvao from Credit Suisse.

Q - Gabriel Galvao

Good morning everybody. Thank you very much for the opportunity for the question and congratulations to everybody for the results obtained. How are you seeing supply and demand for kraftliner? And when do you expect price increases for kraftliners in China? As already mentioned that it will -- you've already mentioned the operations of recycled papers. And what about the containerboard market? What is your view? And do you believe there is room for you to gain additional market share in China because by this measure, there will be a reduction in local production in China?

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you for the question. And Flavio Deganutti is going to answer your questions.

A - Flavio Deganutti

Gabriel, good morning, and thank you very much for your questions. Let's start with the supply and demand situation of kraftliner. We have a very special condition in Brazil. There is a very heated up demand. We see pressure on demand, especially because of e-commerce that has transformed the market and has brought about some other consumer points. And the lasting trend, especially in live projects such as the ones that Klabin makes and will be making after the Machine 27 of Puma II. But now, we have to focus on the entry of capacity, especially in Europe, and more in containerboard. And because of that, we still see a downward pressure in this market. But this has to do with the fact that the current prices are very close to the cash cost of some marginal players, and this makes the outlook for demand good for the future.

And another element that you mentioned has a very important relevance as well, which is the fact that China in 2016 imported 28 million tonnes of OCC and this year with 7 million. And they have already announced that they will no longer be importing OCC as of next year. And they will have to balance that, the local producers, with pulp, and this will mean a benefit for exporters such as Klabin. And part of the solutions will be by means of paper.

Q - Gabriel Galvao

Very clear. Thank you very much.

Operator

Marcio Farid from JP Morgan.

Q - Marcio Farid {BIO 21017394 <GO>}

Good morning. Thank you for the opportunity and congratulations for -- to everybody for this interesting quarter in spite of all the challenges. I have two questions. The first one is to Nicolini, if he is present. Nico, could you tell us how you see the pulp market, mainly in China and in Europe? And what about the most recent negotiations with the buyers? And what could we expect for the third quarter and for the remainder of this year? And my second question has to do with the corrugated boxes in Brazil. The data of the ABPO seemed to be very -- well, not very clear. It seems to be a little bit volatile, although it seems to be more good than bad. But I would like to know what you have been seeing in terms of demand for corrugated boxes for July, August and third and the fourth quarter of this year as well. Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Farid. Nico will start and then Douglas Dalmasi will answer about packaging.

A - Alexandre Nicolini {BIO 21861040 <GO>}

Good morning and thank you for the question. We started the third quarter with a more cautious stance because this is the quarter of a quieter period, that is to say in terms of seasonality. So July, we noticed an improvement in the brand. We have already closed July with normal sales. And I can tell you that from the viewpoint of price negotiation, it was less intense if you compare it to June. I think the difference between the eucalyptus prices vis-a-vis other hardwood fibers, it was a little bit -- well, it was not very clear at the beginning, but the price of eucalyptus is more stable. It's more transparent now, so July had good sales.

And for August, we already have the prices both in Europe and in China reaching stability. So we do not foresee any price correction this year. And the outlook for the quarter is that it will be better, very much based on what we saw in printing and writing and non-coated papers. We saw an improvement in demand and some clients already placing more regular volumes. But we expect that as of September, these volumes will be even more leveraged. So I can tell you that this quarter has started on the right tools with stable prices.

Q - Marcio Farid {BIO 21017394 <GO>}

Just before we give to Douglas, is it too early to say anything about prices? But what can you tell us about price increases?

A - Alexandre Nicolini {BIO 21861040 <GO>}

Marcio, it's a little bit too early to talk about price increases right now because the visibility is very short now. I see a more stable third quarter. And as we see an improvement in demand, with the strength of the printing and writing segment is sustained, I believe that in the fourth quarter, we could see a slightly different market.

