

## Y 2020 Earnings Call

### Company Participants

- Aires Galhardo, Executive Officer, Pulp Operation
- Carlos Anibal de Almeida, Executive Officer, Pulp Commercial Business
- Leonardo Grimaldi, Executive Officer, Paper Business
- Marcelo Feriozzi Bacci, Chief Financial Officer and Investor Relations Director
- Walter Schalka, Chief Executive Officer

### Other Participants

- Caio Ribeiro
- Carlos De Alba
- Daniel Sasson
- George Staphos
- Leonardo Correa
- Marcio Farid
- Rafael Barcellos
- Thiago Lofiego

### Presentation

#### Operator

Ladies and gentlemen, thank you for holding. And welcome to Suzano's conference call to discuss the results for the Fourth Quarter of 2020. We would like to inform that all participants will be in a listen-only mode during the presentation of Misters; Walter Schalka, Chief Executive Officer; Marcelo Bacci, Financial and Investor Relations Executive Officer; Leonardo Grimaldi, Paper Executive Officer; Carlos Anibal, Pulp Commercial Executive Officer; and Aires Galhardo, Pulp Operation Executive Officer. After the company's remarks are completed, there will be a question-and-answer session, when further instructions will be given. (Operator Instructions)

Before proceeding, please be aware that any forward-looking statements are based on the beliefs and assumptions of Suzano's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. You should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Suzano and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the floor over to Mr. Walter Schalka. Please, Mr. Walter Schalka, you may proceed.

## Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. Welcome to the fourth quarter and annual results of Suzano. It's a great pleasure to have all of you with us. And with us here we have all the executive committee on the Q&A session, feel free to make questions to any of us.

It's a great pleasure to announce today the result of the fourth quarter, but more than the numbers that we are presenting to you on the slide number 3, we are looking forward what we have been doing during this year on a very difficult year, last year, because we have since the beginning of the year, the lowest oil prices ever in our history. Combined with the COVID-19 implications not only in markets, but in our operations, we have been performing extremely well during this year. We achieved last year when adjusted EBITDA of BRL14.9 billion. We had 10.8 million tons of pulp sold last year with inventory reduction of around 1 million tons. We had a major reduction on the cash costs to BRL604 cash cost average last year.

We have a very good position on our balance sheet with leverage going down from 4.9x to 4.3x. We are delivering all the plan that we -- the leveraging plan that we announced to the market. And we are showing today to you that we have been able to capture 100% or more, we exceed the synergies that we announced to the market.

In addition to that, this is very important, I would like to share with you that we have been working on different dimensions in terms of protecting our people during this period. We have been working to work -- to help suppliers, to help customers on this, to help the society on the situation with different analysis, dimensions and actions to allow to protect our society as well, and to allow to have to go against the virus with all the conditions that we have been putting in place this year. And we have been operating every single day of last year. In our forests, in our industrial area, the logistics, procurement, the shipping, everything to deliver to our customers. Business continued to -- was a very important issue for us. Then we are very pleased with several achievements that we had last year on our results, but even more proud from what our group, our 15,000 team members work and directions to have a better society and to protect our society against COVID-19.

It's very important to mention to you that ESG is becoming even more relevant. And you can see in the slide number 4 what we have been doing on the last years. On the end of 2019, we defined our strategic vision. We announced that early 2020 on the Suzano Day that they have been placed in Sao Paulo, New York. We have been working on the environmental area in the carbon footprint that we have. We have been joining the TCFD and the Climate Action, a 100 plus group. And we are working on the environmental to show that Suzano is not only mitigating the carbon, but we are sequestering carbon. We are carbon negative and we will become even more negative in the years to come.

On the social area, I'm very pleased to announce that we've set some targets on the women and LGBT and we achieved this target. Unfortunately, we did not achieve and we

are very humbled to recognize that on the black targets that we have, we will be working on this dimension. This is very important and it's very important to mention to you that our target today for the management compensation last year and this year is including this diversity issues that we have. We have been improving on governance as well. And we have being very proud to have the first Sustainability-Linked Bond in the Americas. And today, we are announcing a new achievement that we have, the EPP targets, the refinance with the EPP targets with some ESG goals, Marcelo Bacci is going to share with us.

Now I'm going to pass to Leonardo Grimaldi that is going to share about the paper business. Go ahead, Leonardo.

## Leonardo Grimaldi

Thank you, Walter. Good morning, everyone. I would like to present the result of Suzano's paper business unit for the fourth quarter '20, and also for the full-year 2020. The figures presented on slide number 5 are specific to our paper business unit, therefore, excluding Suzano's consumer business unit's results, which enables us to have a better comparison with the past quarters. Despite the overall impact of the COVID pandemic on our printing & writing business, strong sales during the 4Q and the beginning of price recovery contributed for a solid quarter. As you can see on the top left graph, our production of paper and paperboard totaled 279 tons during the 4Q, adding up to 1.06 million tons during 2020.