A - Douglas Dalmasi

Marcio, this is Douglas. Good morning. On the packaging side, what happened was a drop mainly in April and May. The food market was strong. The hygiene market was strong, protein as well and e-commerce and -- but durables facing some difficulties, and the market will grow ahead overall. Now when we get into Klabin specifically, Klabin has a higher participation in these markets that had growth, such as the ones that I have just mentioned, and we were able to have a better performance in comparison to the market.

So when we look at the number of packaging, 3% increase, for instance, we have to consider that we have corrugated boxes, sacks in the domestic market and in the external market. And the drop of 3% was bagged in the foreign market. So we had a slight increase in the quarter, both in the bags in the domestic market and corrugated boxes as well, and demand as of June picked up in durables. And with the growth in the food market and protein and fruits, there was a good performance. So we see a repetition of the situation in the third quarter. So July is like June, that is to say strong. July was strong. In August, it is repeating this performance with the orders coming onboard. So after the beginning of the pandemic, we saw that the market came to a halt, but we believe contraction -- while we see a repetition of the situation in the third quarter, the third quarter shows a good performance in packaging, in general and the export of bags as well. Sacks is picking up as well. So the third quarter is showing to be good in terms of packaging.

Q - Marcio Farid {BIO 21017394 <GO>}

And what about into the end of this year?

A - Douglas Dalmasi

Well, we have been tracking the market, of course, since the beginning of the year.

Q - Marcio Farid {BIO 21017394 <GO>}

Thank you.

Operator

Daniel Sasson from Itau BBA.

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Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, everybody. Thank you for the question. And congratulations on the results. My first question has to be with coated board. You gave us an outlook for supply and demand for kraftliner. And could you do the same for coated board? From the global perspective, so how do you see the market before you make a decision about the second machine of Puma II in terms of it being converted to a coated board machine?

So what is the ideal moment for you to make this decision? Do you intend to continue with the kraftliner machine? Or do you believe that the machine for coated board would make more sense because of the market conditions? And Cristiano, you talked about the importance of ESG, and Klabin has 4 million tonnes of carbon equivalent, so this is a positive balance. This is a market that has been developing. However, it's not yet a mature market in Brazil. In your view, which are the next steps for this market to really take cost? And what financial gains could come from these carbon credits for Klabin, which is a very interesting business, and in terms of your carbon policies?

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Sasson. Flavio Deganutti is going to talk about the drivers for the coated board market, and I will talk about the ESG question.

A - Flavio Deganutti

Sasson, good morning. Talking about supply, we see a more balanced situation. Only a handful of announcements of future capacity, exception made to China. So it's a smaller market than containerboard market as a whole. And this is a market that behaves very well during the pandemic, so we are making a very deep grew with Klabin experts and also with consultants to compare the future demand in kraftliners and coated board market as well. We are trying to figure out how much of that is lasting in e-commerce, for instance, with home office, how much of home office will continue at the end of the pandemic, for instance. And we are also working with paper and packaging fiber that are naturally degradable and compostable and -- both for kraftliner and coated board. And the trend -- there is a trend in terms of these papers and packaging that Klabin produces. This is a very slow process. We have to reach a definition, I would say, by the end of this year.

Q - Daniel Sasson {BIO 19234542 <GO>}

Just to be sure that I have understood, the second machine would be defined by the end of this year?

A - Flavio Deganutti

Yes, this is correct.

A - Cristiano Teixeira {BIO 17567319 <GO>}

About ESG, the other question that you asked. Let me answer it. Maybe for you who have been following this sector for some time already -- cultivated forest and the sustainability practices, taking into account all the aspects, that is to say how to manage the forest and