The variation when compared to our 2019 production figures totals a reduction of 85,000 tons, which was aligned to our decision to stop paper production in 2 of our paper mills during the second quarter '20, when we noticed the greatest reductions in printing & writing paper demand, and as stated before, we have used our operational flexibility to increase production of other products in these mills during this period.

Moving to the top right graph and looking at our sales figures, we can note that we have sold 324,000 tons during the 4Q '20, which is an 11% increase compared to the last quarter and 5% below fourth quarter 2019. During the year, we have sold 1.06 million tons, in line with our production, but 9% below our 2019 sales volume. This trend is similarly noted in both our domestic and in our international sales. Our domestic sales again posted a strong quarter, in line with the V-shaped recovery that we have presented since the third quarter '20, showing full recovery when compared to 2019 figures, pushed by strong demand for packaging grades and still due to advertisement for municipal elections, which took place in November in Brazil and which are primarily printed on coated papers, many produced domestically by us.

We have sold 231,000 tons in Brazil during the fourth quarter, which is a 20% increase compared to the third quarter '20 and in line with our fourth quarter '19 sales. Our full-year printing and writing sales in Brazil posted a 13% reduction when compared to 2018. And our domestic paperboard sales presented a 7% increase compared to 2019, due mainly to a strong pickup in demand of packaging for consumer goods perceived begin as of the beginning of the second semester. The latest statistics for the Brazilian demand presented by IBA our Pulp and Paper Association, show a 24% reduction in the Brazilian

demand of printing and writing grades in 2020 compared to 2019, and the increase of 7% in the demand of paperboard grades.

Looking at the lower left side, we can note that our average prices during the quarter totaled BRL3,879, being 2% higher than our average prices in the third quarter and 6% higher than our prices in the 4Q '19. Our prices in Brazil increased 1% this quarter compared to the third quarter '20, and our international prices have increased 4% in U.S. Dollars or even 5% in reals, due to our currency depreciation, showing the beginning, this is important, of an upward trend of paper prices both in Brazil and internationally.

Looking at the lower right side part of the slide, we can note that our total EBITDA was positively affected by the recovery of our sales volumes, as well as recovery of prices and totaled BRL408 million, being 15% superior than the third quarter '20 and even 3% higher than the 4Q '19. This was actually one of the best quarterly results that we have had so far.

Our EBITDA for 2020 was BRL1.3 billion, 5% below our 2019 EBITDA. And our EBITDA margin reached BRL1,239 per ton, one of our highest results as well, which reconfirms the resilience of our paper and packaging business even facing the unprecedented decline in the demand of printing & writing grades due to the COVID pandemic.

I would now like to invite Carlos to present the results of our pulp business unit.

### **Carlos Anibal de Almeida** {BIO 19090865 <GO>}

Thanks, Leo and good morning everyone. So let's move to page 6 of our presentation. During last year, we said that year-over-year we would produce more, sell more and reduce our pulp inventory. And here you go, with production increasing 1 million ton, all-time high sales volume, increasing 1.4 million ton, and we reduced our inventory in more than 1 million ton. All that took place in a very complex and challenging scenario created by the COVID-19 pandemic. Q4 brought up an inflection point for the pulp market. Graph paper producers have recovered from the low operating rates in Q3 with seasonally better demand in Europe and Americas. New printer writing and tissue capacities were start up in China. Tissue demand continued to be solid worldwide. Specialty and packaged paper continue to see positive structural demand creation with higher online sales and consumers demand more sustainable end products.

Q4 also brought an unprecedented adjustment on the supply side with the planned maintenance shutdown accumulation and higher unexpected production curtailments. Better graph paper producers' operating rates and a prospect of much better dissolving pulp prices have also helped to reduce the pulp supply, all that was exacerbated by logistic constraints. This Q4 supply-demand scenario triggered the first price increase for pulp after a long period of historically-low prices. With that backdrop, our production 2020 amounted 9.8 million tons. Q4 production was lower quarter-over-quarter due to the maintenance shutdowns in some of our mills and higher year-over-year on better operating rates. We end the year selling a record of 10.8 million tons. Our Q4 sales volume reached 2.7 million tons, higher quarter-over-quarter, but lower year-over-year on reduced inventory.

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Pulp prices fluctuated upwards during the quarter in China, for both soft and hard grades, price environment remains positive as we enter 2021 with an imbalance in supply and demand, prompting additional price increase for all grades in all markets. Our pulp inventory was reduced by almost 300,000 tons during the second -- during the quarter, and we ended 2020 with a massive 1 million ton of destocking versus 2019.

Our pulp production system flexibility with 7 different mills and 3 ports located in 3 different and strategic regions granted us the speed to react and receptivity to better serve our most demanding customers at the most critical time. Our Pulp inventory level at Q4 was a historical low level across our global supply chain. Volume wise, it is the lowest number since January 2017. It is the lowest number since Jan 17, and when we take into account the sales coverage in number of days, we end December with the lowest level ever and let me let me repeat that, we end December with the lowest level ever. Finally, we delivered an EBITDA of BRL1,326 per ton, which was 79% higher year-over-year and a 54% EBITDA margin in Q4 over the 38% presented in Q4 '19.

With that, let me take you through how our Q4 market fundamentals played out starting with the demand, which improved in all major markets. In North America, pulp demand remained strong in Q4 due to a higher-than-normal demand for hygiene and personal-care products. In Europe and Middle East, pulp demand has recovered for a seasonally weak Q3. Most graph paper producers presented better operating rates throughout the quarter and tissue demand continued to show a very resilient growth base. In China, production data shows that all major grades using virgin fiber posted growth quarter-over-quarter.

I would like to highlight the growing demand for ivory board, whose production reached a growth of 6% year-over-year. On the supply side, a very high number of mills carry out their maintenance downtime. Some anecdotal information suggests that some of these maintenance downtime took much longer than planned, with challenges imposed by the COVID and critical equipment that operates for much longer time without proper maintenance in the year.

Challenging supply chain operational conditions continue to be a burden for the global trade, shortage of ocean shipping containers and congestions in some seaports posed additional challenge for buyers and sellers in Q4 and moving into 2021 also.

So to summarize the supply side, Q4 was characterized by a strong reduction of pulp supply as a combination of different main reasons. Higher volume of planned downtime, planned maintenance, less pulp for integrated and dissolving pulp producers and expected production loss and very challenging supply chain bottlenecks.

We will continue to focus on cost and volume allocation as we enter 2021. Our much lower than normal inventory levels coupled with increasing global supply chain restrictions will offer an additional challenge for our teams. We are confident that the current market conditions will support a much better price environment in 2021.

Now I invite you to move on to the next slide where my colleague Aires Galhardo will provide more details about the cash cost. Thank you.

## **Aires Galhardo** {BIO 17954886 <GO>}

Thank you, Carlos. Good morning, everyone. We are in the slide number 7. When looking to the cash cost performance in 2020 compared to the previous year, excluding down times, we see a significant drop of 9%, reflecting the competitiveness gains arising mainly from operating synergies with other former Fibria. Approximately 57% of synergies obtained are related to the cash production costs, as we will see later in the presentation.

We managed to significantly reduce the cost of wood and inputs achieving also a reduction in the fixed costs. Gains from inputs were basically offset by the 31% Brazilian real's depreciation against the dollar in the period. The higher operating rate in 2020 compared to 2019 also benefited the performance of the cash cost in the year. When we observe the cash cost in the fourth quarter '20 versus third quarter '20, the 4% increase is mainly due to non-recurring effects caused by the higher concentration of scheduled downtimes in the fourth quarter. The higher conception and the price of energy, mainly natural gas, impact the input line, while higher maintenance along with the downtimes impact the fixed costs. The old performance is explained by a higher use of third-party woods and higher harvesting costs, in turn due to more intensive maintenance activities typically executed in the last quarter.

Now, I pass the word to Marcelo Bacci to continues the presentation.

## **Marcelo Feriozzi Bacci** {BIO 17648865 <GO>}

Thank you, Aires. Let's move on to Page 8. On Page 8, we see that during 2020 we managed to reduce our net debt by more than \$1 billion, bringing our net debt to EBITDA ratio from 4.9x to 4.3x in the last 12 months. Suzano continues to take advantage of favorable market conditions to further enhance its debt profile. While we'll go down on our deleveraging path, we expect the deleveraging path to be more acute and more -- with a more benign prospect of the pulp market in the coming months.

We are now on Page 9, announcing 2 relevant liability management moves. We are prepaying a \$270 million of BNDES loan and also rolling over from 2023 to 2026 a total of \$1.57 billion of export repayments that were originally part of the Fibria acquisition package. We are keeping the same rate, which is LIBOR plus 115 basis points and adding a sustainability feature to this loan that we further reduce its cost along the way. With that, you can see on this Page 9 that three-quarters of our debt, of our gross debt, it is now maturing from 2025 onwards, creating a very favorable situation for us. Our liquidity continues to be even after this transaction, where we reduce a little bit in the gross debt and also the liquidity, we will stand at \$2.1 billion, which is more than -- way more than what we need to be on a comfortable situation.

On Page 10, we are proud to confirm that we have delivered every single step of the deleveraging plan that we announced last year. We managed to keep CapEx within the

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BRL4.2 billion guidance. We have, as Carlos said, monetized 100% of our accessible pulp inventories. Actually we did a bit more than that reaching the lowest level ever as also mentioned by Carlos. And we concluded, as I will explain later on, also the synergy captures related to the Fibria deal. And we successfully sold a total of BRL1.5 billion of non-core assets, significantly more than what we planned.

Moving to Page 11. We see that we had a significantly positive financial result in the quarter, as a result of the BRL0.28 appreciation in the period. Most of those gains are related to our debt, but as we always emphasize, it is only an accounting effect at this point given that the debt as we showed before is maturing in the long term. We continue to take advantage of market volatility to improve our FX hedges, with better levels of puts and costs that will protect us in the coming months from any potential BRL appreciation. So as you can see on the green line, especially for the second half of this year, we are protected at very positive levels from a potential BRL appreciation.