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how to preserve what we call environmental services, how we treat water, for instance, and how we treat major forest and so on and so forth. All this practice, in reality, that has been present in the sector for decades already. This is -- there is nothing new about it. So there is no doubt whatsoever that the regulation of this sector brings about benefits, and I'm talking about the pricing of carbon for companies such as ours and other companies that have cultivated or planted forests. So there are some economic benefits to be considered because the question that I ask myself is the following. We have respectively evaluated each one of the line. And I'm sure that you have read the same material that we have read. And you can see that we adhere to most of the parts that are present in all these lines and not only Klabin, but also the other companies in the sector of planted forests. So there is a very high confidence in terms of our future value because it will be there some way or another. But from the practical viewpoint, what do we need? We need a regulation for that. And this is something that has to do with the government and institutional positioning of government. And whatever depends on us, of our sector, we will always support that because, of course, it is our interest to see this regulated. So the regulation and the discourse is more in the intention right now, and it has to be converted into regulation, and this will be translated into value for these companies that work in this sector.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you.

Operator

Thiago Lofiego, Bradesco BBl.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning everybody. Nicolini, could you talk about the pulp market, Nicolini. We see a certain fight between buyers and sellers. Do you think this is still going to go down a little bit? And overall, in Europe and in China, what about the inventories in the chain? We hear that some paper producers have been tapping into the advantages of this moment and they have higher inventories than they usually carry. So what is your opinion?

And the second question is to Cristiano regarding governance. First, I would like to congratulate you for the royalty situation. There is a very clear evolution regarding the royalties issue, and I think it makes all the sense in the world. And I would like to know the next step after you complete Puma II. People are always asking that. Is it a little bit too early for you to answer? Or are other areas in governance that you're already working hands on?

A - Alexandre Nicolini {BIO 21861040 <GO>}

Thank you, Lofiego. Thiago, good morning thank you for the question. As I mentioned before, June had normal sales for Klabin. From my viewpoint, July was even better vis-a-vis June and less negotiations being necessary very much because of the fact that the prices were more transparent, more clear. And in Europe, 90% of our sales are linked to ForEx. And even though not linked to ForEx, we already have information of stable prices

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for August. And as I said before, we do not expect any price corrections for August neither in Europe nor in China.

Our sales for this quarter are being driven by the domestic market mainly. We see an improvement in our sales to the domestic market, but not to the detriment of our sales to the external market, where our sales are stable from the viewpoint availability of volumes, both in China and in Europe. What we see is a reduction in the volume of sales from integrated producers. It was not a substantial volume anyway, but it is going down in spite of that. And from the inventory viewpoint, we still see inventory levels higher than historical levels. However, we already see a slight reduction in these levels in China for the rebuilding of inventories on the part of Chinese buyers. And in Europe, the sales at -- are at normal levels, that is to say, no point of concern.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Do you see this as a risk, the inventory levels of paper?

A - Alexandre Nicolini {BIO 21861040 <GO>}

Are you talking about a specific segment?

Q - Thiago Lofiego {BIO 16359318 <GO>}

I'm talking about the inventory of pulp in the hands of papermakers. Some of them are working with higher levels than normal. Do you see this as a risk? Or is this a one-off situation?

A - Alexandre Nicolini {BIO 21861040 <GO>}

It's usually the tissue sector, and it has already bounced back to normal. We saw this during the second quarter, during the COVID, but the COVID, but the consumption is still very healthy. In printing and writing for instance, the inventory levels are low in fact, and we start to see this in non-coated papers. We see a rebound, that is to say, but coming from a lower base if you compare to the pre-COVID period but with a higher consumption of virgin fiber.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Very clear. Thank you very much Nicolini.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thiago, about your other question. First, one remark, sometimes we are a little bit too careful in terms of expressing some thoughts. But for instance, Banco Itau, who would waive the possibility of placing (inaudible) to bring the Board -- on the Board. That would be ridiculous because he has a wonderful view of the financial markets in the case of Bradesco, Trabuco. And Klabin cannot weigh the need of a Klabin member in the Board because their view of this world of pulp and paper has to be taken into account all the time. So -- I recognize that the strategic view that we have for our Board is very important, very valuable. And we have to do the fine-tuning, bringing onboard people like Amaury

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Bier, who participated in our Board, and I would like to take the opportunity to thank him. He was the Secretary of Government. He is an important executive in the Brazilian Fund, and he was a representative of very important -- of foreign bank and with a great contribution for our Board. So we have to find the right tuning, I would say, the fine-tuning.