Finally on Page 12, we show that we've been able to beat the estimates that were given by ourselves of synergies related to the Fibria deal. Last year, we had already increased our guidance of synergies from the initial range of BRL800 million to BRL900 million to a range of BRL1.1 billion to BRL1.2 billion, and we closed this year with BRL1.3 billion annual synergies for 2020 and recurring synergies. So we achieved the number, a number that is greater than initially thought and also faster than our initial projections.

With that, I'll turn over back to Walter for his closing remarks.

### **Walter Schalka** {BIO 2099929 <GO>}

Sorry. When we put together the 2 companies Suzano and Fibria 2 years ago, we announced at that time our journey of culture, and we established 3 different pillars on that. The first one is people that inspire and transform, the second is to create and share value among all the stakeholders, and the third one is, it's only good for us if it's good for the world. As we mentioned at the time, it's something that we would be evolving in a matter of months or years.

I'm very proud to say to you that last year was a clear demonstration to everyone that we are on this process. The process of impacting not only the company and our results, but impact the society as well. I'm very proud to see that our team is engaged on a process of moving and changing and developing a better company to impact better the world. We have been doing this. And now we have much more benign scenario on the pulp markets that we are seeing, as Carlos mentioned to us. We are going to be in a position to create new capital allocation alternatives, new avenues for the future. The company will continue to deleverage, we'll continue with our financial discipline. But we are going to be now much more open to new alternatives, to new possibilities of value creation.

As you are going to see, our leverage will go down during this year on a much faster pace. And the reason behind that is the much better pulp prices that we are facing right now. I'm very pleased to see that our innovability approach that our view and our purpose that we announced have been implementing and will be our guideline for the future.

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Before we go to the Q&A session, I would like to announce 2 different things. The first thing is that we are going to see that we are putting in place today some moves on organization, the structure of the company. The reason behind that is that we went to people with fresh eyes, with different areas of the organization to allow these areas to have even better results for the future, and the second is to develop our team. We have been discussing this with our people -- committee and the idea is to allow people to have a much broader experience in the company and develop themselves and develop the company for the coming years. And welcome everyone to your new positions.

Last but not least, I would like to invite everyone today for our Suzano Day is going to be hold on March 24 on a virtual way, then everybody is invited to this event, I think would be a very interesting event, join us on that. I will be very pleased to have overview on that.

Now, let's go for the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

Thank you. The floor is now open for questions.(Operator Instructions). Mr.Thiago Lofiego would like to make a question.

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

Thank you. Good morning, everyone. Walter, you mentioned just now about how faster you are deleveraging, given the upcycle in pulp and synergies and (inaudible) everything that seems to be in favor at this point. So, given this faster deleveraging scenario and given the usual visibility you have on your business, right? Could we see an earlier announcement of the pulp expansion as your net debt approaches the 3 times or do we need to wait or are you guys going to wait for that leverage threshold to really be fully reached? That's the first question.

The second question to Carlos, Carlos congrats on your new role and I wish Grimaldi good luck as well. When do you see Carlos those short-term issues like container costs, longer maintenance shutdowns and other short-term issues reversing. So, if they reverse in the second half for instance, would those would that reverse or not exert pressure on pulp prices in your view? And so that's basically the question or are you seeing a strong demand cycle that would more than offset the reversal of those factors? That's it. Thank you.

### A - Walter Schalka {BIO 2099929 <GO>}

Thank you, Thiago, for your questions. I'm going to start with your first question. Of course, that higher pulp prices accelerate the deleverage of the company and allow us to be better prepared to announce the (inaudible) project. There is not only the export expansion is that not only -- it's only a matter of time. We will proceed with this project.

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We are establishing all the preconditions to be prepared for that and in the right timing, we are going to announce this project. But for sure you are right, as pulp have higher pulp prices, we are going to deleverage at a faster pace that we will accelerate the timing of this project.

**A - Carlos Anibal de Almeida** {BIO 19090865 <GO>}

Thiago, good morning. Thanks. I'm going to start from the end. The demand that we see as solid and supportive of rising pulp prices in all the markets, in all the geographies, in all segments. On the supply side, we see market as short and pretty tight. The market is pretty tight on the supply side. It is hard to define when we're going to see all that -- all those issues related to containers and port congestions cleared. We hear from some of our suppliers that this process may take up to three or four months. So this is what we have heard until they can normalize the container availability, but again, it is hard to define when they're going to be able to solve all those port congestions issues mainly there in Asia.

On the maintenance downtime, again, it is hard to say what's going to happen, but that can mean a surprise as well. I would not be surprised, if the coming planned downtime in the Northern Hemisphere, pose the same issues that happened last year. I mean issues related to the COVID protocol, issues related to a much longer downtime, issues related to equipment that had worked for a much longer time last year. So again, I'll not be surprised if those maintenance downtime issues that happened last year may persist also this year.

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

Okay. That's clear. Thank you, Walter. Thank you, Carlos.

**A - Walter Schalka** {BIO 2099929 <GO>}

Thank you, Thiago.

**Operator**

Our next question comes from George Staphos with Bank of America.

**Q - George Staphos** {BIO 1495442 <GO>}

Hi, everyone. Good morning. Thanks for taking my question and congratulations to everyone on the responsibilities and on the performance. Two questions from me. First, similar to Thiago's question, if we go back a few months ago, I would say the environment was if not negative, certainly, there was more of caution in terms of what, Carlos and Walter, what you were looking to in terms of the outlook. If you had to isolate one thing that changed the dynamic from gradually pushing prices to seeing a much more rapid increase in pricing, what was it?

And if you were in our seats as analysts, as investors, what would you be looking at most closely in terms of trying to isolate when there might be an inflection point in the future to

the downside? What would you be most closely watching?

The second question I had on opportunities, Walter. Can you talk a bit more about how you are finding opportunities to monetize your positive ESG position specifically as regards to carbon credits? Thank you, and good luck in the quarter.

**A - Carlos Anibal de Almeida** {BIO 19090865 <GO>}

Thank you, George. I would say that if I have to point out two major factors, they are supply side impact, all those production loss, a much lower availability mainly on the softwood side and second, I'll also bring the logistic issues, the logistic constraints that showed up more in the last part of last year. So those would be the two variables that we need to follow closer. On the demand side, as I said solid and very supportive of rising pulp prices. I would say that in some specific market, it has been better than expected in the beginning of this year.

**A - Walter Schalka** {BIO 2099929 <GO>}

I would like just -- I'd like to add to Carlos one very important issue, George as well as in his answer is that in the last 18 months since June '19 to end of 2020, we de-stocked 2 million tons. I think, if you follow our announcements of every single quarter, you are going to see that we de-stock 2 million tons in a period of 18 months. It's impossible George to continue to de-stock. And in fact that we are below our normalized level -- inventory levels at this point of time. Then it's very clear that we are going to have a shock in the supply side on our position, because despite of the fact that we are going to face higher production on our side. We are not going to have ability to continue this destocking process that we have been facing.

Going to your second question is related, how we are going to create avenues for the future. Capital allocation for us is a critical issue, George. And we are very disciplined to create value to our shareholders. We have been doing this for several years. And the result of that, it's our share price. If you see the development of our share price in the last many years have been showing, how we are disciplined on value creation activities on every single area of the organization. ESG is one of them. We will now having even more efforts on the ESG and we believe that we will be able to monetize carbon credits two different ways or to the market, there is a regulatory market. In one side, is Brazil joined to the COP26 on Chapter 6.2 and 6.4 of the Paris Agreement or through the voluntary market, but in any of the cases, where we will find ways to create value to our carbon sequestration process.

**A - Marcelo Feriozzi Bacci** {BIO 17648865 <GO>}

Let me just add one final comment on Walter's comments on inventory. As I mentioned, in my initial remarks, we closed December with the lowest level ever in terms of sales coverage. What does that mean? The stock that we had end of December and our estimated sales for the next three months, we have never had a such low number. So that can explain very well the situation that we have right now.

**Q - George Staphos** {BIO 1495442 <GO>}

Thank you very much guys. Have a great day.

## Operator

Our next question comes from Daniel Sasson with Itau.

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

Hi everyone, and thanks for the question. My first question is on -- I'd like to have your views on the inventory levels in the hands of paper producers and here Walter, correct me if I'm wrong, but I remember that when we were discussing Suzano's high inventory levels back in 2018-'19, the company's view was that it could maybe be okay or even healthy to have more inventories on Suzano's hand, so your clients couldn't have a lot of bargaining power and try to push prices down as they did back in the end of 2018.

So it would be important for us to understand if you see all of these very strong sales volumes that you're having being actually consumed and used, right, by paper makers or if you think that maybe inventories are a bit higher in the hands of paper producers?

And my second question on the ESG front. You obviously have been showing very important, very nice results with the sustainability-linked bonds and the sustainability-linked loan that you announced today. Are there any more opportunities in the future, maybe in addition to the carbon sequestration or selling carbon credits in the voluntary market or how soon could that-- could we start to see that materializing? Thank you.

### A - Carlos Anibal de Almeida {BIO 19090865 <GO>}

Thank you, Daniel. This is Carlos. So, on the customers' inventory, generally speaking, I would say it is normal but I can tell you that in some specific cases, it is below normal. So we have been not seen lately. For some specific grades and some specific regions, customer are dealing with a better than expected demands and they just run out of pulp to serve that extra demand. Meaning that they are running with low inventory and this is the reason that in Europe, we already invoiced our customers with the new price, BRL8.20 in the 1st day of Feb.