And we have to maintain our strategic view. We must never waive that. And being on Board, people who are adding a lot by participating in our Board. And I think this is the ideal fact in terms of choosing the members of the Board. And we are in constant evolution. We have to celebrate that, and it would be great if you all recognize all the policies that we have in place. And you have access to everything because everything is published. And we have already created committees that undoubtedly will be very important besides all the ones that we already have in place, and we are discussing who will be the members of these new committees.

Now regarding Novo Mercado, this is not in our agenda. What is on our agenda? Our agenda is an agenda for value creation. And this value creation agenda, I know it sounds like a platitude, it sounds too obvious. However, we have to maintain discipline because every time we start a debate, we have to focus on the value creation need for this debate. And this philosophy of value creation in the company is becoming more and more consistent. I'm not saying that Novo Mercado does not create value. However, on the other hand, I recognize that Novo Mercado will happen when the time comes. However, it is not in our agenda right now.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Very clear Cristiano. Thank you.

Operator

Carlos De Alba, question in English.

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

Yeah. Good morning everyone. Thank you very much. So first question is on the expectation for pulp cash cost in the coming quarter, or is it coming second half of the year? How do you see that trending given the different moving pieces like the currency, energy, chemicals and also the distance from the forest to the nearer -- if you could give us a sense of what's spend that would be great. And then thank you for the transparency in terms of the royalties information and update. Do you have any comments as to how the discussions may be evolving between the shareholders and any agenda in terms of timing of when we might expect a final decision? Thank you.

A - Unidentified Speaker

About the cash cost for pulp and the ROIC, the cash cost of Klabin cost for the second quarter of 2020 will stay between the cash cost that we had during the first half of this year and the average value that we had in 2019. So in other words, this means that in

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2020, we will have an annual cash cost that will be lower than the one that we had in the year of 2019.

About the ROIC, I think it's important to make this disclosure for everybody. The management recognizes the value of this operation and the way it is proposed. And the proposal that was made, and I believe that you are always aware of that, this is a product from a valuation made by independent people, very good level, very good experts. They're well-known in their areas, and they were totally free to have access to all the necessary documents and also looking for an evaluation by other officers that had no relationship with Klabin, and we had the opportunity to call important executives that worked for companies and that were familiar with similar processes. So that, this opinion could be placed in all the documents to be evaluated by these independent members.

So after this long period, -- this long period, I recognize the gain that we derived, and I mean, all of us, namely the shareholders of the company in general. It was very important to have all these documents produced. So I would like to thank the BNDES that was a fundamental part -- a fundamental player in this proposal to create an environment for debate. And I'm sure that the intention on the part of this shareholder that is recognized by us as having a great value. And as soon as we call the meeting, and it will be called based on the documents being ready and available. So when the Board convenes this meeting digitally, we do have a roadshow with the most important shareholders of the company showing the value creation and the importance of that, and we will be asking for their support. So thank you very much for the opportunity.

Operator

George Staphos from Bank of America, question in English.

Q - George L. Staphos {BIO 1495442 <GO>}

Thank you very much for taking my question. And congratulations, everyone, on a very good performance. I wanted to come back to the paperboard market. While I recognize, do you see the markets has balanced and that you have some favorable trends right now? Globally, from our calculations, both container board and coated board remain somewhat excess supplied. So what do you attribute Klabin's ability to grow more quickly than the market? Is it cost position? Is it, obviously, currency helping a bit? And to what degree do you think you can continue to gain market share in container board and in coated board, if in fact, the dollar begins to depreciate?