So let me repeat that, 1st day of Feb, we invoiced customers at 820, the new announced price. In China, as I mentioned to you last time, we believe there are some customers with higher than normal inventories on the hardwood side, and I can say to you that, our perception today is that the situation is slightly different. Those customers that two or three months ago were carrying a high inventory, it could be still high, but not as much as compared to three months ago. We have been, again, noticing there in China, an important movement of substitution of softwood by hardwood, mainly the tissue segment, and that is taking those customers with higher-than-normal stocks, now bringing that number down. This is our perception about the customers' inventories.

### A - Walter Schalka {BIO 2099929 <GO>}

Daniel, thank you very much for your question. Yes, ESG is a core part of our business, we have been talking internally is not on the appendix of our presentation is our business,

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our business is to renew life based on trees, this is our purpose. The way we will change and will impact the society. Carbon sequestration is something that we are going to increase in the next coming years, we have the additionality of new areas that will allow to have even more carbon sequestration and the areas that we are going to planting for the new pulp project in Matuo Grosso do Sul is part of that but it's not the only part of that.

We have been regenerating other areas as well that would allow us to do it and we didn't decide yet. If we are going to go on the regulated market, on the volunteer market. We have been understanding and discussing alternatives on both markets. And I'm hope that we are going to have very good news on this scenario during the year 2021.

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

Thanks a lot. Very clear.

## Operator

Our next question comes from Leonardo Correa with BTG Pactual.

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

Yes, hello. Good morning, everyone. My first question for Marcelo Feriozzi. Marcelo, interesting all the liability management on Suzano for quite a while. And more specifically still on the let's say on how ESG and liability management, they intertwine, right. I mean, we saw the sustainability linked bonds that you issued, at very attractive cost levels below 3%. So I just wanted to see if you had the opportunity. Which seems to be very relevant in Suzano to continue with these operations. And I don't know if you can quantify. But how much can you still execute and deliver in terms of liability management, especially given that the stock and debt is still very high, right? So I just wanted to get your thoughts on that?

And then moving on to the cost performance and some of the parameters. And first of all guys, congratulations on the synergy capture, which has been well above expectations. Just on the cash-cost numbers that are currently at about BRL600 per ton, right, pulp cash cost. Does that number already reflect all of the synergies, let's say, this level of BRL1.3 billion in synergies per year? Or would you see a catch-up -- in other words, would you see some new in 2021 of additional declines in the cash-cost level? So if you can speak about that? That would be great. Thank you, guys, and congratulations on the results.

**A - Marcelo Feriozzi Bacci** {BIO 17648865 <GO>}

Well, thank you for your question. You're right that the ESG feature was brought definitely into the financing activity, especially for companies like Suzano and we intend to continue down that path. I think the market is still looking for standards to create in order to be able to compare companies. We are in the beginning of that process and we want to be protagonist on that. We now after these transaction that we announced. We have very low level of maturities in the next three years, but we still have -- we have to start to work on the maturities of '24, '25, and '26, where we have bonds and other things. So we see opportunities too during this year bring new transactions with ESG feature to start to

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refinance the debt that matures starting in 2024. But we will be opportunistic, we only do that to the extent that we're going to be able to extend tenure without increasing the cost of finance.

The other thing -- the other opportunity that we see is in the domestic market. I think those instruments that have been issued internationally, sustainability linked loans and also the bonds have features that could be adapted to the local market to CRA, to the debentures in domestic market. And we intend also to develop that in the future.

#### **A - Walter Schalka** {BIO 2099929 <GO>}

Thanks a lot for your question. For 2021, our projections for cash cost ex-downtime. Show a trend of stability with little variation in the average distance from forest to the mill, and consumer consumption.

However, factors such as the exchange rates, your energy price and climate conditions in some regions can bring some variation in a given quarter or another. But I don't believe that we'll have great variations in the cost in the later part of the year. The most likely trend is stability in our cash costs.

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

Okay. Thank you very much.

#### **Operator**

The next question comes from Marcio Farid with J.P. Morgan.

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

Thank you. Good morning, everyone. I have a couple of questions. The first one maybe to Carlos. Carlos, we have seen over the past couple of years, our greater volatility in prices may be over the past five to seven years really both on the way up or and also the way down right and you had some prices going down faster in the past, but it has been the first time, there's pulp prices going up as fast as we're seeing today, right? Up to \$50, \$70 per ton, month-over-month or even to \$100, when we think about Europe and the U.S.

So the question is, how should we think about pulp price volatility going forward, is it here to stay in the phenomenon because of the COVID scenario that we're living today. Is that a way for Suzano to reduce earnings volatility going forward or do you just have to go along with the with the market?

And the second question is sort of how should we think about production and sales going in 2021? I know you did mention about it in your initial speech, but do you need to restock? Can you work with the low inventories that you have today or you need to sell less than you produced this year, which was the opposite of the past couple of years? Thank you.

## **A - Carlos Anibal de Almeida** {BIO 19090865 <GO>}

Good morning, Marcio. Thank you for your question. On the inventory, as I said, it is pretty low and we are working now to find the right balance between our cost, our running costs for that pretty low inventory and serve our customers. This is the most important point for us to make sure that we have the right product at the right time to our long-term customers. So this is what we are trying to wait right now. I hope that you can understand, but I'm not going to give you guys any guidance on our inventory policy or strategy.

On price, again, this is a tough question. I think what I see today has to do with a long period of a pretty low profitability for the industry. The industry is creating no value to its shareholders and that took much longer than anyone could expect. And the second point that in my view explain what we see today has to do again with pretty low inventories in the whole supply chain. Producers in our view, they are running with a very low stocks and customers as I said before between medium, a medium level and in some cases, they are running with a lower than what should be a reasonable level. So again, poor profitability and the whole chain inventory pretty empty can explain as such fast recovery that we are noting right now.

## **A - Walter Schalka** {BIO 2099929 <GO>}

I would like just to complement the answer. I just complement answer Marcio and Carlos. My perception and we have been very vocal about this point is that volatility is not good for anyone. We have been telling this and number of people came to me and say, you are telling this because the price is very low. And now, when the price is going up, I'm going to tell you volatility is not very good for anyone. When we have had \$760 in China, two and a half years ago and then we reached \$440 or \$450 per ton. And now we are back to \$600 per ton. Going up, looks like that is not very good for anyone.

Our customers have been delivering. They have some lagging on prices on their side, it is very difficult then to pass through price increases to their customers. Now they are going to face constraint on their margins. There is not very positive. When the prices are going down, our customers are decreasing their prices as well to their end customers, then they have some benefit, but just short-term benefit. I would invite our customers to discuss about the possibility, how we can reduce volatility? How we can allow them to have a much stable prices that create value for our industry in one side, but allow them to have a much better forecast on their costs and long-term on their price decisions, how they are going to operate.

Now, we are going to have the benefit of much higher prices. Very probably is going to exceed the \$610 that would was the average of price on the last 10 years. We are going to have the benefit of that, but our purpose, our looking forward is that we would like to have much lower volatility much higher stability on pulp prices for the future.

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

That's very clear. Thanks a lot Carlos and Walter.

## **Operator**

The next question comes from Carlos De Alba with Morgan Stanley.

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

Good morning, everyone. Thank you very much. So I have a few questions. First one is if you could maybe Carlos, talk about in very general terms, how do you see the 2021, last year you told us that you expected to start to produce more, ship more and reduce inventories. I don't know if you could elaborate on something like that? And again in very general terms, how you see 2021 shaping up?

Second question is if there is any possible detail that you can give us on the progress towards your target of BRL1,300 per ton operating cost? And then finally Walter, maybe if you could help me understand how much Suzano already -- how much Suzano expects to have in terms of carbon sequestration that credits that can be sold that meet the additionality standard? Because clearly you sequester a lot of carbon, but that doesn't necessarily mean that you're able to sell it. Has Suzano already started to audit some of the sequestration that would potentially be able to resolve to third parties in either market? Thank you very much.

**A - Carlos Anibal de Almeida** {BIO 19090865 <GO>}

So, Good morning Carlos. Thanks for your questions. We have a very positive view for the demand in 2021. As I have said right now, we see that as very solid and supportive of rising pulp prices. We believe that, in all the regions, all the geographies, we're going to see the demand growing. In terms of grades, I would say that, tissue and packaging should be the best performers. So all-in-all, we have a very positive view for the demand in 2021. And then on the supply side, as I've also said before, we might face some surprises coming from some unexpected downtime. That could surprise the market again. And in terms of a new capacity, we do not see that reaching the market before say Q4. So that combination, again, make us to believe that the supply-demand scenario should be pretty good for 2021.

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

Carlos, thank you. And just if I may, but for Suzano, is it fair to say then that production may increase, but sales may not increase or might have to be much more closely related to the production level that Suzano has in 2021?

**A - Carlos Anibal de Almeida** {BIO 19090865 <GO>}

Carlos, all we can say about that is that in 2021, we're going to produce more than what we produce in 2020.

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

Fair enough. Thanks.

**A - Walter Schalka** {BIO 2099929 <GO>}

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Carlos, thank you for your question related with the total operating cost. We are going to have details on that on the Suzano Day that is going to be placed on March 24th. But giving highlights to you, we are yes focused on this issue for the coming years. We believe that of course, subject to oil prices, to inflation, to exchange rate, all of them affecting our costs. We want to enhance our total productivity on our operations, not only forest and industrial but in shipping SG&A and CapEx as well. Then this is part of one of our must win barrels that we have in our strategic plan and we will continue to focus on this KPI in these coming years and we are going to give more details on that.

Related with carbon, you're right, not everything that we sequesterate we can sell because it's not considered additionality but we have been working on this. On the right timing, we are going to give more details on that, we do not have the figures to you, but it's very important to you to go on our web page, you are going to see over there all the KPIs that we are tracking, all of them on the sustainability, we want to have full transparency with the society on every single KPI on sustainability, related with air, related with greenhouse emission, water, and many other KPIs.