Secondly, there is an earlier question on pulp cost. Can you remind us both for paper and for pulp, what we should be putting into our models for the maintenance for Monte Alegre? Should we similarly expect a BRL90 million increase in cost for third quarter? The Puma outage, the 15 month cycle is in the fourth quarter. What should we be mindful for there in terms of cost? And my last question is, it is nice to see the corrugated box markets Brazil performing so well. However, comparisons get more difficult in the fourth quarter [ph]. Do you expect (Technical Difficulty) the stability anyway can continue? And why do you believe that? Thank you so much.

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you very much, George. I would like to ask a favor. We could not understand your last question. The sound was very muffled.

Q - George L. Staphos {BIO 1495442 <GO>}

I apologize. I will repeat it. Bottom line, the corrugated box markets in Brazil faced more difficult comparisons than the fourth quarter. Do you believe that you can maintain -- that the market can maintain the current trend of stability into the fourth quarter even with much more difficult volume comparisons? And why?

A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you very much, George. So Tiago, Tiago will answer, then Marcos Ivo will talk about the cash cost for pulp, and Douglas Dalmasi will talk about corrugated boxes. So three people will answer your questions.

A - Unidentified Speaker

Hi George. It's a great pleasure to talk to you again. Okay. Let's talk about the container board and the coated board markets. Klabin does not look at this market as a whole, so we have to look at the part of the market that really has to do with our products. So when we talk about coated board, we are talking about liquid packaging board and also beverage, and those having to do with industrialized food with or without barriers to (inaudible) and to steam and to water.

And these markets are much more specialized than the market as a whole, and this is the way we position ourselves, and this is the way that we are able to associate our product to more value, let's say. And the same is valid mainly now. When we talk about the kraftliner, we have the virgin kraftliner market. And with the innovation that we were able to do -- the new concept of kraftliner with 100% eucalyptus fiber, it is lightweight when you compare to other equivalents, so we are able to make a lighter box. And it is mainly for fresh produce for industrialized and protein markets, for the three markets. And we know which are the markets that need the product that we supply. So it's really a niche competition. We have to associate value to our products and not look at the market as a whole.

And based on this platform, this is the way that we see an important behavior of the part of demand and where we have room to operate. And besides, we are living a very special moment now. We are announcing an important -- we have recently announced an important partnership with the European player for the sale of our products, and we are talking with other partners to do the same. Marcos Ivo?

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

In relation to the cash cost, the stoppage for maintenance of the pulp plant will happen in the last quarter of the year. And the viewpoint of cost and reduction in production, we expect an impact very similar to the one that we had last year. In relation to the Monte Alegre plant, the general stoppages happening as we speak. And likewise, we expect the impact and reduction at the same levels as 2019.

FINAL

A - Douglas Dalmasi

This is Douglas. Thank you for the questions. About the corrugated box market, for the third quarter, we expect to grow consistently, and we believe that this should happen until the fourth quarter sustained by what we see in general happening in Brazil. So the short term incentives and -- people consuming more in supermarkets, all that has been driving this sector. And when we talk to our clients, we see that this should be sustained until the end of the current year. And some markets are impacted by exports as well, and Klabin has a very high participation in this market of protein and fruits markets. And we see a Black Friday in the third quarter and the fourth quarter, and this is what we see. For the fourth quarter we believe the quarter will still be good, both the ABPO going up and Klabin going more than the market. For the next year, well, it will -- we really have to wait and see what will happen to the country from the economic viewpoint. If we see an improvement in the economy, this market will be growing more than the GDP, and we do expect this to happen next year.

Q - George L. Staphos {BIO 1495442 <GO>}

Very clear. Thank you so much for the clarity on the answers. Have a good quarter.

Operator

We would like to ask you to limit yourself to one question per analyst, if you please. Cadu Schmidt from UBS.

Q - Cadu Schmidt {BIO 21245445 <GO>}

Good morning. Thank you for the opportunity. (Technical Difficulty) we see discussion of supply and demand, what could we expect for the next few months?

A - Cristiano Teixeira {BIO 17567319 <GO>}

The question is not very clear. Cadu, thank you. Douglas?