#### **A - Carlos Anibal de Almeida** {BIO 19090865 <GO>}

And Let's just add one comment, Carlos. As I said, we're going to produce more but we cannot say the same about our sales volume. As I have mentioned, we are beginning the year with a very, very low inventory level.

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

Thank you very much, Carlos and Walter. All the best this year.

#### **Operator**

The next question comes from Caio Ribeiro with Credit Suisse.

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

Yeah, good morning, everyone. Thank you for the opportunity. So for my first question, I just wanted to see if you could talk a little bit more about the situation with papermaker margins in China. I just wanted to see if you can give us some more color on how you see those margins evolving over the next months' given the considerable surge in pulp prices over the past months? And the expectation that they should continue moving up -- moving forward as well? And if you see the announced paper price hikes that have gone through, is it enough to compensate for rising material costs? And if a tightening of margins for papermakers could lead this current window of opportunity to hike prices to close up sooner than later?

And then secondly, on the high spread between softwood and hardwood. I just wanted to hear your thoughts on the evolution of that spread over the coming years. And whether you do expect it to normalize in China back at \$70 to \$80 per ton and which has been the historical average at some point? Or if you do see reason today to believe that, that spread will be higher than it has been in the past? Thank you.



## A - Carlos Anibal de Almeida {BIO 19090865 <GO>}

Hey Caio, good morning. Thanks for your question. So first of all, the paper producers there in China they had a great year last year in terms of profitability, we have recognized that. Second more lately, they have been positively impacted by a stronger renminbi, meaning that the pulp price is not that as high as it used to be in the last cycle.

And what we have heard from them is that they are announcing and they have been successful in the price implementation. We hear that mainly from the printer & writing and ivory board customers, not the same for tissue. But again printer and writing, ivory board, they are telling us they have been very successful. And all of them they have announced more price increases now for Feb and they say, they are confident in the price implementation. But of course, we need to keep track of that. On the spreads, between softwood and hardwood I would say that over the last two years, the spread is widening a little bit, both in Europe and Asia, but again it is very hard to predict what is going to be that number for the future. I'm sorry that I cannot give you that information because I really have no idea how to predict that. All I can say to you again is that mainly in China, we see customers, mainly in the tissue segment, utilizing more hardwood to replace softwood and that has happened a lot since I would say late last year when the soft prices started going up.

## A - Walter Schalka {BIO 2099929 <GO>}

And I would like to challenge as well on this last point. Why the historical spread levels should be maintained in the future? Historical levels is around \$70 per ton. Now, it's much higher than that. These have been used to replace softwood to hardwood on the last few months as Carlos mentioned, but why you have to be in the future on same level from the past. We have been enhancing, not only us but our peers as well have been enhancing the features of our fibers that would allow to have a higher percentage of utilization on different applications. And we believe that this spread could be different on the future.

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

Perfect. Thank you very much, gentlemen.

## Operator

Our next question comes from Rafael Barcellos with Santander.

## Q - Rafael Barcellos {BIO 20593721 <GO>}

Hello, everyone, thanks for taking my question. I'll say that most of my questions have been already answered, but I have one more question regarding the impact of dissolving pulp on the paper grade market. I mean, as the dissolving pulp prices have rebounded, how many tons do you expect to swing back to dissolving pulp in 2021? And in the end, is there any other movement like that in terms of the supply side that could improve the pulp price dynamics this year that we should be aware of? Thank you.

## A - Walter Schalka {BIO 2099929 <GO>}

Thank you, Rafael. Ballpark number 0.5 million ton of dissolving pulp that -- producers that had last year more paper grade production. So if I have to come up with a number, that would be roughly 0.5 million ton. And then again, what could surprise the market this year again would be unexpected production loss, mainly in the northern hemisphere.

**Q - Rafael Barcellos** {BIO 20593721 <GO>}

Okay. Thanks.

**Operator**

As there are no further questions. I would like to turn the floor over to Mr. Walter Schalka for final considerations. Please Mr. Walter Schalka, you may proceed.

**A - Walter Schalka** {BIO 2099929 <GO>}

Well, thank you very much for the opportunity to be with you. I'd just like to reinforce invitation to all of you to be of us on March 24th on our Suzano Day on a virtual event. I would like to tell you that we will continue to protect our people. This is critical for us, we have been in the middle of the COVID-19 pandemic issue right now.

Unfortunately, we are not improving the number of cases and the death toll is very high at this point of time. And we need to address the situation as soon as possible and only vaccine would be the solution for this situation for the near future.

I would like to mention to you that we will continue to work on different dimensions of the organization to continue to enhance our productivity and the engagement of our team to look for ways to improve our operations. We are very pleased with the results, but are humble to recognize that we have a lot of activities, a lot of opportunities to keep improving, to keep enhancing, to keep changing the organization and the society as well. I would like to wish to all of you a good health, physical and emotional health at this point of time and telling you that we have a lot of energy in Suzano. A lot of positive energy to continue to build to construct a new company and new society. Thank you very much to all of us for present -- to being part of our event here.

**Operator**

Thank you. Suzano fourth quarter results conference call is finished. Have a nice day.

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