A - Douglas Dalmasi

Cadu, thank you for your question. Regarding perception of the last few months, as you see, the market didn't have availability, and we have not reached the balance yet. And we believe that due to the high demand in the market, we believe that the price levels will continue to be high at least until the end of this year in our view. So Cadu, the levels are high, and we saw an increase, and we expect this to continue until the end of this year.

Operator

Thiago Ojea, Goldman Sachs.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you for the question. Congratulations. I don't know whether I can ask a couple of questions, but the first one would be to Marcos. Could you talk about the CapEx? For Puma, you said BRL3.5 billion for this year. Is it structural? Is it because of the exchange

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rate situation? Could you give us some more information about the total CapEx for the project and also for 2021? Cristiano, if we still have time, could you talk about the carbon credits? How do you see the decisions? I know that, this is being discussed, and companies that have forest assets, whether they would fit into this or not. What is your view about the system, thinking about the long-run?

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

Okay. We are going to answer both questions. The CapEx for Puma II. At the beginning of the year, we said BRL3.8 billion, and now we are talking about BRL3.5 billion, BRL300 million less this year and being carried over to next year. There is no special fact, and we are just transferring this disbursement for next year. Regarding 2021, the expectations is BRL2.5 billion, and the total amount for the project is unchanged.

Talking about the current operations of Klabin net of Puma II, this year, we will have BRL900 million to BRL1 billion disbursements net of Puma II. Of the BRL300 million less, they will be carried over to -- well, it will probably carried over to 2021. We are going to fine-tune these estimates. And during the next call, we will have a more precise figure to give you. But I think that the most important message is that, there is no structural change. The total cost of the project is maintained. And for this year, these disbursement is BRL3.5 billion. Thank you.

A - Cristiano Teixeira {BIO 17567319 <GO>}

For time constraints, I would like to answer your question in a few words. Of course, the regulation where the team is long. It should -- it would be very long. And as I said, during my last answer, we have to take into account the institutional position of the government and agreements between blocks. So this -- we are talking about this all the time, but -- so let's say, each one of us, sometimes we try -- some people try to negate a few things. But let's say, each one of us, with all the necessary information already available. Based on this information that is available, if we believe that there is a global heating, actions are necessary on the part of individuals and companies and governments altogether. So that we may avoid the problem of this increase in temperature of the global heating.

Let's say everybody accepts the fact that this is a reality and the effect -- and the impact of this reality over the years, we have to think about a solution in order to avoid this from happening. And this means that we have to (inaudible) what do we do in our activity differently from what we hear sometimes. We do not cut forests. We plant forests in the same area all the time. We have more yields, one is of our R&D efforts. And we maintain the same areas with recurrent planting of trees. And with the increase in yields, you can see that our sector plants trees every single day. And these trees make the photosynthesis better than any old forest. What I can tell you is that, we are willing to continue with our actions, and they are very strong, and I would say that, this is the strongest action in terms to avoid this global warming. We do this. This is part of our business, and we do this very well with all the expertise.

Q - Thiago Ojea {BIO 17363756 <GO>}

Do you sell carbon credits? Or this is just a proposal for the sector?

A - Cristiano Teixeira {BIO 17567319 <GO>}

No, we don't sell. No. If the regulation comes, we will be ready to sell, but we are not selling now.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you.

Operator

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

A - Cristiano Teixeira {BIO 17567319 <GO>}

So now I would like to bring to you our perceptions regarding the third quarter. The maintenance of our operating performance, together with the good demand in the market, point to an EBITDA for the third quarter '20 with the same growth pace on an annual comparison, that was to say, comparing to the same quarter last year, of course, considering the recurrent results. So Klabin continues to persist in its long-term view with focus on people, sustainability and innovation.

Thank you all very much, and hope to see you all during our next conference call.

Operator

Klabin's conference call is closed. We thank you for participating, and wish you all a very good afternoon. Thank you.

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